Chapter 7
Towards a New Swedish Model?

Andreas Bergh

Abstract The Swedish welfare state has always attracted interest among welfare state scholars, and it has been labelled universal, social democratic and institutional – among other things. Since 1980, however, the Swedish welfare state has been altered and reformed in several ways. Taking a very strict view on what the Swedish model entails, the model is arguably dead. Still, most welfare state scholars agree that despite some cutbacks, Sweden remains a universal welfare state, and the reforms have been described as liberalization without welfare state retrenchment.

Most likely, public commissions have served as early warning systems, providing valuable information to decision makers and facilitated the creation of political consensus. The pension reform is the paramount example, but it remains to be seen whether similar reforms will be implemented for healthcare and elderly care.

7.1 Introduction

Sweden and the Swedish welfare state have always attracted interest among social scientists in general and among welfare state scholars in particular. The Swedish welfare state is typically labelled universal, social democratic, institutional, encompassing, Nordic or Scandinavian. Without doubt, the variety of labels is confusing, and Abrahamson (1999) notes that classifying welfare states has become a business of its own. In Bergh (2004), I demonstrate that Sweden is often mentioned as a chief example of a universal welfare state, though the exact meaning of the concept is largely ambiguous. Nevertheless, despite all vague definitions and ambiguities, there is a consensus that the high degree of state involvement in the life of all

A. Bergh
Department of Economics, School of Economics and Management, Lund University, Scheelevägen 15B, 223 63 Lund, Sweden
e-mail: andreas.bergh@nek.lu.se

citizens – from the cradle to the grave – separates Sweden and the other Nordic countries from most other countries in the world.

Since 1980, and especially during the 1990s, the Swedish welfare state has been altered and reformed in several ways. Welfare state scholars have since been debating whether the Swedish welfare state has lost its defining characteristics or not. Clearly, several welfare programs were substantially changed, including those intimately connected to demographic factors, such as pensions, elderly care, schooling and childcare. But were these changes large enough to transform the Swedish model into something else? And what do the coming demographic challenges imply for the Swedish type of welfare state?

The upshot of this concluding chapter is the following. If one takes a very strict view on what the Swedish model entails, the model is already dead: reforms have been substantial, as documented by for example Marier (2005), Blomqvist (2004), and Anderson (2001). Sweden around year 2000 was very different from Sweden around 1980. With only a slightly broader definition, however, the Swedish model is arguably still going strong: Bergh and Erlingsson (2009) describe the Swedish reforms as liberalization without welfare state retrenchment, and – as shown by the contributions in this volume – the reforms needed in the future to handle the demographic challenge are likely to be of similar nature.

7.2 The Swedish Model So Far

A simple yet informative way to think of welfare state categories is the following: all countries must handle the two fundamental tasks of smoothing consumption over the lifespan and providing insurance against various risks. All countries rely on a combination of three institutions for these tasks: the state, the market and the family. Liberal or Anglo-Saxon welfare states rely somewhat more heavily on the market, conservative or continental welfare states rely more on the family, and the Social democratic/Nordic/universal welfare states rely more on the state (Fig. 7.1).

More specifically, the universal welfare state refers to states where all citizens are entitled to a number of welfare services and benefits (highly related to the two fundamental tasks mentioned above) regardless of their ability to pay and regardless of several other characteristics (see Bergh 2004). In a specific demographic context, Trydegård (2004) is representative, describing the Swedish model for elderly care as universal, extensive, equal and equitable. The Nordic welfare model is said to consist of publicly financed and provided social service directed to, and used by, all without means testing or requirements for labour market affiliation. Home-care has been an important feature.

A similar reasoning holds for the pension system: Edebalk (2000) describes how Sweden already in 1913 introduced the world’s first universal pension system. This

1These risks include the risk of living longer than expected without having sufficient savings, which is the risk handled by a pension system.
The early 1990s was a turbulent period for welfare states in general and especially for Sweden. With its high taxes, the public budget is extremely sensitive to fluctuations in economic activity, and when growth was negative for three consecutive years 1991–1993, the budget deficit rose to an alarming 13 percent of GDP. Was this the beginning of the end for the characteristic Swedish welfare state? Perhaps surprisingly, the answer seems to be no – but this conclusion is admittedly controversial. Since the mid-1990s, the Swedish economy has made an impressive come back: growth has returned and the public budget is in balance. But what has happened to the welfare state?

