

EDITED BY
DANIEL VAUGHAN-WHITEHEAD

**THE EUROPEAN SOCIAL MODEL
IN CRISIS**
IS EUROPE LOSING ITS SOUL?

The European Social Model in Crisis

Is Europe Losing its Soul?

Edited by

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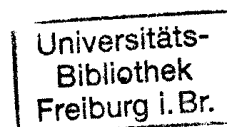
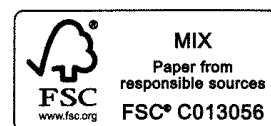
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10. The Swedish social model: Resilience and success in turbulent times

Dominique Anxo

1. INTRODUCTION

Despite substantial transformations during the past two decades, the Swedish social model (SSM) still shares many of the distinctive features, principles and core values of the European Social Model (ESM). In fact, we may argue that the SSM illustrates the resilience and long-term viability of the ESM through its continuing attachment to a universal and generous social protection system, egalitarianism, proactive policies for promoting gender equality and fighting against discrimination and social exclusion, social dialogue as a mechanism for regulating the labour market and social policies, and strong public and political involvement in the provision of a wide range of public services in areas such as utilities, education, health and social care.

The objective of this chapter is twofold: first, to identify the major modifications of the SSM, focusing principally on the structural reforms initiated during the 1990s and their impact on economic development, the distribution of social welfare and income inequalities. We intend particularly to assess the extent to which the reforms of the social protection system, the reorientation of macroeconomic policy and the modifications of the industrial relations and employment systems have affected the coherence of the Swedish societal model and the robustness of its economic and social cohesion (Case Study 1). The second objective is to explore the role of the Swedish societal model in mitigating the negative distributional impact of the 2008 'Great Recession' (Case Study 2). We show how the automatic stabilizers of the SSM and the countercyclical measures introduced by the Swedish government through the tax and benefit system in response to the severe macroeconomic downturn alleviated the risk of social exclusion. In other words, the objective here is to assess the extent to which the cost of the crisis, which was more evenly

distributed between different socio-economic groups in comparison with other EU member states, is related to the ‘buffering capacity’ of the social safety nets embedded in the SSM.

The chapter is organized as follow. After a description of the main characteristics of the SSM and its common features with the ESM (section 2), in section 3 we review the main transformations of the SSM during the past two decades, and the economic and societal factors explaining these transformations. The implications of the structural reforms concerning, among other things, income distribution, but also the overall coherence of the model are analysed in the case study on inequalities (section 4). Section 5 analyses – in a case study – the role of the SSM in coping with the large imbalances caused by the 2008 recession, insisting on the ability of the SSM to protect Swedish households from the impact of the economic downturn and its capacity to absorb and limit both the short- and long-term negative consequences of a severe macroeconomic shock. The last section provides some concluding remarks.

2. MAIN FEATURES OF THE SWEDISH SOCIAL MODEL

The main objective of this section is to identify the characteristics that the SSM and the ESM have in common. Following Vaughan-Whitehead (2003) we may analyse the constitutive elements of the SSM and their similarities with the ESM by focusing on the following three broad areas: social protection and welfare systems, employment and industrial relations systems, and working conditions and wage setting systems (Table 10.1 summarizes the constitutive elements of the SSM).

2.1 Strong and Universal Welfare Support

Often presented as the ideal type of the so-called Nordic social democratic regime, the SSM emphasizes the principles of universalism, egalitarianism and individual rights. Sweden is renowned for a social system that incorporates a number of factors: strong welfare support and universal social protection systems, including extensive and generous work–life balance policies to support families throughout the life course; continuous and high employment rates for both men and women and for older workers; and high job quality, incorporating egalitarian wage structures and a low gender pay gap. Despite an increase in income inequalities during the past two decades, Sweden still has the most equal income distribution among the industrialized countries.

Table 10.1 Main features of the Swedish social model

Main areas	Core elements
Labour law and workers' rights	Swedish labour law is limited in comparison with labour legislation in other member states, and it is for the most part ‘optional’, that is to say most provisions of labour market legislation may be, wholly or partly, amended by collective agreements
Employment/ labour market	Extensive workers' rights guaranteed by the Swedish constitution, labour laws and collective agreements
	Strong commitment to the goal of full employment, even though some weakening of this commitment since the mid-1990s. Proactive policy to increase labour supply and activation policy (work-first principle). The Swedish labour market is characterized by high employment rates for both men and women and for older workers. Large incidence of dual-earner households. But still relatively high gender segregation in the labour market
	International comparisons of employment protection indicate that Sweden has fairly restrictive legislation, although it does not stand out as extreme by European standards. However, there is liberal legislation on short-term contracts
	The large palette of individual working time and leave options in Sweden, backed by a complete employment guarantee, generous income replacement rates and extended publicly subsidized and high-quality childcare facilities, gives extensive opportunities for households to adapt their labour supply to various situations and commitments over the life course without large income loss
	High job quality, incorporating egalitarian wage structures and a low gender pay gap
	The Swedish labour market has relatively weak occupational systems, but quite open internal labour markets. Mobility is supported by active labour market policy and lifelong learning arrangements, which aim at reducing skill deficits
Equal opportunities/ anti-discrimination	Overall political context characterized by gender mainstreaming, high female involvement in the labour market and the political process and institutions (government bodies, parliament and labour market organizations) creates a favourable institutional set-up for a more balanced gender division of labour and responsibilities over the life course

Table 10.1 (continued)

Main areas	Core elements
Equal opportunities/ anti-discrimination	The extent of labour market integration of the foreign-born population, particularly immigrants born outside Europe, remains low. In spite of the strengthened legislation against discrimination, recent Swedish empirical evidence shows that this situation might be ascribed to ethnic discrimination both in the housing and labour markets
Social dialogue and collective bargaining; social partners' recognition and involvement	Social dialogue is institutionalized and well developed; regular consultations are held with the social partners and are considered a key element in the government's actions on issues relating to education, training and employment The SSM is also characterized by the crucial role played by the social partners in mechanisms for regulating the labour market and wage formation. The SSM is a good illustration of a regime of flexicurity and negotiated flexibility. Despite a tendency to decentralization still a high level of centralization and coordination of bargaining. High union density and high coverage rate of collective bargaining
Welfare systems/ social protection/ social inclusion	The Swedish social protection system remains, by international standards, still clearly universal and inclusive in nature and still enjoys a high level of across-the-board political and public support The Swedish welfare state emphasizes the principles of universalism, egalitarianism and individual rights. High extent of decommodification. Generous and encompassing social protection system From a life-course perspective, the Swedish social protection system constitutes an integrated and coherent system of time and income management over the life course. Limited extent of social exclusion and low poverty rate
Role of public services and services of general interests	Sweden remains, by international standards, a country with a large public sector and a high share of public employment, reflecting still a very strong public and political involvement in the provision of a wide range of social services For crucial service activities – notably childcare, elderly care, health care, schooling and higher education and also measures for the disabled – the public sector maintains its role as main provider

Table 10.1 (continued)

Main areas	Core elements
Decent wages or fair wages	Despite a tendency to decentralization and individualization of wage setting, the equal pay principle remains resilient. By international standards low wage and income inequalities. No minimum wage at the national level but minimum wage regulated through collective agreements
Regional cohesion	In order to favour regional cohesion and to guarantee equal access to public services, a local government financial equalization system managed by the state redistributes revenues among municipalities and county councils on the basis of their tax base and level of expenditure
Social expenditure in % of GDP	High, above EU average, 32% in 2009, 30.4% in 2010 (see Table 10.2 for composition by broad areas)

Table 10.2 Expenditure by social protection indicator (% of GDP), Sweden and EU27

	2005	2008	2009	2010
Sickness/health care	7.9	7.5	7.9	7.4
Disability	4.6	4.3	4.6	4.2
Old age and survivors	12.2	12.1	13.2	12.6
Family/children	2.9	3.0	3.2	3.1
Unemployment	1.8	0.9	1.3	1.4
Housing and social exclusion	1.1	1.1	1.2	1.2
Total	30.5	28.9	31.4	29.9
of which: means-tested benefits	0.9	0.8	0.9	0.8
Total EU 27	27.1	26.8	29.6	29.4
of which: means-tested benefits	2.8	2.7	3.0	3.1

Source: Eurostat (2013).

2.2 Solid Public Involvement

To a considerable extent the good employment record experienced by the Swedish economy up to the end of the 1980s is also clearly related to the creation of a modern welfare state characterized by strong public involvement in the financing and provision of a large range of public services (utilities, health care, social care and education). The development of public and welfare services during the 1970s and 1980s has also contributed to the

strong growth of female employment. As pointed out by Björklund and Palme (2000), the expansion of the public sector during this period and the related feminization of the labour force explains not only a tendency to narrow the gender income gap, but also the reduction of income inequality across households during ‘*les Trentes Glorieuses*’.

2.3 Strong Social Dialogue and Contractual Tradition

Another fundamental of the SSM is a strong contractual tradition based on the existence of powerful social partners enjoying considerable autonomy from the public authorities. Despite a recent decline, average union density in Sweden remains high, at around 75 per cent in 2013, and the coverage rate of collective agreements is around 90 per cent (see Tables 10.3 and 10.4). Social dialogue is institutionalized and well developed; regular consultations are held with the social partners and are considered a key element in the government’s actions on issues related to employment and social policies.

The Swedish model is also characterized by the crucial role played by the two sides of industry in mechanisms for regulating the labour

Table 10.3 Trends of union density by industries, Sweden, 1990–2011 (%)

	1990	1996	2002	2006	2011
<i>Blue-collar</i>					
Manufacturing industries	89	92	91	84	78
Construction	90	90	86	82	69
Retail	68	74	68	66	56
Private service	70	77	74	70	55
State	92	96	94	89	80
Local authorities	87	94	91	88	80
All	84	87	83	79	67
<i>Non-manual</i>					
Manufacturing industries	82	83	80	81	78
Construction	80	81	77	72	n.a.
Retail	60	63	63	63	59
Private service	66	73	67	67	66
State	94	93	90	89	85
Local authorities	93	95	92	90	85
All	81	83	79	77	73
All	82	85	81	78	70

Source: Kjellberg (2010); Statistics Sweden (2013).

Table 10.4 Coverage rate of collective bargaining, Sweden, 1995–2011 (as a percentage of employees)

Sector	1995	2005	2007	2011
Private	95	90	87	83
Public	100	100	100	100
All	94	94	91	88

Source: Mediation Office (2013).

market and wage formation. Swedish labour law is limited by comparison with labour legislation in other member states, and it is for the most part ‘optional’; that is, most provisions of labour market legislation may be, wholly or partly, amended by collective agreements. The contractual nature of labour market regulation coupled with the high union density and high coverage rate of collective bargaining create a favourable institutional environment for the emergence of negotiated compromises aimed at balancing flexibility and security in the labour market. Sweden thus constitutes a good illustration of a regime of flexicurity and negotiated flexibility, in which the social partners are extensively involved in education, vocational training and employment, and the regulation of working conditions and wage formation at the industry and local levels.

