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Ryner, Magnus

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Magnus Ryner (London)

# Swedish Employment Policy after EU-Membership

*Dieser Artikel argumentiert, dass die Koordinierte Strategie nationaler Beschäftigungspolitiken in der EU trotz ihres pragmatischen neo-liberalen Charakters Schweden nicht hindert, seine traditionelle selektive Arbeitsmarktpolitik fortzusetzen. Andere Aspekte der europäischen Integration, und hier insbesondere die makroökonomische Konvergenz im Rahmen der Europäischen Währungsunion, haben sich allerdings deutlich auf die schwedische Beschäftigungspolitik ausgewirkt. Es ist zu dramatischen Veränderungen des schwedischen post-industriellen Wachstumspfades sowie des wohlfahrtsstaatlichen Regimes gekommen. Allerdings bleiben wichtige Elemente des alten schwedischen Modells erhalten, und dieser Artikel schließt mit einer Vorschau über seine Überlebenschancen in der Zukunft.*

## 1. Introduction

The Common Strategy for National Employment Policies (CSNEP) of the European Union (EU) is a surveillance and benchmarking process which emphasises supply-side 'best practice' measures to promote *employability* (European Council 1997, 1). For a superficial observer, this might seem as an indication that there is a process of social-democratisation of the European Union. After all, in contrast to the OECD's 'Jobs studies', Commission documents produced in the CSNEP-process seem at times to engage in a polemic with mainstream economic claims that the absence of market determined 'flexibility' is at the root of the employment problem. Instead, it emphasises the importance of measures more reminiscent of Scandinavian social democratic selective labour market policy, especially vocational training and retraining (compare *inter alia* European Commission 1997b, 8–9 and OECD 1998a, 78–81). The impression of a social-democratisation might be reinforced by the fact that there is a remarkable departure from passive measures, characteristic of the Christian democratic mainstream of the EU, such as early retirement and the financing of long-term unemployed (European Commission 1997b, 7, 9).

But, although the Swedish government would like to have us believe that this is the case (Swedish Ministry of Labour 1990; 1995), such a reading of the situation fails to acknowledge that the issue does not primarily hinge on employment *policy* in isolation from other measures such as macroeconomic and social policy. Rather, the issue hinges on the configuration of the broader *welfare policy régime*, which indeed is composed by an ensemble of such measures. When such a broader perspective is taken into account, it is clear that the CSNEP reflects the continued preponderance of an "embedded neo-liberalism" (*pace* van Apeldoorn 1998) or *ordo-liberalism* in the European Union. The aforementioned documents state, in no uncertain terms, that employment policy is subordinated to the exigencies and discipline of the world markets via the EMU and the Stability and Growth Pact (European Commission 1997a, 3; 1997b, 1–3; European Council 1997, 2). Moreover, according to these documents, "all potentials" to employ the unemployed need to be taken, and all "artificial barriers inhibiting job creation" need to be removed (European Commission 1997b, 8). The latter formulation is in marked contrast to the social democratic idea that labour power should only be made available when those who demand this commodity

are able to guarantee certain uniform standards compatible with social citizenship rights. In other words, this emphasis on *commodification* is in marked contrast to the social democratic norms of *decommodification* (Esping-Andersen 1990).

Within this ordo-liberal framework, employment policy, along with a continued commitment to negotiations between the 'social partners' (European Commission 1997b, 10), is to provide certain public goods that contribute to the overall framework of market conforming behaviour. The CSNEP represents an ordo-liberalism in search of new solutions rendered necessary as a result of the impasse of the Christian democratic welfare state régime in the wake of 'post-industrial' mass-unemployment. Especially acute in this regard is the threat of a fiscal crisis, resulting from a reduction of revenue (as fewer people contribute to social insurance schemes) and increased costs (as more and more unemployed and early retirees make claims on the insurance funds). Christian democratic welfare policy régimes face a particular problem, because they do not encourage sufficient growth of service employment to absorb surplus labour generated by increased capital intensity in the manufacturing sector. Social wage costs are too high to generate private service employment growth, since the service sector cannot match the productivity of the manufacturing sector, and since there is an absence of public finance to fund public service sector growth (Esping-Andersen 1996).

Benchmarking and a discussion of best practices reflect a rather pragmatic approach within which there is an openness to learn, both from more the orthodox neo-liberal paradigm (privatisation of services, numerical flexibility, the need of an 'enterprise culture') as well as from the social democratic paradigm (vocational retraining) in order to tackle the problems posed by unemployment. However, given its emphasis on privatisation and its commitment to reduce all obstacles to employment growth, the CSNEP seems to find especially the 'Dutch Model' as a source of inspiration in the search for a way out of the impasse. This is a Christian democratic régime, which has experienced a

relative neo-liberalisation, through increased market-determined social wage segmentation, and privatisation, which has been combined with active labour market policy (Visser/Hemerijck 1997). Such measures, it is hoped, will generate labour-intensive, service-economy based growth.

Nevertheless, the CSNEP is characterised by heterogeneity. Apart from emphasising the principle of subsidiarity and the absence of any formal sanctions against those who diverge (this is in notable contrast to the Growth and Stability Pact), the documents are vague about the mix of different elements of policy. This gives ample space for the member states to interpret the CSNEP in many ways. National policy mixes may emphasise neo-liberal or social democratic elements and this may open up spaces to maintain the distinct quality of national welfare policy régimes. This article is concerned with the extent to which Sweden has attempted and managed to maintain its distinct social democratic welfare state response to 'post-industrialism' given the pressures of labour market and employment policy convergence that EU-governance may imply.

