

THE SWEDISH MODEL IN TURBULENT TIMES: DECLINE OR RENAISSANCE?

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INTRODUCTION

By any international standards, Sweden has, up to the end of the 1980s, been remarkably successful in combining low unemployment with not only high and growing employment rates but also a high degree of income equality and small gender disparities. Even as late as in 1990, the symptoms of an emerging deep employment crisis were not yet very palpable for most citizens. In 1990, the rates of employment and unemployment were respectively 83.1 and 1.6 per cent, implying an overall rate of labour force participation of 84,8 per cent, a level that by any standards stands out as extremely high¹. However, most economists and many policy makers were aware that the unprecedented activity level and the extremely high labour market tightness during the second half of the 1980s were in the long run not sustainable. For many years, the inflation had been alarmingly high, and, in 1990, it reached 11 per cent.

In the early 1990s, the employment crisis became dramatic. In just three years—from 1990 to 1993—the rate of employment decreased by more than 10.5 percentage points to about 73 per cent, and the rate of open unemployment quintupled from less than two to more than 8 per cent of the labour force. The fact that the decline in employment exceeded the increase in open unemployment (in percentage points) reflects a significant increase in the number of individuals participating in Active Labour Market Policy (ALMP) programmes or being enrolled in education². Furthermore, the public budget deficit increased from about zero to about 14 per cent of GNP, in spite of the repeated ‘reform packages’ aiming at decreasing public expenditures and increasing public revenues. The cutbacks in public expenditures, that principally took the form of a lowering of income replacement rates in the several social insurance systems and a decrease of public employment were considered by many citizens as a painful ‘rolling-back of the welfare state’. As a consequence of the reductions in social insurance benefits, and the decreases in labour earnings, around 10 per cent of households were drawing occasionally means-tested social assistance in the early 1990s.

The onset of the recession, the deepest that Sweden had experienced since the 1930s, was brought about by the conjunction of, among other things, an international economic downturn, soaring interest rates³, plummeting asset prices, with shares and real estate losing nearly half their value between 1990 and 1992 and the collapse of the construction industry. Meanwhile, the total credit losses in the banking sector in 1991 and 1992 run up to 10 per cent of outstanding loans, and the government had to bail out three banks to preserve them from bankruptcy.

From the second half of the 1990s the Swedish economy has undergone a particularly favourable development: GDP growth rates have returned to early 1970s levels;

¹ When nothing else is said the data referred to in this paper are from Statistics Sweden.

² Especially for the age group 20-24 years old. In 1990 the employment rate in this age group was around 80%. In 1996, it reaches its lowest level 53,1% and increased slightly in 2004 to 57,3%

³ In particular due to the central bank’s ultimately futile attempts to avoid a depreciation of the Swedish currency.

unemployment was cut by half between 1993 and 2004; there have been large balance-of-trade surpluses; and public finances have improved substantially, posting a positive balance of 1 percent of GDP in 2004. During the last decade, in strong contrast with the 1980s, the Swedish economy has also experienced low inflation. The sharp drop in inflation may partly be attributed to changes in the orientation of monetary policy, which became more restrictive, but since the mid-1990s, it has also resulted from moderate pay rises. The Swedish industry's relative production costs have decreased substantially. The improved competitiveness of the Swedish economy is partly explained by the sharp depreciation of the Swedish Currency in the early 1990s, and also by wage developments that were more compatible with the maintenance of overall macroeconomic balance. This comparative cost advantage led to a massive expansion of exports sustaining the growth of traded good sectors. Industrial employment rose by 1.5% per year, while the volume of industrial production increased by 25%: leading to a labour productivity growth of approximately 5% per year (see Figure A4 in the appendix). During the same period, public sector employment fell slightly as a result of budget constraints, but employment in private services rose steadily

Today, in 2005, most Swedes, however, tend to regard the last decade as a long period of incomplete recovery from the sudden and very severe crisis that the Swedish economy has experienced in the early 1990s. In our view, the analysis of the recent transformations of the Swedish model requires setting the main developments of the last decade in a broader historical perspective. Broadly, four main periods can be distinguished: (1) The rise of the Swedish Model, the Golden age 1955-1974, (2) the rise of unbalances (1975-1991), (3) the crisis period (1992-1995), and (4) the recovery and the revival of the Swedish model (1996-). We do believe that a comprehensive recapitulation of the major events and developments that took place during these four periods appears necessary in order to understand the major transformations experienced by the Swedish Model, welfare regime and employment and production systems.

It has been argued that what Sweden had endured in the early 1990s was a good illustration of the Swedish experience running out of steam and that the original 'Swedish model' had become obsolete and 'time inconsistent' in the sense that it, or the way in which it was at this time implemented, was destined to give rise to developments incompatible with its long run sustainability. However, this interpretation gives rise to some critical questions. Is it true that 'the traditional original model' has succumbed and that a fundamentally different, more coherent and sustainable model has today emerged? What are the main differences between the current national model, the original model and the one that prevailed during the period 1975-1990? We will come back to these two clearly interrelated questions, but before that we have to discuss the following one: If the events of the early 1990s did reveal that the 'traditional' Swedish model was 'time inconsistent', or defective, then how could it survive, and stand out as rather successful, for such a long period of time *before* the 1990s?

1. THE ORIGIN AND RISE OF THE SWEDISH MODEL

1.1 The 'traditional model'

From its creation, in the early 1950s, up to the mid 1970s, the traditional Swedish model was based on three fundamental components:

(i) A restrictive fiscal and monetary policy aiming at curbing the rate of inflation in a regime of fixed exchange rate. Such an anti-inflationary policy should be complemented by policy measures aiming at preserving 'full and productive employment' by means of

(ii) Wage moderation exercised by the two sides of industry and the application of a wage norm, the so called '*Solidaristic*' wage policy based on fairness, equity and efficiency (i.e. fostering rationalization at the company level and promoting productivity-enhancing structural changes through closure of unproductive plants)

(iii) The implementation of an ambitious countercyclical Active Labour Market Policy (ALMP) favouring occupational and geographical mobility and enhancing employment opportunities for those with reduced work capacity.

It goes without saying that the overall macroeconomic policies, while being restrictive enough to prevent inflationary pressures, should be expansionary enough to secure both employment growth and a low unemployment rate. Low unemployment and full employment should be secured mainly by ALMP programmes favouring a reallocation of the labour force from the declining parts of the economy⁴ towards the expanding ones. According to the original national model the demand for wage moderation ought mainly be addressed to the growing parts of the economy while the demand for labour market flexibility—i.e. the acceptance of occupational or geographical mobility or the recognition of the need for productivity-enhancing rationalisations—was directed, mainly, towards the stagnating parts of the economy.

Such a model or policy strategy, often referred as 'the *Rehn-Meidner*⁵ Model', presupposed the existence of powerful and autonomous employees' and employers' organisations and a high degree of consensus/cooperation between them and also between the two sides of industry and the Government. The main reasons why the division of tasks and responsibilities⁶ inherent in the Rehn-Meidner model became widely accepted in the 1950s are to be looked for in the inheritance from the past. The Swedish trade union movement was strong and united. The union coverage and density were—by international comparison—very high. The Social Democrats dominated the

⁴ where firms with relatively low productivity tended to disappear or reduce their labour force due to the application of the "*solidaristic*" wage policy.

⁵The Swedish model was initially formulated by two Swedish economists Gösta Rehn and Rudolf Meidner (1953).

⁶ The Government was responsible of the conduct of the macroeconomic policy (price stability) and the implementation of the ALMP in order to insure both an efficient allocation of resources and the preservation of full employment, while the two sides of industry was mainly responsible of the regulation of the labour market and wage formation without intervention of the public authority.

political arena, and the cooperation between them and the trade unions as represented by LO (the Swedish Trade Union Confederation, i.e. the central organisation of blue-collar unions), rested firmly on egalitarian ideals. However, without the support of the Swedish Employers' Confederation, SAF, it would have been impossible for LO alone to achieve a centralised and coordinated bargaining system necessary for the successful implementation of its *solidaristic wage policy* and the corresponding top-down coordination of wages across industries and sectors. For the employers, a centralised and coordinated wage setting system was a way of achieving a low degree of wage competition between firms and a cost control in industries exposed to international competition⁷. The *solidaristic wage policy* involved not only the application of the equity principle of 'equal pay for equal work' (irrespective of the sectors or regions) but became also an instrument for reducing wage differentials between jobs, i.e. to promote a more compressed wage structure.

Since its foundation in the early 1950s and up to the beginning of the 1980s the Swedish industrial relations have been characterized by a centralized and coordinated wage bargaining system and relatively few labour disputes. Between 1956 and 1982 central wage agreements encompassing the entire labour market were concluded. During this period the Swedish Government embarked also upon a vigorous expansion of ALMPs expenditures, increasing from 1 percent 1950 to around 7 per cent of the government's total spending in 1982.

The policies pursued, based on a strong political commitment to the goal of full employment, price stability and to egalitarian ideals and the above mentioned division of tasks and responsibilities, resulted in a remarkably low unemployment. Furthermore, by international comparisons, Sweden stood out as rather successful also in terms of labour market participation, gender equal opportunity, egalitarian income distribution and—disregarding the period from the mid 1970s to the early 1980s— sustained economic growth. To a considerable extent the good employment records experienced during this period by the Swedish economy are also clearly related to the creation of a modern welfare state, a strong public involvement in the financing and provision of healthcare, social care and education and the related expansion of public employment

As regards the production system, some areas—besides the ones covered by welfare state arrangements and polices — like banking, energy, transports, telecommunications, housing, pharmacies, liquors, agriculture, and others—were strongly regulated or dominated by public monopolies and did remain so until the international wave of deregulations and privatisations initialized in the mid 1980s, notably in the financial and credit markets. It should be remembered, however, that the necessary prerequisites for the expansion of employment and production achieved, including the rapid increase in public employment, were furnished by the Swedish manufacturing industry that was dominated by a few relatively large private enterprises entering the post-war period with an undamaged productive apparatus and facing very favourable world market conditions. Of course, as time went on, this relative comparative advantage of Swedish manufacturing industry tended to vanish making it increasingly difficult for the Swedish policy-makers and the two sides of industry to accomplish the wage restraint prescribed by the original model.

⁷ It is interesting to note that LO was actually more reluctant than the employer confederation SAF to fully accept a system of centralised wage bargaining. It was not until the LO congress in 1961 that the LO federations unanimously supported the principle of nationwide, coordinated wage bargaining system.

1.2 Early warnings: The crisis of the late 1970s and the deviations from the original model

As a matter of facts, the Swedish economy started to show serious signs of weakness long before the dramatic economic downturn and the employment crisis of the early 1990s. Actually, from the mid 1970s the worsening of Sweden's macroeconomic performances in the wake of the two oil crisis, a restrictive economic policy in major OECD countries and the intensified competition from Japan, Korea and the NICs was counteracted only by means of extraordinary policy interventions, notably devaluations of the Swedish currency, implying apparent *deviations* from the policies prescribed by the model *per se*. The repeated devaluations carried out in the late 1970s and early 1980s was also an illustration of the inability of social partners to achieve a wage development compatible with the preservation of macroeconomic balance and the maintenance of international competitiveness of Swedish firms in a regime of fixed exchange rates. However, it can be argued that the wage inflation during the 1970s was a reflection of structural unbalances in the traditional Swedish model., lacking the elements (incentives, institutions, 'rules of the game') needed for the interplay between the main actors involved to prevent the repeated occurrence of cost crises. Given that the fixed foreign exchange regime was regarded as an integrated element of the model, the use of devaluation to restore the competitiveness of Swedish enterprises and to preserve full employment, can be regarded as reflecting apparent policy failures and a departure from the original model.

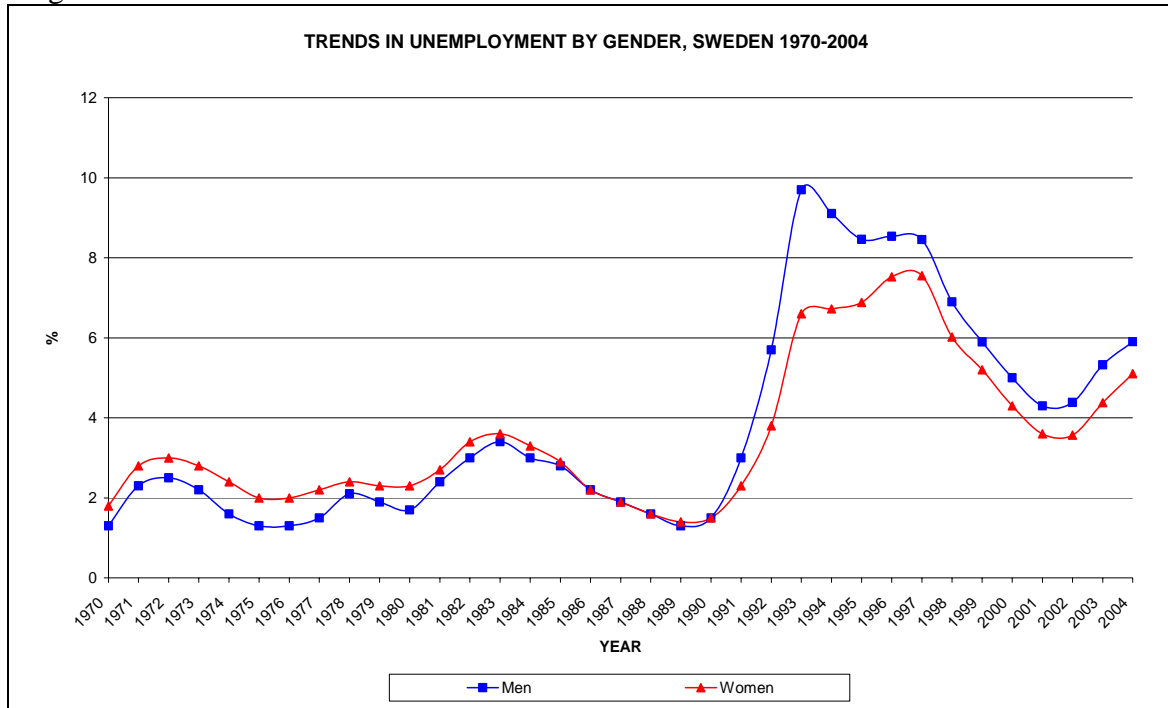
The severe crisis of the late 1970s did not lead, however, to major structural reforms. The successive devaluations could be justified as necessary 'extraordinary' policy response to sudden and unexpected (imported) macroeconomic shocks: the 'oil crises' and the international 'stagflation' of the 1970s. Let it be that the 'traditional' model had come out as unable to handle the consequences of such exceptional '*exogeneous*' shocks, but this policy failure did not lead to the conclusion that the model *per se* had to be abandoned, or profoundly and permanently restructured. However, for full employment to be preserved and the temporary crisis to be 'over-bridged', it had to be supplemented, for some time, by 'extra-ordinary' policies, including devaluations.

In the mid and late 1970s, in the wake of the international turbulence, the two sides of industry failed, in spite of the centralised bargaining system, to exercise the wage restraint required to prevent a severe cost crisis. Massive plant closures in the Swedish manufacturing industry, in particular in the shipyards and textile industries, greatly unsettled the labour market and incited the policy makers to intervene to 'rescue the jobs' and restore 'full employment'. Besides traditional ALMP programmes such as on the job-training schemes, relief work and wage subsidies, massive industrial subsidies programmes were launched, stockpiling was stimulated, and—not to be forgotten—public employment was expanded. As a consequence, of course, the crisis became also a 'deficit crisis' involving large current account and public budget deficits. In the political arena, the social democrats lost office in 1976 after 44 years of unbroken rule. The new centre-right government devaluated the Swedish currency twice in 1976 (after 25 years of constant exchange rates) and again in 1977 and 1981. It did not abandon the extensive use of industrial subsidies and ALMP schemes. When the social democrats returned to power in 1982 they carried out yet another devaluation, which actually created an undervalued Swedish currency (Krona). This devaluation, together with the

relative wage restraint now exercised by the two sides of industry (at that time holding a high degree of crisis-consciousness), gave the exposed tradable sector a major expansionary boost that was accentuated by an international economic recovery. The 'cost crisis' was overcome, and the current account and public budget became eliminated in just a few years into the 1980s.

Despite the large decrease in employment in the manufacturing industry that took place from the mid 1970s until the early 1980s, the rate of unemployment never exceeded (on a yearly basis) 3.5 per cent (see figure 1.1 below).

Figure 1.1



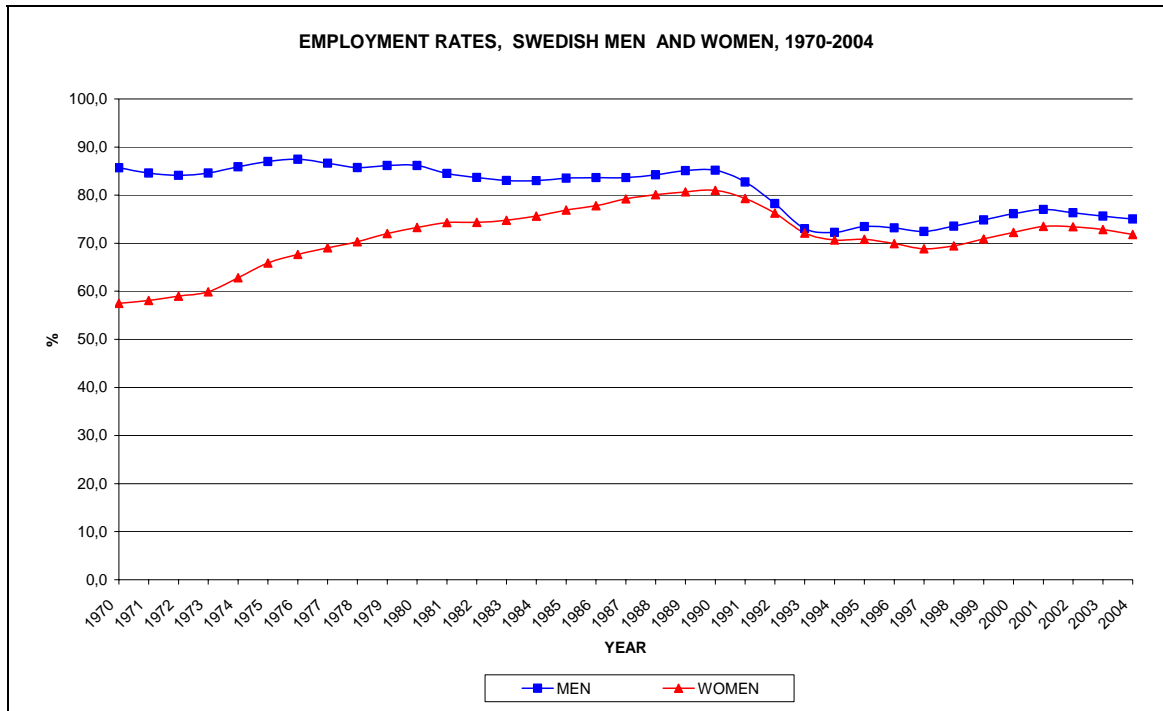
Source: Statistics Sweden, Labour Force Survey (2005)

The employment rate never fell below the 77 per cent reported for 1975, and from 1979 it was above 79 per cent (see figure 1.2 below). For men it fell from 87.2 in 1975 to its minimum level at 83 per cent in 1983, but for women it increased, in the same period, from 66.5 to 74.8. This reflects a destruction of jobs in the manufacturing industry and a simultaneous creation of jobs in services, notably in the public sector. Thus, the 'cost' and 'deficit' and 'structural' crises of the late 1970s were never translated into a severe 'employment' crisis. Furthermore, the emergency policies pursued did not include any substantial 'rolling-back of the welfare state'. The social insurance systems remained intact, and the public (especially the municipal) provision of health and social care was in fact expanded.