2.4 An Active and Inclusive Labour Market Policy

Since the early 1950s, labour market policy has also been an integral part of the SSM and a core element of Swedish stabilization policy. Labour market policy has played a crucial role in maintaining a high level of employment and economic growth by easing the redeployment of workers from low to high productive sectors. Swedish labour market policy comprises a fairly generous unemployment insurance system that supports the individual while unemployed, plus a large range of active labour market programmes. One of the salient features of the SSM has therefore been the emphasis on active labour market policy (activation policies) and a preference for the principle of employment promotion programmes has always dominated over benefit options for the unemployed. As an illustration of flexicurity and negotiated flexibility, in case of collective redundancy due to restructuring or individual notice due to shortage of work the Swedish social partners have, since the 1970s, negotiated ‘security/adjustment agreements’ in order to help workers who

have been given notice to find new jobs rapidly by way of adjustment measures and financial support. The support measures include severance payment and complementary unemployment compensation above the standard unemployment benefit, as well as coaching and training measures. These support programmes are administered by bipartite organizations: the so-called Job Security Councils (Trygghetsråd) and Job Security Foundations (Trygghetsstiftelser), specially designed for this purpose. By supplementing the role of public employment agencies, these agreements, covering more than half the labour force, help to improve the security of employees and to enhance the matching of efficiency and geographical and occupational mobility in the labour market and have played an important role in coping with the current recession.

2.5 An Open Education System Funded by the State

One of the major features of youth employment in recent decades is a gradual postponement of entry into the labour market and a longer transitional phase from the education system. Sweden has nine years of free compulsory education starting at age 7. All children follow basically the same curriculum. Upper secondary school is voluntary and offers several programmes, ranging from vocational training to general theoretical programmes preparing pupils for further studies at tertiary level. The Swedish vocational training system is school based and fully integrated into upper secondary schools. The Swedish education system is also characterized by a relative lack of educational dead ends¹ and a weak differentiation between vocational and general education. Swedish young people may apply for tertiary education after having completed three years of high school. Swedish universities and university colleges are primarily public, free of tuition fees and administered by a central government agency. Over the past ten years there has been little change in school enrolment rates, while those for upper secondary school have increased significantly. Already in the second half of the 1990s, around 95 per cent of each cohort was enrolled in upper secondary schools. By the late 1980s the university enrolment rate started to increase, too, and in the school year 2010–11 almost 45 per cent of young people aged 19–26 years were enrolled in tertiary education in Sweden or abroad (Swedish National Agency for Higher Education 2012).

In order to reduce credit constraints and enhance equal opportunities, all students admitted to a university or adult educational programme are eligible for a state-subsidized student financial aid programme,² which is totally individualized and not means tested. The introduction of this grant and loan system has without doubt facilitated the access of young people

to adult and higher education from median- and low-income families. It has also increased the financial independence of young adults from their parents. Access to education, independent of family support, constitutes a good illustration of the SSM fundamental principles: universalism, egalitarianism and individual rights (empowerment). Swedish human capital policy has been particularly successful at raising educational achievement at the bottom end of the distribution by overcoming credit constraints and by the considerable opportunities to complete educational attainment through adult education and lifelong learning facilities (see below). Overall, the educational attainment of the Swedish population is significantly higher than in most European Union member states and OECD countries. In 2011, more than 45 per cent of the adult population (25–64 years of age) had upper secondary education and almost 40 per cent a tertiary education.

2.6 Lifelong Learning Combined with Vocational Training

Lifelong learning has a long tradition in Sweden and has expanded markedly since the end of the 1960s. As a constitutive part of the Swedish educational, skills and employment regime, one of central feature of the Swedish lifelong learning system is the substantial opportunity to complete or enhance educational attainment after leaving initial education (second chance), either through adult education or through various training courses within the framework of labour market policy. Students aged 20 years and above who fail their upper secondary school therefore have the opportunity to go back to school within the extensive adult educational system.³ Participation in these programmes is tuition-free and students receive study allowances. Extended lifelong learning opportunities across the life course and continuous vocational training have always been preferred to passive measures, such as unemployment benefits. Since 1974 employees have had the right to take career breaks to pursue training or further studies. The legislation on training leave is particularly flexible and gives individuals considerable leeway in their choice of studies. The Individual Training Leave Act had two aims: to encourage social and occupational mobility and to facilitate access to education for employees with the lowest levels of compulsory education. The right to training leave is backed by a full employment guarantee. Access to training leave is also promoted by the above-mentioned generous system of public loans and grants. The Swedish lifelong learning takes different educational forms and is organized by various actors, from national and municipal adult education, to labour market training for unemployed persons and in-service training and skills enhancement at the workplace. According to

a survey conducted by Statistics Sweden (2007) more than 70 per cent of the Swedish population aged 25–64 years participated in formal and non-formal adult education over a 12-month period. Many Swedish workplaces also provide comprehensive in-service training for personnel at all levels of the organization. This type of training can involve everything from practical vocational skills to extensive theoretical study. On-the-job training at the company level was given to 50 per cent of the same underlying population.

2.7 Promoting Gender Equal Opportunities and Inclusive Transitions throughout the Life Course

Reconciling employment with changing family commitments and other considerations, such as lifelong learning and health aspects, are also constitutive elements of the SSM and the Swedish flexicurity approach, requiring policies that support a more flexible adaptation of time and income over the life course. For example, reversible time options that ensure individual entitlements to make labour supply adjustments over the life course appear to be a good policy instrument for promoting social inclusion and reconciling employment with other social responsibilities, events and risks over the life course. The Swedish experience shows that statutory and/or collectively negotiated options for employment protection and individual working-time adjustments over the life course related to family events or investment in human capital have to be combined with income transfer mechanisms. These mechanisms prevent the development of pronounced income reductions during particular life phases and limit negative impacts on earnings development later in life (such as pension claims). To illustrate: a generous and flexible parental leave system⁴ allows for income-compensated temporary reduction of working time, thereby reinforcing women's bargaining power and status as significant breadwinners, even when they are temporarily not participating in the labour market on a full-time basis. The overall political context is characterized by gender mainstreaming and high female involvement in the political process and institutions (government bodies, parliament and labour market organizations) also creates a favourable institutional set-up conducive to a more balanced gender division of labour and responsibilities over the life course.

2.8 Good Combination of Laws, Institutions and Social Dialogue

The SSM highlights both the role of social dialogue, contractual arrangements, legal provisions (civil rights) and empowerment (capabili-

ties), as well as the importance of the conditions in which they are implemented: employment guarantee, income compensation and maintenance of social protection. In this sense the SSM illustrates the linkages and interrelated effects of various institutions, such as the education and care system, labour market, and social protection systems, in shaping individual life trajectories limiting social exclusion and promoting social cohesion.

3. THE SWEDISH SOCIAL MODEL IN TURBULENT TIMES

The main focus of this section is the internal modifications of the SSM prior to the 2008 crisis. Case Study 1 investigates the main effects of these structural reforms with regard to the coherence of the SSM.

As we have shown, the SSM shares many of the distinctive features, principles and core values of the European Social Model.

To understand the SSM's major changes we cannot restrict our analysis to recent years but must look at the major transformations of the model during the past two decades. These modifications have entailed, among other things, a contraction of the public sector, reduced generosity in social insurance systems and deregulation of several markets (capital, transport, communication, utilities, and energy). Even though some reforms were initiated during the 1980s (deregulation of the financial market or changes in the industrial relations and wage setting systems, for example) the substantial transformations of the SSM started mainly in the wake of the deep recession of the early 1990s. In contrast to the 2008 recession, it should, however, be recalled that while these policy reforms and the early fiscal consolidation measures were triggered by the 1991 crisis, they were implemented in a period of relatively strong economic growth and increasing employment and real income (1995–). This is important because there are strong reasons to believe that fiscal consolidation measures and unpopular but necessary structural reforms are actually easier to implement in a period of economic growth than during a period of recession.

3.1 Changes in the Social Protection and Tax Systems

3.1.1 Social protection changes

The Swedish welfare state, social protection and tax systems have undergone a series of transformations and reforms since the early 1990s. Facing the dramatic deterioration of public finances caused by the 1991 recession, the various governments during the 1990s took several austerity

measures to reduce the budget deficit and public debt. Several reforms were implemented, involving stricter eligibility requirements and lower replacement rates in several social insurance systems (sickness and unemployment insurance: see Table 10.5 for a list and description of the reforms implemented).

3.1.2 Tax reforms

In the early 1990s, Sweden initiated a comprehensive income tax reform that involved a broadening of the tax base, a shift of the tax burden from earned income to consumption⁵ and a significant reduction of marginal tax on earned income.⁶ Another noteworthy feature of the tax reforms were the introduction of a separate taxation system for earned income and capital income. The top marginal tax on earned income was set at 51 per cent, while capital tax was set at 30 per cent and levied on dividends, interest and short- and long-term capital gains. Corporate taxation was also significantly reduced, from 57 per cent to 30 per cent. Further tax reforms were implemented with the abolition of the gift and inheritance tax (2004), the abolition of the wealth tax (2007) and the gradual (2007–12) introduction of a system of income tax credit, involving a reduction of average and marginal income tax.

3.1.3 Reform of the pension system

During the 1990s a broad political consensus emerged on the need to increase the share of the working population in order to guarantee the long-term sustainability of the Swedish welfare state system in general and the pension system in particular.⁷ The old benefit-defined ‘pay as you go’ pension system introduced in the early 1960s became, during the 1980s, increasingly underfinanced and it was clear, given increasing demographic pressures and population ageing, that the current problems would deteriorate in the future. The old benefit-defined pension system contained both efficiency and distributional shortcomings (see Palmer 2002). Against this background, the Swedish parliament decided in 1994 to initiate a radical reform of the pension system. The new pension system was launched in 1998 and fully implemented in 2003. At this date, the old benefit-defined system was replaced with a mandatory defined contribution scheme. The new system is based on two defined contribution pillars: a pay-as-you-go notional defined contribution system (PAYG) and a financial defined contribution system. These two earnings-related components are both based on contributions from lifetime earnings and linked to national economic growth and demographic development. The two mandatory defined contribution schemes are also supplemented by a guaranteed minimum pension for those on low incomes or no income from work and designed

Table 10.5 Major changes in Swedish social model prior to the 2008 great recession

Area	Main developments/ changes and dates	Main objectives
<i>Workers' rights</i> (<i>right to strike, etc.</i>)	No significant changes regarding worker's right	
<i>Social protection system</i>		
Pension system	1998–2003 Comprehensive Pension reform launched in 1998 and fully implemented in 2003. The old benefit-defined system was replaced by with a mandatory defined-contribution scheme. The new system is based on contributions from lifetime earnings. The mandatory defined-contribution system is also supplemented by a guaranteed minimum pension for those with low income or no income from work and designed to protect the lifetime poor	Insure the long-run sustainability of the pay-as-you-go pension system
Sickness insurance	Reforms of sickness insurance 1990–93: A waiting day for sickness benefit is introduced. The sickness benefit rate is reduced from 90 per cent to 80 per cent from day 90 of sickness leave. The benefit rate is further reduced from 80 per cent to 70 per cent from the 365th day of each sickness spell 1996: The compensation level is set to 75 per cent for both sickness benefit and rehabilitation benefit 1998: The compensation level is increased back to 80 per cent for both sickness benefit and rehabilitation benefit 2007: Increased control and more frequent reviews to assess the person's work capacity. Reduction of duration of benefits for long-term sick leave (maximum of 30 months)	Reduce the number of recipients and the cost of sickness insurance Rehabilitation programmes for persons with long-term sickness (work incentives)
Unemployment benefits	1993 Reduction of replacement rate from 90% to 80% of previous income. Introduction of income ceiling	Increase work incentives and job search activities

Table 10.5 (continued)

