New Political Economy
Publication details, including instructions for authors and subscription information:
http://www.informaworld.com/smpp/title~content=t713439457

Bucking the Trend? The Welfare State and the Global Economy: The Swedish Case Up Close

Sven Steinmo

Online Publication Date: 01 March 2003

To cite this Article Steinmo, Sven(2003)'Bucking the Trend? The Welfare State and the Global Economy: The Swedish Case Up Close',New Political Economy,8:1,31 — 48

To link to this Article: DOI: 10.1080/1356346032000078714

URL: http://dx.doi.org/10.1080/1356346032000078714

New Political Economy, Vol. 8, No. 1, 2003

Carfax Publishing
Taylor & Francis Group

Bucking the Trend? The Welfare State and the Global Economy: The Swedish Case Up Close

SVEN STEINMO

Will globalisation kill the welfare state?

The conventional 'globalisation' thesis predicts that increased factor mobility will reshape political incentives across the world. According to the most dire predictions, capital and labour will flee welfare states in favour of jurisdictions where they will find cheaper employees, less restrictive governmental regulations and lower taxes. This argument specifically suggests that countries with very heavy tax burdens will be the most vulnerable to the competitive forces in the new global economy. Finally, this theory suggests that political leaders in high tax countries will have no alternative other than to reduce tax burdens and ultimately roll back welfare state spending—else they suffer the wrath of profit-maximising investors and alienated voters.[1]

The following analysis offers a partial test of these hypotheses through an examination of the politics of taxation and tax reform in the world's most heavily taxed country—Sweden. This article will demonstrate that over the past 20 years there have indeed been important changes in Swedish taxation policy, and that these changes are systematically connected to changes in political and economic interests, policy ideas and public institutions in Sweden. But the evidence does not support the hypothesis that Sweden has—or is about to—substantially roll back its tax burden and/or its welfare state.

This case study supports other recent analyses which question the 'globalisation' and/or 'convergence' hypotheses and instead suggest that there are powerful path dependent reasons for countries to continue pursuing different 'varieties of capitalism' and that, while all countries must indeed adapt to the realities of increased factor mobility, this does not necessarily imply that all countries must (or even should) follow the same path.[2] On the one hand, it appears that the fear that 'globalisation' should create an 'end of the state' is simply wrong. On the other hand, I show that there have indeed been very important changes in what was once called the 'Swedish model' and these changes may imply that Sweden

Sven Steinmo, Department of Political Science, University of Colorado at Boulder, Ketchum 106, 333 UCB, Boulder, CO 80309–0333, USA.

ISSN 1356-3467 print; ISSN 1469-9923 online/03/010031-18 © 2003 Taylor & Francis Ltd
DOI: 10.1080/1356346032000078714

is no longer quite as distinctive or unique from other advanced welfare states as it was once thought to be.

In the end, this study suggests neither 'the end of redistribution', nor does it support the argument that modern welfare states like Sweden must give up their redistributive ambitions. Instead, it appears that the Swedes are continuing their historical path of manipulating some kind of middle ground between the rampant liberalism of free markets and controlled markets in the hands of a large and powerful state. The Swedish welfare state is adapting to the realities of the new political economy, but it is not dying because of it.

The Swedish model

Sweden has held a special place in the academic literature and in the popular imagination for two separate reasons: first, it has often been viewed as the archetypical example of socio-corporatism; and, second, it is even more widely known as the country with the most expansive (and expensive) welfare state in the world. I argue that it is important to distinguish the decision-making institutions from the size of the welfare state. While these two phenomena are related (see below) they need to be understood separately—particularly if we want to understand modern Swedish political economy. The first should be understood as a decision-making model; the second is a set of policy outcomes. This analysis suggests that, while important aspects of the corporatist decision-making model are no longer viable, the essential features of the Swedish social welfare state as policy outcome are healthy and perhaps even thriving.

This Swedish model—as decision-making model—rested on a particular decision-making regime that was first and foremost highly centralised. Representatives from the major union federation (LO), the major employer federation (SAF) and the government—which essentially meant elites from the Social Democratic Party (SAP)—met regularly and consistently to negotiate major decisions about future developments in the Swedish political economy.[3] This was a profoundly elite driven system. A key feature of this model was the extent to which a quite small group of leaders from the major economic interests in society would sit together and haggle out the economic plan for the country. This often meant that unions would impose wage discipline and that the employer federation would agree to national wage bargains that would explicitly undermine many of their constituent members. The Social Democratic government was formally outside the specific annual wage negotiations, but quite clearly the government held both carrots and sticks with which to reward and/or punish its 'labour market partners'. An explicit policy goal of this model was to squeeze labour and capital into the large, export-oriented manufacturing industries. At the same time Sweden maintained an open international trade policy which was explicitly aimed at forcing Swedish firms to maintain international competitiveness. These firms were, of course, precisely the firms dominated by LO unions and the SAF.

Taxation policy was a keystone in the 'deal' between the Social Democrats, organised labour and organised capital. For their part, large export-oriented capital firms would be supported with explicit tax incentives even while

Table 1. Taxes as a per cent of GDP

	1950	1955	1960	1965
Sweden	21.0	25.5	28.7	35.6
Germany	30.1	30.8	33.9	31.6
UK	33.1	29.8	27.3	30.8
USA	20.8	23.6	25.6	26.5
OECD avg.		24.7	26.2	28.0

Sources: OECD, *Sweden—Economic Survey 1999* (OECD, 1999); and Riksskatteverket, *Skattestatistisk årsbok 1999* [*Statistical Yearbook, 1999*], Riksskatteverket, Stockholm, 1999.

'socialists' were in power. At the same time labour unions would also be supported and specific wage strategies that would advantage lower paid workers over higher paid workers would be part of the national wage bargain.[4] The other side of this corporatist 'deal' was that big unions and a powerful state would also be tolerated, employment would be held at very high levels and, when economic change was called for, the individual worker and his family would be fully compensated for the economic costs of structural transformation. Specific policies favouring unions were also introduced[5] and a wide variety of public insurance, education and welfare programmes were established and expanded.

Contrary to many people's understandings, the Swedish corporatist decision-making model did not necessarily imply a very large welfare state—nor high taxes necessary to finance it. To be sure, welfare state programmes were part of the basic compromise between labour, capital and the state in Sweden—just as they were in every other advanced capitalist nation. But in the first several decades in which this decision-making model was in effect Sweden did not have a particularly heavy tax burden (see Table 1).