Then, which were the 'real costs' for the citizens of the severe policy failures that manifested themselves in, *inter alia*, a massive destruction of jobs in the manufacturing industry? These costs have to be discussed and identified in terms of *productivity*, *efficiency* and *growth*. The industrial subsidies used in order to 'rescue the jobs' did involve elements of 'labour hoarding' meaning lower productivity. The policy

favouring the accumulation of stocks during the second half of the 1970s did not succeed since the expected international economic recovery failed to occur. Of course, the massive use of job preserving ALMP measures, including training programmes within firms to hoard employment did involve substantial real costs.

Figure 1.2



Source: Statistics Sweden, Labour Force Survey (2005)

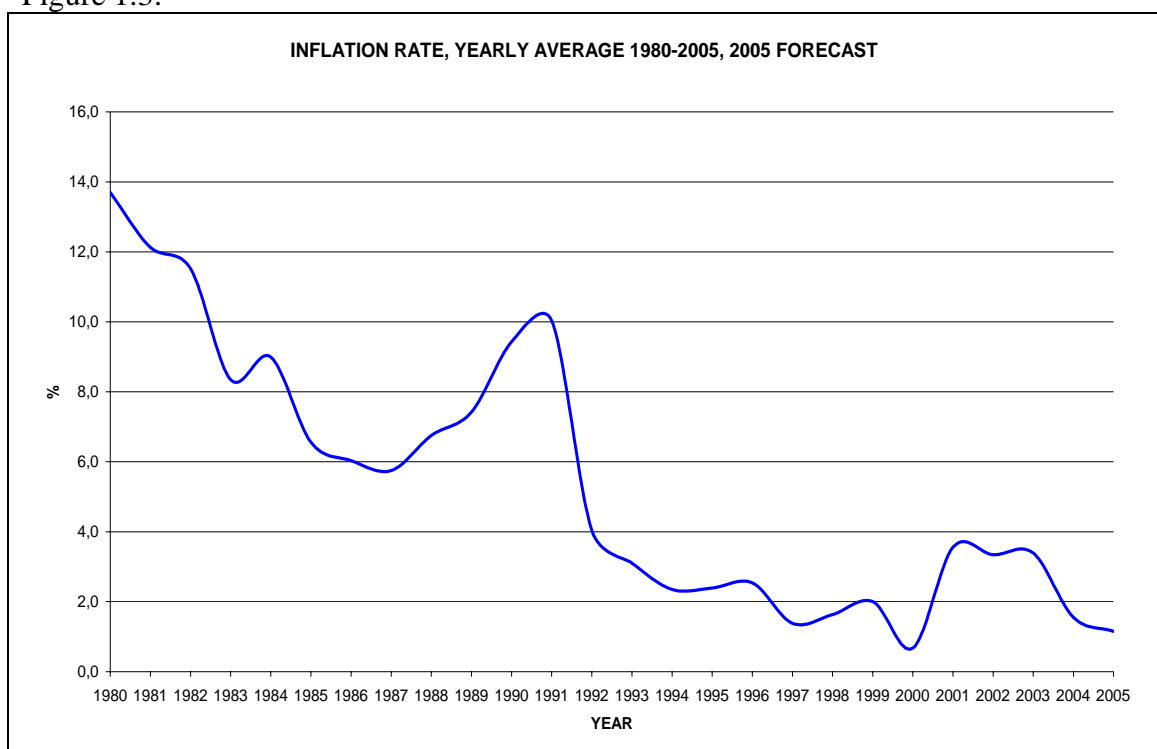
Furthermore, the reallocation of labour from the sectors exposed to international competition to the public sector did involve a decrease in overall labour productivity. And of course, the use of repeated devaluations give rise not only to efficiency-hampering uncertainties but also to very inadequate and costly kinds of ‘flexibility’ involving, among other things, the destruction of jobs in some years and in some industries hit by the cost crisis and the creation of jobs in the same industries some years later (after the devaluations), when many workers had found (and become locked up in) perhaps less productive jobs in sheltered industries or sectors.

1.3 The crisis of the early 1990s

By contrast, the crisis of the early 1990s took the form of a dramatic *employment* crisis (see figure 1.1 and 1.2 above). Why was this allowed to happen and what are the main factors explaining the sharp increase of unemployment? Why was the emerging cost crisis, which was clearly observable well before 1990, not met by ‘over-bridging’ and devaluation policies similar to those implemented during the previous decades?

First, the 1990s crisis had to be recognised as to a very large extent ‘home-made’. It could not be explained as a consequence of exogenous imported shocks. It was triggered, *inter alia*, by the growing excess demand and labour market tightness that prevailed during the second half of the 1980s, a situation that, according to the original model, ought to be counteracted by a restrictive macroeconomic policy. During this period, the main political parties, and the central bank, had firmly committed themselves to the preservation of a fixed foreign exchange regime as a crucial component of the Swedish model. The use of an accommodative policy, i.e. devaluation as a means of combating excessive ‘home-made’ inflation, that reached 11% in 1990 (see Figure 1.3 below), was unanimously rejected. The country could not afford a “remake” of what happened in the late 1970s and early 1980s.

Figure 1.3:



Source: Statistics Sweden.

Diagnoses of the emergence of the crisis still differ. Some blame the macroeconomic policies pursued. Why did the government and the central bank fail to pursue the policies needed to prevent the evolution of an inflationary level of aggregated demand? According to the former Prime Minister Ingvar Carlsson in function at this time, one

reason can be found in the deregulation of the financial markets carried out in the course of the 1980s, especially the big step in that direction taken in November 1985 (sometimes talked about as ‘the November Revolution’). These reforms were, according to I. Carlsson, mismanaged and ill prepared, and this led to an explosive credit expansion via excessive lending on the part of the commercial banks. It became virtually impossible—again according to the former Prime Minister—for *the government* to neutralise the corresponding huge impacts on aggregated demand by means of restrictive *fiscal* policies. The consequences of the required radical reductions in public spending would have been socially unacceptable. The Minister of Finance and the Central Bank Governor in charge at this time seem to hold somewhat divergent interpretations. The former seems to have expected the Central Bank to “keep the commercial banks in good discipline”—to prevent them from embarking on excessive lending. The latter does deny that such ‘promises’ were given and that it was clearly understood by all parties that a possible—but not expected—excessive credit expansion had to be met by restrictive fiscal policies.

This debate between these leading policy makers reveals the absence of a well-considered and clearly understood macroeconomic policy strategy consistent with the new conditions prevailing after the far-reaching deregulations of the financial markets. These deregulations resulted in a ‘home-made’ demand shock that neither the central bank, nor the government or the two sides of industry were able to handle.

Anyhow, the government and the central bank failed to prevent the occurrence of an inflationary excess demand and increased labour market tightness. Then their main problem became how to convince the actors on international financial markets that the devaluation policies of the late 1970s and early 1980s would not be repeated. The central bank’s main instrument to hinder waves of speculation against the Swedish Krona, made possible by the deregulations of the financial market, was to increase—sometimes very dramatically—its own interest rates, thereby influencing the domestic market interest rate in the same direction. The centre-right government in power from 1991 to 1994 tried to counteract the expectations of devaluation by means of restrictive fiscal policy involving substantial reductions in public spending, and it was in this respect supported by the Social Democrat Party now in opposition after having taken some steps in the same direction before losing the election in 1991. However, these policies, in combination with the original cost crisis and the high interest rates, resulted in soaring unemployment, decreasing public revenues and—in spite of the cutbacks of public expenditures—a rapidly increasing budget deficit. Apparently, many actors on the international financial markets came to the conclusion that Sweden will, as before, soon devalue. The attempts to defend the Swedish currency had thus resulted in reinforcing the devaluation expectations! In November 1992 the central bank had to allow the Swedish Krona to float. It became immediately depreciated by about 20 per cent.

As an element of the attempts to bring down the inflation a government-appointed commission (the so-called Rehnberg Commission) had convinced the trade unions to accept low wage increases for the years from 1992 to 1994. This agreement, in combination with high unemployment and reduced payroll taxes drastically cut the inflation within a couple of years. In early 1993 the former fixed exchange rate regime was replaced by an explicit inflation target for the central bank: a 2 per cent per year rise in the consumer price index, within a corridor of plus or minus 1 per cent.

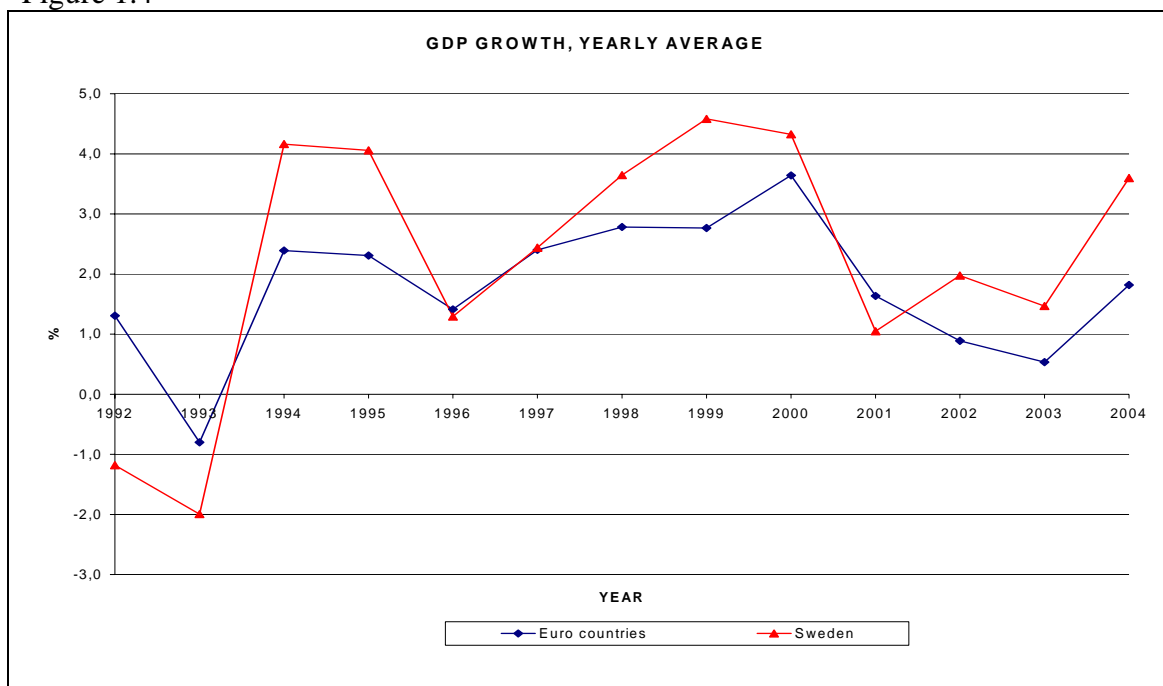
Needless to say that the policy failures behind the crisis of the early 1990s became extremely costly for the Swedish citizens. Between 1990 and 1993 the Swedish GDP decreased by 5 per cent. The consequences were especially painful for citizens belonging to vulnerable groups hit by unemployment and/or by the reductions in social benefits and public commitments that became elements of the emergency measures carried out.

1.4 The recovery since 1994

The period 1994-2001

As previously mentioned, since 1994 the macroeconomic and labour market conditions have improved in many ways. The central bank has been, on the whole, rather successful in fulfilling its task to keep a low inflation rate and to uphold its autonomy vis-à-vis the Government and the Swedish Parliament (*Riksdag*). By early 2001, the budget deficit had turned into a surplus. Between 1993 and 2000 GDP yearly growth rate was on average 3.2 per cent (see figure 1.4, below). This relatively rapid growth reflects a substantial increase in export fostered by the depreciation of the Swedish currency and wage moderation (see *infra*).

Figure 1.4



Source: Konjunkturinstitut (2005) and Eurostat (2005).

The rate of unemployment remained above 8 per cent until 1997, but by 2001 declined to about 4 per cent. The overall employment rates oscillated between 71 and 73 per cent during the period 1994-1999 and reached again 75 per cent in 2001 (See figure 1.1 and 1.2 above.)

In spite of these favourable developments, it is hard for most Swedes to consider what happened since 1994 as a success story. For decades before the early 1990s, a rate of unemployment above 3 per cent was regarded as severe policy failures, i.e as a clear deviation from the main target of ‘full employment’. From 1979 to 1991 the rate of employment never fell below 79 per cent, and from the mid 1980s until the early 1990s it had remained above 80 per cent. In our review of the Swedish experience in recent decades we have so far concentrated on some main macroeconomic aspects. We do believe that the developments since 1990 and up to the present time would have been significantly more favourable if a macroeconomic strategy, consistent with the consequences of the unavoidable deregulations of the financial sector and the international financial markets, had been established already in the late 1980s, meaning that the futile and costly attempts to defend the Swedish currency would have been avoided. This is not to say, however, that it would have been possible to preserve the level of full employment reached in the late 1980s, or to avoid the structural changes and institutional reforms undertaken during the 1990s, perceived by a majority of Swedish citizen as ‘rising inequality’ and ‘decreasing security’ (see Figures A2 and A3 in the appendix). We will in the next sections review the major transformations of the Swedish welfare state system and the institutional reforms undertaken during the last decade, but before that the next section reviews the more recent developments of the Swedish economy.

Recent developments 2002-

From 1998 onwards, Sweden seemed to be slowly but steadily finding a way back to labour market conditions similar from the ones reached in the mid 1980s. As previously mentioned, the unemployment had been reduced to about 4 per cent and the rate of employment expanded to above 75 per cent. In 2001 the volume of hours worked was about the same as in 1988 and more than 8 per cent higher than in 1993. And it had become possible to combine the elimination of the public budget deficit with some improvements in the social insurance systems, and in other welfare arrangements, compensating for the worsening of income replacement rates carried out a few years earlier. Considering the situation 10 years ago, the recovery stands out as remarkable.

However, in 2002 and 2003 the labour market situation weakened in the wake of an international economic downturn. What today stands out as somewhat alarming is that the cyclical recovery that became evident in 2004 has not yet resulted in decreasing unemployment and increasing employment, in spite of substantial increases in exports and GDP. For 2005 as a whole the unemployment is forecasted to become 5.6 per cent and the rate of employment to remain about 73 per cent. Both these figures, while well above the Lisbon Employment Target, are far from the policy goals announced by the Swedish Government, namely 4 and 80 per cent respectively. In 2004, the number of hours worked was about 3 per cent lower than in 2001. These recent developments have, of course, given rise to doubts about the Swedish model’s ability to re-establish full employment. Contributing to these apprehensions are observations indicating an increase in the unemployment also among the relatively well educated.

⁹ By counteracting *inter alia* early retirement and other kinds of voluntary, more or less temporary withdrawal from the labour market (see below)

Many of the policy reforms carried out in last 10 to 15 years have aimed at strengthening work incentives⁹ and promoting educational attendance and attainment. The number of openings in higher education doubled during the 1990s, and this expansion has continued since then. From 1990 to 2003 the share of the population aged 25-64 years with high educational attainment (university or equivalent) increased from about one fifth to about one third. These supply-oriented measures contribute to an increase in the competition for jobs—an increase in the number of individuals involved in more active job search—something that in turn might result in an increase in labour demand via a reduction in the wage pressure. At the same time the government and the labour market authorities have upheld their extensive use of ALMP measures as a means to prevent exits from—and to facilitate transitions into—the labour market, and to encourage the unemployed to participate in productivity-enhancing programmes and potentially fruitful job search processes.

To a large extent the above mentioned supply-oriented reforms have been based on more long-term considerations related to demographic developments, notably the anticipated decrease of the share of the working age population (see *infra*). So far, however, the current problem seems not to be related to demographic unbalances but rather the inability of the Swedish economy to generate job opportunities for absorbing the openly or latently unemployed. For sure, a larger demand for labour would have led not only to a lower open unemployment but also to a larger labour supply: some exits from the labour market would have been prevented. Thus, in our views, the present low level of labour demand contributes to a decrease in the future labour supply when a high rate of labour market participation appears to be necessary due to the ageing of the population.

2 THE RECENT TRANSFORMATIONS OF THE SWEDISH MODEL

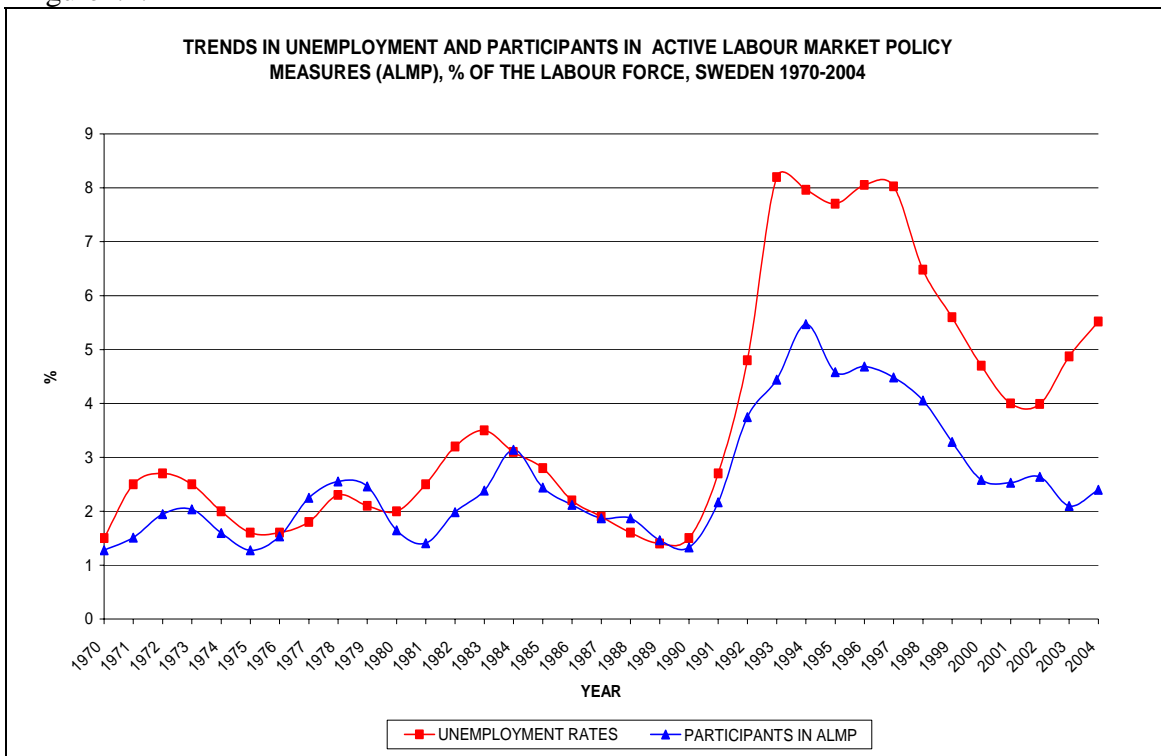
2.1 Macroeconomic policy

According to the traditional model developed in the 1950s, the macroeconomic policies should be restrictive to keep the inflation level consistent with a fixed foreign exchange rate regime. The corresponding element of the present model is the establishment of an inflation target the fulfilment of which has been pointed out as the central bank's main objective. The Swedish currency is allowed to float. The new division of roles and responsibilities between the government and the autonomous central bank means that the anti-inflationary policies prescribed by the Rehn-Meidner model has been institutionalised in a way that precludes the kinds of inflation-generating policy failures observed in the late 1970s and late 1980s. These policy and institutional reforms represent, in our view, a strengthening of, rather than a deviation from, the traditional Swedish model.