Area	Main developments/ changes and dates	Main objectives
Unemployment benefits	1994–2006: Unemployment insurance (UI): various reforms, mainly a weak reduction of income replacement rates for wage earners above the ceiling 2007: Financing of unemployment insurance: increased workers' contributions (fees) to unemployment fund (less state subsidies to the UI system). Introduction of some form of experience rating contributions. Industries with high unemployment rate contribute more 2007: Rules on job seekers. More restrictive eligibility rule. Reduction of replacement rate from 80% for the whole benefit period to 80% of lost income during the first 200 days of unemployment and 70% thereafter. Reduction of benefit period Stricter eligibility rule regarding means-tested housing allowance	Favouring wage moderation
Housing allowance		Reduction of public expenditure
Social benefits	More restrictive rules regarding means-tested social benefits. Tendency to impose job search and work requirement	Work incentives to increase labour supply
<i>Social dialogue</i> Collective bargaining	1983–: Breakdown of the centralized wage bargaining system in 1983. Weakening of the solidaristic wage policy In the mid-1990s Sweden experienced a re-coordination of the collective bargaining system (Industry agreement, 1996) and the re-establishment of the pace-setting role of the sectors exposed to international competition This tendency towards a re-coordination of collective bargaining at the industry level has co-existed with a marked tendency towards	Increase wage dispersion Tendency to a convergence of wage developments between the various sectors Increase wage dispersion and wage premium for highly educated employees

decentralization, differentiation and individualization in the setting of wages and working conditions, leading to a wider dispersion of the wage distribution and to a growing acceptance of a more individualized type of wage formation based on individual skills and performance rather than on job characteristics

<i>Public sector</i> Privatization/ procurement Employment	1990s: Waves of deregulation; liberalization and privatization, aimed at exposing previously protected activities to competition The increased opening of the public sector to competition and the tendency to increased outsourcing via public procurement, as well as the introduction of the 'free choice option' regarding health, welfare services and care activities has entailed an increase in private providers of tax-financed services Despite this increase, Sweden remains, by international standards, a country with substantial public employment, reflecting still very strong public and political involvement in the provision of a wide range of services	Reduce costs and increase efficiency Reduce public employment and favour mobility from public to private sector
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<i>Employment and labour market rules</i> Employment protection	1993: Deregulation of employment intermediation and end of Public Employment Service monopoly 1997: Modification of employment protection. An agreement (employment contract) referred to as general fixed-term employment can be allowed without specific reasons, a category which can encompass many different situations Marginal changes in Employment Protection Act, regarding hiring and firing rules In 1997, possibility to exempt two key workers from the seniority rule regarding dismissal. Still last in, first out principle, even though there	Increase labour market flexibility
Hire/fire rules		

Table 10.5 (continued)

Area	Main developments/ changes and dates	Main objectives
Hire/fire rules	are some possibilities to modify the rules through local collective agreements	
Flexibility	Modification of intermediation (private employment agencies) and modification of law on fixed-term contracts have led to a significant increase in short-term contracts	Increase labour market flexibility
Wages and living standards: minimum wage, equality, etc.	1995–2007: Increase in real wages and disposable income	
Wage inequality	Sweden went from seventeenth position regarding income per capita (PPP-corrected) to ninth in 2011	
	Long term: slight increase in wage inequalities due to change in wage formation (decentralization and individualization)	
	But by international standards still low wage inequalities	
<i>Working conditions</i>		
Health and safety	Looking at the past two decades the various working conditions surveys conducted by Eurofound show an improvement of working conditions. Sweden still ranks first on job quality and working condition index (Eurofound 2012). The 2008 crisis did not see a deterioration in working conditions (see Anxo 2013)	
Working time	Period prior to the 2008 crisis: Lengthening of working time, due principally to change in the female distribution of working time (reduction of short part-time and increase of long part-time and full-time work), but also possible dynamic effects related to tax and benefit reforms ('making work pay'). Limited number of agreements on short-time working during the 1990 and 2008 recessions	
	Still a predominance of external numerical flexibility during the crisis but accommodated by active labour market policy and job security councils	
<i>Taxes, budget, expenditure</i>		
Tax policy	Reforms of tax system: 1991: Comprehensive reform of income tax Reduction of average and marginal taxes. The top marginal tax rate was lowered from about 75 per cent to about 50 per cent. The tax on capital income was separated from the tax on earned income and levied at a flat rate of 30 per cent 2004: The inheritance and gift tax is abolished 2007: The wealth tax is abolished 2007–12: Gradual introduction of income tax credit (reduction of average and marginal income tax). Reduction of corporate and pay roll taxes	Work incentives Making work pay: objective: increase labour supply at the extensive and intensive margins Favour the development of entrepreneurship and self-employment
Budget rules and procedure	Prior to the crisis 1993–2007: Early fiscal consolidation Since the mid-1990s, both fiscal and monetary policy have become more restrictive in Sweden, leading to a historically low rate of inflation and significant improvement of public finances and declining public debt. A fiscal policy framework has been gradually introduced to limit the budget deficit and improve the conditions for long-term fiscal policy sustainability. Since 2000, under the Budget Act the government must propose a net lending target (surplus target) for the general government sector. The overall principle is that the surplus target for net lending must amount to 1 per cent of GDP on average over a business cycle	Balance budget and reduce of public debt. Countercyclical expansionary measures to maintain domestic demand.
Social expenditure	Prior to the 2008 crisis: The above-mentioned reforms of the social protection system entailed a reduction of social expenditure (see Figure 10.1). For some social protection systems (pension) the reforms have contributed to securing long-run financial sustainability.	Reduction of public expenditure

to protect the lifetime poor. Since the guaranteed minimum pension might not be sufficient to meet the minimum subsistence level, it is often supplemented by a rent and means-tested housing allowance and/or if necessary by social assistance benefits.

The initiators of the reform were aware that the lifetime income principle could affect individuals' income during retirement quite differently, depending on the distribution of risks concerning career and employment disruptions between socio-economic groups. Hence, the reform of the pension system had to consider the diversity in patterns of labour market integration over the life course and the uneven distribution of risks by limiting the cost of necessary work interruptions linked to parenting, care activities, or involuntary employment disruptions, such as unemployment, disability or sickness. While one important motive in the pension reform was to increase the labour supply and lengthen the time devoted to paid work over the life course, the time that workers devote to higher education, to small children or to national military service, as well as absence due to unemployment and sickness, also gives rise to pension rights. In other words, future entitlements to a pension are currently not only related to work history and earnings but are also linked to other forms of activity and periods of benefit receipt, including parental, unemployment, sickness and partial disability benefits.

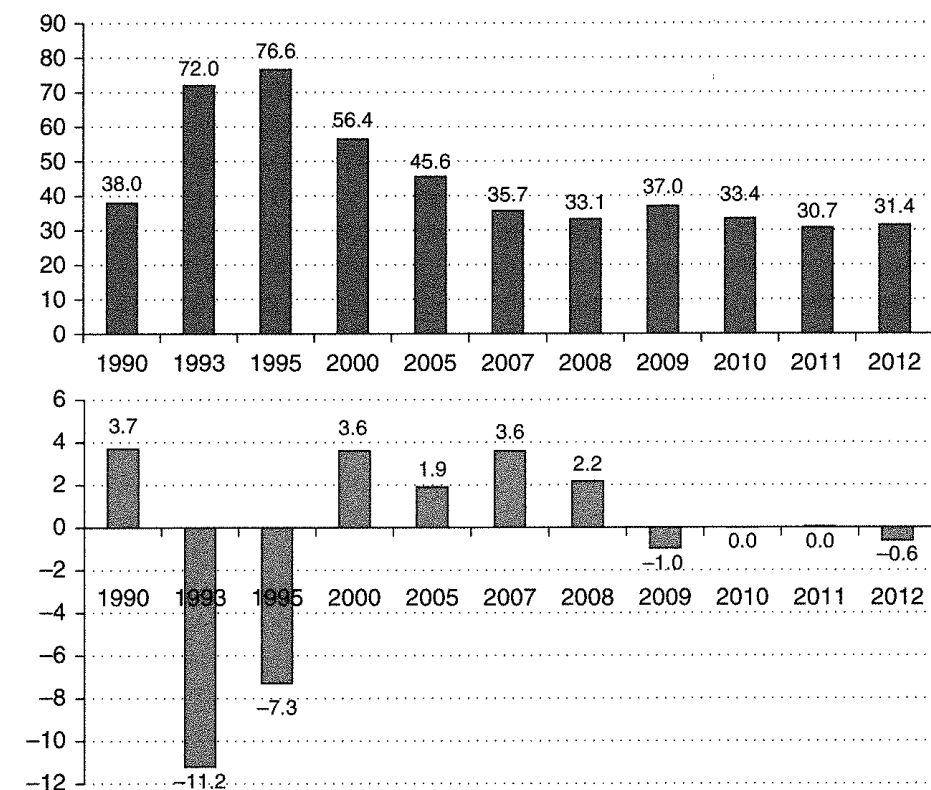
3.1.4 Reforms of the unemployment and health insurance systems

Other social protection reforms have also been initiated during the past two decades, namely the successive reforms of unemployment insurance and sickness insurance (see Table 10.5 for details). The reforms of the unemployment insurance system have involved the introduction of stricter eligibility rules, lower income replacement rates and the introduction of a maximum duration for receiving unemployment benefits. The reforms of sickness insurance have also involved a less generous income replacement rate, increased supervision and monitoring of a person's capacity to work and the introduction of a rehabilitation chain. By reducing the income replacement rate and the duration of benefits and introducing stricter eligibility and monitoring rules these reforms have weakened the automatic economic stabilizers and slightly diminished the degree of decommodification of the Swedish social model. But in contrast to the comprehensive pension reform these reforms can hardly be considered structural but mainly parametric.

3.2 Reorientation of Macroeconomic Policy, Retrenchment of the Public Sector and Increased Competition

3.2.1 Reorientation of macroeconomic policy and early fiscal consolidation

In the wake of the deep recession of the early 1990s, the employment crisis became dramatic. In just three years – from 1990 to 1993 – the employment rate decreased by more than 10.5 percentage points to about 73 per cent, and the rate of open unemployment quintupled from less than 2 to almost 10 per cent of the labour force. Furthermore, the public budget deficit increased from about zero to about 14 per cent of GNP, while public debt attained 77 per cent in 1995. Facing the deterioration of public finances (see Figure 10.1) the various governments during the 1990s, both



Source: NIER (2013).

Figure 10.1 Development of public debt (upper panel, percentage of GDP) and of budget deficit, net lending (lower panel, percentage of GDP), Sweden, 1990–2012

Social Democratic and Conservative, took several austerity measures to reduce the budget deficit and public debt.

Globally, since the mid-1990s, both fiscal and monetary policies have become more restrictive in Sweden, leading to a historically low rate of inflation, significant improvement in the public finances and a declining public debt. A fiscal policy framework was gradually introduced to limit the budget deficit and improve the conditions for long-term fiscal policy sustainability. Since 2000, under the Budget Act the government must propose a net lending target (surplus target) for the general government sector. The overall principle is that the surplus target for net lending must amount to 1 per cent of GDP on average over a business cycle in accordance with the EU Stability and Growth Pact.

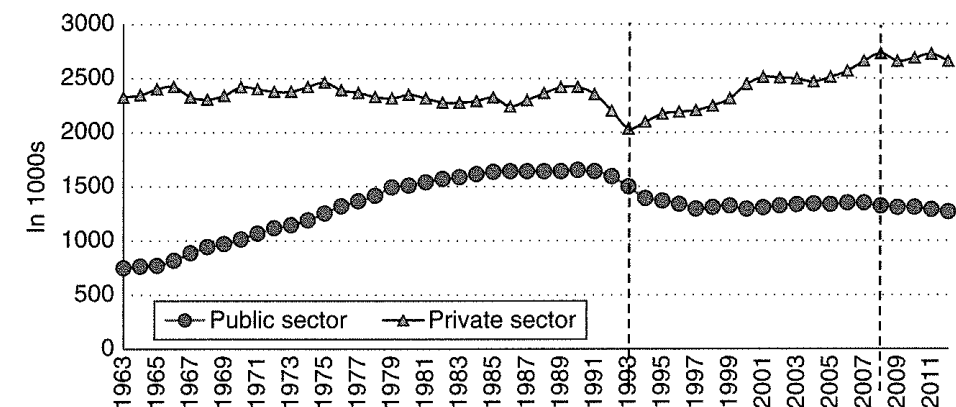
The reformulation of economic policy, the priority given to fighting inflation and the re-absorption of budgetary deficits have also had decisive impacts on the emergence of new compromises with regard to wage formation. An important aspect of this development was also to re-establish the normative pace-setting role of the sector exposed to international competition, favouring wage adjustments in line with productivity development, reinforcing Sweden's competitiveness and export-led economic growth.