It should also be specifically noted—in the context of the current debate about the conflict between redistribution and 'globalisation'—that the system of active labour market policies, combined with incentives favouring economic dynamism and flexibility in both the corporate sector and amongst workers, could and did contribute to economic growth and income equalisation. Although it may be impossible to disaggregate the redistributive effects of these labour market institutions from the effects of specific social policies, it is widely recognised that labour market policies were enormously important in creating the egalitarian society for which Sweden became so famous.[6] Although a few movie producers, popular writers and sport stars left the country due to the high tax rates on their income and wealth, capitalists and large companies were offered very generous tax expenditures such that they actually paid very little tax indeed.[7] Contrary to many people's expectations, it was never true that Sweden used taxes directly to 'redistribute' income between social classes. Quite the contrary, to the extent that the tax system redistributed income it was from wage earners to capitalists.[8]

Politicisation and decline of the corporatist bargain

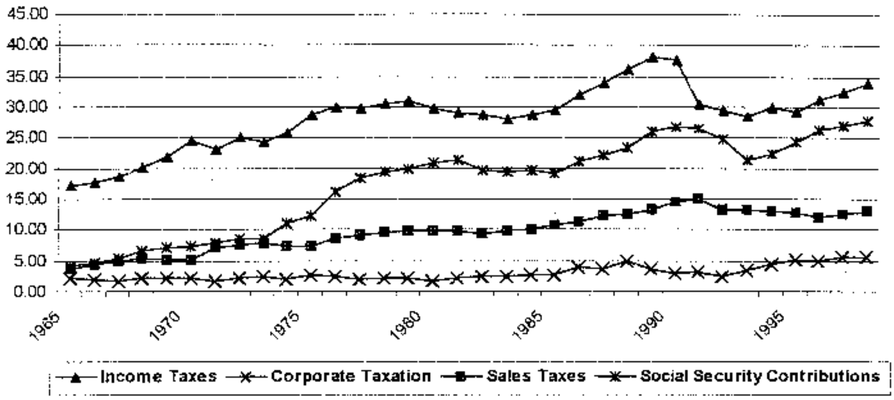
Perhaps all bubbles must burst. In retrospect it seems that no sooner had Sweden become recognised as the premier example of 'the middle way' between the individuating and inegalitarian capitalism of the West and the deadening and inefficient socialism of the East than the 'system' began to leak. There is insufficient space in this article to detail the evolution of the changes in the Swedish political economy from the 1970s through the 1980s, but a few general points must be noted so that we may better understand the new context in which tax policy began to turn in the 1980s and 1990s.

The beginning of the end can be traced back to the early 1970s. Certainly the watershed event was a series of massive wildcat strikes beginning in the iron mines in the north of Sweden (Kiruna) in 1969. These strikes were exceptional because they were strikes from the heart of the working class against the union organisation and its political allies in Stockholm. Although the strike itself was eventually settled in favour of many of the miners' demands, the more basic accusations implied in the strike left serious self-doubt in the minds of the labour movement and 'socialist' leadership. What kind of union and what kind of social democracy is it that workers themselves feel they must strike against?

These doubts led to significant self-examination and rethinking both within the Party and inside the LO: unions became less quiescent and began to demand both higher wages from employers in their national wage negotiations, more public spending from the Social Democratic government, and more explicitly redistributive (populist) tax measures. At the same time, the Social Democratic Party itself (at least significant portions of the left within the Party) came to question its own legitimacy. Several substantial changes grew out of these self-examinations. First, in 1974 the government introduced a constitutional change that was intended to make Swedish democracy more direct and more responsive to citizens.[9] Second, the LO began to demand structural changes both at the workplace level[10] and later even in terms of the public ownership of Swedish capital.[11] Perhaps unsurprisingly, the SAF came to believe that the LO and the Social Democrats could no longer be trusted. At the same time, as Olof Ruin points out, 'at the parliamentary level the most important development in the 1970s, parallel to the new constitution, was the weakening of the executive'; as a result, he argues, the government was less able 'to take unpopular decisions' and to 'distance itself from special interests'.[12] Thus, at the same time that trust between the former 'partners' declined,[13] the ability of the Social Democratic elite (particularly the Ministry of Finance) to act as guardian of the public purse also declined. The result was a dramatic increase in public spending—and the tax burden that was necessary to finance it.

By the mid 1970s and 1980s social benefits and transfers had reached proportions which most non-Swedes, at least, would find quite remarkable indeed.[14] Still, it is critical to understand, that even while the level of benefits offered in the Swedish system was quite high by international standards, the core of this social welfare system was a system of transfers within members of the working and middle classes—not between classes. Even as the size of the welfare state grew, this was not a 'redistributive' tax system in the sense that it

FIGURE 1. Taxation in Sweden 1965–98 (Billions of 1995 US dollars)



Source: http://www.sourceoecd.org

took money away from the wealthy capitalists or from corporations and gave it to the poor or the workers. Instead, these huge public expenditures were financed virtually exclusively through taxation on income earners. As Figure 1 above demonstrates, corporate profits taxes are not (nor have they ever been) a major source of revenue in Sweden. Even with the massive expansion of tax burdens since 1965, corporate profits tax revenues have been both low and stable. In point of fact, there was a general tax/transfer subsidy from earned income to capital income—in other words, not only were workers taxed very heavily to pay for the social welfare state programmes from which they benefited, but their taxes also directly subsidised the capital sector of the Swedish economy. This was because the tax incentives for capital investment had become so generous in Sweden that capitalists were generally able to take more deductions from capital investment than they would generate in profits.[15]

The tax increases indicated in the figure above had significant implications for the Swedish political economy—well before the term 'globalisation' hit the world stage. Simply put, the high levels of taxation now imposed on wages and consumption placed significant inflationary pressures on the Swedish economy and encouraged Swedish employers to internationalise even further their operations. Economists have long argued that rational employees will calculate their wages in after-tax terms. Whether or not this is true in decentralised and low tax countries such as the USA, taxes were most certainly a part of the annual wage negotiations in Sweden. By the early 1980s an average industrial worker suffered a marginal income tax of over 50 per cent. This meant, in effect, that, if a worker was to receive a real income increase of 10 krona per hour, she needed to get a nominal increase of 20 krona an hour. When we add the employer social insurance charges which reached 36 per cent of the wage bill by the early 1980s, this meant that increasing the worker's wage by 10 krona would effectively cost the employer 27 krona.[16]

The growth of public programmes also dramatically expanded the number of public employees which in turn had significant implications for the character of the Swedish model itself. Sweden—which had once been noted for its highly centralised wage negotiation system and unified and disciplined union structure—was now developing a substantially fragmented union structure. The blunt truth is that it was far easier to find a common front between the interests of miners and auto workers, for example, than it was to find a common interest between these groups and medical doctors, or, for that matter, day-care employees. Ironically, in many ways, a consequence of building a big welfare state was to undermine worker solidarity in Sweden.