2.2 Active labour market policies

Sweden's excellent record on employment and unemployment has often been ascribed to a particularly ambitious Active Labour Market Policy. The Active Labour Market Policy (ALMP) has played a vital role in Swedish stabilisation policies since the late 1950s and constitutes, as mentioned previously, one of the corner stones of the Swedish model. Active labour market policies programmes have been used not only to facilitate transitions from unemployment to employment but also to favour the integration of marginal workers, for example the disabled, who without public intervention would have been excluded from the labour force. The social partners' support for this policy reflects their desire to foster the integration of unemployed workers instead of relying on unemployment benefits.

Figure 2.1:



The social partners' commitment to the setting up/design and implementation of this policy was institutionalised back in 1950 through their membership of the Executive Board of the General Directorate of Labour¹⁰ (*Arbetsmarknadsstyrelse, AMS*). In other words, two key and distinctive features of Swedish employment policy may now be identified: on the one hand, the government's wish to put the accent on measures promoting the integration of unemployed workers instead of passive support (*'the job line versus the cash*

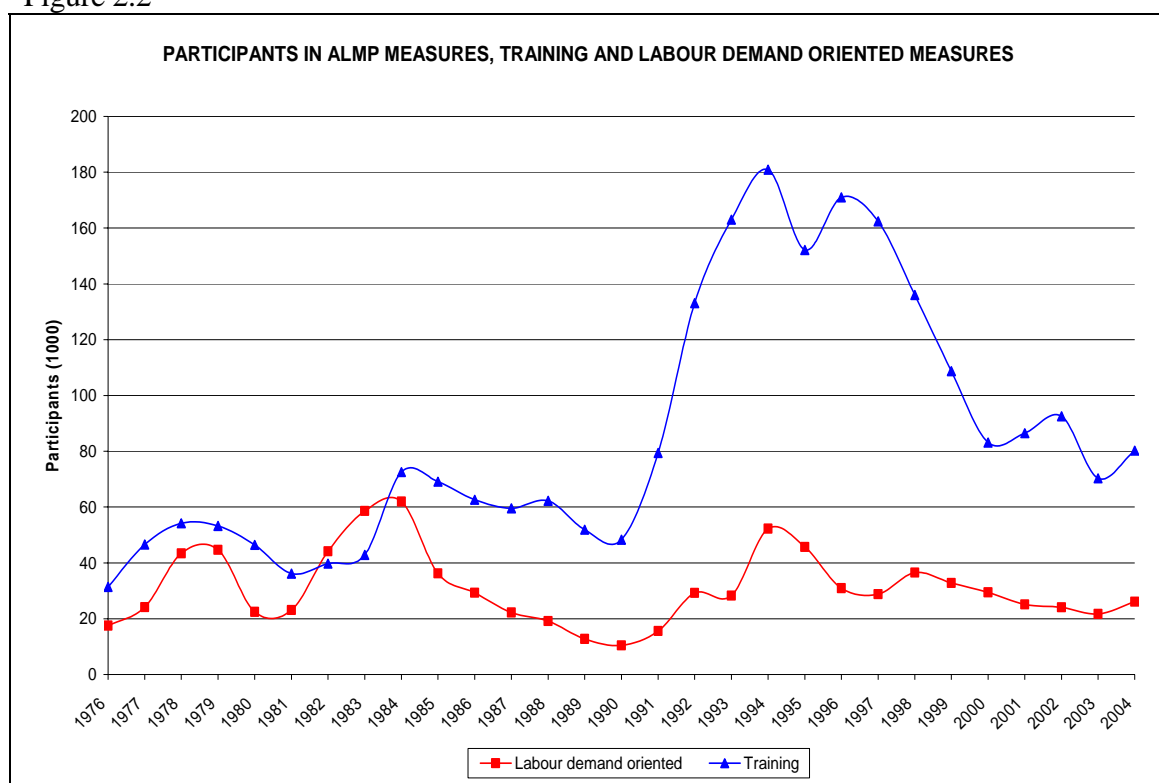
¹⁰ Although this tripartite tradition came to an end when the representatives of the employers' confederation, the SAF, withdrew in June 1993, the current Executive Council is still made up of employer and trade union representatives, as are the regional labour committees that have responsibility for implementing the ALMP.

benefit line’); on the other hand, the key role given to the two sides of industry in the designing and implementing of ALMP insures its social legitimacy.

As has already been described, the early 1990s were notable for a sharp deterioration in the employment situation with unemployment rising to its highest level since the 1930s (8.2% in 1993, see Figure 2.1 above). The government responded by gradually putting more and more people on employment programmes, and in 1994 beneficiaries accounted for almost 6% of the active population, a figure never previously reached.

With a gradual improvement in the employment situation, the volume of participants in ALMP programmes was gradually reduced, thereby confirming the counter-cyclical nature of Swedish labour market policy. Although labour demand related measures (e.g., temporary public employment schemes and wage subsidies) used to play a predominant part in economic downturns, these traditional instruments certainly did not play the same role during the last employment crisis. Hence, the early 1990s saw a re-orientation of the ALMP emphasising measures designed to develop occupational and geographical mobility. The number of participants on vocational training programmes and/or practical insertion courses rose quickly, while traditional measures focusing on labour demand remained at a much lower level than during previous recessions (Anxo and Ehrel, 1998).

Figure 2.2



Source. Statistic Swedens and Konjunkturinstitut (2005)

The growing role of vocational training in the ALMP is therefore evidence of the importance that the government and the social partners give to occupational mobility and to the development of skills over the life course (see Figure 2.2 above). The re-orientation of ALMP in the early 1990s towards more supply oriented programmes can be also considered as a “*retour au source*” to the initial conception of ALMP interventions. Actually, the primacy of labour demand oriented measures during the 1970s and early

1980s can be viewed as a deviation from the original ALMP strategy initiated during the late 1950s. Hence, the extensive and institutionalised use of ALMP remains a major component of the present Swedish model.

2.3 Recent Transformations of the Industrial Relations and Wage Formation Systems

While the conjunction of several factors (i.e. the balancing of public finances, the reorientation of monetary policy, an ambitious active labour market policy and the improvement of the economic environment) explains the 'Swedish Success Story', there is no doubt that recent changes in Swedish industrial relations, in particular important changes in the regulation of collective bargaining and wage formation (e.g. a number of bipartite Cooperation Agreements) have played an important role in this development.

Historically, Sweden has a long tradition of social dialogue and public interventions in the labour market (see the section above on Active Labour Market Policy). However, over the last two decades, a number of factors have tended to question the coherence of the Swedish corporatist model and the robustness of its social cohesion (Anxo, 1993). In particular, the upsurge of industrial disputes, wage drift and inflation during the period 1980-1995, and the withdrawal of the Swedish Confederation of Employers (SAF) from various consultative and/or decision-making bodies are good illustrations, in our view, of the Swedish experience running out of steam. Although these tendencies for social dialogue to erode exist, it would be incorrect to over-estimate their significance. The two sides of industry continue to make an overwhelming commitment to economic and social affairs: for example, the fact that they are represented on Parliamentary and Government committees with responsibility for drawing up labour laws ensures that this legislation has some legitimacy. Moreover, the way in which working conditions, employment protection and working time, for example, are regulated is largely the outcome of industry-wide and company-level collective bargaining that continues to reflect the primacy of negotiation over legislation. Lastly, as the developments below demonstrate, since the mid-1990s there has been a revival of more consensual social dialogue and the emergence of new agreements covering wage formation, the procedural framework of collective bargaining and the resolution of labour market disputes.

2.3.1. New Norm of Wage Development

The new agreements that have emerged during the last ten years (e.g. the compromise around a new Norm for Wage Development, and the emergence of new procedural rules regarding collective wage bargaining see *infra*) have undeniably had a favourable impact on employment prospect and a return to a more balanced growth.

As mentioned above, the 1980s were marked by high wage inflation. Although monetary policy conducted in the late 1970s and pursued throughout the 1980s had a positive, short-term impact on public finances and foreign trade, the beneficial effects of successive devaluations became blurred in the early 1990s as Sweden found itself confronting a rise in production costs that was not compatible with the demands of a small, open economy. This monetary accommodation policy undoubtedly reduced the effect on employment of the sharp rise in production costs linked to a substantial increase in nominal wage. However, in the view of many observers, these measures did not challenge the distortions caused by wage increases, which in turn augured ill for overall economic balances. In other words, maintaining full employment through monetary readjustments during the 1980s did not encourage the social partners to demonstrate wage restraint. Following the resurgence of macroeconomic imbalances, the sharp rise in unemployment in 1992 and the re-orientation in monetary policy, the social partners initiated dialogue aimed at establishing a new norm of wage development. In 1996, on an initiative of the trade union confederation LO, the senior economists of the various employers' and trade union confederations put together a joint document that established a new *Norm of Wage Increase* based on the average increase in wages of Sweden's main European competitors. Today, this document has been widely accepted, and the most recent bargaining rounds suggest that the social partners have integrated the new norm and abide by it.

The fact that Sweden will in all probability continue to have a floating exchange rate regime for the next few years together with an objective of low inflation has important implications. Macro-economic simulations carried out by the Economic Industrial Council (Carling et al, 2000b) show that a floating exchange rate together with a restrictive monetary policy requires moderate increases in nominal wage, and is a *sine qua non* of the pursuit of growth in employment and production. In other words, although there appears to be broad support for the new norm of wage development at the present time, the future collective bargaining rounds will be decisive in confirming the long-term scope of these new pay agreements.

2.3.2 Amendment to labour market legislation and State intervention in the regulation of industrial disputes

Amendment of the Employment Protection Act

Until the late 1980s, the Swedish Model of Industrial Relations was characterised by the pre-eminence of the two sides of industry in mechanisms for regulating the labour market. Swedish labour law is restricted by comparison with labour legislation in other Member States, and Labour market legislations is for the most part *'indicative'*, that is to say most provisions of labour market legislation may be wholly or partly amended by collective agreements. However, government interventions have proliferated since the 1990s: in addition to successive labour law amendments linked to the incorporation of various European Directives into Swedish law and some amendments to the Employment Protection Act (*Lagen om anställningsskydd, LAS*) were ratified by the parliament in 1997, and led to the creation of new forms of fixed-term contract (FTC) designed to increase flexibility in the labour market. The employer got the opportunity to hire for a limited duration without having to specify a particular reason. However, an employer could only use a maximum of *five* such contracts and a particular individual could not be employed under such a contract for more than twelve months during a three-year period¹⁴. The most important element of the 1997 law is that the Employment Protection Act may now be amended by a company-level agreement without having to pass through a validation procedure by central organisations, provided that the parties had a central agreement in other matters .

One of the most significant changes in the Swedish labour market during the 1990s has been the increased prevalence of FTC, increase coinciding with the severe recession that began in 1992. The share of FTC has increased by 40 percent between 1990 and 1995 (see Figure A3 in the appendix). Since then this share has remained on a stable level around 15 percent of total wage and salary employment (see Holmlund and Storrie, 2002). By far the most common form of FTC is hiring a replacement for an absent employee (leave replacement connected to parental leave, study of sickness absenteeism). The other frequently used FTC is for work that is intrinsically of a limited duration (project work) and is common in, for example, construction and research .

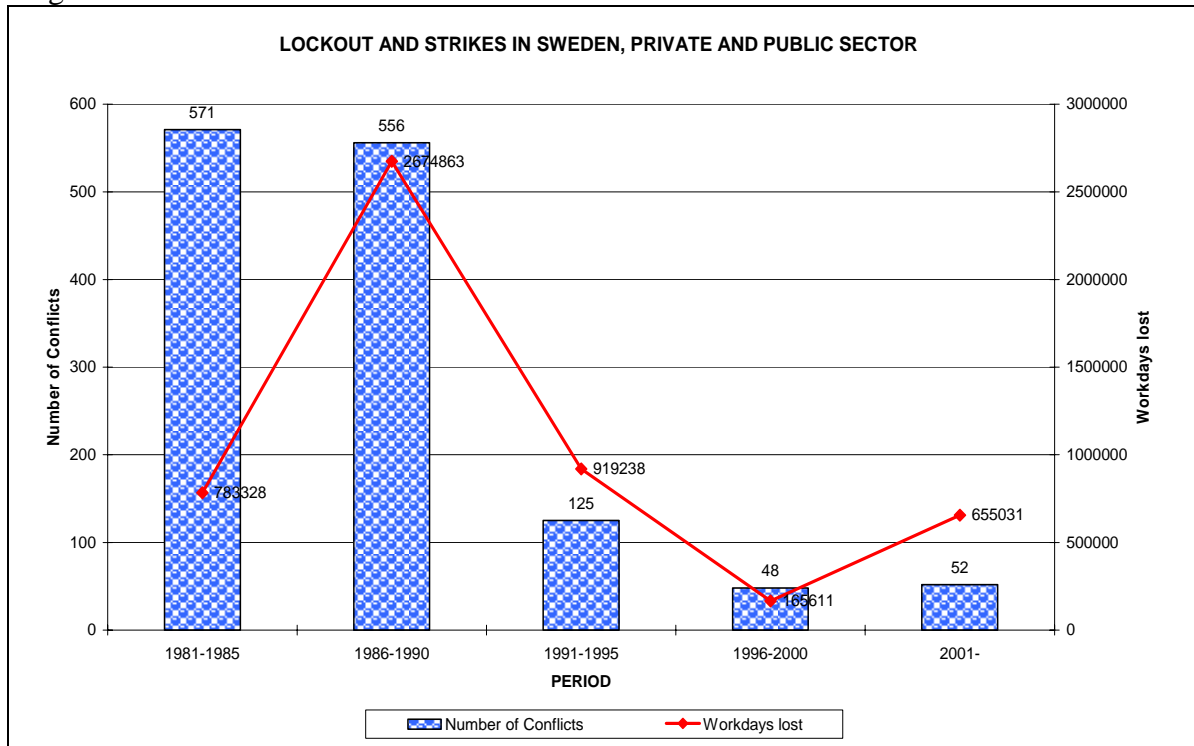
¹⁴ If the firm is newly established, the period may be extended to 18 months. The Bill stated also that it was not the purpose of the Act to promote very short-term jobs and so the minimum permissible duration was set at one month.

¹⁶ The new Institute is also responsible for statistics on wages, and for the publication of reports on wage and economic development.

Regulation of industrial disputes

The resurgence of industrial disputes during the 1980s and early 1990s (see Figure 2.3 below) prompted the creation of several joint committees. The purpose of these committees was to explore the possibility of limiting industrial disputes and to propose new rules for resolving them.

Figure 2.3.



Source : Medlingsinstitut (2005).

Following the breakdown of successive tripartite talks, the government decided to establish a Public Conciliation Institute (*Medlingsinstitut, MI*). This new Institute, which was set up on 1 July 2000, replaced the former Mediation Institute (*Statens förlikningsmannteamning*) which had been founded in 1906. Compared with its predecessor, the MI has broader scope and more extensive powers: in particular, its field of competence is no longer restricted to resolving industrial disputes, but also monitors, and works towards the establishment of, a more efficient kind of wage formation¹⁶.

The social partners are now compelled to inform the MI about how negotiations are faring; the period of notice for strikes and lock-outs has also been extended to seven working days. Should there be a danger of a dispute or an industrial dispute, the new Institute even has the power to appoint a Conciliator. The Conciliator is legally entitled to put forward his own proposal for resolving a negotiating issue and may delay the beginning of an industrial action by 14 days. The law also states that the social partners may set up their own mediation institute: in those circumstances, the Institute's power of intervention, that is to say the right to appoint a Conciliator in the event of a dispute, is removed. The social partners were by and large hostile to the setting up of the MI

Institute, and responded to the government initiative by founding their own meditation institute, thereby *de facto* limiting the MI's power (see Section 2.3.3 below).

2.3.3 Tendencies to re-coordinate collective bargaining

The breakdown of the centralised bargaining system 1982

Under more than 25 years (1955-1982), the third important element of the traditional model has been, as mentioned previously, a wage formation process based on a centralised and coordinated bargaining system. Up to 1982 the bargaining cycle was as follows. At the first stage the three trade union Confederations (LO, TCO and SACO¹⁷) and the employers confederation SAF agreed¹⁸ to recommend their respective affiliates to conclude wage agreements within a specified economic framework/range. At the second step, the SAF employer associations and the various trade-union federations negotiated and concluded collective agreements at the industry level, applying the recommendation stipulated in the central agreement. At the third stage, the industry collective agreement were translated into local enterprise collective agreements. Normally, the agreements reached by LO and SAF served as a benchmark for other categories of employees, notably white-collar workers (TCO) and academics and graduate professionals (SACO), the guiding principle being that the wage increases in the 'sheltered' parts of the economy should not exceed the one concluded level for industries exposed to international competition.

The wage increases actually registered for the contract periods (generally 2-3 years) often exceeded the ones negotiated at the central and intermediate level. Of course, this 'wage drift' was larger in expanding sectors and industries than elsewhere. For the *solidaristic wage policy* advocated by LO, the wage drift had to be kept within limits, meaning a demand for 'discipline' addressed by the confederation LO to the individual employers and employees representatives at the firm levels. This expected wage drift had to be taken into account within the framework of the agreements reached at the central and intermediate level.

As previously mentioned, in the mid and late 1970s the two sides of industry failed to accomplish a wage development compatible with the preservation of the Swedish economy competitiveness. Partly because of this, the wage formation system started to crack up in the early 1980s. Actually, the extra increases in wages for low-paid workers agreed upon at the central level had resulted in very narrow wage differentials. The wages agreement for workers in industries exposed to international competition tended to become regarded as a floor rather than as a ceiling in the other bargaining areas. Some influential groups of employers and employees, mainly within the engineering industry, felt an increasing degree of frustration about the prevailing bargaining system.

¹⁷ Namely the Swedish Trade union Confederation (LO, blue collar workers), the Swedish Confederation of Professional Employees (TCO, employees and middle management) and the Swedish Confederation of Professional Associations (SACO)

¹⁸ Normally after tough negotiations sometimes involving threats and conflicts. Sometimes the Government appointed mediators to ease the conclusion of an agreement, thereby trying to avoid extensive and lengthy conflicts involving strikes and lockouts. Of course, some such conflicts did occur, but they were—by international standards—relatively few and of limited extent and duration.