3.2.2 Retrenchment of the public sector and increased competition

The structural reforms conducted during the 1990s also included a wave of deregulation, with liberalization and privatization, aimed at exposing previously protected activities to competition. The implementation of these reforms, to a large extent, involved the dismantling of previously existing public monopolies and an increase in private for-profit suppliers.

Fall in public sector employment The striving for efficiency-enhancing competition has been manifested not only in a somewhat increasing role for private providers but also in organizational reforms intended to achieve more competition between different agencies within the public sector, for example between different schools, hospitals and universities, as well as productivity-enhancing organizational changes (rationalization, downsizing, management by objectives, new public management and so on). In connection with the deep economic crisis in the early 1990s, the number of public employees in both central government and local authorities fell sharply.

The decline of employment in the public sector as a whole during the past decade – a reduction of 291 000 employees between 1990 and 2008 or 19.6 per cent – can be ascribed to the above-mentioned early fiscal consolidations during the first half of the 1990s, the waves of liberalization/privatization, increased outsourcing via procurement, as well as



Source: Statistics Sweden (2013).

Figure 10.2 Employment trends by sector, Sweden, 1963–2012

rationalization and downsizing processes initiated in the aftermath of the deep economic crisis of the early 1990s (see Figure 10.2).

Outsourcing to private providers The current right-wing government, which took office in 2006 and was re-elected in 2011, took further measures to increase the role of the private sector through outsourcing, public contracting and more competition through the establishment of a choice system that allows service users to choose their providers among a list established by the public authorities. Since the turn of the century, the increased opening of the public sector to competition and the tendency to increased outsourcing via public procurement, as well as the introduction of the 'free choice option' regarding health, welfare services and care activities, has entailed an increase in private providers but the proportion of private suppliers remains, by international standards, relatively limited. In 2010, around 17 per cent of total employment in education, health care and social services could be ascribed to private companies. Despite the increase in the share of employees working in private firms in the welfare sector Sweden remains, by international standards, a country with a large public employment reflecting very strong public and political involvement in the provision of a wide range of services. For crucial service activities – notably childcare, elderly care, health care, schooling and higher education, and measures for the disabled – the public sector maintains its role as main provider (Anxo 2013).

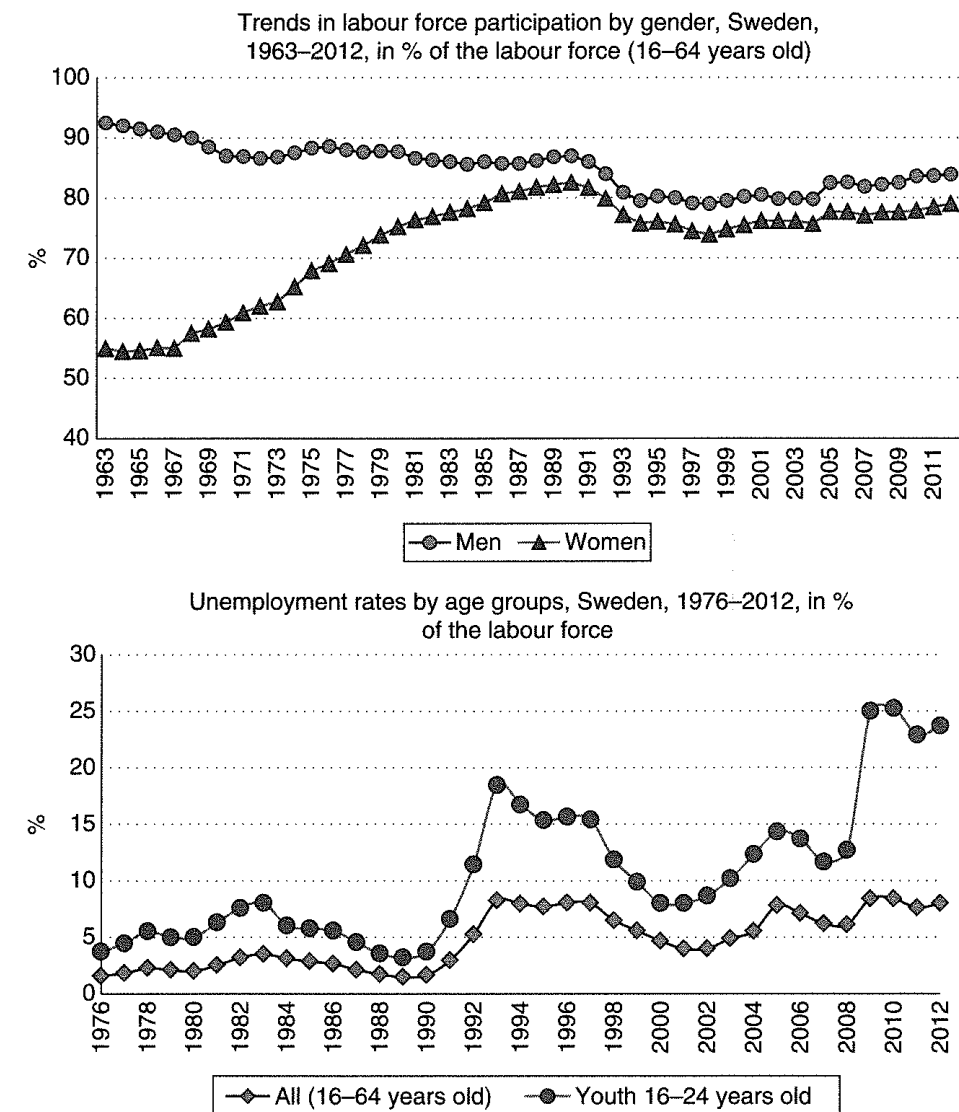
3.3 Changes in Employment System

3.3.1 Weakening the goal of full employment

One of the core elements of the Swedish model is the implementation of policy measures designed to uphold and maintain ‘full employment’. By any international standards, up to the 1992 crisis Sweden was remarkably successful in combining low unemployment – ranging between 1 and 2 per cent between the mid-1960s and the end of the 1980s – not only with high and growing employment rates but limited gender disparities (see Figure 10.3). The above-mentioned reformulation of economic policy – in other words, the priority given to fighting inflation and fiscal consolidation measures initiated in the mid-1990s – clearly reflects a weakening of the political commitment to the goal of full employment, as illustrated by a decline in employment rates and also by unemployment rates well above those experienced during the Golden Age of the Swedish model.

Strengthening the transition from studies to work Even though labour utilization is, by international standards, high in Sweden, young people, foreign nationals and people with low educational attainment are groups with a considerably worse labour market situation than the working-age population as a whole. The employment prospects of young people have worsened significantly since the turn of the twenty-first century and in connection with the economic downturns of the early 1990s and 2008. It should, however, be stressed that if Sweden’s youth unemployment remains above the European Union (EU) average, the share of young people not in employment, education or training is significantly below the EU average (in 2012, 7.8 per cent for those aged 16–24 years old in Sweden compared with 13.1 per cent for EU27; Eurostat 2012). The youth population does not constitute a homogeneous group and a successful transition from the education system to the labour market is, in Sweden as in other industrial countries, clearly dependent on educational attainment. Early drop-out from the education system or secondary educational attainment is associated with more erratic employment patterns and higher unemployment rates.

The tendency to an increase in youth unemployment might be ascribed to several factors. Sweden is characterized by a combination of a relatively strict labour market regulation regime and relatively weak linkages from the weakly vocationally orientated education system to the labour market, implying that the ‘barriers’ to labour market entry of young people, especially less educated young people, are relatively high compared with other industrialized countries, such as Germany. This explains why the



Source: Statistics Sweden (2013).

Figure 10.3 Labour force participation (upper panel, 1963–2012) and unemployment rates by age groups (lower panel, 1976–2012), Sweden

proportion of young unemployed engaged in youth-targeted active labour market programmes has traditionally been high in Sweden. In fact, youth programmes still constitute an important component of the transition between the education system and the labour market.

Prevention of early drop-outs Faced with a worsening situation of young people in the labour market, some measures have been implemented aimed at preventing early drop-outs from the education system and enhancing the quality of vocational training. The recent move from a mainly school-based occupational training regime towards a vocational training system with a stronger component of workplace-based training is also a measure aimed at easing the transition from school to work.

Easing the labour market entry of immigrants Although the issue of labour market integration of foreign nationals has been high on the list of government priorities, the situation of immigrants has not significantly improved throughout the past decade. The growing awareness among politicians of the marginalization process in play has led the Swedish government to take measures to ease the labour market entry of immigrants and refugees. While these targeted measures are going in the right direction there are reasons to believe that the overarching goals of Swedish integration policy – namely, to integrate immigrants to about the same extent as the native population – will not be achieved in the near future and that discrepancies in the extent of labour market integration between natives and foreign nationals will remain, implying further political efforts to sustain the process of their labour market integration.

Factors in declining employment As previously mentioned, the retrenchment of the Swedish public sector since the mid-1990s has led to a decrease in public employment, both in absolute and relative terms. The increase in employment in the private service sector has not been able to compensate for the decline in employment in both manufacturing industry and the public sector. In other words, we may argue that the decline of employment rates and the inability of the Swedish economy since the early 1990s to preserve full employment is related both to the 1990s' fiscal consolidation measures and the abovementioned reorientation of fiscal and monetary policy giving priority to fighting inflation and budget balance. Obviously other factors might explain the decline of employment rates (such as large investment in education during the 1990s), but it is clear that the 'political acceptance' of a higher 'equilibrium rate of unemployment' reflects the reorientation of macroeconomic policy and not only a structural unbalance in the labour market and/or turbulence in the world economy.

Conditions for Swedish social model sustainability The survival and long-term sustainability of the Swedish generous welfare state depend crucially on the ability of the Swedish economy to maintain a high level

of employment. It is not fortuitous that the policy priorities of successive governments since the early 1990s have been to increase labour supply of both men and women by raising inter alia the labour force participation of vulnerable groups and by lengthening the working time of currently employed persons in particular by favouring the transition from part-time to full-time work and reducing absenteeism.

3.3.2 Deregulation of the labour market

International comparisons of employment protection indicate that Sweden has fairly restrictive legislation, although it does not stand out as extreme by European standards. Swedish employment protection legislation dates back to the 1974 Employment Protection Act. The current legislation on employment protection is the 1982 Employment Protection Act, which, despite some amendments during the past three decades, remains essentially intact. The law presumes that, unless otherwise stipulated, an employment contract is open ended (permanent contract). When terminating the contract the employer must provide a valid reason and advance notice. While the grounds for collective redundancies are very liberal, they have to proceed in accordance with seniority (last in, first out principle). A different order of priority may be chosen by collective agreement, but case law indicates that there are limits to bargaining freedom in this respect: a collectively agreed redundancy list must not be contrary to good practice or be otherwise improper. Under an amendment in the Act introduced in January 2001, in the interests of retaining necessary skills in small businesses, employers (maximum of ten employees) may exempt from the procedure of selection for redundancy a maximum of two employees who are of particular significance for the company. By contrast with the fairly strong employment protection of open-ended contracts, there is relatively weak regulation of short-term contracts and temporary agency work, which creates a significant duality in Swedish employment protection regulations. In particular, a general fixed-term employment contract since 1997 can be allowed without giving reasons.⁸ Duration of fixed-term employment is restricted to two years as fixed-term employed and an additional two years as temporary replacement. Thus after a maximum of four years fixed-term employment must be transformed into an open-ended contract. The use of temporary agency work (TAW) can also be described as liberal, as the current legislation does not restrict TAW to certain areas of the labour market.