These developments had direct consequences for both wage demands and public spending in Sweden. In the 'old' Swedish model, union wage demands could be tempered by the economic realities of the international marketplace, and decisions once reached at the elite level could be implemented at the local shop floor level due to the high degree of power of the central union organisation. But by the late 1970s and early 1980s the Swedish political economy was quite different. Whereas unions in export-oriented industries had once been willing to practise wage restraint in accordance with the logic that their jobs depended on international competition, the newly powerful public employees' unions did not have the same international market discipline to temper their demands. By 1989 the two unions representing salaried employees and those with higher academic degrees (TCO and the SACO-SR) represented 41.7 per cent of the workforce.[17] Given these basic facts, Sweden quickly developed even stronger inflationary proclivities. The government, desperately trying to maintain Swedish international competitiveness, felt that its only alternative was periodically to devalue the Swedish krona. The result, as Ton Notermans has argued, was that 'the Swedish Model collapsed when, due largely to internal pressures, employers and unions had become unable to deliver any kind of wage moderation.[18]

In sum, by the late 1970s and early 1980s, Sweden was undergoing substantial changes in both its political decision-making institutions and in its economic structure (upon which the political institutions in many ways depended). These changes were partially a result of the internationalisation of the world economy (reflecting the maturation of world capitalism), but it is incorrect to blame these problems/changes on the far more recent changes commonly referred to as 'globalisation'. Long before this term was even coined in the popular media, the Swedish model was already crumbling.

Tax reform: a conspiracy of elites?

By the early 1980s many members of the Swedish economic elite—both within the Ministry of Finance and in the economic profession more generally – saw these developments as a crisis. The crisis was both economic/fiscal and a crisis of confidence. Whereas in the past these elites believed they could manage their economy quite effectively, now they were increasingly convinced that such management was no longer possible. What were once thought of as 'labour market partners' were now simply 'interest groups'. In addition, whereas the political system in the earlier era insulated the fiscal elite and gave it enormous policy autonomy, now political demands on both the tax and spending side were increasingly difficult to shut out. In the words of one senior Ministry of Finance official,

> I was taught in college that we could manage the economy via fiscal manipulations. But now in Sweden, and other countries too, we have less faith in politicians. We now realise that political asymmetries are so large that you have to be careful about what you recommend. Politicians don't only do what their economic advisers recommend, they also have to listen to interest groups … If economists think that political decisions are symmetric, then they use false assumptions. Politicians have short time horizons.[19]

At about this time the Minister of Finance, Kjell Olof Feldt, began to question seriously the long-term viability of the tax system that was evolving. In his view, the system of high marginal tax rates, effectively reduced by deep tax expenditures (loopholes), was creating a system of false economic incentives and at the same time undermining Swedish citizens' basic belief in the 'fairness' of the tax system.[20] The Ministry had a substantial problem, however: the majority of Social Democrats in the Riksdag (Parliament), as well as the leadership of the LO, did not agree with Feldt's diagnosis of the Swedish tax system. Quite the contrary: most SAP politicians shared the general perspective of Swedish citizens who believed that the problem with the Swedish tax system was that the rich and the corporations paid too little in taxes, while the lower and middle classes paid too much.[21]

For the bulk of the 1980s, tax and tax policy thus stood at the centre of an enormous political battle inside the SAP. In some ways this battle could be understood as an ideological campaign for the very meaning of social democracy in Sweden. However, the struggle is better understood, in this author's view, as a fight over the means of achieving the basic goals of an egalitarian social democratic society. This was a battle over ideas not values.[22] The critical issue for the Ministry of Finance was what kinds of public policies would allow Sweden to continue to compete and succeed in the world economy in order that the economy could provide sufficient economic well-being to be distributed amongst its citizens.

In a recent interview Feldt recalled his views as follows: 'The negative inheritance I received from my predecessor Gunnar Sträng [Minister of Finance 1955–76] was a strongly progressive tax system with high marginal taxes. This was supposed to bring about a just and equal society. But I eventually came to the opinion that it simply didn't work out that way.' He concluded: '[progressive] taxes created instead a society of wranglers, cheaters, peculiar manipulations, false ambitions and new injustices. It took me at least a decade to get a part of the party to see this.'[23]

Swedish economists were also turning against the traditional high tax rate/ deep tax expenditure system that Sweden had developed in the postwar years and were producing a steady stream of reports demonstrating the economic inefficiencies and redistributive inequities of the extant tax system.[24] Of course, there was some variation in arguments and nuance, but during the 1980s it became virtually 'conventional wisdom' amongst the economic elite both inside and outside government that the structure of the tax system was by now creating far too many problems for the economy.[25] Even the LO's senior economists were finally overwhelmed by this consensus. When asked what brought him to change his opposition to reducing top marginal tax rates in Sweden one such economist responded rather curiously: 'We believe what we believe because others believe it'. When asked to elaborate, he explained that he came to understand that he was 'way out' of the elite consensus on these issues by the late 1980s and was advised by a close friend and colleague that 'people aren't taking you seriously anymore'.[26]

Throughout the 1980s, then, the Ministry slowly but surely chipped away at the tax system that had been built up over the past 40 years. By the end of the decade the government had passed a series of tax reforms which simplified the tax code, lowered marginal tax rates, increased consumption taxes and scaled back a series of tax expenditures. For example, the top marginal tax rate on income at the national level was reduced from 58 per cent in 1980, to 50 per cent in 1985, to 45 per cent in 1988 and 35 per cent in 1990.[27]

The tax reform of the century

The internal fighting within the Social Democratic Party and its general inability to implement an effective economic policy strategy eventually led to a crisis of confidence among voters. The left in the party was increasingly alienated and suspicious of the Ministry of Finance in general and Kjell-Olof Feldt in particular. At the same time, the more centrist voters feared that the growing vociferousness and bitterness within the party implied a return to the more traditional leftist policies of the earlier years. The result, unsurprisingly, was that the Social Democrats were turned out of office just as they were putting the final touches to what they hoped would be the crowning of their incremental reforms by 'the Tax Reform of the Century'.

The new government, a centre–right coalition between Conservatives, Liberals and the Centre party, was easily persuaded to continue the tax reform agenda. The key problem, however, was that each of the coalition partners also wanted to cut taxes for its particular constituency. The end result was still a quite fundamental tax reform. However, Ministry of Finance officials (most of which were still left over from Feldt's regime) could not hold the fiscal line. As a result—contrary to the original plan—the reform was underfinanced.[28] Still, with this reform Sweden took a huge step away from very high marginal rates towards a much broader based tax system. The top marginal income tax rate was reduced to just 50 per cent in 1991.[29] These rate reductions were financed largely through base broadening measures.[30] Capital taxation was also radically reformed: all capital income now faced a flat 30 per cent rate while deductions were substantially rolled back.[31] The corporate profits tax was also reformed: the marginal corporate profits tax rate was reduced from 57 per cent and now brought into alignment with the capital income tax rate of 30 per cent at the same time that many of the most generous tax expenditures available in the code were eliminated.[32] Finally, a series of other rather specific reforms and adjustments were instituted (such as taxing the percentage return on assets in private life insurance and pension funds) which were designed either to balance the negative redistributive effects of rate reductions, close specific loopholes and/or raise revenue.[33]

Effects of tax reform

When the Swedish tax reform of 1991 was finally introduced by the bourgeois coalition government many analysts saw this as the beginning of the end of the Swedish welfare state. Although the tax burden remained quite high, gone was the public commitment to maintain a (nominally) progressive tax system. Moreover, since the tax reform was underfinanced, many analysts (including this author) assumed that the lost revenues would eventually have to be made up with increases in taxes on lower income earners, or cuts in benefits for lower income earners, or both. These predictions of course fitted very well with the 'end of the welfare state' analyses which became so popular in the mid 1990s.