Large parts of the Swedish manufacturing industry had to invest in new and rapidly changing technologies to preserve their competitiveness. The employers strived to implement a more flexible wage formation in order to stimulate efforts and to facilitate adequate recruitments and necessary, often radical, organisational and structural changes. The employees working in such industries and represented, mainly, by the Metal Workers' Union (*Metall*), had become increasingly dissatisfied with the demand for wage restraint in spite of rapidly growing productivity and more demanding working conditions.

In 1983 the Engineering Employers' Organisation concluded a separate agreement with the Metal Workers' Union meaning a break with over two decades of centralised and coordinated bargaining system. During the remaining part of the 1980:s wage formation system oscillated between centralised and decentralised forms of bargaining. In the absence of effective peak-level wage cost control via generally accepted central agreements, and in the context of increasing labour market tightness not counteracted by restrictive macroeconomic policies, it became impossible to prevent unions in sheltered and booming sectors from exploiting their bargaining power and 'leapfrogging' other unions during wage negotiations. The result was a rapid deterioration of Swedish competitiveness and an increase of inflation (Iversen, 1999, p. 144).

New compromises and the re-coordination of bargaining system 1995-

The combination of the abandonment of inter-professional agreements, the erosion of the Swedish Model of Industrial Relations (particularly the weakening of mechanisms for coordinating collective bargaining), and the resurgence of industrial disputes (together with pay rises that were not compatible with the maintenance of overall economic balances) during the 1980s led the government and the social partners to formulate new strategies in the early 1990s. At the beginning of the last decade, the reformulation of economic policy (i.e. a restrictive monetary policy, priority given to fighting inflation, and the re-absorption of budgetary deficits), the sharp rise in unemployment, and Sweden's deferred entry into the European Monetary Union had a decisive impact on the emergence of new compromises dealing with wage formation, the procedural framework of collective bargaining and, as has already been noted, the regulation of industrial disputes. After several abortive attempts in the early 1990s to set up new collective bargaining mechanisms, the prospect of further government interference in the labour market encouraged the two sides of industry to start talks aimed at reforming industrial relations. Following the failure of negotiations on the setting up of a Growth Pact (Anxo, 1999) and the breakdown of pay talks for 1995-96, the three main trade unions¹⁹ in the sector exposed to international competition asked their employer counterparts to consider the possibility of setting up a new collective bargaining system that fostered both industrial peace, and wage increases that guaranteed balanced growth and a return to full employment.

These talks culminated in the signature of an agreement on Cooperation on Industrial Development and Salary Formation (*'Samarbetavtal om Industriell Utveckling och*

¹⁹ These were the Swedish Federation of Blue-Collar Workers in the Engineering Industry (*Svenska Metallindustriarbetareförbundet, Metall*), which is affiliated to the LO-S Confederation, the Swedish Federation of White-Collar Workers in Industry (*Svenska Industritjänstemannaförbundet, SIF*), which is affiliated to the TCO Confederation, and the Swedish Association of Graduate Engineers (*Sveriges Civilingenjörförbundet, CF*), which is affiliated to the SACO Confederation.

Lönebildning, Industriavtal’) on 18 March 1997: it covers about 600,000 workers, (approximately 17% of the gainfully employed population). Apart from producing a joint document on the general conditions of balanced industrial development, the signatories to the agreement²⁰ concluded an additional convention (the Negotiating Agreement, *Förhandlingsavtalet*) setting out a set of procedural rules governing the functioning of collective bargaining and the resolution of industrial disputes.

In other words, the spirit of the new Agreement on Industry is to insure industrial peace and promote more consensual industrial relations. It may justifiably be compared with the historical compromise concluded at *Saltjöbaden* in 1938²¹ (Elvander, 2000).

A Joint Industrial Committee (*Industrikommitten*) was established both to ensure compliance with the terms of the agreement (particularly with the procedures governing the operation of collective bargaining) and to promote a negotiating climate that encourages wage agreements that do not jeopardise the competitiveness of Swedish enterprises²².

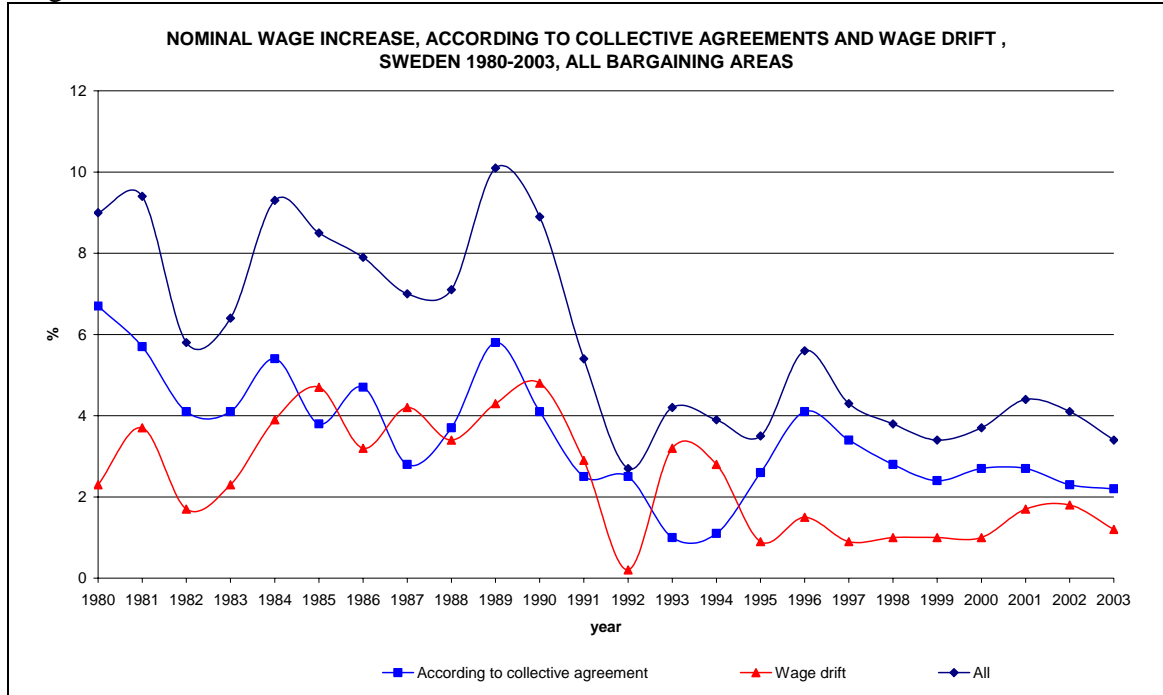
The innovatory character of the Agreement on Industry, apart from the tendency to re-coordinate collective bargaining, is still the establishment of explicit rules concerning the regulation of negotiations and the resolution of disputes. As was stressed earlier on, the main objectives of the Negotiating Agreement are to create a constructive climate that is favourable to the conclusion of collective agreements compatible with balanced growth, and to avoid industrial disputes. Negotiations must henceforth commence three months prior to the expiry of the existing collective agreement; one month before it expires, eight ‘Impartial Chairs’ (*opartisk ordförande*) appointed by the Industry Committee must assist the social partners in their work, and endeavour to implement the measures that are necessary for the rapid conclusion of an agreement. If there is a danger of a dispute, the social partners concerned are obliged to notify the Impartial Chair before the notice period for a strike or lockout is engaged. The Impartial chairs’ powers are larger: in particular, they may compel the social partners to reply to questions put to them by the Economic Council, and they have the power to impose their own solutions to resolve a dispute and to defer a dispute for up to 14 days.

²⁰ They were 12 employers’ associations affiliated to the SAF Confederation, 6 trade union confederations belonging to the LO-S Confederation, and 2 federations affiliated to the TCO and the SACO.

²¹ The Saltjöbaden Agreement, which was signed by the LO-S General Confederation of Labour and the Swedish employers’ confederation, the SAF, put an end to the frequent labour disputes during the 1930s and had a decisive influence on the development of peaceful industrial relations. It also established a series of regulations covering the roles of the various actors on the labour market, and accorded the social partners considerable room for manoeuvre in respect of wage policy. The Saltjöbaden Agreement also influenced the organisation and functioning of negotiations, regulated industrial disputes by demanding prior agreement with the Confederations in the case of disputes affecting more than 3% of the workforce, and guaranteeing industrial peace as soon as the collective agreements were concluded.

²² The Committee consists of a President who is elected for one year, and leading representatives of the central organisations concerned. The Industry Committee, following the provisions of the Industry Agreement, set up an Economic Industry Committee (*Industrins Ekonomiska Råd*) in August 1997. This is made up of four independent economists appointed by the Industry Committee: their tasks are to provide the social partners with regular information on macro-economic development, and carry out studies evaluating the impact of pay agreements.

Figure 2.4:



Source: Statistics Sweden and Konjunkturinstitut (2005)

By setting up its own Conciliation Institute, the Industry Agreement limits the power *de jure* and *de facto* of the new, and previously described, Public Conciliation Institute (see the *Medlingsinstitutet* above). There are therefore grounds for believing that the government has had an influence on the establishment of the Industry Agreement, as the social partners saw that in this initiative lay the danger of the government interfering in the resolution of disputes, and of weakening of their independence and autonomy.

Successive studies carried out by the Economic Industry Council (Carling et al, 1998a,b and 2000a,b) show that pay agreements concluded during 1997-1998 have been complied with, and that wage drift has been negligible compare to the previous decades. (See Figure 2.4 above). During the period 1998-2000, nominal hourly wage rates rose annually by 3%, 2.5% lower than in previous wage agreements in 1995-1997.

This new agreement needs to be put in its historical context. Following the breakdown of the 1995 negotiations, which was reflected in numerous industrial disputes and in the failure to comply with the Norm on Wage Development established, as mentioned previously by the senior economists of all the trade union and employer confederations in 1996 (see above), negotiations conducted during 1997-1998 had to serve as a test of the Industry Agreement's viability. We can say retrospectively that the last rounds of negotiations passed off without industrial disputes, and that the timetable of collective agreements was observed despite usual disagreements between the two sides of industry mainly concerning the issue of working time. By and large, negotiated wage increases kept pace with the rest of the European Union, and the working time issue was satisfactory resolved. The negotiated rise of 3% impacted on other bargaining areas, thereby *re-establishing the normative pacesetting role* of the sector exposed to international competition. Worth also noticing is that the agreement led to sensible

increase of real wages contrasting with the situation in the 1980s, characterized by stagnation in real wages²³.

Although the Industry Agreement was initially restricted to the sector exposed to international competition, this initiative of the social partners in Swedish manufacturing industry has had a decisive influence on the development of social dialogue in other collective bargaining areas. In 1997, for example, a new bargaining agreement was concluded in the Retail and Whole Trade sector: taking their lead from the Industry Agreement, the signatories' objective was to create a procedural framework that limited industrial disputes, and encouraged the conclusion of moderate pay agreements. A comparable agreement exists for the regional and local public sector since the spring of 2000. Talks must commence three months before the expiry of the agreement in force, and the social partners must jointly appoint a Conciliator. If the negotiations run into the ground, the social partners have to call on the Conciliator, who has the power to issue a final proposal and defer the beginning of industrial action by 14 days.

Lastly, as far as the central public sector (the State) is concerned, talks are currently under way to set up a similar structure to the one operating in industry, with the establishment of a Cooperation Committee: as in the other collective bargaining sectors described above, it will seek to implement a wage policy that is compatible with the maintenance of overall economic balance and the prevention of labour disputes.

2.3.4 Decentralisation, differentiation and individualisation of wage formation

As has already been described, the period 1980-1995 was characterised by a clear tendency toward decentralisation of collective bargaining and a weakening of coordination mechanisms. Following the abandonment of inter-professional national agreements in 1983, collective bargaining was carried out at two levels: industry level and enterprise. This decentralisation was also accompanied by a marked tendency towards a differentiation and individualisation of wages and terms and conditions of employment. In wage policy terms, the questioning of egalitarian *solidaristic*, wage policy both by the employers and by some trade unions – including the Engineering Federation (*Metall*) – that were influential inside the Swedish Confederation of Trade Unions (LO) led to a wider dispersion of the wage distribution, and to an acceptance of a more individualised type of wage formation based on individual skills and performances, and no longer on the job characteristics. Several reasons may be advanced for this shift. Firstly, solidarity mechanisms and the general raising of low pay that characterised the LO wage strategy during the 1960-1970s ran out of steam as growth slackened and imbalances linked to economic recession in the late 1970s increased (Anxo, 1993). The second reason concerns major changes in work organisation and the gradual abandonment of Taylorian modes of production. The acceptance of greater wage differentiation by the trade union federations also responded to a fear of LO affiliates that they might lose members to the white-collar confederations, which were traditionally more prone to accept wage differentiation.

²³ During the 1980s nominal wages rose by approximately 8%, whereas real wages remained unchanged throughout the whole period.

Generally speaking, growth in employment in the services, changes in work organisation and the introduction of new information technology have blurred distinctions between white- and blue-collar workers. For example, the acceptance by blue-collar federations of the principle of wage individualisation and the gradual abandonment of the “*Solidaristic Wage Policy*” are certainly related to these structural shifts. Since the 1990s, there has been some convergence of views concerning wage structure between the various components of the trade union movement in the manufacturing industry. In recent years, this consensus has extended to other collective bargaining areas, and particularly to the public sector (i.e. the State and local authorities). A recent survey in the public sector shows that a large majority of employees are in favour of more individualisation and differentiation of salaries.

The tendency to re-coordinate collective bargaining should not be seen as a weakening of the role played by enterprise-level negotiations: they still play a central role in wage formation and of terms and conditions of employment generally. Actually, enterprise-level bargaining has tended to gather strength in the last few decades. Strong trade union organisation and high union density at company level ensure the implementation of negotiated forms of individualisation and differentiation. By responding to a principle of efficiency (i.e. the principle of *subsidiarity*), this two-tier system provides an institutional and legal framework that is favourable to the emergence of *negotiated flexibility*. It is very likely that these tendencies towards the individualisation and differentiation of wages will continue, that collective and undifferentiated ways of setting wages are being gradually abandoned, and that individualised types of wage formation are being generalised across the labour market. It is also unlikely that the inter-professional level, like the recommendations that were formulated by trade unions and employers’ associations before 1983, have any chance of making a comeback. There are, therefore, strong reasons to believe that Sweden will continue to be characterised by a two-tier collective bargaining system.

The employers’ change of attitude regarding the strategy that was initiated during the 1980s of decentralising collective bargaining to enterprise level, and therefore their acceptance of a re-coordination of collective bargaining at the industry level, is certainly linked to an awareness of the cost incurred by the resurgence of industrial disputes, and to the transaction costs associated with the absence of coordination mechanisms. These recent developments may therefore be interpreted as the emergence of a new type of agreement in which the employers accept a degree of coordination in exchange for a guarantee of industrial peace. Clearly, in a situation marked by high trade union density²⁴ and limited government interference in the field of pay determination, coordination of negotiations at industry level ensures a certain degree of industrial peace (Sheldon and Thornthwaite, 1999).

Given the structural changes that Sweden has undergone in the last two decades, recent developments in industrial relations augur well for a revival of the Swedish Model of Industrial Relations. Although these new developments show that the two sides of industry are nowadays prone to accept a re-coordination of industry-wide agreements and give the traded good sector a leadership role in wage determination, and although they may be interpreted as a reorientation of employers’ strategies as regards the decentralisation of collective bargaining, it would be erroneous to interpret these new

²⁴ The average union density in Sweden is above 80% while the coverage rate of collective agreements is around 90%. It must also be stressed that the union density has not declined during the last decade.

tendencies as a weakening of enterprise-level bargaining. In fact, industry-wide agreements leave ample scope for enterprise-level negotiations, particularly regarding the distribution of wage pots negotiated and concluded at industry level. These new developments, therefore, appear to respond to a three-pronged objective: ensuring industrial peace; limiting the impact of transaction costs and of negative externalities on employment and firm competitiveness of uncontrolled wage drift; and finally guaranteeing a principle of subsidiarity, thereby adapting provisions contained in industry-wide agreements to company level. While it is true that there is a compromise around the need for re-coordination, the same views also exist around the need to individualise and differentiate pay and terms and conditions of employment. Moreover, there now appears to be a broad agreement on compliance with the above mentioned Norm on Wage Development that is compatible with the demands of a small, open economy.

The development of industrial relations in Sweden may justifiably be seen as the emergence of a *new historic compromise* combining employers' demands for greater productive flexibility with the trade union movement's desire for sustained growth in employment and in household real incomes. In other words, these developments confirm the impact that changes in the conditions of competition and production have on the system of industrial relations, and the adaptation of the Swedish Model of Industrial Relations to the new challenges posed by post-industrial societies.

2.4 *The renaissance of the Rehn-Meidner model?*

As shown by the previous development, the Swedish model is today *more* in line with the three core elements of the original Rehn-Meidner model than the model applied during the period 1975-1991 that in our view constitutes a clear deviation from the original policy strategy. The current macroeconomic regime is firmly anti-inflationary in sharp contrast with the situation for 15-20 years ago. The wage formation process, is more coordinated and systematised than the turbulent and oscillating ones in place in the mid and late 1980s. For Rehn and Meidner the *centralisation* of wage bargaining stood out as *a means* to accomplish two important goals: (i) wage developments compatible with the preservation of Swedish competitiveness and (ii) *fair wages*. It is hardly probable, given the new conditions created by new technologies and new world market conditions, that a return to the centralised bargaining system of the 1960s and 1970s would have made it possible to reach a higher degree of goal-fulfilment in these respects than what can be accomplished by means of the present system, which retains an important role for collective bargaining and strong unions. To quote Iversen, 1999, p. 167, the present model “*acknowledges the importance of a well-organised collective bargaining system, strong independent trade unions, and a continued role for the government, especially in education, but simultaneously seeks to boost the employment effects of a non-accommodating macroeconomic regime by allowing greater flexibility in the wage and employment structure.*”

Last but not least, the third main element of the Rehn-Meidner model, the extensive use of ALMPs, i.e. the overall *policy of activation* still occupy a central role in Swedish stabilisation policy and its reorientation towards supply oriented measures (occupational and geographical mobility, active search programmes etc) in many respects, is more in accordance with the strategy initiated in the 1950s.

3. MAJOR INSTITUTIONAL AND STRUCTURAL REFORMS

In the early 1980s it was a widespread opinion, among Swedish economists that the Swedish model inherited from the past needed to be reformed. According to Lindbeck et al., (1994), the model had “*resulted in institutions and structures that today constitute an obstacle to economic efficiency and growth because of their lack of flexibility and their one-sided concerns for income safety and distribution with limited concern for economic incentives*”.

The Swedish welfare and social protection system have during the last decade undergone a series of transformations and reforms. These reforms aiming at strengthening ‘incentives’ and fostering ‘flexibility’ can hardly be achieved without consequences perceived as ‘rising inequality’ (mainly larger differences in wages, disposable incomes and wealth) and ‘less security’ (for example more frequent job losses, less generous social insurance systems and less protective employment security laws and regulations). The structural reforms undertaken have also included a wave of deregulations and privatisations aiming at exposing earlier protected activities to efficiency-enhancing competition between different producers of goods and services, something that in turn is probable to involve more flexibility and less secure employment and income conditions. As a matter of fact, many such reforms have been carried out since the beginning of the 1990s.