Using aggregate measures of welfare state size, the Swedish welfare state has not only survived but actually kept growing: Castles (2004) uses OECD-data on total public social expenditure to examine the development of welfare states over time, and finds no evidence of retrenchment. Castle’s data stops at 1998, and to verify that Castle’s conclusion has not recently been falsified, I have extended his data series with updated data from OECD’s Social expenditure database (Table 7.1).

The ratio of social expenditure to GDP is a very crude measure. But several detailed case studies support the conclusion of welfare state resilience in Sweden: Bergqvist and Lindbom (2003) note that after the crisis of the 1990s and after the cutbacks, replacement rates have been raised again, and the expenditure on needs-tested social assistance has declined. They also note that Swedish healthcare to a larger degree than in other countries remains publicly financed.

Bergh (2004) constructs several possible indicators of welfare state universality and evaluates these over the 1990s to conclude that universality in Sweden was roughly constant during this decade. Rothstein and Lindbom (2004), however, note that on a number of indicators there is a clear trend from the universal model towards a more market-conforming ‘liberal’ welfare model. They add, however,
that the changes in a liberal direction are not significant enough to transpose the original model, and also that after the immediate economic crisis was over in 1998 new reforms have restored some of the things that were changed.

Lindbom (2001) notes that Sweden’s major attributes when compared to other countries are almost as prominent after the crisis as before. The attributes referred to are generosity, universality and developed welfare services. Timonen (2001) studies Finland and Sweden and notes that while there have been changes, these have not been systemic and have not seriously undermined the provision of welfare state services. Szébehely (2000) describes changes in the old-age care during the 1990s. The conclusion is that services and care are still to be guided by the principles of the Scandinavian model for social policy, according to a parliamentary decision of 1998. This implies that services be publicly funded and distributed according to needs, not means.

There are, however, more critical voices. De Deken (2002) compares Belgium and Sweden as being representatives of a Christian democratic welfare state model and a social democratic one respectively. He argues that the Swedish model has become less representative for the social democratic welfare model after the reform of the pension system. Blomqvist (2004) notes that despite the aggregate resilience indicated by data like those in Table 7.1, privatization and market orientation in social care (the so-called choice revolution) has undermined the Swedish model.

Focusing on care for elderly, Trydegård (2004) concludes that although the national policy and legislation have remained roughly the same, old-age care has undergone substantial reorganisation and reconstruction. In Sweden, the supply of home care has decreased significantly and the number of institutional beds has not increased with the same pace as the number of elderly people. After the “ÄDEL-reform” in 1992, the operational responsibility rests with the local authorities/municipalities. Hence, the quality of care and service may differ between municipalities. In fact, Trydegård and Thorslund (2001) suggest that the variations in elderly care between municipalities are so significant that it is more relevant to discuss “welfare municipalities” rather than a single welfare state.

Similarly, in a comparison between Sweden and Germany, Theobald (2003) notes that the number of elderly people receiving services decreased significantly in Sweden during the 1990s, mainly because of new rules on the municipal level. Families are encouraged to take a greater responsibility for the care of their elderly. Wealthier people can buy services while the less wealthy are more dependent on the good will of their families. An increasing professionalization can result in social service of high quality but also in limited access for receivers of care.

To summarize, what we see is a mixed picture: The degree of state involvement in life cycle redistribution and risk insurance is still high in Sweden. Benefits are still provided universally in the sense that economic means testing has not increased. Taxes and social expenditure in Sweden remain among the highest in the world. On the other hand, the reliance on market mechanisms has increased.
The pension system is now partially funded, and in elderly care more responsibility is put on families.

It is fair to say, however, that most welfare state scholars agree with the careful conclusion that while there indeed were some cutbacks during the 1990s, Sweden still remains a social democratic or universal welfare. There seems to be some movement away from the state towards both the market and the family. Importantly, however, for most welfare services, the latter two institutions serve as complements, not as substitutes, to the state.

We thus conclude that the Swedish model has survived so far, with the added remark that the market and the family nowadays are more common complements in welfare provision than they were before the 1990s. But what about the demographic challenges ahead?

7.3 The Demographic Challenges

Scott and Bengtsson (see, Chap. 2) discuss the demographic challenges that the Swedish model must handle. Clearly, the biggest challenge comes not from increased longevity but rather from the transition that has occurred from high to low fertility. At least two things must be made clear regarding this transition.