The evidence pointing in this direction was aided by the fact that the tax reform also contributed to the massive economic crisis which struck Sweden in the early 1990s. It was once again the bourgeois coalition government's bad timing to come to office at the beginning of a recession (as it did in 1976), but clearly the policies pursued by this coalition government (i.e. each party trying to pay off its particular constituency) substantially worsened Sweden's economic situation. The tax reform, for example, dramatically exacerbated the collapse in the real property market.[34]

In the face of this economic disaster, the government found itself politically incapable of cutting housing support, child payments, social welfare payments, sickness benefits or any other major social programme in the context of an economic decline of this magnitude. In fact, these years actually witnessed an increase in public spending despite the fact that the bourgeois government was at the helm. The result was that the budget deficit increased to 13 per cent of GDP. At one point international confidence in the krona sank so low that the central bank was forced to increase the overnight lending rate to 500 per cent in a vain effort to protect the currency. Not only was the 'Swedish model' apparently dead, it now appeared that the Swedish economy was lying on the deathbed next to it.

The 'socialists(?)' return

Perhaps unsurprisingly, the dire economic performance of the early 1990s brought the Social Democratic Party (in coalition with the Left Party[35] and the Green Party) back to office in 1994. Sweden's unofficial 'party of government' quickly set about restabilising Sweden's financial picture. At first it appeared that the Socialists had accepted the basic neoliberal logic as they began cutting back several social welfare policies. But careful analysis of these policies suggests that, rather than slashing programmes wholesale, most of these reductions were in fact designed to make them more fiscally reasonable and remove some of the opportunities for abuse that had been created earlier by the stunning generosity of these policies.[36]

TABLE 2. Foreign direct investment to and from Sweden 1982–2000 (billion Swedish krona)

	1982–91	1992–2000
Inflow to Sweden	56	1194
Outflow from Sweden	307	1052
Net flow	− 251	142

Source: Central Bank of Sweden, 2000.

But the new government did not accept the idea that it needed to redistribute wealth upwards. Instead, it initiated several studies which examined the consequences of the tax reform after the behavioural changes it created had been considered. These studies revealed that the 'Tax Reform of the Century' was indeed regressive. Armed with this evidence the government increased the top marginal rate of tax on very high income earners by 5 per cent and the following year reduced the VAT rate on food by 50 per cent. In addition to changes in tax rates, the government continued to put pressure on tax expenditures of various kinds. These multiple changes have been far too many and detailed to discuss in this article, but it is important to note that tax revenues have increased, rather than fallen, as a result of the tax changes imposed by the Social Democrats after they returned to office.[37] According to the OECD, revenue increases from cutting back on tax expenditures for capital income alone yielded the government 60.4 billion krona in 1995 and another 35.1 billion krona by 1999.[38]

The buoyant social welfare state

Perhaps surprisingly (at least to those ideologically committed to the idea of a small state), these tax increases did not choke off Sweden's economic recovery. By the decade's end Sweden's economic and fiscal picture had instead improved markedly: unemployment had been reduced (though not to the levels common during the heyday of the Swedish model). The budget was now in surplus. Investment has returned to levels not seen in many years (see Table 2).[39] Finally, GDP growth was now at a healthy and sustainable rate. Indeed, the first budget in the new century was widely heralded (and decried) as 'a classic Social Democratic budget'.[40]

Instead of using the budget surpluses to cut taxes on mobile capital as was demanded by the right and predicted by many analysts, the Finance Minister has chosen to increase public spending on child support yet again and to continue using the surplus to pay off Sweden's substantial public debt. The government does not envisage scaling back on the state anytime soon. If anything, the picture drawn by the government with its own pen is one of continuing high taxes as well as high social welfare expenditures. As one Ministry of Finance official told this author, 'we love Sweden the way it is. That may be difficult to sell politically, but it is the simple truth. We think things are pretty good here and we want to keep them that way. Of course we want to keep up with and stay ahead of changes in the world economy, but we see no reason why we should have to cut back tremendously on taxes or spending at this point.'[41] In fact, relatively small adjustments in taxes have been made since 2000. But positive economic growth, low interest rates and a budget surplus have meant that relatively small tax cuts could be sustained while concomitantly reducing public debt and maintaining public spending at over 50 per cent of GDP.[42]

Most non-Swedes find it surprising that Swedes did not revolt against their tax burden long before it reached 60 per cent of GDP. Few non-Swedes can understand how and why a people could tolerate paying over half of their income to the tax authorities. But what we (non-Swedes) fail to understand is that most Swedes clearly believe they get a lot for the high taxes they pay. Survey after survey has shown that, while Swedes (like virtually all citizens in modern welfare states) agree that 'taxes are too high', only a minority of citizens support tax cuts if they are forced to choose them in exchange for reductions in public spending.

It is also difficult to overemphasise the political implications of the fact that today at least 65 per cent of Swedes receive a direct public subsidy from their government.[43] Thus, to average Swedes, cutting back on public spending means cutting back on benefits they directly receive from the government. Swedes clearly believe that they get a good deal for their taxes and as a consequence there is very little public pressure to cut taxes even though tax burdens were and are high.[44] In many areas at least, they are actually willing to pay more. In fact, as Table 3 indicates, public support for increases in public spending has grown in most areas in recent years.

The political consequences of these voter preferences are exactly the opposite of what the globalists once predicted: today the major political challenge facing the Social Democrats is not from the right, but instead from the left. Not only is the Liberal party teetering close to the 4 per cent electoral margin,[45] but the Centre party (former Agrarians) has taken an increasingly leftist/green position, while the former Communist (now Left party) is gaining significant ground on the Social Democrats and even threatens to become the second largest party in the parliament. Given the combination of these electoral pressures, on the one hand, and the SAP elite's public commitment to continuing and improving welfare state programmes, on the other, the Social Democrats appear to be in no danger of giving up their egalitarian values. According to some sources in the government, there is still pressure to use budget surpluses to reduce taxes on particularly mobile financial assets such as financial capital. But they have also clearly committed themselves to using future budget growth to subsidise families and to continue to pay off the Swedish debt. Moreover, given the potent economic performance Sweden is now posting, combined with the daily discussions of the herds of new 'internet' millionaires in the Swedish media, there appears to be little political incentive to cut these people's taxes—certainly not taxes on high income earners. Instead, the central political debate appears to focus on how to spread the new wealth so that even those currently left behind will be able to benefit from the economic boom and on how best to shore up lagging public services, especially in the health sector.

TABLE 3. Attitudes towards public spending in Sweden, 1981–97
'Taxes go to different purposes. Do you think that the amount of tax money that goes to the purposes named below should be increased, held the same, or reduced?'

