

The welfare state
case study swedish
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The Soviet Union's socialism and the United States' capitalism are two of the main, well-known and most successful worldwide political and economic regimes. Yet, there have been some exceptions in the world that have attempted to combine both systems, such as Sweden and the rest of the Nordic countries (Denmark, Finland and Norway). As the Soviet Union established a command-style communism (where the state controlled almost everything in the economy) while on the other hand, the United States of America has always had a free market where the consumer and producer made most of the market decisions, Sweden had successfully established what we could call a middle way between the two ideologies (command communism and unregulated capitalism) called "social democracy" successfully incorporating many ideas of Marx and Keynes. Sweden successfully pulls off high levels of both productivity and equality. In this paper I will attempt to discover whether social democracy in Sweden has successfully created a government that generates both economic growth and social well-being of society at the same time, or has the crisis during the 1990s proved the inefficiency of the ideology? By choosing the case study of Sweden (which is one of the Nordic models) and tracing the evolution of the Social Democratic Labor party's social and economic institutions (in some cases, comparing it to the USA's capitalist system and the USSR's communist system) I will attempt to provide the reader with definite answers to the above proposed questions.

In order to be able to discuss the issue, one conditionally should be familiar with what the welfare state is, and what the role of the state controlling it is. A welfare state is basically the concept of a government in which the state

plays a primary role in the elevation of the economic and social well-being of its citizens (Kiander). On a worldwide basis, there are three different types of “welfare state”, first there is the liberal welfare state which is based on the social protection which is offered through the private market and family, in this case of welfare state the social benefits are merely low. The second system adheres to social benefits being distributed among society on the basis of individual work performance. The third system, is the “Nordic welfare system”, which is based on the redistribution of wealth and egalitarian characteristics (Kiander). The Nordic model, generally, is based on the universality principle, which basically encourages the individual autonomy, applying the universal conditions of basic human rights, and stabilizing the economy. Its primary goals are maximizing the participation in labor force, redistribution of wealth among society, gender equality, broad benefits levels, and applying liberal use of expansionary fiscal policies (Kiander). As for the economy, it adapts the basics of a mixed market economy, which reflects characteristics of both a planned economy and market economy where both the state and the private sector have a role in regulating the economy (Kiander).

The state’s role is to provide its society with the primary conditions in life such as education, healthcare, job opportunities, and benefits in order to protect society from social and economic risks. Every individual in society is permitted to the same services and to same benefit systems. The qualification is not dependent on income and wealth as much as on needs and age (Kiander). The basic tenets of the welfare state are based on the principles of the equality of opportunity, public encumbrance, and

equitable distribution of wealth among society. To give an example the state is responsible in providing equal opportunities amongst the people to come out of poverty through “ equal education” , as education is free at all levels, thus everyone has the same right to receive identical education, consequently, this marginalizes the concept of the rich receiving a better option in the labor market , than that of the poor due to their receiving of better off “ more expensive education”, thus working on elevating poverty, ensuring equality and decreasing the gap between the rich and poor. The state carries out these goals through directly transferring funds from the state to the services that are provided in order to offer the basic conditions of life as well as directly to individuals (in the form of benefits). The state redistributes income between households by using taxes and transfers, thus decreasing inequality amongst them (Hale) .

One way to study the degree and size of a welfare state is looking at the budget of the state through studying public expenditures (which are very high in the case of Sweden), specially on social expenditures and public consumption. The public expenditures of the Nordic countries are hugely used to fund public welfare services and manage income transfers. The social expenditure in the Sweden includes public stipulation of day-care and other social services, free education from elementary school to college and university levels, health care, and active labor market policy measures. Incomes are redistributed through progressive taxation and transfers. Moreover, there are subsidies to almost every citizen in society such as: disability pensions, public old-age, child benefits, housing benefits, student benefits, unemployment benefits and maternity benefits (Hale). The

expenditures of the Swedish state is relevantly high, thus its taxes have to be high accordingly.