The argument of the article is that the CSNEP as such does not provide an obstacle for the continuation of Swedish employment policy in a narrow sense. Contrary to employment policy in most EU member states, employability has been emphasised in Sweden at least since the mid-1950s when the government endorsed the principles of the Rehn-Meidner model, with its recommendation of selective labour market policy. Indeed, there is very little evidence that Swedish employment policy is abandoning this type of policy, and with some justification, Swedish policy makers consider themselves as pioneers within this policy field. However, considering labour market regulation more broadly as part of a welfare policy régime, European integration has had a profound impact in Sweden. In particular, I argue that Swedish economic policy makers have since 1985 pursued a policy of macroeconomic convergence, first towards the EMS and then to the EMU, *by stealth*. This unleashed a process with its own logic, which generated *recommodification* and welfare policy

retrenchment in the late 1980s and the early 1990s. Employment policy – understood as selective labour market policy – has, then, remained relatively constant, but its purpose and overall effect has altered, as it is part of a policy ensemble with a very different form of capital and currency market regulation, macroeconomic policy stance, and social policy stance. This has had an effect on unemployment levels and general trade-offs between economic efficiency and equality in Sweden.

Having established that Sweden, as a result of EU-driven macroeconomic convergence, has experienced welfare state retrenchment, the final part of the article addresses two questions: Is it possible, in the long run, to maintain selective labour market policy and the retrenched welfare state within the present macroeconomic framework, or can one expect a further thrust of neo-liberalisation and commodification that strikes at the very heart of the selective labour market policy, labour law, and the principle of collective bargaining? And, assuming that the retrenchment process has been halted, do these measures still make a difference in terms of income distribution and social security?

## **2. European Integration, Social Democratic Post-Industrialism and its Crisis in the 1990s**

As Esping-Andersen (1990) has argued, whereas the continental Christian democratic welfare policy régimes have not been able to increase employment in services, because of high general wage rates that reflect the high productivity of capital intensive manufacturing, and have relied instead on work time reduction and early retirement to maintain social cohesion, the Swedish social democratic régime was more successful in increasing employment through the expansion of a public service sector in the 1970s and the 1980s. But contrary to the neo-liberal response, typifying the American ‘jobs-miracle’, where service employment with low rates of productivity growth to a large extent has been dependent on the creation of precarious and low wage employment, Swedish and social democratic post-industrialism has been

based on maintaining high social wages in the economy as a whole. Keeping a commitment to ‘decommodification’ and continuing to draw on the general prescriptions of the Rehn-Meidner model (LO 1951; Hedborg/Meidner 1984; Erixon 1994), this strategy has been based on high taxes (including employers’ contributions), solidaristic wage policy, and selective labour market policy (especially vocational retraining and sophisticated public employment exchanges). Here, some of the market-determined surplus of the high productivity export oriented manufacturing sector has been redistributed to finance public and especially social service sector expansion. The service sector, which to a large degree has absorbed the female workforce, in turn, has served ‘reproductive functions’ for economy and society as a whole (e.g. child care, health care, prevention and rehabilitation of injuries), and generated user-producer networks in a national system of innovation (e.g. retraining and spin-off effects between health care and the pharmaceutical sector) (Edqvist/Lundvall 1993).

It was the Rehn-Meidner model that first prescribed selective labour market policy. However, it is rather coordinated and solidaristic wage determination, which is at the centre of the model, since it is primarily such policy that ensures that distribution- and legitimation-imperatives are made integral with imperatives of economic efficiency and economic growth.

Solidaristic wage policy implies that collective bargaining is pursued according to the principle that equal pay is given for equal work, irrespective of the marginal productivity of individual enterprises. It served obvious distributive functions, together with tax-financed income-maintenance social insurance schemes with high replacement rates, such as unemployment insurance that were seen as necessary to lower the latent threat that unemployment would weaken union negotiating power. However, solidaristic wage policy is also supposed to facilitate dynamic efficiency in the economy as a whole through “transformation pressure” (Erixon 1994). Enterprises that are not in the position to pay the going rate are to be forced out of business in order to free up resources for

firms whose marginal productivity is above the average and who in this system actually enjoy rents as their labour costs are below what they would be willing to pay. This promotion of productivity growth, as well as stability in wage growth, is also intended to have a dampening effect on inflation at full employment. As the service economy grew, the economic model for coordinated bargaining had to change so as to take into account the existence of a 'sheltered', mainly public service, sector as well as an 'exposed' export, mainly manufacturing, sector. The principle of solidaristic wage policy was here somewhat reformulated: growth in the exposed export sector was to underwrite solidaristic wages in the sheltered sector (e.g. Edgren/Faxén/Odhner 1970; Faxén/Odhner/Spånt 1987).

In order to fully appreciate the impact that macroeconomic convergence with the EU had for the Swedish welfare policy régime, it is important to appreciate that the solidaristic wage policy of the Rehn-Meidner model required a very specific supporting economic policy stance. It was particularly important that profit rates of corporations were contained while at the same time adequate investments for the maintenance of full employment were guaranteed. Too high profit rates would mean that also some relatively unproductive enterprises would remain in business. This would create overheating tendencies since high productivity enterprises would not have an adequate labour supply. This, in turn, would mean that these firms would offer wages above the collective agreement. This is known as 'wage drift', and it is very detrimental for internal wage earner solidarity and trade union legitimacy. Wage drift violates the "moral economy" of the trade union collective, as market forces upset the conception of 'equal pay for equal work' (Swenson 1989). It also tends to fuel inflation. This means that unions in low productivity sectors are likely to use their organisational clout to pursue compensatory wage bargaining, which fuels inflation further and which undermines real wage growth. However, the squeezing of profits results in an obvious danger that investment rates are insufficient to sustain employment growth.