Per cent who would increase expenditures (+) Per cent who would reduce expenditures (−)	1981	1987	1992	1997
Health care	(+) 44.6	(+) 47.3	(+) 52.7	(+) 76.9
	(−) 3.2	(−) 3.5	(−) 4.4	(−) 2.1
Support for the elderly	(+) 30.2	(+) 37.0	(+) 60.3	(+) 69.5
	(−) 1.0	(−) 3.0	(−) 1.7	(−) 1.7
Housing support	(+) 31.3	(+) 42.6	(+) 31.8	(+) 41.0
	(−) 11.6	(−) 8.4	(−) 14.5	(−) 11.0
Social help (welfare)	(+) 16.2	(+) 13.0	(+) 13.2	(+) 20.9
	(−) 21.5	(−) 35.8	(−) 26.3	(−) 20.9
Research and higher education	(+) 39.4	(+) 45.4	(+) 37.6	(+) 34.4
	(−) 6.4	(−) 4.6	(−) 7.3	(−) 7.5
Public schools	(+) 26.2	(+) 45.4	(+) 37.6	(+) 70.4
	(−) 6.5	(−) 4.6	(−) 7.3	(−) 1.0
Employment policy measures	(+) 69.3	(+) 56.0	(+) 61.7	(+) 46.7
	(−) 6.0	(−) 909	(−) 7.0	(−) 19.5
State and local government administration	(+) 2.4	(+) 1.9	(+) 2.5	(+) 2.8
	(−) 56.1	(−) 55.1	(−) 71.0	(−) 68.0
(Number of respondents)	960	980	1500	1300

Source: S. Svallfors, *Mellan risk och tilltro: Opinionsstödet för kollektiv välfärdspolitik [Between Risk and Confidence: Opinion Support for Collective Welfare Policy]* Umeå University, Sweden, 1999, p. 16.

The Swedish model vs. the social welfare state

The Swedish model (which comprises corporatist decision-making institutions, solidaristic wage policies and perhaps even the 'politics of compromise') may well now be dead. But the ambition and the political support for a largely egalitarian polity with a very large welfare state (and the taxes to support it) live on quite healthily in Sweden today. The Swedish model as a decision-making system was an historically bounded institutional setup. It did, however, enable the construction of a kind of social welfare state that now has its own political force. In short, though the model may be dead, its legacy is alive and well.

Clearly, the Social Democratic elite in Sweden has changed its ideas about how to achieve the goals to which the party has long been committed. But there is little evidence to suggest that this elite has changed its values with respect to a largely egalitarian society, a large distributive welfare state and a successful capitalist economy. The Swedish Social Democratic party elite has never been 'socialist' in the traditional 'anti-capitalist' sense of the term.[46]

Capital *is* more mobile internationally today than it was three and four decades ago. This is a basic fact within which the Social Democrats must work. They have, for example, virtually conceded that they will not be able to tax mobile financial wealth in the age of the internet economy. Thus the expectation is that capital taxes will continue to be driven down. But, as Swedish Ministry of Finance officials are quick to point out, and as this article has attempted to demonstrate, capital taxation has never been an important source of revenue nor of redistributive policy in Sweden.

Whereas only a few years ago a large number of popular reports predicted that the high tax rates and overall tax burdens in Sweden would drive high income earners and capitalists out of Sweden, today these same publications announce the rebirth of the Swedish economy and sometimes curiously ponder why capitalists are not rational actors (i.e. why do they not follow their 'rational self-interest' and abandon this high tax country?).[47] What this kind of analysis simply forgets is that a strong social welfare state, like the Swedish, helps finance a quality of life that low individual taxes cannot easily buy. High income Swedes are well aware of this choice. For example, when faced with the question, 'Why don't you leave? Certainly, you would pay a lot lower taxes and probably also have a higher salary in the USA', a Volvo executive responded as follows: 'Yes, of course, I would have a lot more money in my pocket. But I would also almost never get home before 7 o'clock and I certainly would not have the vacations everyone has a right to here … and you know what else, I would have to spend a lot more money on insurance, college for my kids, and travel back home to my family. In the end, I'm not really sure I would be any better off.'[48] Recent analysis of migration patterns of highly educated Swedish workers conducted 'in house' by the government suggests that, although a large number of Swedish engineers work abroad immediately after graduating from university, the vast majority return to Sweden when it is time to start a family.[49]

Finally, it is becoming increasingly clear to many in both the private and public sectors in Sweden that the difference between Sweden's public sector and that of many other countries is not as clear as one might conclude by simply looking at the OECD figures. Health care spending is but one (albeit obvious) case in point. Clearly, health care and health care insurance are not matters of 'choice' for most middle and higher income earners—everyone must have this insurance, whether it is paid for in pre-tax or after-tax dollars.[50] Thus, whether doctors, nurses and hospitals are paid for via 'private' insurance or public compulsory insurance will not necessarily affect individual or business location decisions: the cost and quality of that care are substantially more important issues.[51] As one high level and widely respected Social Democratic official told me, 'there will be increased competition between countries due to internationalisation, … but it won't be the country with the lowest tax rates that wins. It will be the countries which have the most efficient use of resources that win'.[52]

Rethinking the new political economy

In the crisis period of the 1930s and 1940s it was quite common to hear both pundits and scholars argue that capitalism had come to a crossroads: either economic change or political demands (or both) had brought about a transformation of capitalism as it had been known. Looking back, however, one could instead argue that it was the very policies developed in these decades that effectively 'saved' capitalism.[53] Instead of killing the market, the regulatory and welfare state programmes that so many feared had the opposite effects: by redistributing wealth and dampening the swings of the free market, state policy effectively increased aggregate demand and reduced uncertainty. The result was the initiation of a virtuous cycle of growth, productivity and increasing prosperity.

At the beginning of the new century, modern capitalism is undergoing a transformation perhaps as dramatic as those witnessed earlier in the last century. Not only is capital and labour more internationally mobile than it has been at any time since the end of the First World War, but new technologies of production also increasingly pressure capitalists and policy makers alike towards more flexible regimes.[54] These changes, however, do not spell the end of the welfare state any more than changes earlier in the century spelled the end of capitalism. Instead, we are witnessing another 'Great Transformation',[55] one in which the specific relationship between public and private power is again a subject of contestation.

Clearly, the multiple equilibria observed during the latter part of the twentieth century have been upset. This does not suggest, however, that a new single equilibrium is imminent. Quite the contrary, institutional variation will once again structure how different nations respond to economic change and, as a result, multiple equilibria are certain to continue. In this sense, our analysis confirms an argument recently advanced by Fritz Scharpf as follows: 'There is, in other words, no one best way through which advanced welfare states could maintain their economic viability in an environment of international capitalism without abandoning their employment, social security and egalitarian aspirations … [and] there is no reason to think that economic viability should be incompatible with the successful pursuit of these aspirations'.[56]

Sweden has achieved remarkable economic success and egalitarian outcomes in recent years. It is clear to virtually all analysts that the key to these redistributive outcomes has been the universalistic social programmes which provide benefits to all citizens, regardless of wealth and income.[57] Because they are universalistic, however, they are very expensive. At the same time, because they are universalistic they generate enormous popular support. Thus—even in the event of slow economic growth—recent history demonstrates that it is exceptionally difficult to cut these programmes. In the case of economic expansion, as witnessed more recently, there are even fewer incentives to move in this direction.