3.4 Changes in the Industrial Relations System

3.4.1 Decentralization of collective bargaining

From 1955 to 1983, the Swedish wage formation process was based on a highly centralized and coordinated bargaining system (see Anxo and Niklasson 2006) and the application of a wage norm, the so-called *solidarity wage policy* based on fairness (equal pay for equal work, irrespective of sector and firms' profitability) and efficiency (that is, a policy that fostered rationalization at the company level and promoted productivity-enhancing structural changes through the closure of unproductive plants). Since the breakdown of centralized bargaining in 1983, Sweden has witnessed a clear tendency towards individualization, differentiation and decentralization of wage setting. During the 1980s, the erosion of the Swedish model of industrial relations, particularly the weakening of mechanisms for coordinating collective bargaining and the resurgence of industrial disputes, high wage inflation as well as the explosion of unemployment during the dramatic recession of the early 1990s, had a decisive impact on the emergence of new compromises on wage formation, the procedural framework of collective bargaining and the regulation of industrial disputes in the mid-1990s. The three main trade unions in the sector exposed to international competition asked their employer counterparts to consider the possibility of setting up a new collective bargaining system that fostered both industrial peace and wage increases guaranteeing balanced growth and a return to full employment. The ensuing talks culminated in the signing of an 'Industry Agreement' on Cooperation on Industrial Development and Salary Formation in 1997. These changes in industrial relations re-established the pace-setting role of the sectors exposed to international competition. Also worth noting is that these modifications in wage setting led to a perceptible increase in real wages, in contrast with the previous situation (mid-1970s up to the end of the 1980s), which was characterized by real-wage stagnation.

Following the abandonment of national inter-industry agreements in the mid-1980s collective bargaining in both the private and public sectors is now carried out at two levels: industry/sector and enterprise/organization. It is important to stress that the above-mentioned tendency to re-coordinate collective bargaining since the second half of the 1990s should not be seen as weakening the role played by enterprise/organization level negotiations: negotiations at the local level play a central and growing role in the setting of wages and terms and conditions of employment, in both the private and public sectors. In fact, enterprise/organization-level bargaining has tended to gather strength in the past decade, particularly in the public sector.

3.4.2 Individualization of wage setting

This tendency towards decentralization was accompanied in both the public and private sector by a marked tendency towards differentiation and individualization of wages and terms and conditions of employment, leading to a wider dispersion of the wage distribution and a growing acceptance of a more individualized type of wage formation, based on individual skills and performance rather than on job characteristics, as had been the case in the past with the application of the solidaristic wage policy.

Several reasons explain this shift. First, Landsorganisationen i Sverige's (LO's) strategy during the 1960s–70s to further reduce wage differentials stalled as growth slackened and economic imbalances increased due to the late 1970s recession.

Second, major changes were under way in work organization and Taylorist modes of production were gradually being abandoned. Generally speaking, growth in service-sector employment, changes in work organization, and the introduction of new information technology blurred distinctions between white- and blue-collar workers. The growing acceptance by blue-collar federations of the principle of wage individualization and the gradual abandonment of the solidarity wage policy are partly related to these structural shifts. Since the mid-1990s, there has thus been some convergence of views concerning wage structure between the various components of the trade union movement in the manufacturing and private-service industries. This consensus has been extended to other areas of collective bargaining, particularly state and local authorities and the wages of a large majority of public sector employees are now set locally and largely individualized, in contrast with the former pay-scale system mainly based on seniority. It should be noted, however, that the trend toward decentralized bargaining and individualization has been more pronounced among white-collar and high-skilled workers than among manual workers and low-skilled employees, in both the public and private sectors.

3.5 The Role of the Middle Class in the Resilience of the Swedish Social Model

Compared with other welfare state regimes, the SSM's emphasis on the principles of universalism and decommodification have been attractive to the middle class because it has led to equality based on high standards rather than on minimal needs (Esping-Andersen 1990). Even though some of the above-described reforms might be attributed to the diffusion of neoliberal ideas within the social democratic movement (making work pay,

work incentives, efficiency versus equity, privatization and market deregulation), the middle class has remained supportive of the Swedish welfare state and the financing that this involves (relatively high tax burden). In my view, this continuous support has several explanations: a relatively efficient public administration and the provision of high-quality public services, the importance of the public sector for female employment and the awareness among the large Swedish middle class⁹ that it is no longer exempt from the risk of unemployment in a context of increased globalization, more exposure to market forces and a reduction of employment stability. In other words, there are strong reasons to believe that both the traditional striving of the middle class for economic stability and the increasing uncertainty and risk have led the middle class to maintain its support for comprehensive, publicly financed and organized welfare policies.

There have been few Swedish empirical studies on the attitudes of Swedish citizens to welfare policies. An exception is Svallfors (2004), analysing, during the period 1992–2002, the development of class differences in attitudes towards welfare policies according to spending levels, financing of welfare policy and service delivery. Svallfors constructs three indexes varying between 0 and 100, with higher value indicating (1) stronger support for high public spending, (2) stronger support for collective financing of welfare policies, or (3) stronger support for public organization of welfare policies. As shown by Svallfors, a large majority of Swedish citizens support welfare policies, even though higher and middle non-manual employees are less prone to support welfare policies than skilled and unskilled workers.¹⁰

Looking at the development of class structuring of attitudes, Svallfors found that:

A basic stability in class differences in attitudes was found to co-exist with changes in the views of non-manual employees about welfare policy spending, financing and provision. . . . The economic crisis of this period, and its repercussions in terms of increased unemployment and budget deficits may have produced an increased polarization among non-manual employees. Middle level employees could have been particularly affected by increased insecurity and thus their opinions have been closer to those of workers. (Svallfors 2004: 133)

4. CASE STUDY 1: IMPACT OF THE 1990S' CHANGES IN THE SWEDISH SOCIAL MODEL – THE RISE OF INEQUALITIES

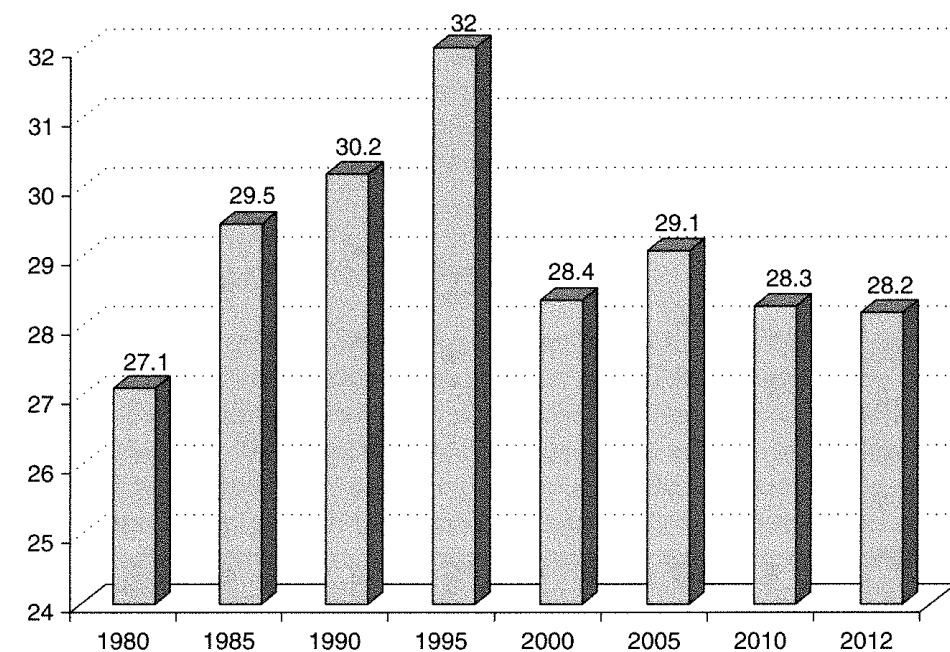
The main objective of this section (Case Study 1) is to assess the extent to which the above-described reforms, the reorientation of macroeconomic

policy and the modifications of the industrial relations and employment systems have impacted on the coherence of the Swedish social model and its economic and social cohesion.

4.1 Reforms Leading to a Fall in Social Protection Expenditure

The various reforms of social protection system (sickness, unemployment insurance and pension systems) have during the past two decades reduced the share of social protection expenditure in GDP (see Figure 10.4).

These reforms, aimed at securing the long-term sustainability of the various components of the social protection system, as well as strengthening 'work incentives' and fostering 'flexibility', could hardly be achieved without consequences, such as rising inequality (wider dispersion of disposable income and wealth) and 'less security', in particular a less generous social insurance system and a weakening of employment protection regulations, implying among other things strong development of fixed-term contracts in both the private and the public sectors.



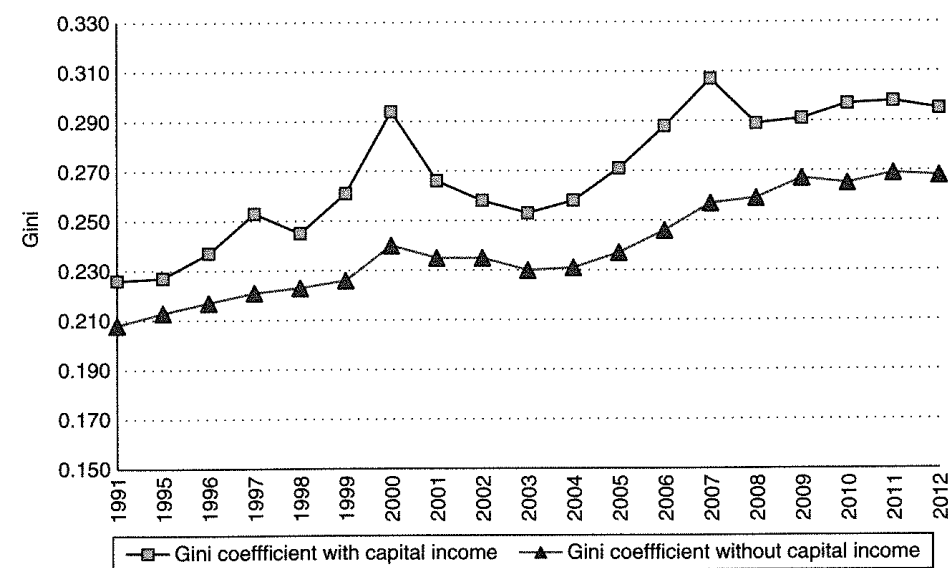
Source: Statistics Sweden (2013).

Figure 10.4 Social protection expenditure, Sweden, 1980–2012 (% of GDP)

4.2 Distributional Impact

If it is true that all the above-mentioned reforms had the aim of enhancing work incentives and securing the long-term sustainability of the social protection system, it is also clear that they strengthened the role of the market, reduced the degree of decommodification of the Swedish welfare state and contributed to an increase of income inequality in Sweden (see Figure 10.5).