First of all: To what extent is it intrinsically problematic that fertility falls? From some normative positions it may be troublesome that population growth decreases and even becomes negative. For economists however, it seems more natural to view behaviour as revealing preferences, and thus to conclude that as society grows richer, we prefer having fewer but more highly educated children. In this case, the problem is not that fertility falls, but rather how to handle the transition from high to low fertility rates.

Secondly, it needs emphasizing that the transition from high to low fertility poses a challenge for all countries, regardless of whether they rely mainly on the market, the family or the state for welfare provision. The difference is the mechanisms used for the transition. Market-based systems use market prices and adjustments through supply and demand, whereas state-based systems operate through political decisions.

While the distributional outcome from market mechanisms may be less desirable, market prices contain valuable information regarding preferences, costs and scarcity. In state-based systems, this information channel is not available, and the success of universal welfare states will crucially depend on the possibility to find substitutes for such information-generating market processes. As we shall see, social science and public commissions may function as such a substitute.

In a high fertility society, the demographic structure is akin to that shown in Fig. 7.2a. When fertility drops, we get a shape similar to that in Fig. 7.2b. This is problematic because the number of old people to be supported is generated by high fertility, while the number in working age is generated by low fertility.
When fertility rates stabilize at a lower level, the structure will look similar to Fig. 7.2c, a cylinder of increasing height due to population ageing, and possibly a shrinking width if fertility remains below replacement level.

Thinking about the demographic challenge in terms of Fig. 7.2a–c is useful because it shows that if fertility remains low, we will never return to the situation in 7.2a, where pensions and elderly care is made easier by the ever increasing workforce. It also shows that the most problematic situation in Fig. 7.2b is of transitional nature, and that there is some alleviation from the fact that the number of young to be supported also is decreasing. This also shows that if fertility increased again, more children would actually worsen the balance for a period of ~20 years before they are ready to enter the labour market.

Bengtsson and Scott (see, Chap. 2) conclude that two solutions remain: mobilizing the potential workforce so that a greater share of those of working age actually work, while another solution can be found in pushing the retirement age higher in response to longer life expectancies. Can the Swedish model accomplish this?

The new pension system implies that at least to some extent, measures have been taken to increase the retirement age. Compared to the old system, the economic incentives to retire later have been substantially strengthened, and there is room for some optimism. For example, Horngren (2001) argues that Sweden is well prepared to meet the demographic transition, by having taken actions at an early stage.

When it comes to old-age care, there is no clear equivalent to the pensions reform – but municipalities have been experimenting with market mechanisms and customer-choice since the early 1990s (see Edebalk and Svensson 2005). As shown by Edebalk (see, Chap. 5), more needs to be done, and a national insurance system could be a possible solution.

Bergh (2008) discusses how the policy makers in universal welfare states have tackled the challenges from demography and increased mobility of labour and capital so far. In short, universal welfare states can survive if they manage to

---

Fig. 7.2 (a–c) Demographic structure before, during and after the transition from high to low fertility

When fertility rates stabilize at a lower level, the structure will look similar to Fig. 7.2c, a cylinder of increasing height due to population ageing, and possibly a shrinking width if fertility remains below replacement level.

Thinking about the demographic challenge in terms of Fig. 7.2a–c is useful because it shows that if fertility remains low, we will never return to the situation in 7.2a, where pensions and elderly care is made easier by the ever increasing workforce. It also shows that the most problematic situation in Fig. 7.2b is of transitional nature, and that there is some alleviation from the fact that the number of young to be supported also is decreasing. This also shows that if fertility increased again, more children would actually worsen the balance for a period of ~20 years before they are ready to enter the labour market.

Bengtsson and Scott (see, Chap. 2) conclude that two solutions remain: mobilizing the potential workforce so that a greater share of those of working age actually work, while another solution can be found in pushing the retirement age higher in response to longer life expectancies. Can the Swedish model accomplish this?

The new pension system implies that at least to some extent, measures have been taken to increase the retirement age. Compared to the old system, the economic incentives to retire later have been substantially strengthened, and there is room for some optimism. For example, Horngren (2001) argues that Sweden is well prepared to meet the demographic transition, by having taken actions at an early stage.