Sweden clearly faces important and difficult political and economic challenges. As in all advanced democracies, the ageing of the population will mean that an increasing share of its workers will be recipients of social benefits instead of contributors.[58] Potentially more troubling is the possibility that the growing ethnic heterogeneity of this nation will one day undermine the traditional 'nordic' Swede's willingness to pay taxes for social programmes that may increasingly go to racial and ethnic minorities. At this point, however, we see little direct evidence of this problem erupting in Sweden to anything like the same extent seen in several other European countries. The sky is not falling in in Sweden, at least not yet.

Notes

1. There have been a large number of political scientists, economists and fiscal policy experts who have made various versions of these arguments. For some of the most blunt arguments made in this direction, see Mathew Bishop, *The Mystery of the Vanishing Taxpayer*, available at http://www.economist.com/editorial/justforyou/current/index_su4276.html; Tom Buerkle, 'Sweden pays the price of high taxes', *International Herald Tribune*, 16 March 1999, p. 1; Ethan Kapstein, 'Winners and Losers in the Global Economy', *International Organization*, Vol. 54, No. 2 (2000), pp. 359–84; Dwight R. Lee & Richard B. McKenzie, 'The International Political Economy of Declining Tax Rates', *National Tax Journal*, Vol. 42, No. 1 (1989), pp. 79–83; Richard B. McKenzie, 'Capital Flight: The Hidden Power of Technology to Shrink Big Government', *Reason*, Vol. 20, No. 10 (1989), pp. 22–6; Dani Rodrik, *Has Globalisation Gone too Far?* (Institute for International Economics, 1997); Guttrom Schjelderup, 'Optimal Taxation, Capital Mobility and Tax Evasion', *Scandinavian Journal of Economics*, Vol. 95, No. 3 (1993), pp. 377–86; Sven Steinmo, 'An End to Redistribution? Tax Reform and the Globalisation of the World Economy', *Challenge*, November/December (1994), pp. 1–9; Vito Tanzi, 'Globalisation and the Future of Social Protection', International Monetary Fund, New York 2000; Vito Tanzi, 'Taxation in an Integrating World', Brookings Institution, Washington DC 1995; and Walter Wriston, *The Twilight of Sovereignty* (Charles Schribner, 1992).
2. Herbert Kitchelt *et al.*, *Continuity and Change in Contemporary Capitalism* (Cambridge University Press, 1999); Fritz Scharpf, 'The Viability of Advanced Welfare States in the International Economy: Vulnerabilities and Options', *Journal of European Public Policy*, Vol. 7, No. 2 (2000), pp. 190–228; and Duane Swank, *Diminished Democracy: Globalisation, Political Institutions, and Policy Change in Developed Welfare States* (Cambridge University Press, 2002).
3. There are a number of good studies showing how this model of social corporatism worked in practice. For a general overview, see Donald Hancock, *Sweden: The Politics of Post-Industrial Change* (The Dryden Press, 1972); and Leif Lewin, *Planhushallingsdebatten [The Debate on Planning]* (Almquist & Wicksell, 1970). For some more recent work analysing this system and its political/economic consequences, see Peter Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Cornell University Press, 1984); and Bo Rothstein, *Den Social-Demokratiska Staten [The Social Democratic State]* (Arkiv Avhandinesserie, 1986).
4. This was called the 'solidaristic wage policy' in which LO unions would hold down wages in the most productive/profitable sectors (large firms, manufacturing, mining) and push up relative wages in the less productive/profitable sectors (textiles, farming, small firms). The idea was to encourage structural modernisation and change in the economy by literally increasing profits in some sectors while driving other companies and sectors out of business. See Peter Swenson, *Fair Shares: Unions, Pay, and Politics in Sweden and West Germany* (Cornell University Press, 1989).
5. Most importantly, the Ghent unemployment insurance was established which effectively gave the unions control over unemployment insurance. See Bo Rothstein, 'Labor market institutions and working class strength', in: Sven Steinmo, Kathleen Thelen & Frank Longstreth (eds), *Structuring Politics: Historical Institutionalism in Comparative Politics* (Cambridge University Press, 1992), pp. 33–56. But other 'pro-union' public policies were also set up and certainly the 'anti-union' incentives common throughout the capitalist world were eliminated.
6. Jonas Pontusson, 'Labor market institutions and wage distribution', in: Torbjorn Iversen, Jonas Pontusson & David Soskice (eds), *Unions, Employers and Central Banks: Macro-Economic Coordination and Institutional Change in Social Market Economies* (Cambridge University Press, 2000), pp. 292–330.
7. Sweden was widely known around the world for possessing 'an arsenal of revenue devices' designed to lower the costs of capital, concentrate resources, encourage domestic investment in plants and machinery and thus keep the Swedish economy competitive and dynamic. In fact, tax write-offs available to companies and capital were so generous that the Swedish tax authorities almost never bothered to audit large companies knowing that these companies had easy access to more write-offs than they generally took advantage of. See Martin Norr, Frank Duffy & Harry Sterner, *Taxation in Sweden* (Little Brown, 1959). See also Sven Steinmo, 'The carrot and the stick: taxation as a tool of economic policy', unpublished paper presented at the Workshop on the Politics of Taxation, European Consortium of Political Research, Salzburg, Austria, 13–19 April 1984.
8. See Sven Steinmo, *Taxation and Democracy: Swedish, British and American Approaches to Financing the Modern State* (Yale University Press, 1993).