Given these potential conflicts of policy goals, the Rehn-Meidner model set exceedingly high demands on counter-cyclical fine-tuning that had to be made compatible with constantly low interest rates. Counter-cyclical policy was needed to keep profit rates in check in upturns in order to avoid wage-drift. At the same time, interest rates were to be kept at a low level in order to ensure adequate investments despite the profits-squeeze. This balancing act required capital and foreign currency controls and increasingly led to calls for active selective investment policies through pension funds, wage earner funds and renewal funds in a broader national industrial policy (Pontusson 1992). These measures were seen as essential, *together* with the selective labour market policy of mobility grants and retraining, prescribed in order to increase the mobility of labour from low- to high-productivity sectors. Such labour market policy would ease the frictions in the structural transformation-process engendered by solidaristic wage policy and hence would and did contribute immensely to the lowering of unemployment below what could be achieved by counter-cyclical macroeconomic policy alone (see Hedborg/Meidner 1984, 72–85).

Selective labour market policy remains central to Swedish employment policy and it is also a source of inspiration in the search of 'best practice' in the CSNEP. However, the macroeconomic policy stance of the Rehn-Meidner model is not compatible with the norms of the EMU. As a result, convergence pursued since 1985, first towards the Single Market (especially for financial services), the EMS, and then through membership in the first two stages of the EMU, has seriously undermined the labour market regulation presupposed by the social democratic welfare policy régime identified by Esping-Andersen (1990). Such convergence was a crucial factor behind the unemployment crisis in Sweden in the early 1990s and it has played an important role in making the labour market structure more inegalitarian in the late 1990s. In particular, the manner in which the EMS and EMU have relied on discipline exerted by global financial markets on exchange and interest rates have undermined the institutional mecha-

nisms of credit and macroeconomic policy that mediated the contradictory imperatives of counter-cyclical management and stable access to credit at low interest rates. This has contributed to a breakdown of the 'virtuous-circle' between wage-coordination, investment and employment at a time when this circle was being put at a severe test anyway as a result of an intensified globalisation of financial markets, transnationalisation of production of Swedish multinationals, and related active efforts by Swedish employers to abandon coordinated bargaining (for an overview of these relationships, see Ryner 1994).

The latter point might require some further elaboration. In 1985, the Swedish government deregulated the financial markets, amid massive evasive swaps by transnational corporations and other asset managers. Also, the Ministry of Finance introduced its so-called 'borrowing-norm': It vowed not to borrow abroad in order to cover Sweden's balance of payments deficit. Given the policy of maintaining the exchange rate fixed, the latter was a deliberate measure intended to 'import' discipline via international pressures on the Swedish interest rate in order to deter 'irresponsible' wage demands and pressures on fiscal policy in the budget negotiations process (Ryner 1999). The *raison d'être* was very similar to that of the EMS, where interest rate differentials vis-à-vis the German Mark were used in order to internalise macroeconomic discipline of member-states. Given the importance of the 'Deutsche Mark zone' for Sweden's international transactions, this was a huge step towards European integration, taken rather secretly by a narrow group of senior politicians and technocrats in the Ministry of Finance and the Central Bank.<sup>1</sup> This policy stance was in stark contradiction with the prescriptions of the Rehn-Meidner model, where the interest rates are supposed to be subordinated to the imperatives of wage determinations, not the other way around.

The deregulation of the capital markets in 1985 and 1989 (as well as a tax reform) had pro-cyclical effects in the late 1980s at the same time as the borrowing norm increased the sensitivity of the interest rate. Since deregulation

followed a radical devaluation of the Crown in 1982 that coincided with the 'Reagan-boom', the initial effect was stimulatory. This led exactly to the kind of process of wage drift, compensatory wage bargaining and wage-push inflation which the Rehn-Meidner model warned against, since especially public service employees tried to compensate themselves for price increases and wage increases in the export sector (Ahlén 1989; Ryner 1994). Given the increased sensitivity of the interest rates, the distributive conflicts were further accentuated and the subsequent runs on the Crown became more severe since there was a high exposure of the Crown to operators on the short-term international money markets (Ryner 1999).

Against this backdrop of overheating and compensatory wage bargaining, speculations against the Swedish Crown started, leading to dramatic increases in interest rates. The austerity measures that these engendered added momentum to the recession that commenced in the beginning of 1991. Subsequently, Sweden experienced a number of years of negative growth combined with fiscal crisis, caused by the effects of increases of claims on the unemployment insurance and social security funds. It should also be pointed out that the major strains on the budget came from interest payments, a shortfall of revenue caused by an under-financed tax reform and the bailout of bankrupt banks that had overextended their loans in the upturn of the business cycle. Interest rates were slow to decrease, as the confidence in the Swedish Crown was low. The Central Bank nevertheless retained tight monetary policy in accordance with EU stipulations as well as its own convictions (on these developments, see OECD 1994, 11–24).

The change of the macroeconomic policy stance that began in 1985 was a serious breach of the Rehn-Meidner model in itself. But the runs on the Swedish Crown also generated the main impetus for cutbacks in social insurance programmes. The dramatic increase of interest rates and pressures on the value of the Crown generated an atmosphere of crisis, which enabled politicians to take what otherwise would have been considered inconceivable austerity

measures. The so called ‘October Crisis’ of 1990 led to the epochal abandonment of full employment as the number one priority of economic policy, as it was subordinated to price stability. (And indeed, the intention to apply for EC membership was also announced at the same time.) The spectacular run on the Crown of 1992 led to unprecedented multi-partisan talks that yielded a major ‘crisis package’ of cutbacks. Finally, the aftermath of the ‘Peso Crisis’ of 1994 set in motion a process of budget consolidations up to year 1997. Especially notable outcomes of these austerity measures have been the reductions of benefit levels, the introduction of waiting days, and the tightening of eligibility rules for income maintenance programmes such as the health and unemployment insurance programmes. In addition, employee-contributions have been introduced as a method of finance. In 1990, both health and unemployment insurance had replacement rates of 90 per cent of the income of the claimant and the entitlement came into effect on the first day of sickness/unemployment. By the end of that year, the replacement rate for the three first days of sickness was reduced to 65 per cent. In 1992, also the benefit levels for the period after three days were reduced (to 80 per cent for the first year and 70 per cent thereafter) (Olsson 1993, 361). Five waiting days were introduced for unemployment insurance in 1993 at the same time as

employee contributions were increased so as to save 600 million Swedish Crowns for the system. The replacement ratio was also reduced at this time to 80 per cent of the qualifying income (Anderson 1998).<sup>2</sup> These changes, along with the abandonment of the full employment commitment signify a major retreat from the principle of decommodification in labour market regulation.