When it comes to old-age care, there is no clear equivalent to the pensions reform – but municipalities have been experimenting with market mechanisms and customer-choice since the early 1990s (see Edebalk and Svensson 2005). As shown by Edebalk (see, Chap. 5), more needs to be done, and a national insurance system could be a possible solution.

Bergh (2008) discusses how the policy makers in universal welfare states have tackled the challenges from demography and increased mobility of labour and capital so far. In short, universal welfare states can survive if they manage to
avoid a situation where net-payers, capital and corporations leave the country (as discussed in Chap. 3), while at the same time avoiding that the strategic middle-class voters turn their back on the welfare state and start demanding substantial tax cuts. Handling these issues, and at the same time tackling the demographic challenge, is not an easy task. It is in fact very easy to paint a gloomy picture of the future for the Swedish model. But the conclusion in Bergh (2008) is that Sweden is in fact well on its way, using at least some of the following measures:

- Restructuring the tax system towards lower progressivity
- Tying benefits closer to taxation
- Increasing work incentives
- Increasing reliance on private topping up of public consumption and social insurance
- Increasing freedom of choice through voucher systems
- Increasing efficiency through competition-enhancing reforms

It is changes like these that make some scholars conclude that the Swedish model has lost its defining characteristics. But changes like these also imply that working and paying taxes in Sweden is made more rewarding – especially for the middle class upon whose support the universal welfare state crucially depends (see, for example, Korpi and Palme 1998; Bergh 2007). Thus it is possible to argue that changes such as these are part of an explanation of what Rothstein and Lindbom (2004) call the mysterious survival of the Scandinavian welfare states.

Consider, for example, the case of topping up – allowing citizens to add private funds to the public funding of welfare services. Due to the demographic challenge, only maintaining current per capita levels would require higher taxes, and it is even more difficult to publicly finance the level demanded by high-income owners universally for the whole population. Thus, politicians must make a choice between allowing citizens to top up public funds with private money, or having citizens pay twice in order to attain the level of services they prefer – once by paying taxes, and once again to a private provider if topping up is not allowed. Naturally, we expect welfare state support to decrease among those who feel that paying twice is the best way to attain a desirable level and quality. This has also been verified empirically by Hall and Preston (1998) who showed that people who opt out from publicly provided healthcare and pay for private health insurance support less spending on the public system. Today, topping up is common in Sweden’s elderly care, as well as in the pension system, where people complement the public system with private savings and occupationally negotiated schemes.

The strategy seems to have been successful so far in the sense that public support for public welfare expenditure in Sweden has been constantly high and possibly increasing during the period from 1981 to 2002 (Svallfors 2004). As expected, groups with higher incomes report lower welfare state support. But welfare state

---

3Recently, public policy documents show that policy makers are indeed discussing the strategic choice described here (see the Swedish Långtidsutredningen 2003/04, SOU 2004, p. 19).
support is constant or increases over time for each socio-economic group. Without reforms, we would most likely have seen decreasing support for the welfare state among high-income earners. Instead, as a result of gradual adaptation, high-income earners, the highly educated and the relatively more mobile groups have benefited from several reforms, resulting in maintained political support for the welfare state.

Interestingly, market-oriented welfare state reforms in Sweden were often supported or even initiated by social democrats (Klitgaard 2007; Bergh and Erlingsson 2009). It seems reasonable to ask how it was possible to implement these changes. Due to factors like path dependency and interest groups, substantial reforms in mature welfare states are not to be expected (see Pierson 1994, as well as, Chap. 5).

Sweden, however, has a different style of policy-making compared to other countries. This style of policy-making was documented repeatedly over 30 years ago, by Anton (1969), Elvander (1972) and Castles (1976). Policy-making in Sweden is known to be particularly rational, pragmatic and consensual. Public commissions and interest groups play an important role and, in general, decisions are not made hastily. This style of policy-making helps to explain both the development and the reform of the Swedish welfare state.

For example, as pointed out by Esping-Andersen (1994), the 1913 pensions reform originated from investigations that started already in 1884. This reform was in turn the origin of the universality principle, because the pension insurance established encompassed the entire population. When viewed from this perspective, the pensions reform in the 1990s is no exceptional event, but rather a reform that fits the pattern. It can, in fact, be seen as a compromise between the main alternatives put forth in the 1957 referendum on ATP: it is mandatory, partially funded and partially pay-as-you-go (again, Chap. 4 for further details). As demonstrated by Bergh and Erlingsson (2009), the description of Anton (1969) holds up surprisingly well also for other market-oriented reforms in the 1980s and 1990s – the reforms were often the result of broad public commissions.