While the reduction of the generosity of the social protection system and reform of taxation, in particular capital taxation and the growth of financial markets,¹¹ might explain part of the rise in income inequality, other factors might also have contributed to the widening of income distribution during the 1990s. Beyond the fact that the 1990s' crisis affected principally low-paid, low-skilled workers and new entrants into the labour market, this period was also characterized by policy measures aimed at increasing educational attainment and also by a massive inflow of political refugees in connection with the civil war in Yugoslavia. The postponement of labour market entry due to the expansion of education might have contributed to the increase in income inequality in the short run. The large inflow of refugees from the former Yugoslavia also occurred in a context



Source: Statistics Sweden (2013).

Figure 10.5 Trends in income inequalities, Gini coefficient (disposable income), Sweden, 1991–2012

of high unemployment, which made more difficult the integration of the newly arrived immigrants into the Swedish labour market.

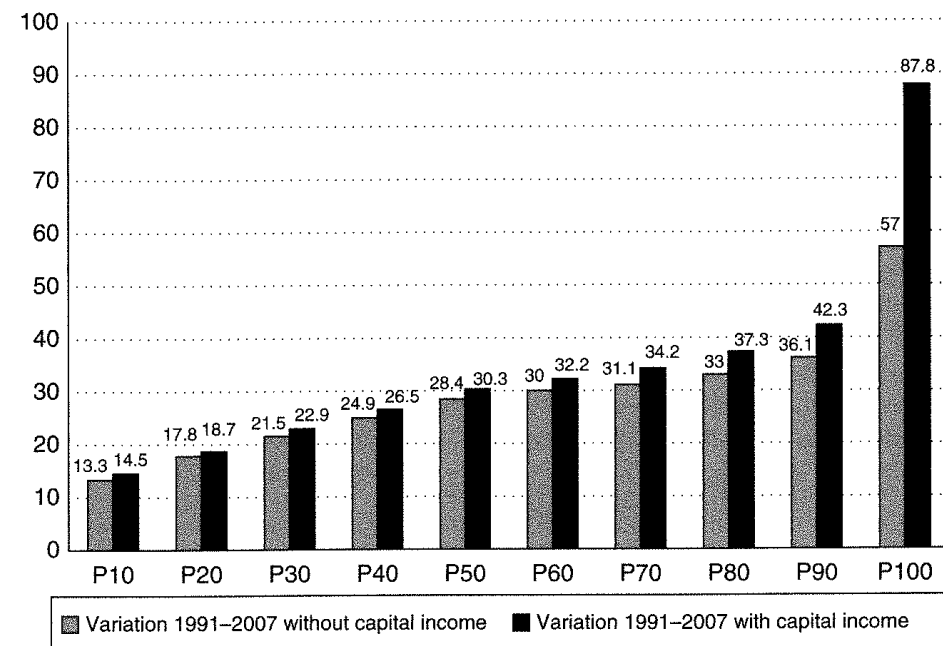
As shown by Gustafsson and Palmer (2002), higher income deciles and workers with a stronger foothold in the labour market (aged 35 and older) at the onset of the recession in 1990 were much more insulated from the economic downturn and have recovered much more strongly in the ensuing recovery. Conversely, young people, single parents and newly arrived immigrants shouldered much of the burden of the macroeconomic shock. As stressed by Gustafsson and Palmer (2002: 540):

As Sweden moved out of the recession in 1994–95, a clear division between insiders and outsiders had emerged. Well established – and by definition usually older – households were borrowing less, saving more and were more reliant on the development of the stock market for their well-being. Younger households were more likely to be outside the labour force, were spending more time in education, were more likely to be unemployed, and, generally, were more likely to have a looser attachment to the labour force.

However, as stressed by Björklund and Freeman (2010), if it is true that Sweden experienced an increase in inequalities during the 1990s it maintained its position as one of the most egalitarian economies in the world. Furthermore, rising inequalities during the 1990s and early 2000s, in contrast with the United States and the United Kingdom, took the form of faster income growth for higher income households rather than lower real income for households at the bottom end of the income distribution (see Figure 10.6).

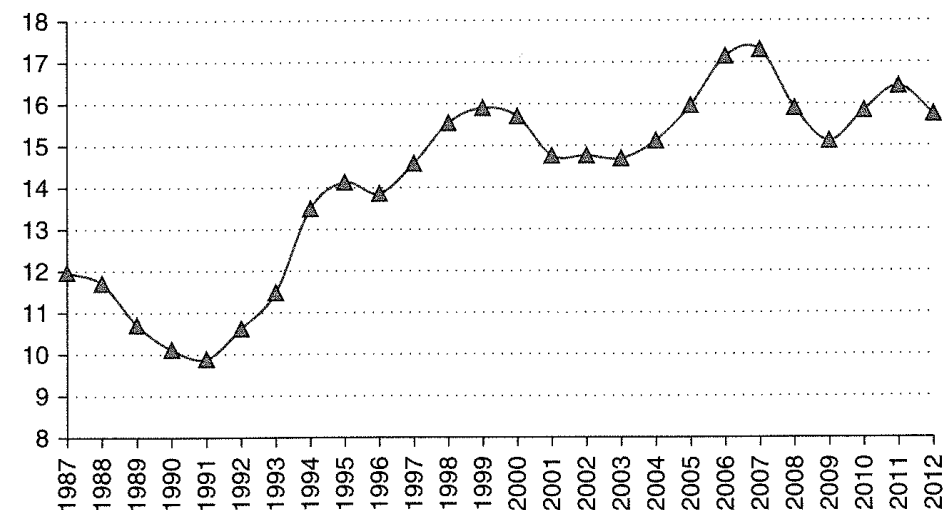
4.3 Increased Labour Market Duality

The successive reforms of the employment protection system, in particular the introduction of a short-term contract not requiring justification from the employer, combined with the deregulation of employment intermediation in the early 1990s, has surely contributed to an increase of employment instability and growing duality in the labour market between insiders and outsiders. This growth of fixed-term contracts may also have caused some rise in unemployment through higher labour turnover. In the aftermath of the 1990s' crisis, Swedish companies have to a larger extent than before made use of external numerical flexibility (Anxo 2010). Against this background, short-term contracts and agency work have increased significantly. The share of fixed-term contracts increased by almost 40 per cent between 1990 and 1995. Since then and up to the current recession this share has increased continuously, reaching 17 per cent of total waged employment at the onset of the current recession (see Figure 10.7).



Source: Statistics Sweden (2013).

Figure 10.6 Trends in income distribution, Sweden, 1991–2007 (%)



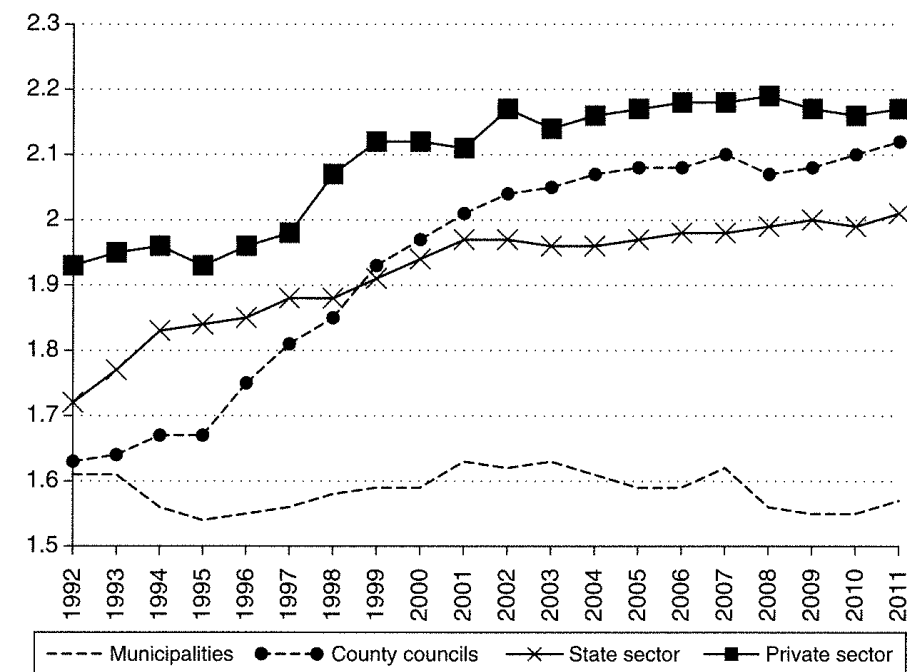
Source: Statistics Sweden (2013).

Figure 10.7 Share of short-term contracts, Sweden, 1987–2012 (percentage of dependent employees, 16–64 years of age)

4.4 Effects of Individualized Wage Setting: Increased Wage Inequalities

Although real wages have steadily increased during the past 15 years, Sweden has also experienced an increase in wage inequalities. Wage disparity (P90/P10) in Sweden increased from around 1.80 in 1992 to around 2.00 in 2010. As shown by Figure 10.8, there are strong reasons to believe that the tendency towards more decentralized and individualized wage setting has increased wage dispersion, particularly for high-skilled white-collar workers within both the public (state administration, county councils in charge of health sector) and private sectors.

The tendency towards increased wage inequalities is far from unique to Sweden. There are strong reasons to believe that this tendency is related to deep societal changes affecting norms and attitudes concerning fairness. The reinforcement of individualistic values explains the weakening of the 'solidaristic' wage policy (same wage for the same work), where the setting of wages was based primarily on job content and tasks. These normative



Source: Mediation Office (2013).

Figure 10.8 Development of wage dispersion (P90/P10) in the private and public sectors (state, municipalities and county councils), Sweden, 1992–2011

and social changes can be one element explaining the evolution towards a wage-setting system based on individual performance.

Despite these changes in wage norms and wage settings, it is interesting to note that wage dispersion at the municipality level, responsible for the provision of education and social care (elderly care, support for the disabled and disadvantaged groups) has remained almost unchanged over the past decade (see Figure 10.8). Part of this stability might be ascribed to the more limited individualization in wage formation among manual and low-skilled/educated workers. The global but limited increase in wage dispersion in Sweden during the past two decades might also be attributed to the change in the skills composition of the labour force. The long-term decline in low-skilled jobs and the concomitant increase in high-skilled jobs witnessed during the past two decades largely explains this increase in wage inequalities, since wage formation among high-skilled occupations is more individualized and differentiated.¹² But in contrast with other countries with highly decentralized and individualized bargaining systems, such as the United Kingdom and the United States, strong and powerful trade union organizations and high union density at company/organization level in Sweden have led to the implementation of negotiated forms of individualization and differentiation. It should also be noted that despite the increase of wage dispersion, wage and income inequalities are far less than in, for example, the United States and the United Kingdom. Besides a more equal balance of power between the two sides of industry, the more compressed wage structure in Sweden can also be ascribed to the above-mentioned high level of educational attainment among the population, smaller disparities/polarization in educational achievement and by international standards, lower returns to education and seniority premium.

4.5 Concluding Remarks

Despite the above-described structural reforms, the SSM remains, by international standards, still clearly universal, quite generous and inclusive in nature. The SSM enjoys substantial across-the-board support from citizens and the early fiscal consolidation measures and the reforms that have been carried out in recent decades have contributed to securing the long-term sustainability of the social protection system and fostering more healthy public finances. Clearly, these reforms have also entailed a rise in income inequalities and a weakening of the automatic stabilizers through a reduction of replacement rates and more restrictive eligibility rules. However, if these reforms have reduced the degree of decommodification of the Swedish social model, they have not threatened its architecture and coherence or the robustness of its social cohesion (see Table 10.6 for a summary of reforms and outcomes).