The gross tax rates in Sweden are higher than any other industrial country (Hale). The high tax rates are basically due to relatively high and progressive labor income taxes, consumption taxes, property and wealth taxes.

Corporate and capital income taxes, in turn, are flat and low in Nordic countries (Kiander).

Looking at Sweden, it remains one of the most egalitarian countries in terms of income distribution, and has one of the world's lowest levels of poverty. It consistently appears close to the top of the Human Development Index, which ranks countries according to life expectancy, education and standard of living. It provides a welfare society based on workings of the market economy - and through state intervention and social democratic values, it has high employment levels that are regulated through active labor policies provided by the government.

From analyzing Sweden's unique regime, one comes to realize that this "Swedish model" was not a planned system undergone by the Swedish, yet it is rather an act that had developed through evolutionary process resulting from a series of actions over a long period of time (incremental change, which opposes the Marxist idea of revolutionary change) (Sacker 218). The system developed slowly as a result of many decisions made by a couple of groups that mainly seek the same goals: the quality in life and equality, thus building this socioeconomic aspect democratically over time. Even though the success of the system starts to be clearly seen in the 1950s, yet we

could trace it back to 1850s. The idea of “welfare” was recognized and appreciated by the Swedish back in the 1850s at a time which the concept did not even exist in the surrounding countries. While other countries like France and Britain punished poor debtors without putting into consideration what their excuse or standard of living was, Sweden had created “poor relief laws” where Swedish saw that they were responsible for helping their poor people. The idea of this “poor relief laws” began to mature, thus in 1889 The Social Democratic Labor party (SAP) was established, and immediately after its formation it had already started to influence the economic policy, it stated its principles as follows :

” 1. Legislation to guarantee to every Swedish citizen a simple and decent standard of living...[Social Democrats] hold that it is the duty of society to provide the needs of the aged, invalids, widows, and those who have lost their income through no fault of their own.

2. Housing and child benefits for needy families so that they should not be forced to lower their standard of living because they have children to raise. [The] idea is to distribute the expense over the entire population as a collective responsibility.

3. Social welfare to be... the inherent right of every citizen irrespective of his financial status.” (sackrey 220).

Even though conservative Swedish economists opposed SAP’s idea of equality among society and growth at the same time by stating that equality slows down growth, Social Democrats were able to win over industry leaders to this approach. In 1932, after the Great Depression, a democratic electoral <https://assignbuster.com/the-welfare-state-case-study-swedish-model-economics-essay/>

process took place, and (with the employers cooperation) the SAP party came to power through elections, becoming the first socialist party to do so incrementally not through large scale nationalization nor revolution. From 1920 to 1932 Sweden went through a major recession period. When SAP first came to power, it feared the inefficiency of productivity of a command style economy, allowing private ownership to continue but at the same time limited down their power and influence. The private sector was not allowed to make major profits unless they achieve social goals like expanding employment and producing socially useful products without harming the environment. The Welfare services were applied but overall they allowed private ownership to flourish.

The SAP had certain principles and rules that it had set out after becoming in power. One of the primary goals that the state had set up was the concept of de-commodification, which guaranteed that people had decent lives irrelevant to market outcomes (Sackery). The idea was that people have certain basic goods and services in order to live full lives, and as mentioned before that for example child care should not affect people's social standards of living. Unlike the United States, where people who could not afford these basic services, are forced to go on without it and suffer the consequences of it, SAP de-commodified welfare systems. By 1935, SAP had constituted housing subsidies and a national pension scheme, and in 1938 added-dental social care to it, by 1950, SAP had established a full de-commodified welfare system.

One of SAP's important concerns was the concept of equalization and integration. Equalization refers to the distribution the wealth amongst citizens of Sweden and the integration regarding the equality of social class.