The role of public commissions in adapting the welfare state to changing circumstances is crucial. Once a government commission is working, the forthcoming political debate has to a large extent already been defined. Often, each political party has a member in the investigation, where they intimately interact with representatives from other parties, and – importantly – with social scientists, civil servants and representatives from central interest groups. These commissions typically give prominence to expert views on the subject matters, and at the same time they provide an arena that stimulates deliberation between opposed interests. The experts define problems and propose ideas about solutions. The commissions are arenas where opposed interests, in dialogue with experts, can reach agreement. If the commissions contain proposals, the party representatives may add special comments, which mean that the debate is likely to be focused on these details.

4For example, see Marier (2005) on the important role played by bureaucrats in the Swedish pensions reform.
The commissions also serve as an early warning system. As noted by Kruse in this volume, the transition rules for introducing the new pension system in Sweden were central for establishing political support for the reform. As shown by simulations in Selén and Ståhlberg (2007), political support for the Swedish pensions reform decreases as the decision is postponed. Had Sweden not initiated the first commissions already in 1984, it would most likely have been much harder to establish broad political support for a fundamental reform.

Together, these factors contribute to a pragmatic, technocratic and rationalistic policy style, which so far has been crucial for handling the demographic challenges.

The Swedish model, however, is not off the hook yet. As demonstrated by Lindgren and Lyttkens (Chap. 6), there are several non-solutions to the problem of future healthcare financing and still no clear solution. When it comes to healthcare reform, Sweden’s results so far are nowhere near as impressive as regards the pension reform. Lindgren and Lyttkens suggest that a possible explanation for this is the fact that three levels of government are all involved in healthcare without clear-cut limits to their responsibilities. Given the background of policy making Swedish style, as described in Anton (1969) and Bergh and Erlingsson (2009), it is difficult not to agree.

7.4 Concluding Discussion

The one-size fits all, and homogenous, Swedish welfare model is arguably dead. But in many respects, the model lives on. The most important welfare services during the life cycle are still publicly funded to an extent that separates Sweden from most other countries.

As an example, the Swedish pensions reform is illuminating. Depending on what features of the new system are emphasized, the reform can be described both as a sign of Sweden rolling back the welfare state – and as a triumph for democratic welfare capitalism. A proper evaluation of the reform is hard to carry out, because we know nothing about what would have happened in the counterfactual case where no reform was undertaken. For example, one must be careful not to compare the pension outcomes in the new system with the promised outcomes of the old system. A major reason for reforming was in fact that, due to demographic changes, the old system would not have been able to deliver the pension levels that were promised. People retiring earlier and living longer are changes that inevitably must affect all pension systems. The new system allows people, in a relatively transparent way, to make their own trade-off between retirement age and pension level.

As shown by Kruse (see, Chap. 4), if people accept to postpone retirement from around the age of 65–67, benefits will not decrease due to increased longevity – but the number of years as a pensioner will still increase. This is hardly a case of rolling back the welfare state. On the other hand, it remains to be seen whether similar reforms will be implemented for healthcare and elderly care.
Oppenheim (1997) summarizes the development towards a new type of universal welfare states:

Finally, universal welfare state services are the cornerstone of the post World War welfare settlement. Universalism remains important. […] However, welfare policies have to createunities of interest between the majority and the poor within a context of sharpening inequalities. Thus, it is not the universalism of the 1940s, but one which allows for diversity and combines universal membership and individual autonomy. It would open up the possibility of different contributions for different benefits and the tailoring of services for a variety of needs. Above all it promotes inclusion over and above strict equality in order to retain broad public support.

The system of public commissions can be interpreted as a substitute for the information generated by market processes. Commissions can serve as early warning systems to provide valuable information to decision makers and, as explained above, they also facilitate the creation of political consensus. In this perspective, it is interesting to note that the Swedish National Audit Office (Riksrevisionen 2004) has identified a new and problematic trend in the Swedish commission system: lack of time and insufficient research contacts. If this trend continues, the Swedish model may run into trouble not because of the demographic challenges but because policymakers will lack information about their nature and how they can be tackled.

Acknowledgments The author thanks the Torsten and Ragnar Söderbergs foundations for financial support.

References