The 1990s, then, were a period of profound change, and this is reflected in key labour market indicators. The severe recession resulted in a dramatic increase of unemployment as companies went out of business, or shed labour as a result of corporate restructuring. In addition, the public service sector shed labour as a result of budget cutbacks (OECD 1994). Swedish unemployment figures converged with the OECD-total (OECD 1997, Table 2.15) and although the open unemployment rate remained 2 per cent below the average for EU-15, Sweden became but one average country in this high unemployment area. This is especially so, since the official figures arguably hid a much worse development. A large portion of the unemployed was absorbed in temporary employment schemes sponsored by the official Labour Market Board, Arbetsmarknadsstyrelsen (AMS). This is reflected in the statistics of standardised unemployment rates, which counts some of those in AMS-schemes as unemployed (Figure 1). At the

FIGURE 1: *Comparative Unemployment Rates in Selected EU 15 Countries in 1990 and 1995*  
(Open Unemployment of Labour Force and Standardised Unemployment Rates)

per cent Open Unemployment/Labour Force				Standardised Unemployment Rates			
1990		1995		1990		1995	
<b>Sweden</b>	[1.7]	Austria	[5.9]	<b>Sweden</b>	[1.7]	Austria	[3.9]
Finland	[3.2]	NL	[7.1]	Finland	[3.2]	NL	[6.9]
Austria	[4.7]	<b>Sweden</b>	[7.7]	Austria	[n/a]	Denm.	[7.2]
UK	[5.9]	FRG	[8.1]	FRG	[4.8]	FRG	[8.2]
NL	[6.0]	UK	[8.6]	NL	[6.2]	UK	[8.7]
FRG	[6.2]	Denm.	[10.2]	UK	[7.1]	<b>Sweden</b>	[8.8]
France	[8.9]	France	[11.6]	Denm.	[7.7]	France	[11.7]
Italy	[9.1]	Italy	[11.7]	France	[9.0]	Italy	[11.9]
Denm.	[9.4]	Finland	[15.4]	Italy	[9.1]	Finland	[15.3]

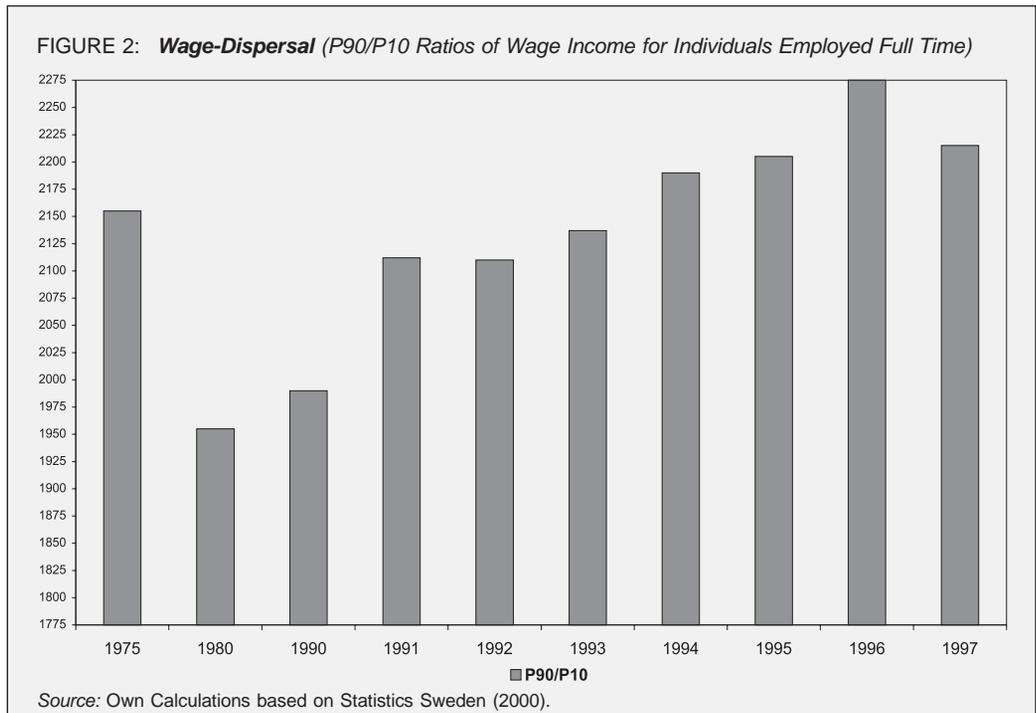
Source: OECD (1999a), Annex Tables 21 and 22.

same time, Sweden's labour force participation, while decreasing from 82.7 per cent in 1990, remained comparatively high at 76.7 per cent of the adult population. This is compared to 71.2 per cent in Germany, 67.5 per cent in Austria and 61.7 per cent in the Netherlands. Only the British participation rate came close to that of Sweden, at 75.3 per cent (OECD, 1999a, Table 19).