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SAP had planned to fulfill both objectives by mainly achieving two things: the idea of full employment of the population and the idea of investment in human capital. Even though the idea of full employment was criticized by economists, but once again the Swedish SAP proves them wrong. During the 1950s, economists stated that an unemployment rate less than 5.5% (NEIRU rate) would eventually cause inflation. Sweden had exceeded 3% for 3 times (from 1951 to 1991) without causing any significant inflation to the economy (whereas other countries like the US for example exceeded 3% over 28 times). Sweden implied a certain agreement which offered an annual increase in wages by 0.5% below the national average rate of labor productivity growth, thus guaranteeing that wages would not increase rapidly which is the main cause of inflation (Sackery 224). The state had developed two main policies to maintain full employment. First the “solidarity wage policy”, where wages were set internationally in a bargaining process which included the government, employers and labor unions. This policy created equal pay for equal work, therefore excluding competition between employers and removing inequality of wage which creates a more cooperative mood. Another process that maintained full employment was the active labor market policy, which guaranteed the employment of citizens (Sackery). Unemployed people are granted some benefits (for a certain time limit) like training, education, money, and moving assistance to ensure that they could find a job. If a citizen does not eventually find one, he/she would be put to work in public community projects. The other aspect of achieving the Equalization and integration principle (previously mentioned), is the investment in human resources which basically targeted education.

Schooling is free at all levels in Sweden thus the inequality risen by the <https://assignbuster.com/the-welfare-state-case-study-swedish-model-economics-essay/>

concept of more wealth provide better quality of education seen in other countries are not present in Sweden (Sackery). All citizens have the same shot of having the same level of education disregarding the financial status (Sweden's population is one of the best educated in the world).

By 1968, labor leaders start to demand for greater control over labor in the work place, with a series of strikes and work slowdowns, labor leaders brought attention to their cause and eventually were rewarded with more control. SAP started to transform more explicitly towards traditional socialism. The SAP created a "wage-earner funds" Each employer's investment fund were intended to buy the employer shares in the company itself, gradually giving the employer a voice in the company's decision making and creating more distribution of ownership and wealth(Sackery). This draws a fine line between the Swedish model of socialism than that of the USSR's, because as Swedish vision was that each firm controls how it runs, while in the USSR's vision the government bureaucracy controlled how all firms are run. Thus, we could observe yet again another peaceful and incremental change in the Swedish model.

The OPEC crisis in 1973, affected Sweden in particular very aggressively, because it was totally dependent on imported oil as its main energy source. Due to this, in 1974 inflation reached 10%, unemployment dramatically increased, and capital experienced rapidly rising costs (Sackery). This led to the decline of the Swedish model, leading the Swedish voters to vote to a more conservative model. The conservative model applied significant changes that the Swedish had never experienced before like for example, abolishing the investment tax system, allowing Swedish firms to invest <https://assignbuster.com/the-welfare-state-case-study-swedish-model-economics-essay/>

abroad, and most off co-modification of everything resulting in inequality (rich getting richer and poor getting poorer). Sweden experienced major deteriorations in their economic performance while conservatives were at power. Eventually due to the failure of a conservative model to improve Sweden's economic performance, SAP was reelected in 1994.

During the end of the 1980s and the beginning of the 1990s all Nordic countries (including Sweden) faced an economic crisis. The Swedish crisis strengthened the critiques against the Swedish welfare state. The recession and the successive output and employment losses helped to make the case that the crisis and slow growth were not results of a macroeconomic deficit instead critiques argued that there is a failure eventually caused by the structure of welfare state itself (Edland). It was argued that the welfare state is unhealthy for growth because it gives birth to bad incentive. According to the critiques views, welfare benefits, labor market rigidities and high taxes will eventually discourage investment, job creation and labor supply (Edland). Since Sweden had recovered from the recession all these critiques were proved to be inefficient. Comparing Sweden's recession to the rest of Europe, Nordic states in general had seemed to have functioned reasonably well, despite of collective bargaining and generous unemployment benefits. In fact, the Nordic countries can be used as counter examples to the mainstream views. In all Nordic countries the employment rate is higher than the EU average. The Nordic unemployment rates are lower than EU average (and long term unemployment rates are low (Kiander).

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