Global Labour Column
http://column.global-labour-university.org/
Number 201, May 2015
UNIVERSITY OF THE WITWATERSRAND, JOHANNESBURG

The Swedish Model in 2015: A 'Safe Haven' or a 'Nordic Noir'?

By Alexis Stenfors

Fiction versus a startling reality

I am positively surprised by the increasing number of people coming up to me asking for travel advice on Scandinavia. As is often the case, they admit to ultimately having been swayed by the dark landscapes and fictional characters in *Nordic noir* novels or television box sets. Simultaneously, foreign observers find the new political landscape in Sweden puzzling and worrying - and rightly so. Having slowly witnessed the deconstruction of the old 'Swedish model', a new element appears to have cemented the belief that Sweden truly has changed: the rise of the Sweden Democrats. How could an anti-immigrant party on the Far Right become the 3rd largest party in the country?

Initially, it would be easy to dismiss the Sweden Democrats as yet another European anti-immigration party on the Far Right, occasionally flirting with Fascism but portraying themselves as 'neither Left nor Right'. As is then the case, the focal point gravitates towards immigration and multiculturalism for supporters and opponents alike. This might be a convenient and logical approach, but it also leads to the wrong precision.

The Swedish model offers an insight to why.

A blend between capitalism and socialism: the Swedish model

The Nordic literary crime genre is heavily indebted to the Marxist writer-duo Maj Sjöwall and Per Wahlöö. In the 1960s and 1970s Martin Beck series, they expertly managed to portray some of the social tensions and cracks that existed within the Swedish welfare system at the time. Since then, the Swedish (or Nordic) model has been more than just a stage set for the drama that unfolds in the crime novels. In fact, through disturbing examples, they all seem to illuminate the illusion or *decay* of this model.

During the decades preceding the 1980s, Sweden presented itself as an exception, where crude classifications became, if not invalid, then at least open for questioning. The 'third way' or the 'Swedish model' highlights the uniqueness of the small and developed countries in Northern Europe, becoming convenient labels to portray some of these characteristics. Even among its critics, the model was often regarded as a successful synthesis between capitalism and socialism, between free enterprise and social planning. Although the definitions of the Swedish model vary, most observers agree that the following characteristics could be attributed to it: a relatively decommodified wage relation (independent from market forces), public commitment to full employment, welfare state universalism, a large social service sector, egalitarianism (in particular with regards to women) and a class compromise between capital, labour and farmers (and later also white collar workers)[1]. Broadly speaking, the society could truly be portrayed as egalitarian, with a solid social safety net stretching from free education to universal health care.

The demise of the Swedish model and the rise of financialisation

The deconstruction of the Swedish model coincides almost perfectly with the deregulation process that was put in motion during the 1980s, and the infamous banking crisis that followed soon thereafter. This also marks the launch of a remarkably rapid and widespread financialisation[2] process in Sweden. Seen from this perspective, the subsequent transformation could be summarised in the following four points.

Firstly, Sweden has embraced a free market ideology with gusto, and in many respects gone further than Anglo-Saxon countries. The financialisation process has become highly visible in overall daily life, not least as market mechanisms have been encouraged to enter previously 'sacred' areas such as health, child and elderly care. Neoliberalism has penetrated the Swedish society profoundly and with little social and political resistance. Politically, the country has transformed itself from a role model for those wishing to implement reforms often associated with the Swedish Social Democratic Party to a 'poster boy' for European parties on the Right, aiming to pursue an agenda with a limited role of the state in education, health care and so on[3].

Secondly, the change in macroeconomic, including monetary policy has evolved remarkably during the period. An overriding political ambition to achieve and maintain full employment was replaced in 1991 by that of a low and stable inflation. The central bank has been at the forefront with regards to inflation targeting, whereas government policy has changed to encompass a range of measures seemingly incompatible with the 'old' Swedish model, such as income tax cuts, large scale privatisation programmes and policies aimed at achieving budget surpluses and government debt reduction.

Thirdly, the financial system - previously underdeveloped, protected from foreign ownership and one of the most regulated in the world – is barely recognisable. Today, Sweden and the Swedish krona rank disproportionally high in terms of stock market capitalisation and turnover in the foreign exchange and derivatives markets. Having been a pioneer by imposing a transaction tax on financial instruments during 1984-91, the country now belongs to the most vocal opponents of the European Union (EU) financial transaction tax proposal by the European Commission.

Fourthly, whereas Sweden remains one of the most equal countries in the world, income inequality has surged rapidly during the last two decades. In fact, Sweden occupies the top spot when it comes to growth in *in*equality between 1985 and the late 2000s – coupled with increasing social stratification. The consensus-based and solidaristic wage negotiation process has been replaced by a system based upon decentralised bargaining and private mediation (Elvander, 2002), whereas the new Swedish pension system has been transformed and is extremely risk-privatising by European standards (Belfrage, 2008). As Roine & Waldenström (2008, p. 366) point out: 'Sweden over the last 20 years has become a country where it is more important to make the right investments than to earn a lot to become rich'.