Developments also point to centrifugal tendencies in the wage determination process. Wage determination has become increasingly decentralised in Sweden. Whilst formally, collective agreements always have been struck on the sectoral level since the Saltsjöbaden Accord of 1938, in practice bargaining has been coordinated between branches through the coordination of demands within union confederations and cartels and joint central bargaining. Such coordination was severely weakened in the 1990s and *de facto* individual branches struck their own accords, with some increased room for local agreements. This is reflected in the wage dispersal statistics that show a marked change. Whereas Sweden experienced a trend

towards wage compression until the 1980s, the present trend is one of wage dispersal (Figure 2).

It should be noted that these are statistics for full time employees. When one considers the fact that unemployment and involuntary part-time work (underemployment) has increased, together with the cutbacks of transfer payments, the trend towards inequality is even more pronounced (e.g. Statistics Sweden 1998; 1999). One striking indicator of the change, with profound impacts for the nature of the welfare policy régime, is the fact that the number of families that are dependent on means-tested social security payments more than doubled in the 1990s. The primary cause for this is unemployment, without entitlement to unemployment insurance (Mossler/Torége/Öström 1999). Finally, there is strong evidence that the conditions at work are changing for the worse in the 1990s, due to the introduction of lean production (Eklund 1999), which departs from the codetermined experiments of post-Taylorist technological change of the 1980s (Sandberg et al. 1992).



### 3. Swedish Employment Policy: *Quo Vadis?*

The previous section has accounted for the relationship between European integration, employment policy, and welfare state retrenchment in Sweden. This raises the following related question: What remains of the social democratic welfare policy régime? Do the remains make a difference? And, has the process of retrenchment now run its course or will it continue? In this section, I argue that Sweden's forthcoming *National Action Plan* for the CSNEP, and domestic deliberations that surround it, suggest that the government is broadly committed to the present configuration of employment policy, labour market regulation and welfare policy régime, although a few further administrative-disciplinary measures are likely to be implemented. In this context, Sweden is still a comparatively egalitarian society. Nevertheless, this is not to say that a new institutional equilibrium has been reached. The conclusion will be devoted to that question.

Following the Luxembourg Jobs Summit, Sweden presented a *National Action Plan* (NAP) for Employment to the EU in the spring of 1998, which restated the aims and means of the Employment Bill presented to the Riksdag in 1996 (OECD 1999b, 71–72). Since this bill was adopted, there have been further developments that have resulted in two new Government Bills being presented to the Riksdag that concern employment policy and the regulation of the labour market. These have been prepared by the new 'super-Ministry' of Economics (*Näringsdepartementet*), which was created through the merger of the former Ministries of Labour and Industry. The first of the bills in question aimed at reforming the wage determination system and it was presented in December 1999 (Swedish Ministry of Economics 1999b). It has been followed as recently as in March this year with a new Employment Bill (Swedish Ministry of Economics 2000a). They will be followed by a third Bill aimed at reforming the unemployment insurance system (not yet available at the time of publication of this article) (*ibid.*). Together, these bills form the basis for the Swedish NAP presented to the EU

on May 1 this year. To highlight the developments I also juxtapose the present policy stance with previous stances in the development of the social democratic welfare régime.

Whilst in macroeconomic policy Sweden conforms firmly to disciplinary neo-liberalism, in the areas of labour market policy, labour law, collective bargaining and unemployment the policy stance continues to be more consistent with the social democratic welfare policy régime. This is in many respects not surprising. Even if the government wanted to deregulate labour markets, they would have to face exceptionally strong trade unions that continue to represent 80 per cent of the labour force. This is at present an inescapable fact of the political economy of employment and labour markets in Sweden. This is in itself a strong incentive for finding negotiated and administrative solutions in order to maintain stability and order – trade unions must be compelled to take 'social responsibility' and in order to enable them to do so, they need to be able to show their members that they receive something in return. Up until now, contrary to the state of affairs in macroeconomics, political movement towards an outright abandonment of the principle of decommodification on the labour market has been very limited. In the area of direct labour market regulation, organised labour enjoys a more transparent and thus higher degree of representation. In contrast to the Central Bank, insulated as it is from direct influence of social actors, trade unions have representation on the Board of Directors of AMS, which also has been shaped by trade-union organisational culture (Rothstein 1986). In addition, AMS can claim that its traditional policy has been one of comparative success. For example, the fact that Sweden has had the most favourable trade-off in the OECD between employment and the filling of vacancies (the Beveridge curve) since the 1960s to the present weighs heavily against any argument of a radical change in a neo-liberal direction (e.g. AMS 1993; Edin/Holmlund 1994). It should also be noted that in this area, neo-liberals do not enjoy the same dominance in authoritative knowledge-production as they do in macroeconomics, with many institutes such as the Na-

tional Institute of Working Life Research being primarily informed by work in sociology and institutionalist economics (which, however, has lost its influence in macroeconomics since Gunnar Myrdal's times).

The elements of continuity can be well illustrated by pinpointing the criticisms that are launched against Swedish employment policy from the vantage point of the OECD *Jobs Strategy*, and by juxtaposing these with the position of the Swedish government. While commending Sweden's continued commitment to vocational retraining and education, the OECD argues that the labour market continues to be beset by 'disincentive effects'. In particular, the OECD points at the need to increase wage flexibility with respect to skills, sectors and firms, and to the need to review employment protection legislation to reduce hiring and firing costs. Also, the OECD is critical to the Swedish unemployment insurance (UI), which allows participation in active labour market policy retraining schemes to count towards entitlement to UI, and which does not have an upper limit of duration for eligibility of entitlements (OECD 1998a, 78–81).