Table 10.6 Case Study 1: Policy reforms, SSM and outcome

Policy reforms	Areas	Consequences
Reorientation of macro-economic policy	Fiscal consolidation and restrictive monetary policy	Weakening of the goal full employment. Higher unemployment rates less social cohesion. But declining public debt and balanced budget
Labour market flexibility	Reforms of employment protection and deregulation of labour market	Increase of employment instability, rise of short-term contracts. Increased reliance on external numerical flexibility. Tendency to segmentation/dualization of the labour market
Public sector retrenchment	Reform of the public sector	Increase public procurement outsourcing and privatization: less state more market. No wage premium for low skilled workers in the public sector. Rising wage gap between public and private employees. Convergence in terms of employment security/flexibility between public and private employees
Social dialogue, industrial relations and wage formation	Decentralization, Individualization differentiation of wage setting and working conditions	Rising wage inequalities but in a context of rising real wages and income
Tax system	Reform of the tax system. Reduction of average and marginal income taxes. Abolition of inheritance and wealth taxes	Increase of income inequalities and potential reduction of social mobility
Social protection system	Pension reforms, Reforms of health and unemployment insurance	Increase of income inequalities. Lower replacement rates. Reduction in the extent of decommodification. Potential risk of increased poverty for senior citizens with previous erratic work history But the various reforms have secured the long-run sustainability of the social protection system

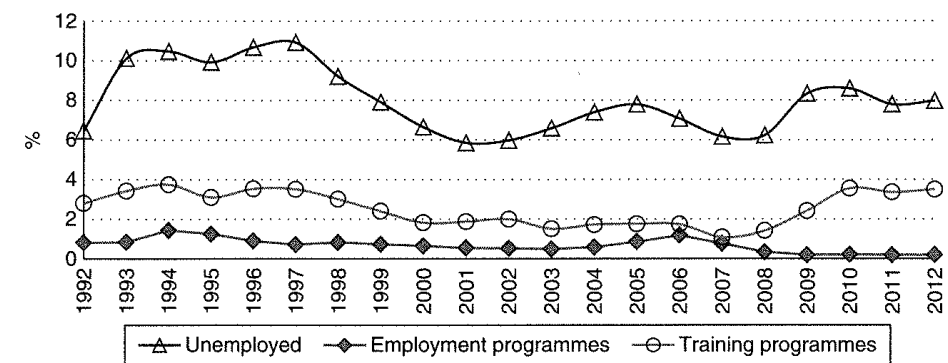
The ‘Swedish success story’ during the past recession cannot, however, be reduced to early fiscal consolidation measures. It is clear that the automatic stabilizers embedded in the Swedish social model, additional government support and social dialogue have all had a substantial effect in mitigating the negative impacts of the 2008 crisis on employment, welfare and social exclusion. This is the purpose of the second case study.

5. CASE STUDY 2: THE IMPACT OF THE 2008 GREAT RECESSION ON THE SWEDISH SOCIAL MODEL AND THE ROLE OF THE SSM IN RECOVERY

Sweden, with its still large, encompassing and generous welfare state, has relatively large automatic stabilizers. A dramatic fall in GDP might have quite different implications for household living standards in countries with weak automatic stabilizers or constrained public finances; in other words, limited room to manoeuvre for a countercyclical macroeconomic policy. The still generous and encompassing social protection system has helped to reduce the individual consequences of the crisis (limited impact on income and inequality), while the benefit and transfer system has played its role as shock absorber and economic automatic stabilizer.

5.1 Countercyclical Macroeconomic Policy

In comparison with the 1990s’ crisis, the room for manoeuvre in which to conduct a more expansive macroeconomic policy was larger than during previous economic downturns, due to healthier public finances at the start of the recession. In order to mitigate the impact of the crisis on income development and employment, in 2008–10 the Swedish government implemented a package of recovery and countercyclical measures, ranging from expansive fiscal and monetary policy to active labour market and education policy. In this context and in order to maintain and secure the welfare system and employment in the public sector, the Swedish government also decided to increase central government grants to local authorities, as well as investment in infrastructure (repair and maintenance). In order to reduce the negative impact of the crisis on low income households and poverty, the government also reduced income tax for pensioners and improved the situation of single parents and low income parents by increasing housing and child benefits. These traditional Keynesian countercyclical policy measures have certainly had an effect on limiting the fall of employment and also sustaining domestic demand.



Source: NIER (2013).

Figure 10.9 Unemployment and participants in active labour market policy programmes, Sweden, 1992–2012 (percentage of the labour force)

5.2 Active Labour Market Policy for Maintaining Employability

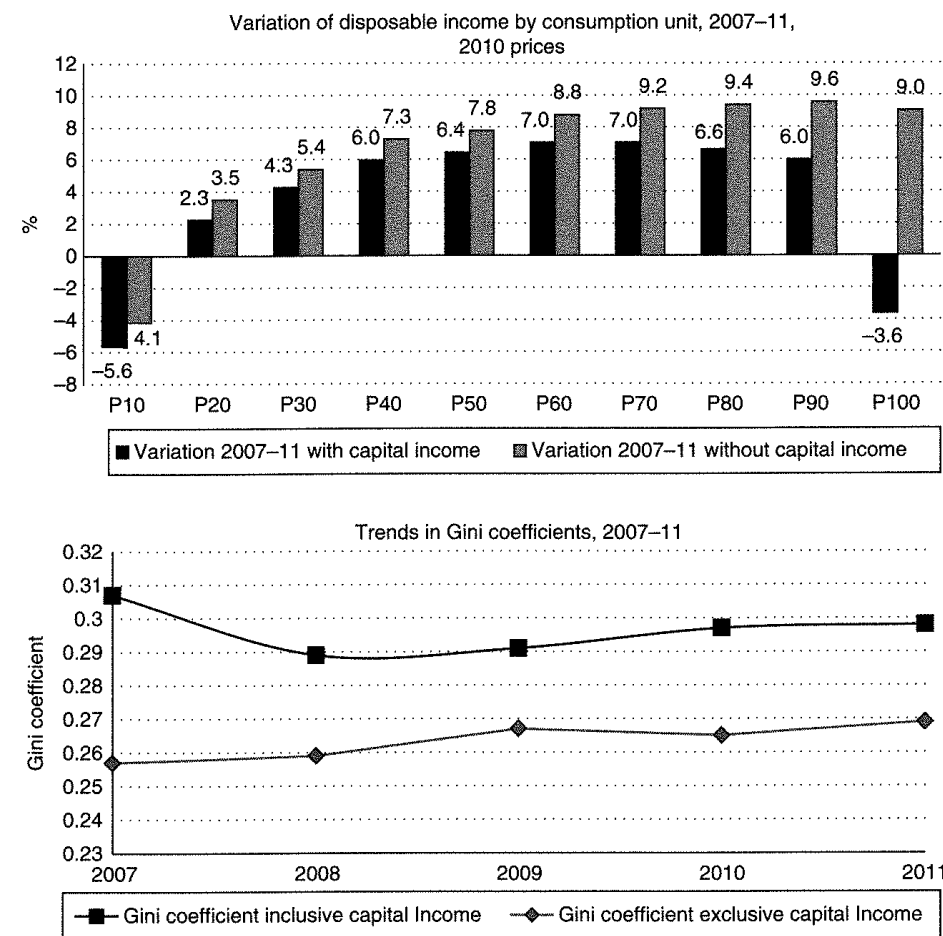
The increased number of participants in active labour market policy (ALMP) and also educational measures also helped to reduce the risk of social exclusion of vulnerable population and maintain the employability of individuals hit by the crisis (see Figure 10.9).

5.3 Social Dialogue: Negotiating Alternatives to Layoffs

Regarding the development of social dialogue the recession had no negative impact on industrial relations and the period 2008–11 was characterized by industrial peace in contrast with the situation during the previous recession (1992–95). In order to preserve employment stability and limit further increases in unemployment, wage moderation has also characterized recent rounds of collective bargaining (2008–11). The resulting slowdown in the rate of increase in labour costs helped to alleviate the negative effects of the recession on output and employment.

5.4 Limited Impact on Inequalities

In terms of distributional outcomes, the reduction in disposable income has been particularly marked at the two ends of the income distribution. Low and high earners both experienced a significant decline in disposable income between 2007 and 2011 (see Figure 10.10).



Source: Statistics Sweden (2013).

Figure 10.10 Variation of disposable income per decile (upper panel) and Gini coefficient (lower panel), Sweden, 2007–11

There are good reasons to believe that the deterioration among low earners (first decile) might be ascribed to the conjunction of several factors: the increase in unemployment, particularly among low-skilled and low-paid workers, and the dramatic increase in youth unemployment (new entrants into the labour market not covered by the unemployment insurance system). The reduction in disposable income among high earners is due essentially to the reduction in capital income in connection with the financial crisis. As a consequence of this development, to date the crisis has slightly reduced earnings inequalities in Sweden.

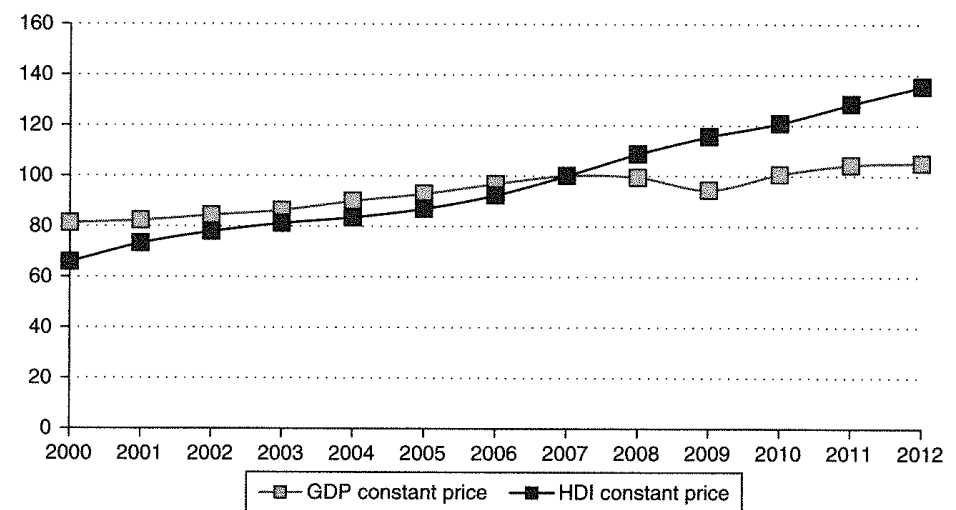
The distributional impact of the 2008 crisis seems therefore, up to now,

to be limited. The Gini coefficient, including capital income, decreased (and was almost unchanged when one does not include capital income) between 2007 and 2011. The recent decrease of the Swedish Gini coefficient might be ascribed principally to the fall in capital income among high earners.

The share of people with low disposable income (relative poverty rate, 60 per cent of median income) among those 20 years of age and over has also slightly increased during the crisis. Not surprisingly, the largest increase in the poverty rate is found among young singles without children (20–29 years old) who have been particularly hard hit by the crisis (Anxo 2010).