9. Several changes were introduced in the new constitution, the most significant of which was the elimination of the upper house of the Riksdag. See Björn von Sydow, *Vagen Till Enkammar Riksdagen: Demokratisk Forfattningspolitik I Sverige 1944–1968* (Tidens forlag, 1989). This reform transformed Swedish governance, in that a relatively small change in election outcomes could now actually change who held the reins of government. The Social Democrats, in fact, lost power in 1976.
10. A series of policies were demanded and implemented (such as health and safety policies), but the most significant specific reform was the demand for worker co-determination policies designed to include unions in corporate decision making.
11. 'Wage earner funds' were to be created through both increased profits taxes and increases in wage taxes. Although never fully implemented, the idea behind this policy was to create a huge public fund which would essentially 'buy out' Swedish capital and thereby realise the socialist ideal of workers owning the means of production. See Erik Åsard, 'Industrial and economic democracy in Sweden: from consensus to confrontation', unpublished paper presented at the ECPR, 12th Joint Session, Salzburg, Austria, 13–18 April 1984.
12. Olof Ruin, 'Sweden in the 1970s: police-making (sic) becomes more difficult', in: Jeremy Richardson (ed.), *Policy Styles in Western Europe* (George Allen & Unwin, 1981), pp. 141–67.
13. Bo Rothstein, 'Trust, social dilemmas, and collective memories', Mimeo Department of Political Science, Gothenburg, 2000.
14. The extent of the Swedish social welfare system's generosity became legendary. See SOU (Statens Offentliga Utredningar), *Välfärd Vid Vägskäl [Welfare at the Crossroads]*, Vol. 3 (SOU, 2000) for a more complete analysis of the Swedish welfare system and its benefits.
15. Jonas Agell, 'The Effects of Capital Taxation: An Equilibrium Asset Market Approach', *Studia economica Upsaliensia 9* (University of Uppsala, 1986); and Jonas Agell & Per-Anders Edin, *Tax Reform and Individual Investor Response: Evidence from Swedish Tax Return Data*, Working Paper—Fackföreningsrörelsens institut för ekonomisk forskning 68, Fief, Stockholm, 1989.
16. Of course, both real and nominal wage increases can be offset by productivity gains. I do not have evidence to support or deny this possibility. It was widely believed in Sweden, however, that wage increases in nominal wage demands were outstripping productivity gains and that this contributed to Sweden's loss of competitiveness. I would like to thank the anonymous reviewer for suggesting these points.
17. The TCO and SACO-SR represented just 18.2 per cent of the unionised workforce in 1950. See Lars Jonung, *Med Backspegeln Som Kompass: Om Stabiliseringspolitiken Som Läroprocess: Rapport Till Eso—Expertgruppen För Studier I Offentlig Ekonomi [With the Rearview Mirror as a Compass: On Stabilisation Policy as a Learning Process: Report to the Eso Expert Group for the Study of the Official Economy*], Ds: Departementsserien 1999:9, Fakta info direkt, 1999. See also Jonathon Moses, 'Floating fortunes: Scandinavian full employment in the tumultuous 1970s–1980s', in: Robert Geyer, Christine Ingebritsen & Jonathon Moses (eds), *Globalisation, Europeanisation and the End of Scandinavian Social Democracy?* (Macmillan, 2000), pp. 62–84.
18. Ton Notermans, 'Europeanisation and the crisis of Scandinavian social democracy', in: *ibid.*, p. 24.
19. Interview with author, April 2000.
20. For Feldt's version of these events, see Kjell-Olof Feldt, *Alla Dessa Dagar [All Those Days]* (Norstedts, 1991).
21. See, for example, Axel Hadenius, *A Crisis of the Welfare State? Opinions About Taxes and Public Expenditure in Sweden* (MiniMedia AB, 1986); Jonas Edlund, *Citizens and Taxation: Sweden in Comparative Perspective*, Doctoral Thesis at the Department of Sociology, Umeå University (Umea University Press, 1999); and Stefan Svallfors, *Vem Älskar Välfärdsstaten?*: *Attityder, Organiserade Intressen Och Svensk Välfärdspolitik* [*Who Loves the Welfare State*? *Attitudes, Organised Interests and Swedish Welfare Policy*], Arkiv Avhandlingsserie 30 (Arkiv, 1989).
22. The recent literature on 'ideas' in politics is growing enormously. See Sheri Berman, 'Ideas, Norms and Culture in Political Analysis', *Comparative Politics*, Vol. 33 (2001), pp. 231–50; Mark Blyth, 'Any More Bright Ideas? The Ideational Turn of Comparative Political Economy', *Comparative Politics*, Vol. 29, No. 2 (1997), pp. 229–50; and Martin Marcussen, *Ideas and Elites: The Social Construction of Economic and Monetary Union* (Aalborg University Press, 2000). Unfortunately, too often the concepts of 'ideas', 'values', 'beliefs' and 'culture' are conflated. For our purposes here, we mean 'ideas' in the quite normal sense of the word … 'I have an idea! Let's …'. In this sense, an 'idea' is a problem solution. We may agree on the objective, goal, etc., but have quite different 'ideas' about how to get there. Our 'ideas' are

in fact probabilistic arguments about future outcomes. 'Values', on the other hand, are better understood as fundamental preferences prescribing the appropriate structure of society. We may have different 'values' if, for example, I prefer a more egalitarian society than you do.

23. Thomas Sjöberg, 'Intervjun: Kjell-Olof Feldt [Interview: Kjell-Olof Feldt]', *Playboy Skandinavia*, No. 5 (1999), pp. 37–44.
24. Torsten Sverenius, *Vad Hände Med Sveriges Ekonomi Efter 1970?* [*What Happened with the Swedish Economy after 1970?*], Vol. 31, *Demokrati Utredningen* (SOU, 1999). See the following accounts for influential arguments presented in public debate that contributed to the change of views inside the government and out: Gunnar Myrdal, 'Dags För Ett Bättre Skattesystem [Time for a Better Tax System]', in: Lars Jonung (ed.), *Skatter* [*Taxes*] (Liberforlag, 1982), pp. 13–26; and Leif Muten, 'Tax reform—an international perspective', in: *Vårt Economiska Läge* [*Our Economic Situation*] (Stockholm, 1988).
25. Some of the economic analyses included: Lars Bertmar, 'Företagsbeskattning—Behovs Den? [Capital Taxation: Do We Need It?]', in: A. Lindquist & S. Stigmark (eds), *Hur Klarar Vi 1990?* [*How Do We Make It in 1990?*] (Riksbankens Jubileumsfond, 1983), pp. 106–16; Klas Eklund, 'Vad Göra Med Skatterna? [What Should We Do with Taxes?]', *Affärsvarlden*, Vol. 29, No. 2 (1984), pp. 7–17; Sven-Olof Lodin *et al.*, *Beskattning Av Inkomst Och Förmögenhet, Del 1 Och Del 2* [*The Taxation of Income and Wealth Parts 1 and 2*] (Studentlitteratur, 1978); Muten, 'Tax reform—an international perspective'; and Jan Södersten, *Skatt På Bolagskapital* [*The Taxation of Corporate Capital*] (Thomas Lindberg, 1983). Official government research reports included: SOU, *Skall Moms Slopas?* [*Should Vat Be Graduated?*] (SOU, 1983); SOU, *Forenklad Själv Deklaration* [*Simplified Self Declaration*], Vol. 21 (SOU, 1984); SOU, *Reformerad Företagsbeskattning* [*Reformed Corporate Taxation*], Vol. 34 (SOU, 1989); and SOU, *Reformerad Inkomstbeskattning* [*Reformed Income Taxation*], Vol. 33 (SOU, 1989).
26. (Anonymous) interview with author, June 2000.
27. See Steinmo, *Taxation and Democracy* for a list of some of the reforms introduced in the 1980s. Overall, the tax system witnessed several hundred specific changes in this period.
28. Sweden was in the midst of the most serious recession in postwar history at the time. Thus it is difficult to evaluate specifically the exact costs of the tax reform. Subsequent analyses, however, suggest that the reform cost the Treasury approximately 3 per cent of GDP. See Jonas Agell *et al.*, 'Tax Reform of the Century—The Swedish Experiment', *National Tax Journal*, Vol. 49, No. 4 (1996), pp. 643–64.
29. Essentially, a two rate personal income tax system was created. All taxpayers paid flat rate local income tax rate (30 per cent in most districts). Income over 74,824 krona (approx. US$9500) per year was also subject to the flat rate national income tax of 20 per cent.
30. Perhaps most importantly the removal of the deductibility of interest payments from the national income tax. Indeed, after this reform, the tax code possessed so few tax write-offs that the government would simply send a letter to the taxpayer showing the amount of income he or she had earned in the year and asked the taxpayer to confirm that they had no extra (not already taxed) income. Since there were so few tax exemptions left in the system, the taxpayer could simply sign the slip and send it back to the authorities. No further taxes would be due and no tax refund would usually be issued.
31. This 50 per cent figure is drawn from adding the local and national income tax rates together. Before the reform, this write-off was so tax favourable that a large number of Swedes borrowed money for investment (particularly in real estate) and then deducted the interest. Given that almost all Swedes at that time had marginal income tax rates of between 50 and 80 per cent, this meant that the government effectively paid at least half of the cost of the investment. This 'cash machine' resulted in a net loss in capital income tax revenue to the government. See Jonas Agell, Lennart Berg & Per-Anders Edin, 'Tax reform, consumption and asset structure', in: *Tax Reform Evaluation Report 16* (National Institute of Economic Research, 1995).
32. Now the income tax was essentially a flat rate income tax for most income earners (avg. 30 per cent, depending on the commune) with a second rate of 20 per cent affecting only higher income earners.
33. For a balanced analysis of this tax reform and its fiscal effects, see Jonas Agell, Peter Englund & Jan Södersten, 'Tax Reform of the Century—the Swedish Experiment', *National Tax Journal*, Vol. 49, No. 4 (1996), pp. 643–4.
34. By substantially eliminating the deductibility of interest even on owner-occupied homes, those who had borrowed to finance purchases now found they could not afford their loans. Given that this occurred inside a general recession, the result was a collapse of the market. I do not mean to suggest here that the tax reform was specifically responsible for the economic collapse in these years. Indeed, other policy failures