3.1 Reforms of the Swedish Tax system

As mentioned before, to a very large extent employment growth and the preservation of ‘full employment’ during the decades before the 1990s was made possible by a rapid increase in *public* employment. Most part of the increase of female employment during the 1970s and early 1980s might be ascribed to the development of public employment. *The Swedish tax policy* and the various reforms initiated in the early 1970s have also contributed to the sharp increase in female participation. The shift in Sweden in 1972 from family-based to individual income taxation treatment has encouraged the labour force entry of wives. The development of public employment during this period together with rather generous social benefits and transfers system for income redistribution, involved increasing public expenditures and, thus, an increased tax pressures and a sharp increase of marginal tax.

Of course, many Swedish economists have stressed the detrimental impacts of high taxes on work incentives/effort, on investment in human capital (educational attendance and attainment), and entrepreneurship. To a considerable extent, however, there are reasons to believe that these negative impacts are determined by the tax (and transfer) structure rather than by the level of overall tax rate. Such considerations led to a

comprehensive tax reform in 1991, primarily not aiming at reducing the total tax level but at reforming the tax *structure*. The tax reform implied a reduction of marginal tax rates on earned income, a widening of the tax base and a more uniform taxation of capital²⁸. Despite this reform Sweden remains a high-tax country and the decrease in the total tax pressures in terms of GNP has been limited²⁹. The policy alternative to finance a substantial increase in the public employment by means of a further significant increase in the tax levy is therefore by most policy makers regarded as unconceivable.

Today the centre-right political opposition, especially the *Moderate Party* (Swedish Conservative), advocates for further tax reductions, concentrated on low-wage groups and financed, mainly, by means of reducing the level of income replacement for social insurance benefits, as a means to increase the job creation in the private sector and strengthen work incentives (including increased control regarding active job search for the unemployed), education and investments. It also tends to emphasise the need for reforms stimulating and facilitating entrepreneurship and business development, especially as regards SMEs for which the present rules and regulations, including the ones related to the tax system, are described as too complicated and as representing significant obstacle for the creation and further development of—especially—small scale firms for the production of goods and services.

3.2 Reforms in the Social Protection System

Besides the tax reform of 1991, aiming at strengthening work incentive and increasing the returns on human capital investment, the Swedish social insurance systems have also undergone large transformations during the last decade. Some of these reforms have been triggered by structural changes (such demographic pressures), while others were more related to the various attempts to cope with the increasing budget deficit caused by the economic crisis of the early 1990s and implying most often a temporary reduction of the income replacement rates.

3.2.1 Pension systems and early retirement schemes

There is in Sweden, a large consensus on the necessity to increase the share of the working population—and the productivity per hour worked—in order to counteract the probable substantial reductions in total production and standards of living and also to guarantee the long run sustainability of the social protection system. The proportion of the population aged 65 or more is expected to increase from 17% today to around 23% per cent in 2030. The share of persons aged 80 or more is expected to reach more than 7 per cent at the same date. The share of the working age population (20-64 years) is

²⁹ The current income tax is composed of a municipal tax rate ranging from 26 to 35% depending of the municipality and a national income tax of 20% for income between 252 000 SEK and 390 000 SEK and a 25 % tax rate for income above 390 000 SEK (1 SEK=0,107 Euro). The highest marginal tax is therefore 55% compared to over 80% during the 1990s. All kind of capital income is taxed at 30% regardless of the amount. According to OECD, in 2002 Swedish tax revenues amounted to 50.6 per cent of GDP. The corresponding figure for the 15 EU member countries, the OECD countries, and the United States were 40.5, 36.9 and 28.9 %, respectively.

expected to decrease from today around 59% to 54% in 2030³⁰. The continued expansion of higher education, as well as the increasing needs for recurrent education caused by rapid technological and structural changes, will involve an increase in the proportion of individuals participating in different kinds of educational programmes contributing to reduce the total labour supply.

Pension systems

The old “pay as you go” pension system introduced in the early 1960s became during the 1980s increasingly under financed and it was clear, in regard of the increase of demographic pressures and the ageing of the population, that the current problems will be further worsened in the future. For many observers, the required increase in contributions for the working age population or the reduction in the benefit level for securing the sustainability of the old system of pension was regarded as not practicable.

A new pension system was therefore introduced in 1999. This new system is the result of a broad political consensus and the awareness, among left and right politicians of the urgency of reshaping the pension system in order to secure its long run sustainability. The new pension system comprises three main components: *income-related pension*, *pre-funded pension* and *guarantee pension*.

The first and more important component, the *income related pension* is nowadays based on life income and is also linked to Sweden's economic growth and demographic development. This contribution based component means that the “pay as you go” character of the pension system is maintained since its financing is based on the working age population. While one important motive in the pension reforms was to increase the labour supply and lengthening the time devoted to market work over the life course it has to be stressed that time dedicated to small children within the framework of parental leave system, work absence due to national military service and studies also gives pension rights. In other words, future entitlements to income pension are not only related to work history and earnings development but linked to other form of income such as transfer benefits.

The second component of the new pension system is a compulsory premium pension which the individual save in funds of his/her choice. As stressed by Joakim Palme (2003) this second component illustrates “*the changing boundaries of public and private in the system of old age security. It opens up the possibility for private fund management to handle within a public framework, where public authorities both collect contributions and pay out the pension. Moreover it introduces individual risk sharing within the social insurance system, where programmes are usually designed for collective risk sharing.*”

³⁰ According to projections made by Statistics Sweden in 2003, from 2002 to 2020 Sweden's population will increase by about 836 thousand to about 9.7 million people. The main part of this increase, about 70 per cent, will take place in age groups outside the working age population (0-19 years and more than 64 years). Furthermore, about 62 per cent of the increase of the working age population will occur in the group 55-65 years, where the rate of labour market participation is relatively low. Thus, the demographic developments will hardly contribute to an increase of the labour supply.

The third component, the *guarantee pension* is a universal basic pension for those who have had low income or no income and a way to fulfil the traditional social policy goal of preventing old age poverty.

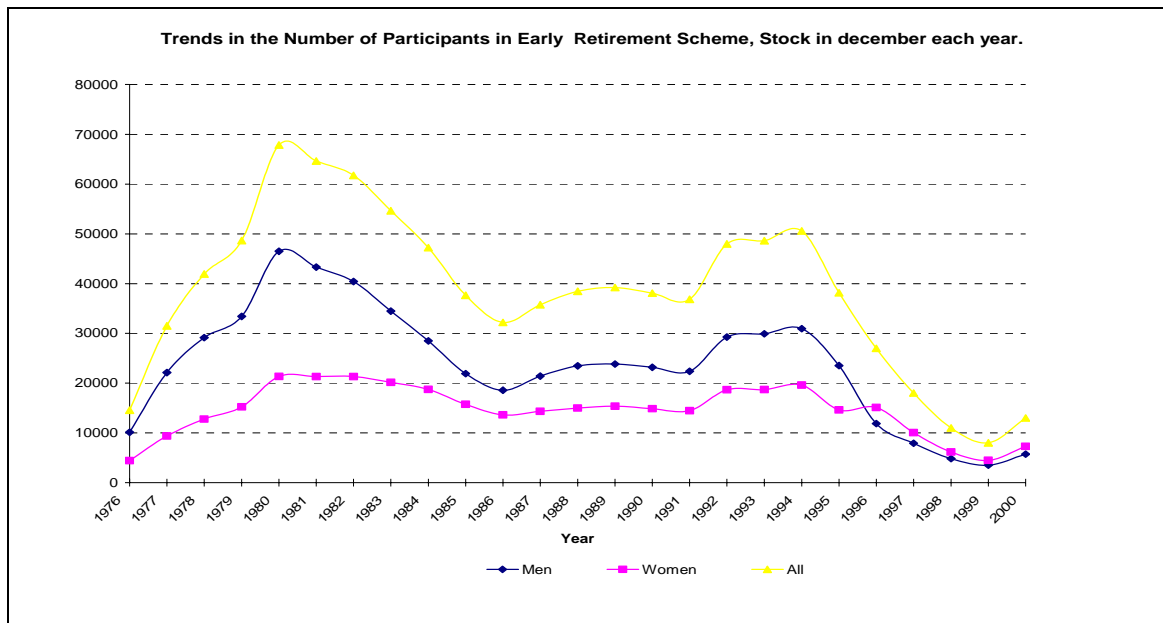
Even though the new pension system does not contain a fixed retirement age, the pension cannot be drawn before the age of 61 and there is no legal right for employees to work after the age of 67. Although this radical pension reform has the clearly advantage to secure the sustainability of the pension system it cannot be ruled out that it increases somewhat the inequality between groups of pensioners.

Early retirement schemes

The pension system also gives the right to early retirement through the disability pension scheme (*Förtidspension*). Individuals are entitled to a full or partial disability pension depending on work invalidity. Originally, eligibility was based on a concept of work incapacity based on medical factors. From the early 1970s, a disability pension could be obtained "for labour market reasons" for those over sixty years of age. In practice it was often extended to those below this age. These schemes were widely utilised in the seventies and early eighties, (see Wadensjö, 1996). Due to the expected demographic developments and increasing public budget constraints early retirement for labour market reasons was abolished in 1991. It cannot be ruled out, however, that in practice labour market considerations are still a factor, even if in principle the pensioning decision is to be based on medical considerations only.

Since 1976 pension could also be taken on a part-time basis according to the Partial Pension Scheme Act (*Delpension*). The recipients could reduced working time up to 10 hours per week. The benefits are paid from a fund financed by the employers (Pay roll tax) and administered by the National Social Insurance Board. The replacement rate was at the origin set at 65 % of previous gross income which due to the strongly progressive of the Swedish tax system meant a considerable higher replacement rate. The replacement rate was lowered for the first time in 1980 to 50 % of gross income for new applicants by the Conservative Government. In July 1987 the replacement rate was again increased to 65 % by the newly elected Social-Democratic Government. Due to increasing deficits in early part-time retirement found the replacement rate was, from 1994, reduced to 55 % of gross income and the system of Partial Pension Scheme has been abolished in 2001.

Figure 3.1.



Source: Riksförsäkringsverket (2005) and Anxo and Storrie (2003).

During the last 30 years, Sweden has experienced, like many other industrialized countries, a clear shortening of working life due principally to the conjunction of later entry into the labour market (lengthening of educational period) and earlier exit from the labour market. During the 1970 until the mid 1980s, 56 % of older workers left the labour market before the retirement age of 65 and the average drop out age was 63 years old. During the late 1980s up to the mid 1990s, 76% of older worker anticipated their exit from the labour market and the average drop out age had fallen to 61,3 years old (see Sjögren 2004). Despite this trend, employment rate among older workers (55-64 years old) is still clear above the Lisbon Target of 50 %, namely 72% for Swedish men and 67% for Swedish women, see Figure A1 in the appendix).

In order to sustain employment rates of older workers and reduce early retirement the various early exit schemes for labour market reasons, introduced during the early 1970s have therefore been progressively abandoned. As can be seen from Figure 3.1, the number of recipients of early retirement schemes, still significant in the mid 1990s, has clearly declined over time. The take up rate has also varied according to the conditions in the labour market and the compensation level.³¹

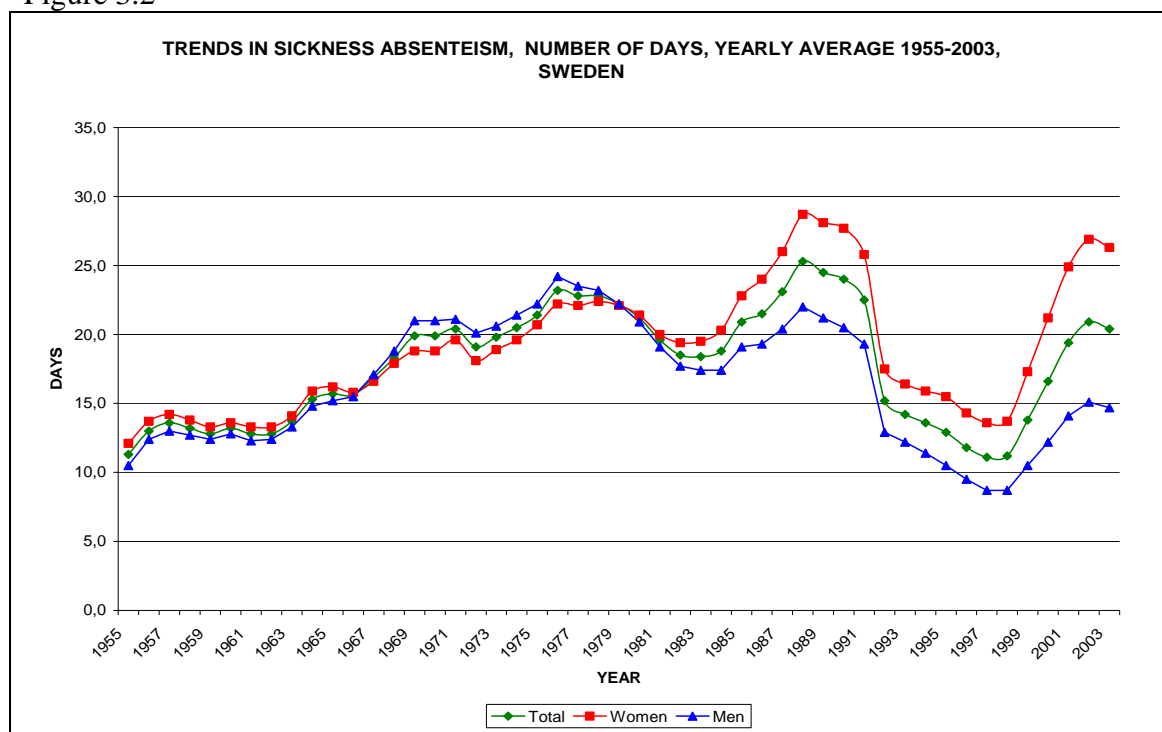
³¹The sharp increase in early retirement for men in the late seventies and the early eighties is essentially due to the closure of the Swedish shipyard and the restructuring of the textile, the steel and mining industries. Still in the mid 1990s, in the wake of the employment crisis, about 20 % of wage-earner between 61-64 years were concerned by early retirement programmes

3.2.2 Sickness insurance

The Swedish sickness insurance was already made universal in 1955. The health system is not directly linked to working life and there are no legal thresholds in working time affecting entitlement to social security. Although it is paid for an unlimited period and is subject to income tax the level of benefit is related to actual income³².

In the late 1990s the proportion of employed reported as absent from work due to illness started to increase at an alarming pace. In 1997 this proportion was 4 and 7 per cent in the age groups 20-64 years and 55-64 years respectively. In 2002 the corresponding proportions had increased to 7 per cent in the former group and 10 per cent in the latter. The yearly average number of days on sickness attained a top of 25 days in 1997 and is in 2003 still at 20 days (See figure 3.2 below.)

Figure 3.2



Source: Försäkringskassan (2004).

From 1997 to 2003, expenditures for the public sickness insurance system (sickness benefits) increased from somewhat less than SEK15 milliards to somewhat more than SEK43 milliards!³³ Since then sickness absenteeism has decreased somewhat, but it remains at a high level, and the number of individuals in early retirement due to medical reasons has continued to increase. The factors behind these developments are still a matter of debate and research. As shown by Figure 3.2 the rate of sickness absenteeism and the average number of sickness days is significantly higher for women than for men (and for low-income earners). A common diagnosis is that the structural reforms undertaken in the 1990s in the wake of the economic crisis have involved harder and

³² All gainfully employed people with an annual income of at least SEK 6,000 (640 Euro) are entitled to cash benefits for loss of income while ill.

³³ 1 SEK=0,107 Euro, 1 Euro=9,38 SEK

more demanding working conditions for many individuals, in particular in the female dominated and relatively low-paid public care sector.

In order to curb the large increase of sickness absenteeism, the sickness insurance system has been successively reformed. In the early nineties, in conjunction with the effort of reducing the increasing deficit in public expenditures, sickness benefits were lowered from 90 % to a replacement rate of 80 % of previous income and one waiting day was introduced. Payment for the first 21 days of sickness has also been shifted to the employers. From the 22nd day of sickness the public health insurance system takes over and pays sickness benefit (80% of 97% of the previous wage)³⁴. In order to further reduce sickness absenteeism, especially long term absenteeism and early exit from the labour market due to illness (disability pensions or work-injury benefit) various rehabilitation and “return to work” programmes have been launched during the last decade.

3.2.3 Parental leave

The Swedish parental leave program, introduced in 1974 (replacing the Maternity leave legislation), has also obviously sustained the growth of female labour participation and contributed to the changes in women's behaviour in the labour market. Since then women ceased to withdraw from the labour market with anything like the frequency which they had during the 1960s and Sweden among the employment rates of mother of children less than 7 years old is among the highest among OECD countries (see Figure A1 in the appendix). The change of the name also reflects the public authorities' desire to influence the division of labour between men and women and favour gender equal opportunities.

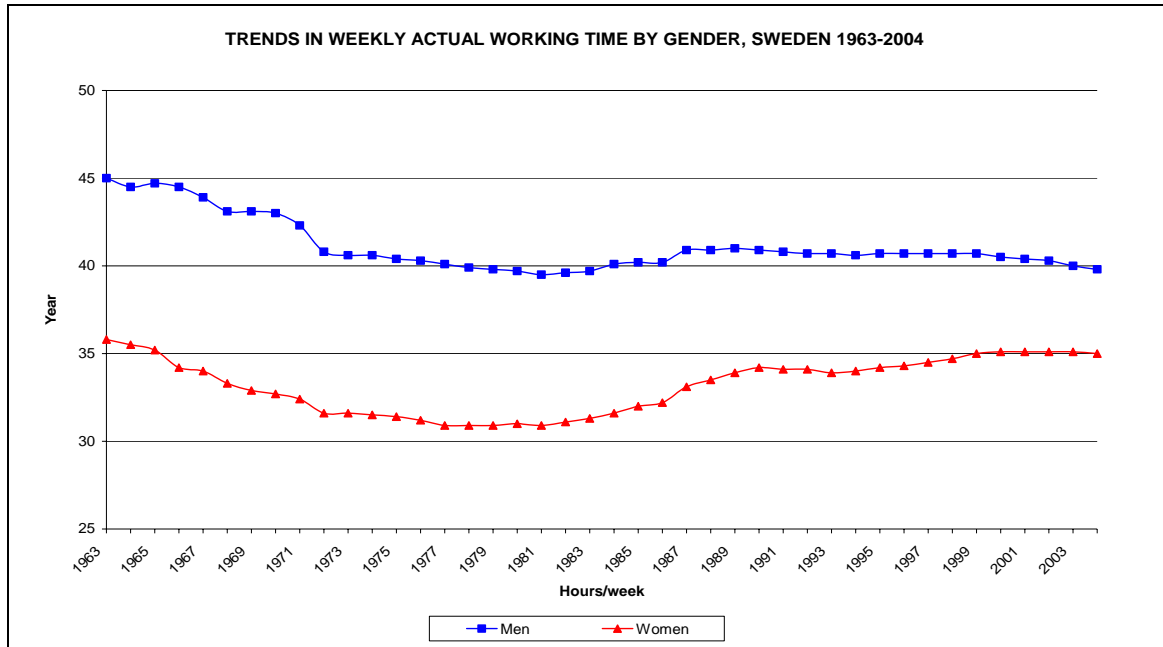
The similarity of female and male employment rates over the life cycle nevertheless conceals considerable disparities as regards the length of working time (See Figure 3.3) and absence rates. It is nevertheless interesting to note that the gender gap in working hours has narrowed over the past three decades (from nine hours in 1963 to less than 5 hours at present, 2004) and that both the incidence of fathers taking parental leave and the average duration of the fathers absence have continuously increased during the last decades³⁷.