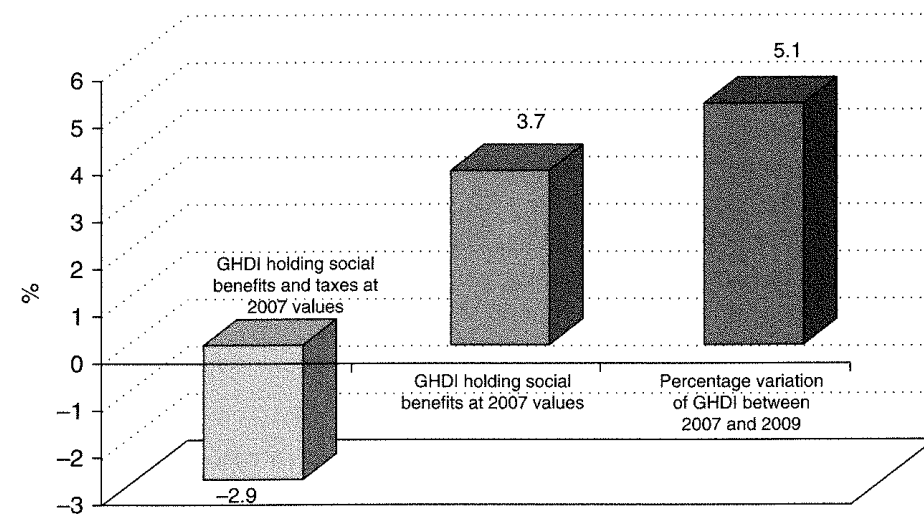
5.5 Increase in Household Income

As shown by Figure 10.11, comparing the trends in real GDP and real gross household disposable income (HDI), it appears that Sweden, in the period 2007–09, experienced an increase of HDI despite a dramatic fall in output (5 per cent). The fact that Swedish households were protected from the crisis can be ascribed both to the SSM-embedded automatic stabilizers and also to the above-mentioned various support measures taken by the government, such as increases in benefits and transfers targeted at vulnerable households, support for local government for maintaining employment and securing the welfare system, as well as more traditional Keynesian demand policy.



Source: NIER (2013).

Figure 10.11 Trends in real GDP and real gross household disposable income, Sweden, 2000–2012 (2007 = 100)



Source: Statistics Sweden (2013).

Figure 10.12 Percentage variation in gross household disposable income and the effect of taxes and benefits, Sweden, 2007–09

Figure 10.12 shows the percentage change in total gross HDI (right bar) between 2007 and 2009. The other bars show the percentage change in gross HDI when holding social benefits and public transfers at their 2007 value (middle bar) and the change in GHDI when we exclude the change in both social benefits and income taxes and social contributions (left bar).

In accounting terms, these values show the change in total household income between 2007 and 2009 that would have occurred had total government benefits and direct personal taxes remained at their 2007 values.

As shown by Figure 10.12, total GHDI increased by 5.1 per cent between 2007 and 2009 in Sweden, one of the largest increases among the OECD countries selected by Jenkins et al. (2013). It is interesting to note that the increase of household disposable income in Sweden can be ascribed mainly to a decrease in the tax burden and increase of public transfers. In other words, the government intervention has played a crucial role in cushioning the negative impact of the economic downturn on household disposable income.

5.6 Concluding Remarks: A Sustainable Swedish Social Model

Owing to healthy public finances at the onset of the crisis and limited budget deficit caused by the 2008 crisis, the needs of fiscal consolidation and substantial cutbacks in public spending have been limited, which also implies, in sharp contrast to other EU member states, that the 2008 crisis will have a marginal impact on the SSM. In other words, early fiscal consolidation and policy reforms during the 1990s aimed at strengthening the long-term sustainability of the Swedish welfare state imply that further structural reforms of the SSM triggered by the recession are not on the political agenda. There are therefore strong reasons to believe that the long-term consequences of the Great Recession on the SSM will be limited.

Table 10.7 summarizes the main findings of our second case study.

The Swedish experience shows that in the face of macroeconomic turbulence it is possible to maintain and even increase household income and limit the impact of macroeconomic unbalances on income distribution. There are strong reasons to believe, as stressed by Jenkins et al. (2013), that globally stronger welfare states, such as Sweden, provide greater ‘automatic stabilization’. The Swedish experience is therefore a good illustration of the positive role played by both healthy public finances and a strong social safety net for mitigating and absorbing the negative impact of external macroeconomic shocks. The specificity of the Swedish industrial relations system, which remains a distinctive feature of the SSM, also helps to explain why the cost of the crisis has been more evenly distributed between different socio-economic groups.

6. CONCLUSION

Despite major structural reforms initiated during the past two decades the SSM remains, by international standards, clearly universal, fairly generous and inclusive in nature, and continues to enjoy a high level of across-the-board political and public support. The early fiscal consolidation measures and the reforms undertaken in the tax and benefit system, in particular the reshaping of the pension system and the various tax reforms aimed at increasing labour supply and strengthening work incentives, have contributed to securing the long-term sustainability of the social protection system and fostering more healthy public finances. Clearly, these reforms have also entailed a rise in income inequalities and a weakening of the automatic stabilizers through a reduction of replacement rates and more restrictive eligibility rules. However, they have not threatened the

Table 10.7 Case Study 2: 2008 recession – the role of the Swedish social model in limiting the impact of the crisis

Role of the different elements of the SSM	Policy intervention	Objectives/consequences
Automatic stabilizers and government intervention	The various benefit systems and social protection systems have played their role as countercyclical automatic stabilizers (unemployment insurance, social benefits)	Reduce the negative impact of the crisis on household income and welfare All the countercyclical policy measures undertaken under the 2008–10 had for their objective to increase of domestic demand, limit social exclusion, comfort social and regional cohesion
	Countercyclical Keynesian macroeconomic policy	Securing employment (in particular female) and the provision of welfare services
	Increase state support to local authorities	Securing the income level of vulnerable groups by increasing social transfers and automatic stabilizers
	Targeted increase of transfers to vulnerable groups (child allowance and housing allowance)	Securing employability of displaced workers by active labour market policy measures and educational measures
	Increase number of participants in ALMP and adult education (lifelong learning)	
	Wage moderation	
	Job security councils	
The role of social dialogue and industrial relations system	The Swedish social partners have since the 1970s negotiated 'security/adjustment agreements' in order to help workers who have been given notice to find rapidly new jobs by way of adjustment measures and financial support	Securing competitiveness by negotiated wage moderation. Limit the negative impact of the economic downturn on employment. By supplementing the role of public employment agencies, these agreements, covering more than half of the labour force, contribute to improving the security of employees and to enhancing matching efficiency and geographical and occupational mobility in the labour market and have played an important role in accommodating the current recession

architecture of the SSM. With the exception of the comprehensive reform of the tax and pension system, the reforms of the social protection system have essentially been parametric and hardly structural.

In other words Swedish fiscal conservatism and early drastic fiscal consolidation measures implemented during the 1990s were aimed at maintaining the SSM and securing Sweden's independence from the financial markets (reduction of public debt and public deficit).

The SSM is highly dependent on the maintenance of a high level of employment and a broad tax base. The relatively high cost of maintaining a solidaristic, universalistic and decommodifying welfare system implies institutional mechanisms to control public expenditure (minimize social problems) and public revenues (not too high a tax burden). This balance can be achieved only by promoting high labour force participation and preserving full employment. It is not by chance that activation policy has always been at the core of the Swedish model and that high unemployment and low employment rates have been considered a threat that jeopardizes the very existence and survival of the SSM.

From an international perspective, Sweden seems up until now to have managed to overcome the 2008 economic crisis better than several other member states. Despite a long-term tendency towards a reduction in the decommodification of the Swedish welfare state its social protection system has helped to reduce the individual consequences of the crisis (limited impact on income and inequality), while the benefit and transfer systems have played their role as shock absorbers and economic automatic stabilizers. The more limited negative impact of the Great Recession on the Swedish economy might also be ascribed to the expansionary fiscal and monetary policies conducted by the government. Compared with previous economic downturns, especially in the early 1990s, Swedish economic growth during the past two years has been driven less by increases in exports than by an increase in public and private consumption, both due to the additional appropriations to local government securing the provision of welfare services and public employment and the increase in disposable household income related to the various cuts in income tax and also increases in some transfers.

Despite a decline in union density, the two sides of industry remain the two main actors regarding both labour market regulations and wage setting and have played a determinant role during the recession (wage moderation). In contrast to countries with weaker industrial relations systems and unbalanced bargaining power between the two sides of industry, the Swedish industrial relations system has also entailed a more balanced sharing of the cost of the crisis. This also explains why Sweden still has one of the highest levels of job quality and why the current recession

has not adversely affected working conditions by means of wage cuts, longer working hours, higher workloads and increased work intensity, as it has in other EU member states (see introductory chapter in this volume; and Anxo 2011, 2012).

The Swedish experience remains, therefore, a good illustration of the positive role played by healthy public finances, developed social dialogue and a strong social safety net for mitigating and absorbing the negative impact of external macroeconomic shocks. More broadly, the Swedish experience during the past recession illustrates the resilience of a societal model based on a universal and generous social protection system, egalitarianism, proactive policies for promoting gender equality and fighting against discrimination and social exclusion, a developed social dialogue as a mechanism for regulating the labour market and social policies, and a strong public and political involvement in the provision of a wide range of services. The 'Swedish success story' during the past recession cannot therefore be reduced to early fiscal consolidation measures. It is clear that both the strong automatic stabilizers embedded in the Swedish societal model, the additional government support (countercyclical Keynesian policy and ALMP/training measures) and social dialogue have had important impacts in mitigating the negative effects of the crisis on employment, welfare and social exclusion, and well illustrate the resilience of the SSM.

NOTES

1. All pupils in vocational programmes in secondary schools have, according to the Education Act, the opportunity to meet basic eligibility for higher education.
2. The financial student aid system comprises two parts: a grant system and a public subsidized loan. The Swedish grant system is universal with low interest rates (2.1 per cent in 2010) and favourable conditions for reimbursement (annuity of 4 per cent of previous earnings), open to all students (20–54 years old) attending a college/university or adult primary or secondary educational programme. The duration of the financial aid is limited to 240 weeks (12 semesters) for college and university, up to 120 weeks for adult upper secondary schools and up to 100 weeks for adults who need to complete compulsory education. In 2011, the state financial aid amounted to around 1030 euros per month (grants, 35 per cent and loans, 65 per cent).
3. While Sweden's high youth unemployment rate is above EU average, the share of young people not in employment, education or training (NEET) is significantly below the EU average (in 2012 7.5 per cent for Sweden compared to 13.1 per cent for the EU27).
4. The Swedish parental leave programme, introduced in 1974, has obviously sustained the growth of female labour participation and contributed to the changes in women's behaviour in the labour market. Since then women have ceased to withdraw from the labour market and the employment rates of mothers with children below 7 years of age is among the highest among OECD countries. The parent leave system is associated with a full employment guarantee and the employment contract is not suspended

during absence from work. Parental leave is paid for 480 days, shared between mother and father; 60 days are reserved for each parent. Fathers are also entitled to ten extra paid days of leave when the child is born. The income compensation is 80 per cent of previous earnings for the first 390 days and SEK 180 for the remaining 90 days. The law also enables parents to take paid care leave for sick children (60 days per year and per child, up to the child's twelfth birthday compensated at the same replacement rate as sickness benefit (80 per cent of previous earnings)).

5. With a broadening of the tax base, fewer goods and services were exempted from value added tax (currently 25 per cent).
6. The marginal tax was reduced from 75 per cent to 51 per cent (see Agell et al. 1996).
7. Five of the seven parties in parliament in 1994, representing more than 90 per cent of voters, adopted the pension reform.
8. In addition, fixed-term employment is lawful under certain conditions for temporary replacement of absent employees (substitutes), seasonal work, and employing persons above 67 years of age.
9. According to Atkinson and Brandolini (2011), the size of the middle class and its income share are largest in the Nordic countries, in particular in Sweden.
10. In 2002, the spending level index amounted to around 70 for skilled and unskilled workers and above 55 for middle and higher non-manual employees. The corresponding figures for the financing index are 85 for manual workers and over 75 for skilled non-manual employees, respectively. Regarding the service provision index the corresponding figures are over 85 for manual workers and over 80 for skilled non-manual employees.
11. The stock market flourished during the second half of the 1990s and equities became a common means of saving for a increasing share of Swedish households. By the end of the 1990s around 60 per cent of all households were shareholders (Gustafsson and Palmer 2002).
12. Between 1993 to 2003 around 600 000 unskilled and low-paid jobs were destroyed in Sweden.

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