including the government's commitment to tie the krona to the European Currency Unit as well as the very poorly executed banking deregulation were undoubtedly far more important factors.

35. Former Communist Party.
36. Thus, for example, employees were no longer eligible for full pay for up to seven days sick leave even when they had no slip from a doctor. A number of similar reforms were introduced as well. Some, of course, caused considerable financial hardship in specific public bureaucracies. The health care sector appears to have been particularly hard hit. For an overview of the social security in Sweden after the changes in the 1990s, see SOU, *Välfärd Vid Vägskäl* [*Welfare at the Crossroads*].
37. See also Ministry of Finance, 'The Medium Term Survey of the Swedish Economy', Ministry of Finance, Stockholm, 1995, p. 402.
38. OECD, *Sweden—Economic Survey 1999* (OECD, 1999).
39. Ministry of Finance, *National Report on Economic Reform: Product and Capital Markets*, Ministry of Finance, Stockholm, 2000, p. 2.
40. *Gothenburg Post*, 14 April 2000, p. 1.
41. (Anonymous) interview with author, Stockholm, 9 June 2000.
42. Finansdepartementet, 'Sweden's Economy', Ministry of Finance, Stockholm, 2002.
43. Assar Lindbeck, *The Swedish Experiment* (Studieförbundet Näringsliv och samhälle, 1997).
44. See Hadenius, *A Crisis of the Welfare State*?; Edlund, *Citizens and Taxation*; Svallfors, *Vem Älskar Välfärdsstaten*?; and Stefan Svallfors, 'The middle class and welfare state retrenchment: attitudes toward Swedish welfare policies', unpublished paper presented at the Third Conference of the European Sociological Association, University of Essex, 27–30 August 1997.
45. In Sweden a political party must reach 4 per cent of the total vote to get representation in the Riksdag (parliament).
46. For historical elaborations of this argument, see Sven Steinmo, 'Social Democracy vs. Socialism: Goal Adaptation in Social Democratic Sweden', *Politics and Society*, Vol. 16, No. 4 (1988), pp. 403–46. See also Jonas Pontusson, 'Radicalisation and Retreat in Swedish Social Democracy', *New Left Review*, No. 165 (1987), pp. 5–33.
47. See, for example, 'Is Government Disappearing?', *The Economist*, 27 September 2001.
48. (Anonymous) interview with author, Gothenburg, Sweden, 10 May 2000.
49. Interview with Knut Rexed, StatsSecretar, Stockholm, Sweden, 8 June 2000.
50. Indeed, in some countries, like Switzerland, it is mandated by the government, but is called 'private insurance' and thus does not appear as a public expense.
51. For an excellent analysis of this dynamic in Sweden, see Staffan Kumlin, 'Institutions—experience—preferences: welfare state design affects political trust and ideology', in: Bo Rothstein & Sven Steinmo (eds), *Restructuring the Welfare State: Political Institutions and Policy Change* (Palgrave, 2002), pp. 20–50.
52. Knut Rexed, StatsSecretar, Stockholm, 8 June 2000.
53. Charles Lindblom, *Politics and Markets* (Basic Books, 1973); and Joseph Alois Schumpeter, *Capitalism, Socialism, and Democracy*, 2nd edn (Harper, 1947).
54. 'Have Factory Will Travel', *The Economist*, 12 February 2000, pp. 65–6; Stephen Brooks, *Understanding the Recent Change in the Structure of Global Production*, Ph.D dissertation, Yale University, 2000; and Peter F. Drucker, 'The Changed World Economy', *Foreign Affairs*, Vol. 64, No. 4 (1986), pp. 768–91.
55. cf. Mark Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* (Cambridge University Press, 2002).
56. Scharpf, 'The Viability of Advanced Welfare States', p. 224. See also David Soskice, 'Divergent production regimes: coordinated and uncoordinated market economies in the 1980s and 1990s', in: Herbert Kitchelt, Peter Lange, Gary Marks & John Stephens (eds), *Continuity and Change in Contemporary Capitalism* (Cambridge University Press, 1999), pp. 101–34.
57. Bo Rothstein, *Just Institutions Matter: The Moral and Political Logic of the Universal Welfare State* (Cambridge University Press, 1998).
58. Sweden is actually in a far better position than many of its contemporary welfare states with respect to this issue. The success of the 'tax reform of the century' led the government to go on to introduce a major overhaul of the social security system. Sweden's moderately open immigration policy (when compared to most other EU nations at least) and its remarkable (tax financed) social support of young families encouraging them to have more children also place this country in a better demographic position than most other European states.