The topic of UI was addressed in an agenda setting document, published by the new Ministry of Economics (Swedish Ministry of Economics 1999a, Part 9.10). While acknowledging the UI should be supply-side oriented, it was here also asserted that the unemployed should feel sufficient economic security in order not to be in a position of subordination to the employer. Further, contradicting the premises of the OECD, the Ministry of Economics argued that there is a weak correlation between the intensity of search of the unemployed and her/his chance to get a job. (The premise behind the need for an upper limit of duration of UI is that this increases search-intensity). Factors that are far more important are the actual availability of jobs, inadequate qualifications, age, being immigrant or disabled. Another outstanding factor, according to the Ministry, is the lack of mobility due to family constraints (partners being offered jobs in different areas). While accepting that overall job-search intensity increases as the unemployed approach the end of

an entitlement period, the Ministry argued that studies yielding these conclusions are conducted at a level too aggregate to be meaningful. In contrast, the Ministry cites a study from the Department of Sociology at Umeå University (known for its left-wing orientation) on work-motivation, search behaviour and job-chances of 3500 unemployed. This study indicates that what shows up in macro-studies is caused but by a small minority of claimants, and legislation aimed against them would unduly increase the insecurity of the vast majority who "hated to be unemployed" (83 per cent) and who considered it "very important" to have a job.<sup>3</sup>

On questions of wage flexibility, the Ministry states that this is a matter for the negotiating parties on the labour market. Although the Ministry considers wage formation to be an area of concern that requires further public regulation, such regulation is to be pitched at a macro-level, helping to contain macro-wage increases (i.e. not relative wage levels) through a strengthened state mediation institute (Swedish Ministry of Economics 1999a, Part 9.11). With regards to employment protection legislation, the Ministry points out that it is based on dispositive regulation and hence, can be changed through collective agreement in order to adjust hiring and firing costs. Therefore, there is no reason to change a law that gives workers a measure of influence over the organisation of work. However, the exception is for small enterprises where the Ministry is likely to create exemptions in the future. On the other hand, the Ministry is considering *increased* employment protection for pregnant women and parents of small children (ibid., Part 9.12).

Present selective and active labour market policies still follow the principles of interventionist supply-side economics *qua* the Rehn-Meidner model and attempt to develop them to fit a more knowledge intensive production structure. The pillars remain public exchanges mediating labour supply and demand and labour market retraining and re-education (Swedish Ministry of Economics 2000a, 34–35). In fact, in this respect, present policy *returns* to the Rehn-Meidner principles after the deep recession of the 1990s. During the recession, active

labour market policy was overloaded by the sheer scale of claimants, which meant that the cost for each individual unemployed had to be kept down. This resulted in lower quality measures, where the priority was to keep the claimant employed; there were not sufficient funds and attention to individual needs and potential to ensure that each claimant was given the maximum opportunity to increase employability in high value added employment. The ambition in the present upturn of labour demand is to gear the policy towards fewer but high-quality retraining measures with better prospects to yield permanent employment and to downscale subsidies intended to merely keep people in temporary employment (ibid., 39–42). A new initiative takes place within the framework of objectives 1 and 3 of the EU Social Fund, which aim to invest proactively in the development of skills of the presently employed (ibid., 41). In addition to this, the government proposes to implement an ‘activity guarantee’ for long-term unemployed, also to those who are no longer job-seekers but on social security. These are to be given supervised retraining in groups of 10 to 15 or rehabilitation organised on regional ‘transition labour markets’, which are to be regulated by municipalities (ibid., 53–59) and offer work that would not be available on the open labour market. The local labour market boards will act as a combined rehabilitation centre and temp-work agency. The hope is that in a context of increased labour demand also these groups may be able to successfully join the regular labour market. In line with the EU commitment to youth employment, all youths between 20 and 25 are offered a placement within 90 days of application at the labour market exchange.

These important continuities and developments along the basic principles of the Swedish Model notwithstanding, there is a stronger disciplinary edge directed against labour in recent labour market policy. In the balance between social protection (decommodification) and the disciplinary compulsion of ensuring the supply of labour power (commodification), there is a definite tilt towards the latter. One must reserve judgement on the ‘activity guarantee’ and await

its implementation. But there is a clear danger that the aim to better channel people into work will lead to conditionalities in the provision of social security, increased social control by the state over the individual, and an attenuation of social citizen entitlements.

More striking is the sharpening on the language of UI in the new bill. While the bill does not adopt OECD recommendations, it now contains much clearer language on the conditionality for UI entitlement. Whereas the paragraph 9.4 of the previous law of 1997 states that *inability* to get appropriate work leads to UI entitlement, the new bill suggests an amendment to read that only *those who make an effort* to find appropriate work but cannot find it are entitled to benefits. The government presents this as a clarification of existing regulations, but it seems to create a rather large space of discretionary power for the state in the interpretation of ‘effort’. Moreover, an amendment in paragraph 11 reads that “*the government or authority appointed by the government may determine additional directives about the determination of ‘appropriate work’*” (ibid., 9). In addition, it should be pointed out that the rules for initial eligibility to UI were tightened already in 1996: Since then, only those who have been ‘regularly employed’ are entitled to UI in the first place and those who decline a job-offer are penalised with longer periods without compensation. No doubt, this has contributed to the increase of claims for means-tested social security benefits, as mentioned in the previous section.