³⁴ Nevertheless, it must be noted that it is quite common that the compensation from the public system is supplemented by additional payments from contractual insurance and special provision in collective agreement.

³⁷ From 1% of compensated days in the mid 1970s to almost 20% in 2004 (i.e. corresponding to approx. 50 days of absence)

The above mentioned tax reforms during the Eighties and early Nineties, aimed to reduce marginal tax combined with the decrease of replacement rate for several income related transfers, might also be one factor explaining the increase of average working time, in particular for women.

Figure 3.3.



Source: Statistics Sweden (2005).

The length of parental leave was initially 6 months and has been successively extended to 16 months (480 days) in the 1990s with full job security on return. The level of compensation is 80 % of gross earnings for the first 390 days. For the remaining 90 days parents receive a flat rate of 60 SEK³⁸. Parental leave offers considerable scope for flexibility in that part of the leave can, for example, be taken over a longer period by working a shorter week with wage compensation. Generally speaking Sweden's parental leave schemes offer considerable scope for re-arranging working time. Parents may use their right to parental leave from the child's birth or adoption until its eighth birthday. In order to favour a more equal gender distribution of absence a first non transferable month for each parent has been introduced in 1993 and a second in 2002. This rule constitutes, therefore, a strong incentive for the father to use his right to parental leave for at least 60 days.

Since the amount of income related benefits is based on the income during the six months immediately preceding the birth of the first child which constitutes a strong incentive for parents to work full-time prior to childbirth. This benefit system has had, therefore, a great influence on working time patterns. Typically, Swedish parents work full-time before childbirth, take parental leave, come back to employment on a part-time basis and increase working time when the children grow up. Parents also have a legal

³⁸ Parents not in employment before the birth or adoption of their child are entitled to a flat rate of 180 SEK for the first 390 days and the same flat rate of 60 SEK for the remaining 60 days. (1 SEK=0,107 Euro, 1 Euro=9,38 SEK)

right to leave to care for a sick child (60 days a year per child compensated at the same replacement rate as sickness benefit, 80% of previous earning).

3.2.4 Childcare

The public childcare system has substantially improved during the last three decades. In 1995 the legislation was modified and the municipalities became liable to provide pre-school programmes and leisure-time activities for schoolchildren without unreasonable delay. The liability applies to children from age one up to and including twelve years whose parents are gainfully employed or study. The number of places in community child care centre or community sponsored home has increased from about 12 % of children between 1 and 6 years old in 1972 to about 90% in 2004. The Swedish system is specially designed to facilitate market work for parents. The day care centres provide catering facilities for the children and are open until 18.00.

During the period 2001-2003 several childcare reforms were also undertaken in order to extend childcare facilities. Local authorities were required to provide pre-school or family daycares openings to children aged 1-5 even for job seekers and also for parents taking parental leave to take care of a sibling. Pre-school care, free of charge, was introduced for all children aged 4–5 for at least three hours a day during the school term. Furthermore a maximum fee, i.e. a ceiling on the amount parents were required to pay for public childcare at a pre-school was also introduced. The main objective of these reforms is to make public childcare a part of the general welfare system, available to all. The basic principle is that all children in Sweden shall have access to childcare and that childcare cost shall be so low that no child is excluded.

3.2.5 Unemployment Benefits

As previously mentioned, one of major features of the Swedish Model has been the emphasis on active labour market policy (Activation). Since the early 1950's labour market policy has been an integral part of the Swedish stabilisation and distribution policy and has played a crucial role in maintaining a high level of employment. The preference for the principle of employment promotion programmes has always dominated over benefit options for the unemployed.

The most important type of wage replacement benefits in Sweden is unemployment insurance (UI). Compensation is paid to the unemployed that have been members of a certified unemployment insurance fund for at least 12 months - *the membership requirement*. In addition, the unemployed must have worked for at least 5 months during the previous 12 month period before the unemployment spell - *the work requirement*.

The dramatic increase of unemployment and budget deficit in the early 1990s induced a revision of unemployment insurance system that became less generous and less expensive. The statutory replacement rate was lowered from 90 to 80 percent of previous income in July 1993 and further reduced to 75% in January 1996 and a waiting period of 5 days was introduced. With the improvement of the labour market

conditions and the restoration of budget balance, the UI replacement rate was raised to 80% in September 1997³⁹.

As stressed by Holmlund (2002), p 45: *“The average effective replacement rate depends also on the benefit ceiling. The ceiling was reduced in 1993 and remained constant in nominal terms until 1998 when a rise was undertaken. However, the increase was small and did not even restore the nominal value of the pre-1993 ceiling. The next adjustments of the ceiling came in 2001 and 2002. The combination of a slightly declining benefit ceiling and continuous nominal wage growth led to a substantial fall in replacement rates for workers with above-average earnings”*.

A new reform of the UI system was also undertaken in 2001. A jobseeker eligible to the UI can only restrict its job search to his/her local labour market or occupation during the first 100 days of unemployment. After this period the unemployed has to widen his/her search area. The reform states also that unemployment benefit is paid for a maximum of 300 days irrespective of age compared to 450 days for older workers in the previous system. In contrast to the previous system, participation in a labor market program is no longer a qualification for UI. The rules for sanctioning non active search were also changed in 2001. The new system involves more frequent search controls and sanctions implying a reduction of benefits by 25 or 50 percent in case of non active search.

3.2.6 Social Benefits

Social assistance benefit (*Socialbidrag*) in Sweden is a means-tested transfer, having its historical roots in the system of poor relief. According to Swedish law all persons with an income below a threshold are eligible for social assistance. Social benefit is equal to the difference between the threshold and income before assistance. Unemployed persons who are not entitled to receive wage-replacement benefit or have a low level of compensation may, therefore, apply for social assistance benefit. Social assistance is provided, at the social welfare offices who decide, on behalf of the local authorities, who is entitled to receive such benefits.

The responsibility for the expenditures of active labour market policy lies essentially with the central government budget. Only 5% of the total expenditures are financed by local government. On the other hand, the fiscal burden of unemployment are borne, in addition to the central government budget, partly by the local and regional government because of loss in revenue from local income taxation and increase in expenditures for public assistance (social benefits) which are financed by the municipalities (see Anxo & Johannesson 1995).

Since unemployment insurance system cover only a part of the job-seekers and are provided for a limited period, local authorities would be burdened with high level of public social assistance outlays. In order to limit the fiscal burden of unemployment, the local authorities have therefore an interest to be involved in the decision making process by promoting the implementation of active labour market policy programmes. The

³⁹ The current compensation is, 80 per cent of previous income up to a ceiling, or a maximum of SEK 730 per day for the first 100 days and thereafter a maximum of SEK 680. 1 SEK=0,107 Euro, 1 Euro=9,38 SEK

Swedish decentralised planning process within the Labour Market Board and the local financing of social assistance benefits ensure, therefore a certain congruence of interest between different actors at the central and local level. In other words, the fact that social benefits expenditures are borne by the local authorities creates a strong incentive for using active labour market policy programmes to counteract social exclusion.

The dramatic changes that occurred in the Swedish economy in the early 1990s has not only meant an increasing fiscal burden due to the sharp increase in unemployment expenditure, but also increased claims for other income related social benefits such as housing allowance, social assistance and other transfers. As a consequence of the deep employment crisis and the dramatic rise of unemployment, around 10 per cent of households were drawing occasionally means-tested social assistance in the early 1990s.

In this context, during the last decade, various local activation programs targeted toward social benefit recipients have been launched in order to reduce the volume of social benefit recipients.

4. THE SWEDISH PRODUCTION AND EMPLOYMENT SYSTEM

After the Second World War and until the early 1970, the Swedish rate of economic growth was among the highest in the world. This can mainly be attributed to the rather strong position of the Swedish manufacturing industry that entered the post war period with an undamaged production apparatus while meeting an increasing world market demand for their products. From the mid 1970s to the mid 1990s, however, the annual GDP growth averaged about one percentage point lower for Sweden than for the OECD as a whole. As shown previously, the beginning as well as the end of that period included several years marked by deep economic crises involving significant decreases in industrial employment and production. The real costs incurred by these crises, or the corresponding policy or system failures, became reflected in a rather significant decline in Sweden's relative position, in terms of GNP per capita, among industrialised countries. Between 1993 and 2001 the industrial production grew by about 5 per cent per year, well above the OECD average.

4.1 Overall production structure

From 1960 to 2002 the number of jobs in the manufacturing sector fell from 1.1 to 0.72 million. The volume of employment in the service sector increased from 2 to 3.15 million. During the same period public employment increased by about 785 thousand while the private (business) sector (including manufacturing) employment decreased by about 100 000.

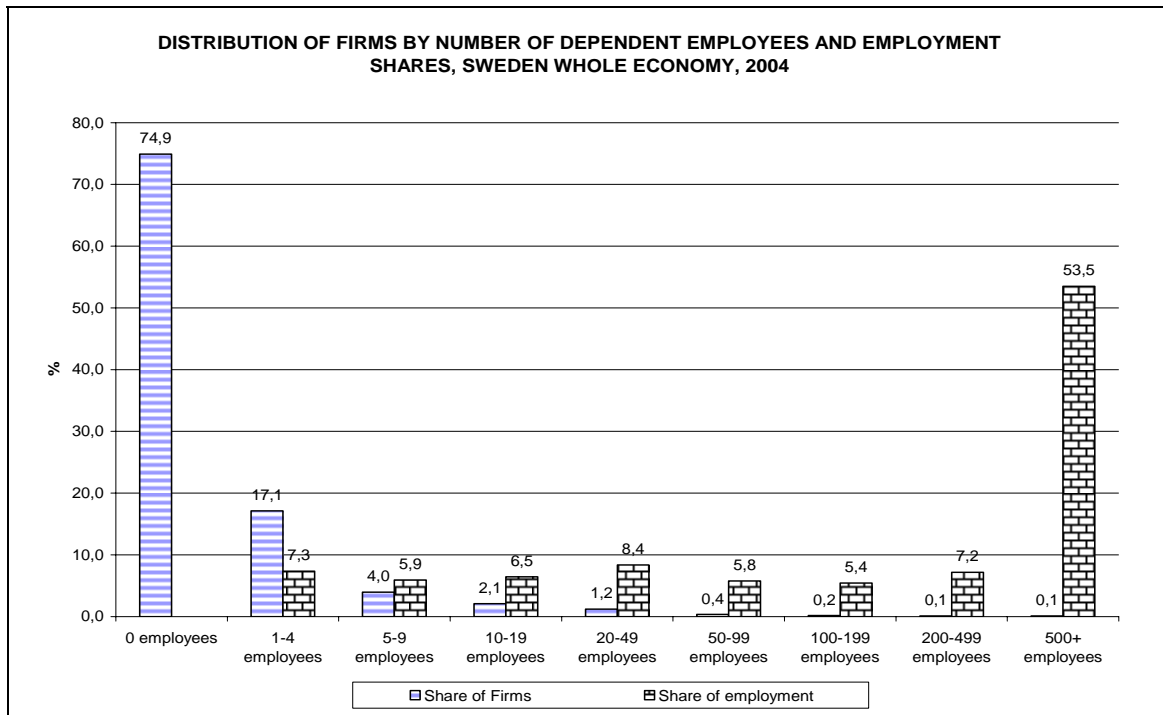
In 2002 the various sectors' contributions to GDP were as follows, in per cent:

| | |
|--------------------------|-----------------------------------|
| Agriculture and forestry | 1.5 |
| Manufacturing | 19 |
| Private services | 58 (of which 4 from construction) |
| Non-profit organisations | 2 |
| The public sector | 19 |

In the mid 1950s the manufacturing sector's share of the Swedish GDP was around 30 per cent. It is important to observe, however, that today very large parts of the service sector are closely linked to the manufacturing sector. Arguably, the services bought by manufacturing companies from service companies should be looked at as inputs into production processes the ultimate outputs of which are goods delivered to the market by manufacturing companies. As many other industrial countries, Swedish firms have experienced, during the last decades, a clear trend towards an *outsourcing* of service activities and undergone reorganisations towards core activities. Many of these business-to-business ('B2B') services— such as consulting, marketing activities, computer and IT support, financial and insurance services, etc.—are rather knowledge-intensive. By contrast, household related personal services provided by private service companies, so-called business to consumer ('B2C') services are not very knowledge-intensive. Due to the rather compressed wage structure and the prevailing high tax rates these B2C services are relatively expensive and, by international standards, the labour-intensive and unskilled part of the Swedish private service sector stands out as relatively underdeveloped. Another important reason for explaining the small supply of household related service is that a large share of these domestic services (like child care, elderly care) are provided by the tax financed public service sector.

The business sector in Sweden consists of about 700 thousand companies. Considering companies with employees (in fact, around three quarters of all companies have no employees), the average number of employees per company is 15. For companies within the manufacturing industries the corresponding figure is 30 employees. Only 1 per cent of the industrial companies have more than 200 employees, but these companies account for almost 60 per cent of employment in manufacturing industries. Considering that many formally separate companies belong to the same corporate group, this share is even larger, nearly 70 per cent. This makes Sweden one of the countries with the largest dependence on large companies. Companies with less than 20 employees account for less than 15 per cent of the industrial employment.

Figure 4.1



Source: Statistics Sweden.

However, the share of all employees working in SMEs (small and medium-sized companies) has gradually increased over the past decade. The larger companies are to an increasing extent focusing on their core activities, and as a consequence many service units or other profit centres have been transformed into formally separate companies (outsourcing), not seldom developing and using advanced technologies. The SMEs have been recognised as strong generators of economic growth and many small firms are producing advanced B2B services.

4.2 R&D, internationalisation and ownership in the business sector

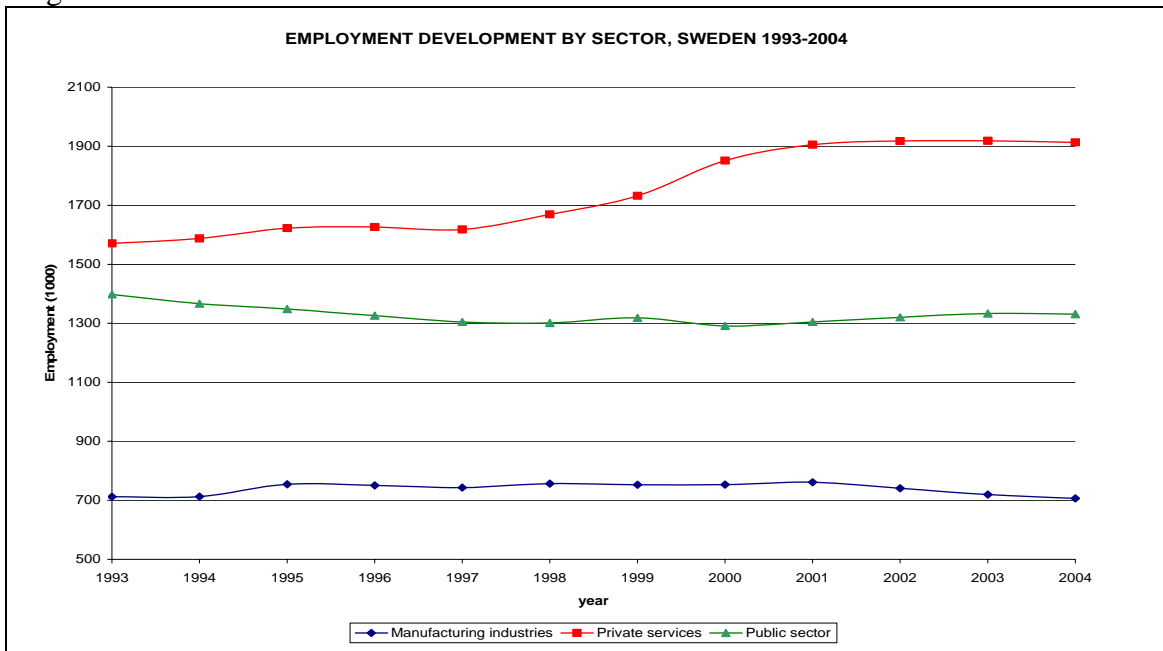
As mentioned previously, the Swedish economy is highly dependent on a limited number of relatively large multinational enterprises with a large number of subcontractors in Sweden and abroad. These large enterprises are, for their long-term survival, dependent on their ability to continuously develop their products and methods of production. This is one of the main factors behind the relatively high level of R&D spending in Sweden. Swedish multinationals are among the most R&D-intensive in the world.

Since 1989 R&D investments have increased by on average more than 10 per cent from one year to another and in 2001 they amounted to what corresponds to almost 4 per cent of GNP. This share seems to be larger for Sweden than for any other industrialised

country. Furthermore, in Sweden private industrial companies account for the main part—about 75 per cent—of these investments. A very large share of R&D spending occurs among just a few major, multinational companies in the pharmaceutical, heavy engineering, automotive, aerospace and IT sectors.

During the last fifteen years, the larger increase in industrial output is to be found in knowledge-intensive production. However, due to rapid increases in manufacturing productivity, the corresponding job creation has taken place mainly in the knowledge-intensive service sectors. The service share of Swedish exports has increased very much in recent decades. In 1980, the share was 14 per cent and in 2003 about 23 per cent.

Figure 4.2



Source Statistics Sweden (2005)

Between 1990 and 2002, the average annual growth of knowledge-intensive production was 6 per cent. During the deep recession in the early 1990s, many industrial enterprises carried out far-reaching rationalisations aimed at decreasing the unit production costs. This contributed to reinforcing the impacts of the large depreciation of the Swedish currency in the early 1990s on industrial production. Between 1993 and 2001, the industrial production grew by about 5 per cent per year, well above the OECD average. Salient elements of the expansion were the heavy investments in IT development and the intensified use of such technologies. However, the next few years became marked by the burst of ‘the IT bubble’ and a deep crisis in the telecom market, but also by a cyclical downturn. The growth in industrial output became less than 2 per cent per year. Now, in 2005, we again observe a rapid growth in industrial output. The improvements include a significant recovery of the telecom and the IT industries. However, so far this growth has not been translated into a higher employment level; the unemployment has not yet started to decrease (in August 2005).

Considering not only the private companies’ large investments in R&D but also by international standards the high level of public expenditures on schooling, higher education and research, the prevailing rate of economic growth and the remaining

difficulties to re-establish full employment, may stand out as rather disappointing. The fact that the high level of investments in R&D and public educational programmes have not yet led to substantial improvements in terms of growth and employment appears somewhat as a paradox.