An uncontested reform agenda

This remarkable transformation might portray itself as a paradox. How could such a radical reform agenda be implemented without much opposition politically (given the political hegemony of the Social Democratic Party for almost a century) or popularly (given a largely homogenous population having grown accustomed to and prided itself of the Swedish model for several generations)?

However, Sweden should not be regarded as a country that has suddenly abandoned the 'state' in favour of the 'markets', but as a culture that has historically been distinctively consensus-based, pragmatic and individualistic (see, for instance, Stenfors et al, 2014; Trädgård, 2008). Therefore financialisation, has been embraced widely, not as a perceived end-goal in itself, but as a pragmatic choice in an on-going ambition to maintain economic growth, low unemployment and individual freedom in an increasingly globalised world. In fact, the Swedish model contained a number of features that, when put to the test at particular junctions in time, proved unusually fertile for grains of financialisation: an overall belief in market mechanisms and efficiency (as long as quality and security is assured); a relatively corporate-friendly tax system; a conflict-free and non-politicised wage negotiation process; a unique long-term corporate governance structure; a pragmatic adoption of inflation targeting outside the Eurozone; a consensus-based agenda against budget deficits and unsustainable government debt; and a widely embraced strategy to increase household financial literacy both directly and indirectly.

Recent developments in the global economy have served to strengthen this narrative. The Swedish economy was hit hard by the global financial crisis. However, it rebounded quickly and has fared considerably better than most EU member states since the advent of the Eurozone sovereign debt crisis. Perhaps paradoxically, the demise of the Swedish model resulted in a framework that has shielded the country from some of the recent turbulence: a recapitalised banking system and a fiscal policy framework with a budget surplus, rather than deficit, bias. In other words, austerity became institutionalised already several decades ago and was rooted in pragmatism and consensus - as was the 'old' Swedish model. However, Sweden has also benefitted from the ability to conduct a flexible and pragmatic policy outside the euro area, and the change in perception of Sweden from the perspective of the international financial markets. Whereas the Swedish financial markets had come to be identified with volatility and crises during the 1980s and 1990s, the picture that emerges in 2015 is remarkably different - to the extent that the country increasingly is referred to as a new 'safe haven' (Stenfors, 2014).

Referring to the debate about the Sweden Democrats, it should be acknowledged that the abandonment of the old Swedish model also resulted in a vacuum of growing discontent and disillusionment among a number of groups in society. Sweden might have transformed itself from a *Nordic noir* into a safe haven for international financial investors. Some, however, have made the complete opposite journey. Armed with nostalgia, and by highlighting 'the maintenance of a solidaristic welfare model' as one of their key principles[4], this is the vacuum that the Sweden Democrats have successfully managed to capitalise on – not least at the expense of the mainstream parties on the Left.

1 See Ryner, 1999; 2007
2 Epstein (2005, p. 3) defines financialisation as 'the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies'
3 See, for instance, White (2012)
4 Sverigedemokraterna (2011)

Alexis Stenfors is currently Senior Lecturer in Economics and Finance at the University of Portsmouth.

References

Belfrage, C. (2008) Towards 'universal financialisation' in Sweden? *Contemporary Politics*, 14(3), 277-296.

Elvander, N. (2002) The New Swedish Regime for Collective Bargaining and Conflict Resolution: A Comparative Perspective. *European Journal of Industrial Relations*, Vol. 8, no. 2, 197-216.

Epstein, G. (2005) *Financialization and the World Economy*. Bodmin: Edward Elgar Publishing Ltd.

Roine, J. & Waldenström, D. (2008) The Evolution of Top Incomes in an Egalitarian Society: Sweden, 1903-2004. *Journal of Public Economics*, 92(1-2), 366-387.

Ryner, M. (1999) 'Neoliberal globalization and the crisis of Swedish social democracy'. *Economic and Industrial Democracy*, 20, 39-79.

Ryner, M. (2007) 'The Nordic model: does it exist? Can it survive?'. *New Political Economy*, 12 (1), 61-70.

Stenfors, A., E. Clark, I. Farahani, A.L. Hansen and M. Pssarella (2014) The Swedish Financial system. FESSUD Studies in Financial Systems No 13.

Stenfors, A. (2014) Financialisation and the Financial and Economic Crises: The Case of Sweden. FESSUD Studies in Financial Systems No 27.

Sverigedemokraterna (2011) Sverigedemokraternas principprogram. Available from: (http://sverigedemokraterna.se/wp-content/uploads/2013/08/principprogrammet2014_webb.pdf) [accessed 18 March 2015].

Trädgård, L. (2008) Swedish model or Swedish culture? *Critical Review*, Vol. 4, No 4, 569-590.

White, M. (2012) David and the Nordic goliaths, *The Guardian*, 9 February. Available from: (http://www.theguardian.com/politics/2012/feb/09/david-cameron-nordic-goliaths-sweden) [accessed 18 March 2015].