These changes have clearly attenuated the degree of decommodification in employment policy. Another set of departures from the Swedish Model and the dense network of regulations intended to ensure decommodification outcomes concern the disintegration of linkages between labour market policy, wage determination and solidaristic wage policy. Especially the blue-collar trade union confederation, LO (Landsorganisationen i Sverige), had been preoccupied with finding arrangements that would relieve tensions between the danger of wage drift caused by excessive profit rates, and low employment growth caused by inadequate invest-

ments and profits. As mentioned above, LO consistently sought ways to increase the marginal propensity to invest in relation to profit, and to achieve control over profits so that they would not cause wage drift and higher dividends but be channelled into productive employment supporting investments. This explains the importance of capital controls that held interest rates low. The last initiative that was taken in this vein was the introduction of the so called 'renewal funds' of the early 1980s. These were formed as part of a *quid pro quo* for wage restraint after the devaluation of 1982. Renewal funds were mandatory investments that corporations had to make in a special government fund, when a certain rate of (excess) profit had been reached. Companies could then apply to use these funds for workplace innovations and expansion, whose shape would be worked out by employers and unions. Notably, the unions had a veto over the usage of the funds and they could use this veto to enforce their right to codetermination. In case of the approval, AMS retraining programmes, often customs-designed for the investment in question, would be at disposal for employers and workers in the retraining and restructuring effort (Eriksson/Nilsson/Ohlsson 1991). The Uddevalla Plant of Volvo, known for its innovative experiments in post-Fordist production techniques, is perhaps the most famous example of a major investment project, which was funded through the renewal funds. After the capital market deregulation, initiated in 1985, this kind of policy, explicitly linking labour market policy, wage policy and investment policy, was discontinued. As a result of this, potential policy conflicts between the imperatives of solidaristic wage policy and employment promotion might be increasingly difficult to mitigate. There is a tendency to rely on higher profit rates and leave the unions to cope with the difficulties of maintaining solidaristic wage policy. This, however, amounts to undermining any institutional link between economic policy and wage bargaining. The likely result is that trade unions, in the context of 80 per cent density, displace the adjustment through waves of compensation bargaining when the economy approaches full employment.

This is likely to lead to the kind of inflationary spiral that Sweden experienced in the late 1980s.

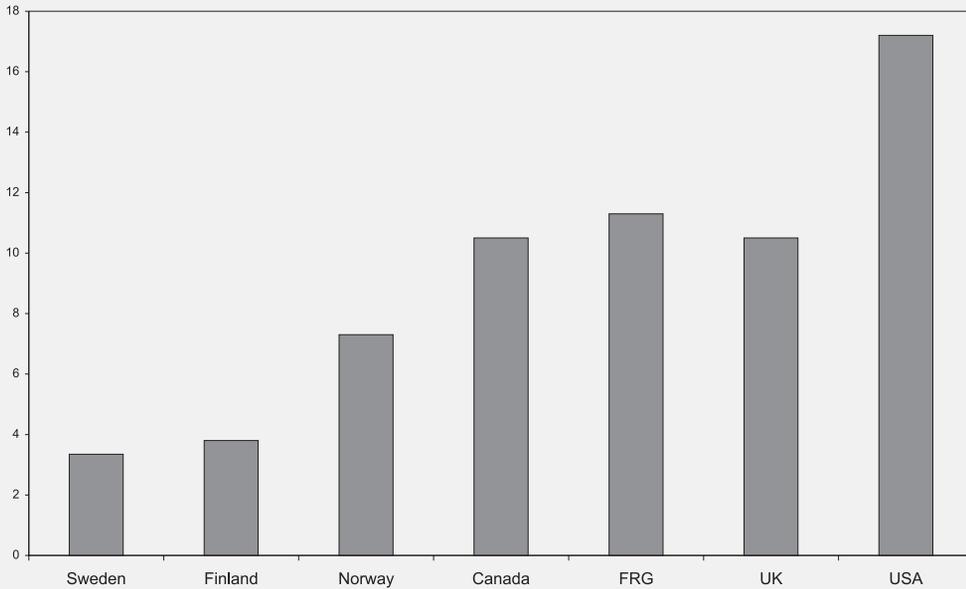
The risk that such a situation would re-emerge when labour demand tightens is not lost on the government. It is in this context that one must consider the recent bill on wage determination (Swedish Ministry of Economics 2000a), which proposes the creation of a State Mediation Authority and a tightening of procedures regarding strikes and lockouts. On the problem of wage formation, then, the Swedish government is *not* moving towards a decentralisation of wages, but rather embraces a more tripartite form of macro-corporatism. Interestingly, this is now supported by the LO (LO 2000), which now definitely has given up on ways to regulate profits and accepts this curtailment of its own freedom of association as a second best option. The white-collar workers confederations (TCO and SACO) as well as the employers' association (SAF), on the other hand, are against the legislation and would prefer a more market oriented numerical flexibility in wage determination (TCO/SACO 1999; SAF 1998).

#### 4. Conclusion

This article has argued that European integration has contributed decisively to a transformation of labour market regulation in the Swedish welfare policy régime. Nevertheless, distinct elements of employment policy remain. Rather than summarising the argument behind this contention, I would like to conclude by considering the two last questions raised in the last section: Does this distinct policy still make a difference? And, has a new institutional equilibrium been achieved?

One crucial indicator that the remains of the 'Swedish Model' still make a difference is the fact that, the increased inequalities notwithstanding, Sweden remains the most egalitarian society of the OECD (Figure 3). Furthermore, in recent years, unemployment rates have actually decreased towards 5 per cent this year (OECD 1999a, Table 21; Statistics Sweden 2000). This means that Sweden has managed to prevent the development of a strata of long-term unem-

FIGURE 3: **Comparative Indicators of Inequality** (Percentage of Individuals in Households with less than 50 per cent of median disposable income)<sup>4</sup>



Source: Jansson (2000) cf. Luxembourg Income Study and his own calculations, p. 8.

ployed, who lost complete contact with working life, which is a problem in many other EU-states. No doubt, active labour market policy has played an important role here. It is also encouraging that this decrease of unemployment has not been accompanied with inflation and that the upturn is accompanied with sustained productivity growth rates not seen in Sweden since the early 1970s and with real wage increases (*inter alia* OECD 1999a, Table 14 and 1999b; cf. OECD 1998b and Englander/Gurney 1994). This does not contradict the contention made earlier that there has been a recommodification of labour market regulation and a shift in the welfare policy régime. It does, however, put these changes in context.