The *development* of new products and methods of production is in itself very knowledge-intensive. However, the *application* in large-scale production of what has been developed often requires a rather limited amount of labour—skilled as well as unskilled—per unit produced. To the extent that a significant amount of relatively unskilled labour (in terms of education or professional experience required) is needed, an advantageous alternative for the producing company may be to localise its mass production to countries where the wage costs for such labour are considerably smaller than in Sweden. This may cause increasing difficulties for job seekers without higher education—or without adequate and advanced professional skills—to find suitable jobs. Contributing to this is the limited demand for relatively unskilled labour in the service sectors that is caused by the compressed wage structure and the high taxes (and the budget restraints faced by public employers at the present tax levy). At the same time the number of job seekers entering the labour market after spending some years in higher education increases. They are ‘skilled’ in the sense that they have passed demanding study programmes, but to what extent do they have the *kinds* of skills asked for by employers in knowledge-intensive production, including B2B services, and R&D activities? And will the *number* of relatively advanced jobs (associated with relatively high labour costs) offered by these employers be large enough to absorb the expected large outflow from the mass higher education in place since just recently?

So far direct *re-localisations* of production from Sweden (including the closing-down of plants in Sweden) to other countries have been rather limited. Since very long, however, most of the major Swedish manufacturing and exporting enterprises have had parts of their production localised abroad. During the 1990s, the number of people employed by Swedish companies abroad increased by about 300 to in total some 900 thousand, including 500 thousand in manufacturing. In recent years, however, construction, retailing and financial services have accounted for an increasing share of Swedish direct investments abroad. The internationalisation is also reflected in a large number of Swedes, about 520 thousand, working for foreign-owned companies in Sweden. Their number has more than tripled in the past 20 years. Foreign-owned companies account for about one third of total industrial employment in Sweden.

As regards ownership, in recent decades mergers and acquisitions have been prominent elements of the restructuring of the business sector in Sweden. Especially in the 1970s it included large companies buying small Swedish companies. In the 1980s, large Swedish companies vigorously expanded their acquisition of foreign companies. Recent years have seen some spectacular international mergers. In the pharmaceutical sector, for example, in 2003 Pharmacia was acquired by the U.S. based Pfizer, and Astra is nowadays part of the U.K based AstraZeneca. Other examples are the mergers of Volvo Cars with Ford Motors and Saab Automobile with General Motors and—already in the 1980s—the formation of ABB from Sweden’s ASEA and Switzerland’s Brown Boveri. In the forest sector, Sweden’s oldest company, Stora, is now part of the Finland based StoraEnso.

*4.3 Corporate governance and employee participation*⁴¹

The Swedish model of ownership and corporate governance in the business sector makes it possible for owners to exercise control on the basis of a limited capital stake. In smaller companies it is possible for small groups, for example the members of a family, to retain shares with special voting power while simultaneously being able to, when needed, turn to the stock market for risk capital. In larger companies controlling ownership can be exercised by means of combining such differentiated rights as regards the shares with the building of ownership 'pyramids' or 'Chinese boxes' involving possibilities of leveraging high voting power from limited capital stakes.

The public discussion in Sweden about the role of owners, managers and company boards in corporate decision-making and implementation processes has been coloured by a number of 'business life scandals' often involving extravagant remunerations paid out to managers and directors. Another subject of public debate has been the composition of the company boards that very often are dominated by advanced middle age men with a background in corporate management while women, younger citizens, and former immigrants, are conspicuously underrepresented.

The present Swedish model of corporate ownership and control has emerged from the kind of close interaction between 'high finance', the governmental agencies, and the trade unions (sometimes talked about as 'iron triangles'), that became developed some decades ago, before the wave of intensified internationalisation and deregulation started to challenge most institutions earlier established. As a consequence of a law instituted in 1973 (and later amended) unions may appoint two members (and two alternates) to the boards of directors of most companies with at least 25 employees and three members (and three alternates) to the boards of companies with at least 1000 employees. They have the same rights and responsibilities as other board member, but on some issues, where conflicts of interest between the unions and the company are involved, for example wage bargaining matters, they are disqualified from participating.

The main means for the exercise of employee participation in company decision-making processes are offered by the Act on Co-determination at Work ('MBL') that was instituted in 1977. According to this law, an employer is obliged to consult with local unions before implementing decisions that involve a major change for the employees in general or an individual union member. If the parties fail to agree, the issue can be referred to a second round of consultation, now at the national level. Unions have access to virtually all company documents. Some kinds of disputes might be taken to and settled by the Labour Court. In 1982 the main central labour market organisations reached an agreement called the Agreement on Efficiency and Participation, the main aim of which was to delegate, when possible and appropriate, authority to foremen and individual employees.

4.4 The public sector: deregulations and privatisations

In Sweden today private enterprises account for about 67 per cent and the public sector (national, regional and municipal) for the remaining about 33 per cent of total

⁴¹ Main source: Söderström (ed.), 2003

employment. In 1965 the corresponding shares were about 85 and 15 per cent, respectively.

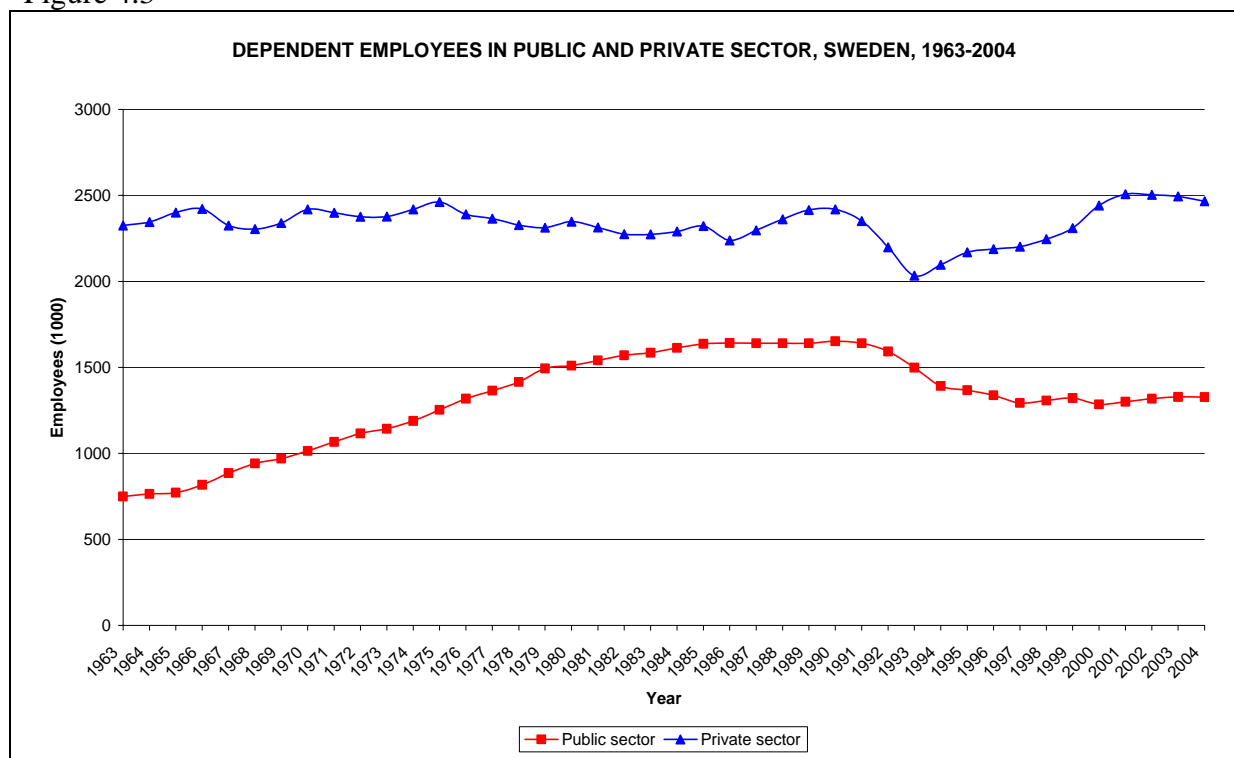
By international comparison Sweden remains a country with an exceptionally large public employment reflecting a very strong public and political involvement in the provision of a wide range of services. In recent decades (since the late 1980s), however, a large share of the service sectors in the Swedish economy has been subject to different forms of 'deregulations' and/or 'privatisations'. Prominent examples are the previously mentioned deregulation of the financial markets (in the mid and late 1980s), but also railways (1988), taxi services (1990), domestic aviation (1992), postal services (1993), telecommunications (1993), and electricity (1996). The implementation of these and other reforms have, to a large extent, involved the dismantling of previously existing public monopolies (or detailed political governance).

So far the experiences from the reforms mentioned stand out as a bit mixed. Except for telecommunications, the relative prices of the services provided have increased. Some reforms have involved not only deregulation but also elements of 're-regulation'. Many employees in the sectors affected complain about harder working conditions and less job security. And many service consumers complain about not only higher prices but also increasing difficulties to become and remain well informed about prices and options available on the market, which imply an increase in the transaction costs. Of course, however, the reforms should be evaluated in a wider and more long-term perspective than the one that has hitherto been available. The beneficial impacts on economic efficiency and growth are expected to accrue in the longer run as a consequence of the increased competition between different producers, including private companies as well as non-profit organisations and public agencies. Such a competition is believed to lead to not only more cost-effective methods of production but also to the emergence of a richer variety of services corresponding to the variety of needs and preferences among the consumers.

In Sweden as well as in most other countries, the importance of competition for economic efficiency and growth has become increasingly recognised. This has been reflected not only in the kinds of deregulation or privatisation reforms mentioned above but also in the legislation regarding competition. In 1993 the Swedish Parliament (the *Riksdag*) passed a new Competition Act. As a consequence at this time of Sweden imminent EU membership it was, by necessity, primarily based on the EU's directive and rules regarding competition. The EU Council directives on public procurement have been implemented by means of the Public Procurement Act.

The Swedish economy is relatively small. As a consequence, some domestic markets tend to become dominated by just a few suppliers. In recent years, and on the basis of the Competition Act, the governmental Competition Authority has substantially reinforced its efforts to prevent illegal co-operation between companies operating on such markets, as well as individual companies' abuse of their strong market positions.

Figure 4.3



Source: Statistic Sweden (2005)

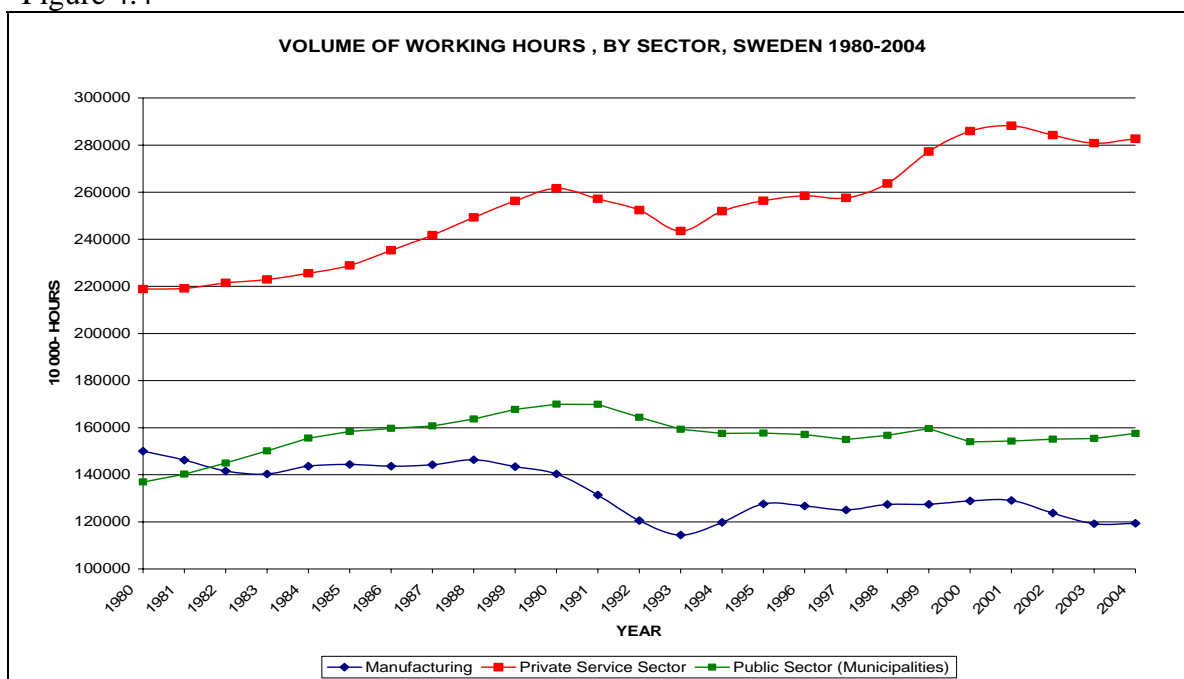
In some important and rather large service activities—notably childcare, elderly care health care, in schooling and in higher educations and also measures for the disable—the public sector has retained its role as the main provider. In social care and in schooling, up to and including the gymnasium level, Sweden's 290 municipalities carry the responsibility for the implementation at the local level of the rules and regulations decided by the central government. In recent years, however, alternative forms of operation have gained ground. A number of private childcare enterprises and parent-cooperatives have been established. In 2002 such private entrepreneurs took care of about 12 per cent of all children enrolled in day-care or pre-school activities organised and supervised by the municipalities. In elderly care the corresponding share was about the same, but in schooling significantly smaller, about 6-7 per cent. In the health care sector the provision of private hospital services has been held back by existing regulations involving limited possibilities to establish for-profit such services.

The striving for efficiency-enhancing competition has been manifested not only in a somewhat increasing role for private entrepreneurs but also in organisational reforms intended to achieve more competition between different agencies within the public sector, for example between different schools, hospitals, universities and so on. The

citizens—the service users—have been given increasing possibilities to choose between alternative providers.

An important aspect in this context is the very important role of the social service sector, notably the municipalities and their areas of competency, as a provider of job opportunities for women. In the mid 1970s the municipal sector accounted for about 24 per cent of total employment (in terms of the number of individuals having some kind of an employment) and for about 41 per cent of all jobs held by women. Women’s share of the municipal employment was about 75 per cent. In the central governmental sector, at that time accountable for about 11 per cent of total employment, the corresponding female share was about 36 per cent, and in the private sector, accountable for 65 per cent of total employment, it was about 34 per cent.

Figure 4.4



Source:Statistic Sweden (2005) and Konjunkturinstitut (2005)

From the mid 1970s to the mid 1980s, the number of municipal employees increased very much: by about 35 per cent (see Figure A5 in the appendix). This expansion represented a major change in the Swedish employment and production system: a substantial increase in the production of different kinds of social services provided for, especially, children and their parents, for the elderly and the disabled. As mentioned earlier the development of public social care services contributed to increasing the rate of female labour market participation from about 67 per cent in the mid 1980s to about 78 ten years later. (In the same period the male rate of employment decreased somewhat, from about 87 to about 83 per cent, mainly as a consequence of the massive job destruction in the manufacturing industry, see Figure 1.1 page 7) Women’s share of municipal employment remained at the previous high level, or even increased somewhat. In 1986, more than 48 per cent of all female employees were found in the municipal sector.

Towards the end of the 1980s, when the Swedish labour market became extremely tight, the female and male rates of employment exceeded 80 and 85 per cent, respectively.

From 1990 to 1997, however, the number of municipal employees decreased by about 15 per cent as a consequence of the deep economic crisis of the early 1990s, and the policies pursued. The employment rate decreased from 81 to 69 per cent for women and from 85 to 72 per cent for men. Women's share of municipal employment remained almost unchanged from the 79 per cent level observed in 1990. Total municipal employment has experienced a slightly decrease under the 1990s, but the municipal sector remains a major provider of female employment. Between 1976 and 2003, women's share of the private sector employment has increased from about 34 to about 38 per cent, and their share of employment at the state level from about 36 to about 48 per cent.

5. WHY NOT FULL EMPLOYMENT?

As regards the traditionally central policy goal of full employment, however, the present Swedish model, while preserving the core elements of the Rehn-Meidner model, seems to encounter difficulties in achieving the degree of goal-fulfilment that was reached for decades before the crisis of the 1990s regarding full employment. Why?

Iversen (ibid, p. 171) provides one possible answer: *“The dynamics of employment expansion in the rising service economy turns the Rehn-Meidner model on its head. While solidaristic wage policies were compatible with, and possibly even facilitating, private sector employment growth when the potential for such growth was concentrated in the most dynamic branches of industry, such policies served as a brake on employment expansion from the end of the 1960s, when the greatest potential for job expansion was in low-productivity services. Barring very high levels of wage restraint, which Rehn and Meidner never believed possible, the Rehn-Meidner model therefore cannot ensure full employment in the post-industrialising economy except if the government steps in and employs increasingly large numbers of low-skilled workers in public services. This is the route that was followed by social democratic governments in Scandinavia.....”*

In the early 1990s, Sweden had come to the end of that route. It had become impossible to use job creation in the public sector as a means to compensate for the job destruction in the non-sheltered sector caused by the increase of production costs the rather compressed wage structure and the rationalisation of the production process. Such a development should have worsened the budget deficit even more or led to a further significant increases in the already, by any international standards, high tax pressure. At the same time, the compressed wage structure and high tax on labour, involving relatively high wage costs for low-skilled workers, constituted an institutional barriers for job growth in the the private service sector.

These obstacles to job creation in public services as well as in labour-intensive private services have not yet been overcome to compensate for the weak employment growth within traditional manufacturing industry (and the high-tech private service sector) especially for relatively low-skilled labour. The rapid increase in the total production in the latter sectors observed since the mid 1990s has to a large extent been accomplished by means of an increase in capacity utilisation and the introduction of new labour-saving technologies (especially for low-skilled workers). Overall these industries have experienced a rapid increase in productivity, while the number of new jobs created has

been rather limited. To what extent the present economic upturn, that became evident in 2004, will involve substantial job creation in the near future, before the next economic downturn, remains to be seen.

The Government policy goals, i.e. an employment and unemployment rate of resp. 80 and 4 per cent respectively seems to be distant. Furthermore, it is highly probable that the present social democratic government, facing an election in September 2006, will take some additional steps on the route mentioned by Iversen, by facilitating some further expansion of public employment, notably at the municipality level.

Do we have to conclude that a prerequisite for the reestablishment of full employment has to be the transition, in one way or another, to a less compressed wage structure facilitating job creation in low-tech, labour-intensive private services? If the answer is yes, then why has the present wage formation system, that is said to allow for a considerable degree of flexibility, failed to establish a wage structure compatible with the restoration of full employment?

The answer, perhaps, is that while the wage developments in the sector exposed to international competition seems not to jeopardize job development in that sector, the corresponding wage setting in the sheltered sector is still largely governed by the 'fairness principle' that the wage increases there should be, on average, about the same, or at least not much smaller, than in the sector exposed to international competition. Even though the new compromise regarding wage formation involves an increase in wage dispersion *within industries*, a clear trend towards a decentralisation and individualisation of wage and working conditions, the wage differential *between* the two sectors, in terms of relative wage levels, tends to remain unchanged. There are therefore reasons to believe that if the wage development in the sheltered sector is not associated by a corresponding increase in productivity, it may come out as difficult⁴² for private service producers to preserve their profitability and for public service producers to finance an unchanged number of jobs within the current context of budget constraints.