The positive economic indicators themselves speak for the case of a new institutional equilibrium. Given the growth rates and the lower unemployment, there seems to be little need for further retrenchment and indeed none is planned.

Nevertheless, the future is not quite that certain. The main challenge in the years ahead, as labour demand tightens, is indeed likely to be

in the areas of employment policy and wage determination. The first question to consider is if active labour market policy will be sufficiently effective to prevent the development of bottlenecks on the labour market. The other question concerns the wage negotiation round due in 2001. Since the late 1980s, wage determination in Sweden takes place on a sectoral level with little coordination from the confederations at the centre. It is possible that conflicts will emerge between expanding high productivity sectors, whose unions can demand more, and low productivity sectors (such as public services) who would use organisational power and moral claims of solidarity to receive the same wage increases for similar work done. In a positive scenario, increased competition will keep profit rates sufficiently low to pre-empt wage drift. But in this case, the problem might be labour shedding in previous monopoly sectors in the domestic sector, which raises questions about how their unions will react and whether active labour market policy still can effectively channel the unemployed labour in these sectors into expanding sectors. In any case, the new State Media-

tion Institute is likely to be subjected to severe tests, as is union legitimacy and membership support.<sup>5</sup>

It also remains to be seen if the economic recovery is sustainable. One weakness of the Swedish economy in recent years has been its dependence of the fortunes of a handful of transnational corporations (TNCs). The export sector has always been the engine of Swedish growth; with exports making up 46 per cent of GDP this is more the case than ever. But a new and disconcerting fact is that the commitment of Swedish TNCs to investments in Sweden is becoming rather tenuous. These corporations have become increasingly interested in investing in European core markets in order to ensure customer proximity. One crucial question that remains unanswered at the time of publication is the extent to which present growth breaks with this development. If the trend continues, productivity growth is likely to be stifled, which will further exacerbate conditions for wage negotiations and may lead to another cycle of distributive conflicts and possibly further retrenchment. If we witness a break with the previous pattern, then one might wonder about the effects on long-term employment in the new types of sectors and enterprises. Are these developments compatible with the distributive mechanisms of the retrenched Swedish model of the late 1990s?

- 2 The developments of unemployment insurance retrenchment are actually more complex than what this summary suggests. Benefit levels were actually reduced to 75 per cent January 1, 1996, but amid union protests and debates at the Party Congress of the Social Democratic Party, the benefit levels were restored at the 1993 levels of 80 per cent. Furthermore, the employee contributions to the finance of UI have been transferred to help fund the health insurance system. The non-Socialist government of 1993 also introduced a time-limit after which it no longer would be possible to claim UI after participation in an active labour market policy programme and they removed the administration of UI away from the unions. These latter measures were repealed by the Social Democrats after 1994, but instead they have tightened the eligibility criteria for UI.
- 3 Behind this formulation hides, of course, political conflict on this topic, not only in the national political arena but also within social democratic circles (Anderson 1998). When the Social Democrats returned to power in 1994, they restored the union administration of the UI programme (the 'Ghent Model'). However, in the midst of continued fiscal deficits, the SAP-government, under the leadership of the Ministry of Finance, initially reduced benefit-levels to 75 per cent and tightened the eligibility rules. The waiting days and, very controversially, the time limit on eligibility of UI benefits after participation in AMS-measures were also originally to be retained. But as a result of union mobilisation at the Social Democratic congress, replacement rates were restored to 80 per cent and the time limit of benefits were repealed in 1996. In other words, the arguments in the government document on this topic is an *ex post* rationalisation of a retreat or perhaps a conversion to the trade union view. This underlines the continued influence of unions in this area of policy.
- 4 The seminal work of Panitch (1986) on the detrimental effects of corporatism on union membership support should be recalled in this context.
- 5 1994 for Canada and Germany; 1995 for Norway, Finland and the UK; 1997 for Sweden and the USA.

## NOTES

- 1 Initially the Swedish Crown was pegged to a 'basket' of currencies including the ECU and the US Dollar, but in 1991, the Crown was formally pegged to the EMS. The Crown was forced off this fixed exchange rate policy already in 1992 as a result of the massive run on the Crown that year. Instead, Sweden redefined its monetary policy norm around an inflation-target (keeping the exchange rate variable), but the idea of using the interest rates as a disciplinary mechanism remains, as price increases will immediately lead to an increase of interest rates. In addition, Sweden participates in the two first stages of the EMU and the Growth and Stability Pact, a point that is often lost in the rather superficial and phony internal debate about the *Euro*.

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#### AUTOR

Magnus Ryner ist Lecturer am Department of Government der Brunel University in London. Forschungsschwerpunkte: strukturelle Veränderungen in der globalen politischen Ökonomie, die Zukunft des Wohlfahrts-

staates in Skandinavien und Europa. Aktuelle Publikationen: *Capitalist Restructuring, Globalisation and the Third Way: The Case of the Swedish Model* (Routledge, i.E.) und ein Sonderheft des *International Journal of Political Economy* mit dem Titel *Neoliberal Hegemony and the Political Economy of European Restructuring*, Vol. 28, Nos. 1 und 2 (1998) (gem. mit Otto Holman und Henk Overbeek).

Korrespondenzadresse: Magnus Ryner, Department of Government, Brunel University, Uxbridge, Middlesex, UB8 3PH, United Kingdom; e-mail: magnus.ryner@brunel.ac.uk