At the early stages of the *solidaristic wage policy*—in the 1960s—wage differences *between* different sectors of production decreased substantially and rapidly. In the subsequent period, in the 1970s, wage differentials *within* industries and plants were dramatically reduced, which resulted in an extremely compressed wage structure in the early 1980s. Even though the developments since then, as a consequence of the shift from centrally and coordinated bargaining system towards industry and firm level bargaining system, have led to a significantly increase of wage dispersion, the Swedish legacy from the past includes still a rather compressed wage structure that tends to be rigid, at least as regards differences between sectors.

For a majority of individuals, labour-intensive household related services, that possibly could contribute to provide job opportunities for relatively low-skilled job seekers, tends to stand out as prohibitively expensive. Beside the compressed wage structure the low supply of private domestic services can also be ascribed to the current high taxes and tax wedge. The services have to be paid out of after tax disposable incomes, and the payments have to cover the producers wage costs, including taxes and social contributions, for their employees.

⁴² Especially given the anti-inflation and non-accommodating policy pursued by the central bank,

Even under rapid economic growth, the ability of the sector exposed to international competition to create jobs for low skilled workers without adequate education and/or work experiences is rather limited or non-existent. To what extent it will be able to absorb the increasing number of well educated individuals remains an open question. At the same time, for reasons previously mentioned, and given the current Swedish model, the public and private sheltered sectors' job-creation potential stands out as limited.

CONCLUSION

The Swedish experience illustrates in a striking and hopefully instructive way how previously established 'national models'—prevailing institutions and policy regimes—might become challenged by abrupt or more gradually changes in fundamental conditions affecting their mode of operation.

As shown by the previous developments, the Swedish model appears today *more* in accordance with the three core components elements of the original Swedish model. In our view, the period 1975-1991 represents a clear deviation from the original Swedish model, a departure that culminated in the most severe crisis than Sweden have experienced since the 1930s. The recent changes in economic policy towards a more restrictive and anti-inflationary macro-economic policies, the re-orientation of active labour market policies towards supply oriented measures and the structural reforms undertaken in the wage formation, tax and social protection systems suggest a revival and renaissance of the Swedish model.

After a period of turbulence in the early 1990s, the Swedish economy has during the last decade undergone a particularly favourable economic development. Unemployment has been cut by half, inflation has been curbed and the country appears to have recovered from the deep economic crisis of the early 1990s. Although the re-orientation of macroeconomic and employment policy might explain the "Swedish Success Story", the recent modifications in Swedish industrial relations, in particular the clear tendency to a re-coordination of wage bargaining, have without doubt played a vital role in the Swedish recovery. These new developments reflect a desire on the two sides of industry to re-coordinate collective bargaining at industry level, and to restore the leading role of the traded good sectors in wage formation. Overall, these new trends appear to respond to a three-pronged objective: ensuring industrial peace; limiting the transaction costs associated with the absence of coordination mechanisms and the negative externalities on employment of uncontrolled wage developments; and finally insuring the application of the principle of subsidiarity, making it possible to adapt the provisions contained in industry-wide collective agreements to the productive and competitive constraints of Swedish companies.

Hence, the tendency towards a re-coordination of collective bargaining co-exists with a marked tendency to a decentralisation, differentiation and individualisation of wage setting and working conditions. Although contradictory at first sight, these tendencies should not be interpreted as a weakening of the Swedish collective bargaining tradition, but should rather be considered as a re-composition and adaptation of the Swedish Model of Industrial Relations in face of the major transformations in work organisation and production processes undergone under the last decades. In our view, these developments do not question the basic fundament of the Swedish Model, namely a

strong contractual tradition based on the existence of powerful social partners who enjoy considerable autonomy from the Public Authorities, but instead reflect a transition and adjustment of the Swedish Model to the new challenges posed by post-industrial societies. Sweden's various bipartite cooperation agreements concluded during the late 1990s may be interpreted as a new historic compromise combining employers' demands for greater flexibility with a desire on the part of the trade union movement to restore full employment and sustained income growth.

The various reforms of the Swedish social protection system undertaken under the last decade have essentially taken the form of a temporary reduction of the level of income compensation and, with perhaps the exception of the fundamental restructuring of the tax and pension system, left the Swedish welfare state system almost intact. The Swedish social protection system remains, by international standards, still clearly universal and inclusive in nature and still enjoys a high level of across the board political and public support. The structural reforms undertaken in the tax and benefit system, in particular the reshaping of the pension system and the tax reform initiated in the early 1990s aiming at strengthening work incentives and fostering investment in human capital are also clearly in line with the general philosophy of the original Swedish model favouring integrative transitions instead of passive support and social exclusion.

Overall, the recent modifications of the Swedish model constitute an interesting advance, creating an institutional framework favourable to the emergence of negotiated flexibility and a return towards a balanced economic and employment growth. In our view, these developments reinforce the coherence of the Swedish Model and the robustness of its social cohesion.

Appendix

Table A1: Wage development, wage increase according to collective agreements and wage drift in manufacturing industry and in the economy as a whole, Average annual growth rates.

| | 1995-1997 | 1998-2000 | 2001-2004 |
|--------------------------|------------|------------|------------|
| Industry | | | |
| Negotiated wage increase | 3.2 | 2,3 | 2,4 |
| Wage drift | 2.4 | 0,8 | 1,3 |
| Total | 5.5 | 3,1 | 3,7 |
| Whole economy | | | |
| Negotiated wage increase | 3.2 | 2,6 | 2,4 |
| wage drift | 1.2 | 1,0 | 1,6 |
| Total | 4.6 | 3,6 | 3,9 |

Sources: Konjunkturinstitutet (2000) and Carling et al (2000b) and Medlingsinstitutet (2005)

Figure A1

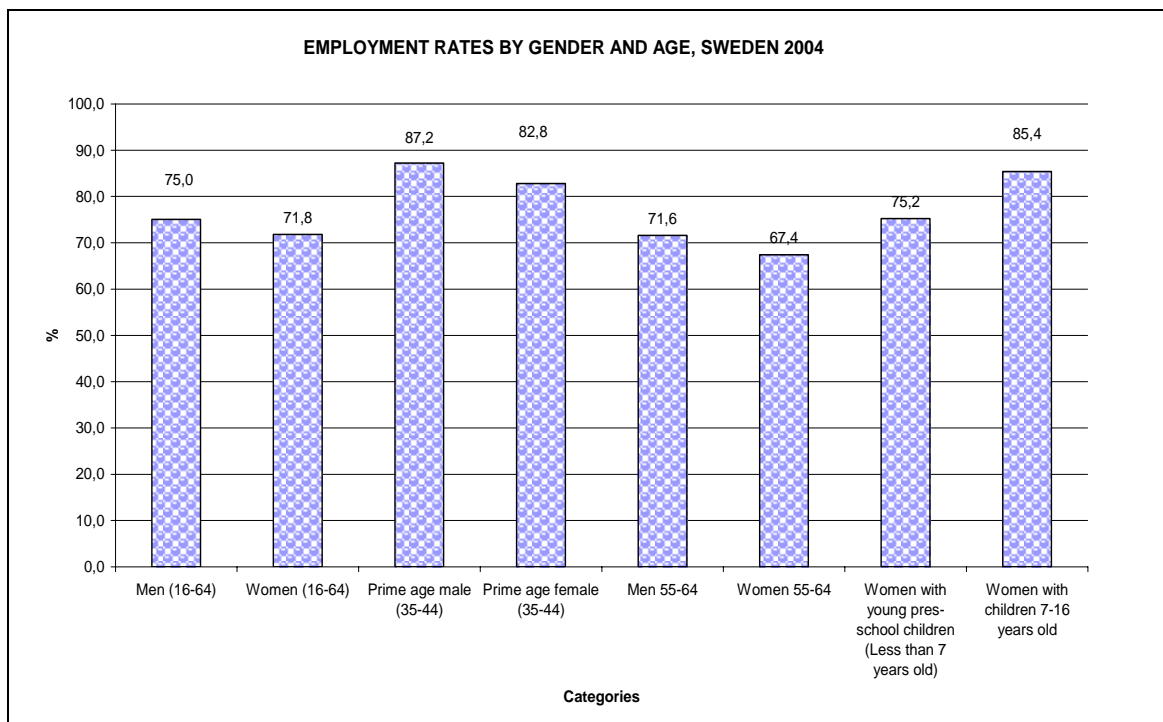
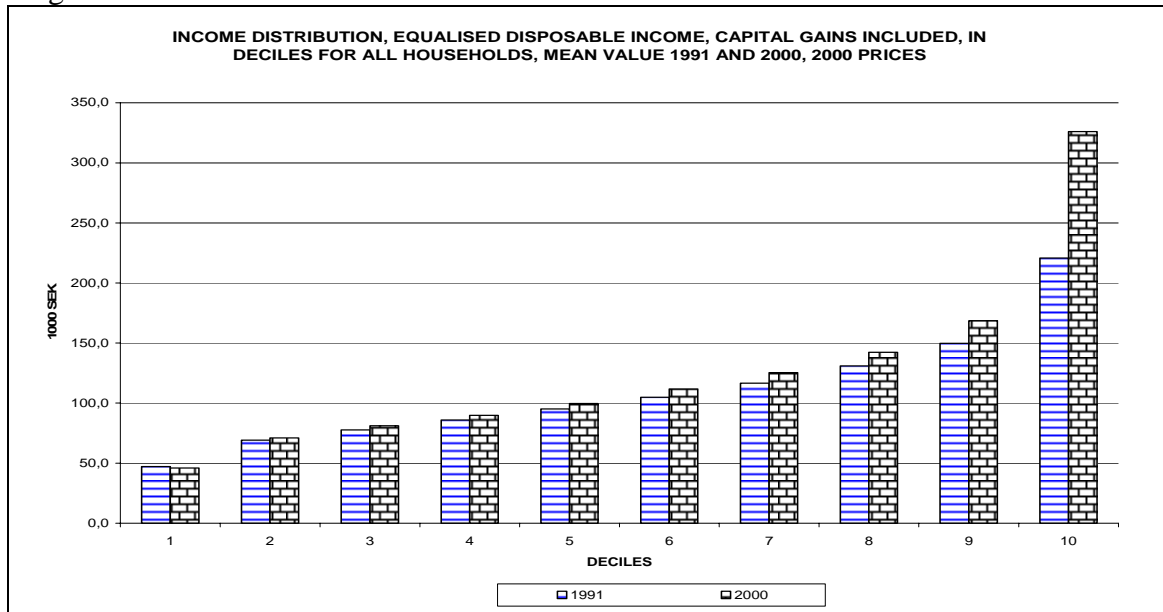
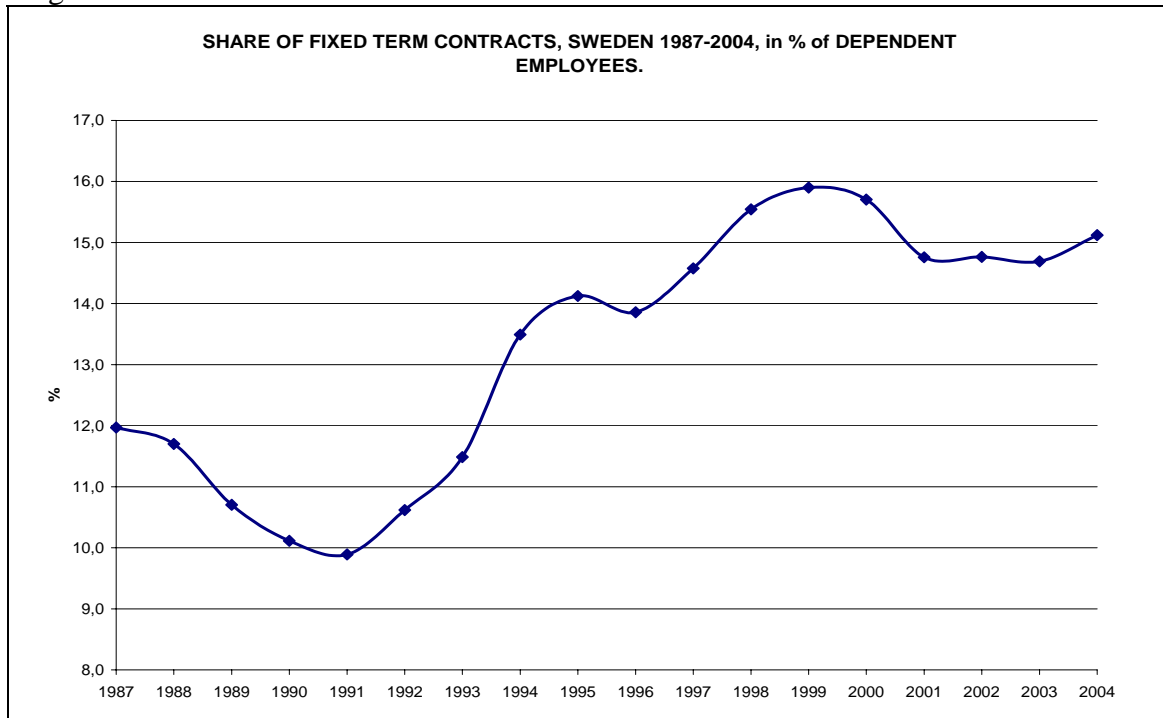


Figure A2



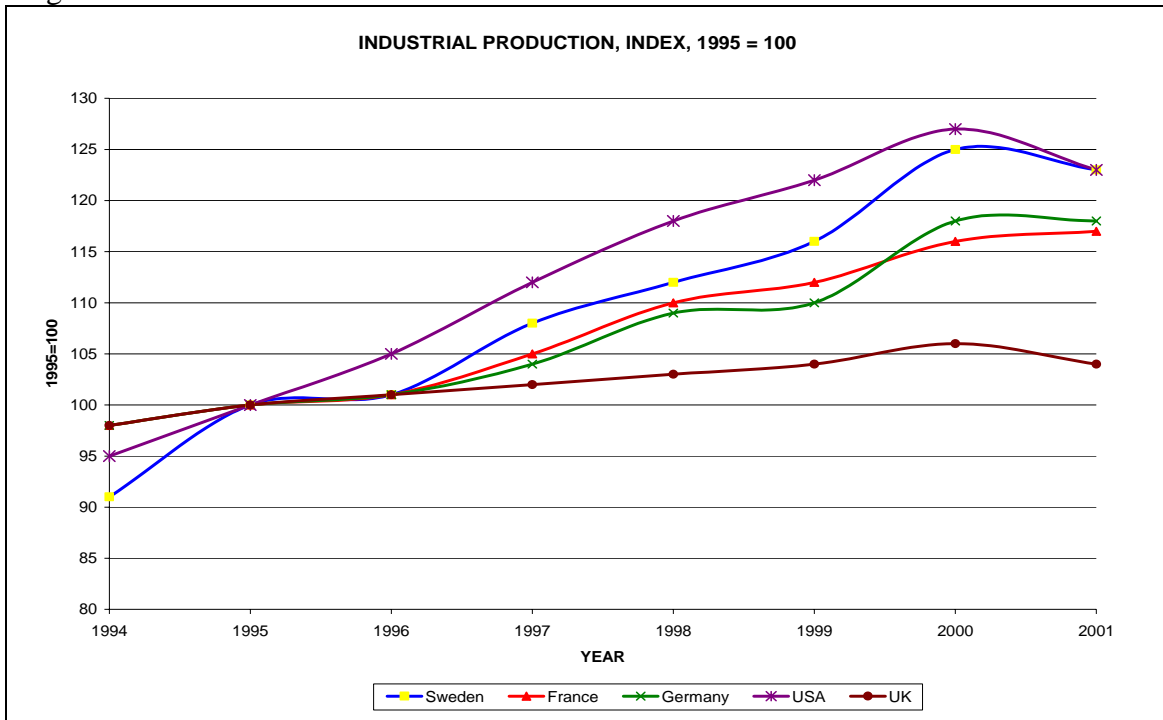
Mean Top 5% : 267 700 SEK (1991) 444 300 SEK (2001)
 Median disposable income: 99 800 SEK (1991) 105 300 SEK (2001).
 1 SEK=0,107 Euro
 Source: Statistics Sweden (2005)

Figure A3



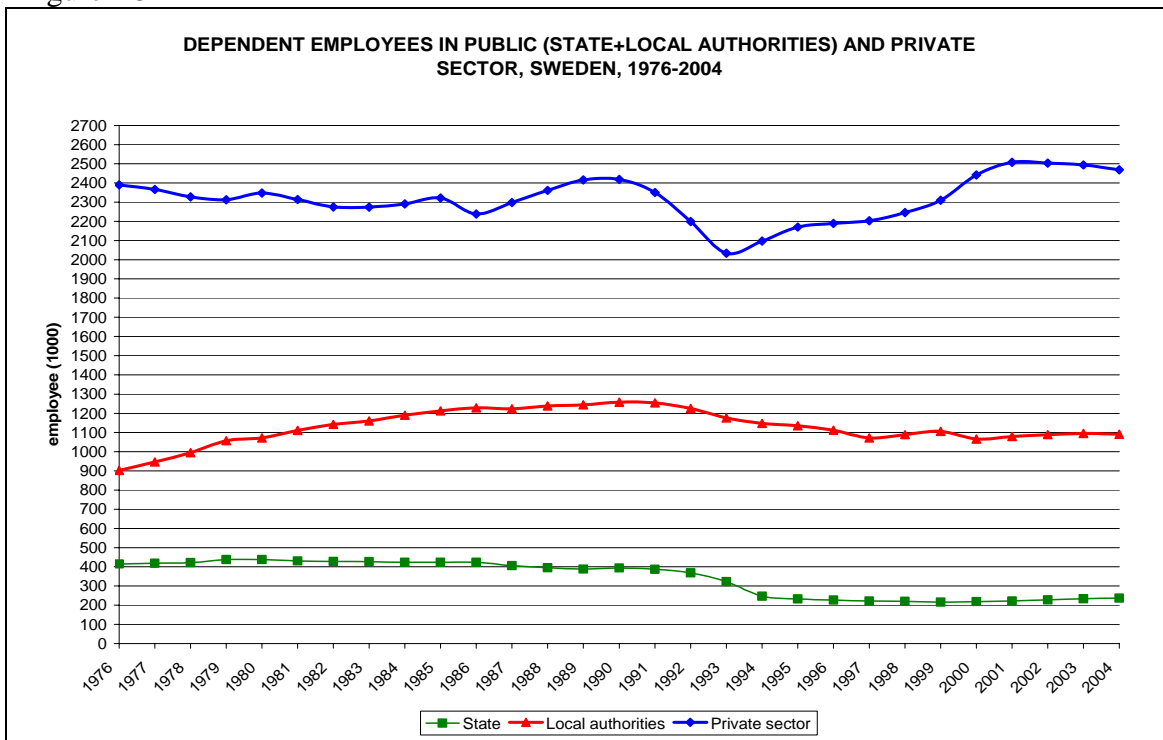
Source: Labour Force Survey, Statistics Sweden (2005)

Figure A4



Source: UN: Monthly Bulletin of Statistics, January 2001.

Figure A5



Source: Statistics Sweden, Labour Force survey (2005).

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