THE CATHOLIC UNIVERSITY OF AMERICA

Constructing the People's Home: The Political and Economic Origins and Early Development of the "Swedish Model" (1879-1976)

A DISSERTATION

Submitted to the Faculty of the

Department of Politics

School of Arts and Sciences

Of The Catholic University of America

In Partial Fulfillment of the Requirements

For the Degree

Doctor of Philosophy

©

Copyright

All Rights Reserved

By

Josiah R. Baker

Washington, DC

2011

Constructing the People's Home: The Political and Economic Origins and Early Development of the "Swedish Model" (1879-1976)

Josiah R. Baker

Director: James P. O'Leary, Ph.D.

When Marquis Childs published his book *The Middle Way* in 1936, he laid the foundation that inspired the quest for an efficient welfare state. The *Folkhemmet*, or "people's home," initiated by the Social Democrats symbolized the "Swedish Way" and resulted in a generous, redistributive welfare state system. By the early 1970s, experts marveled at Sweden's performance because the Swedish model managed to produce the second-wealthiest economy as measured by per capita GDP with virtually no cyclical unemployment.

This dissertation demonstrates that capitalist and pre-industrial cultural forces dominated Swedish economic policy development throughout the years that the Social Democrats constructed *Folkhemmet*. The Swedish economy operated as a variety of capitalism that infused unique traditional cultural characteristics into a "feudal capitalism." The system was far more market-oriented, deregulated, and free from direct government ownership or control than most assumed then or now. A process of negotiation and reason, mixed with pragmatism and recognition of valuing opportunity over principles, drove Swedish modernization.

Eventually, the entire society became commoditized through gender equalization efforts, resulting in greater individualism and an increased breakdown of informal communal or collective functions. Gradually, the nature of individual initiative and incentive within capitalism undermined *Folkhemmet*'s goals and aspirations. Modernization dismembered traditional Swedish households and values as the economy experienced increasingly higher taxes and long-term industrial decline. Post-industrial jobs financed by government taxes eventually choked the supply of foreign direct investment, as well as domestic capital investment levels. When the private sector ceased to produce enough jobs to fund the highly taxed system, *Folkhemmet* experienced a crisis.

The creation of public sector jobs intended mainly to push more women into the workforce resulted in numerous inefficiencies and financial problems. High taxation accelerated the decomposition of traditional civic relations. Moral hazards taxed honesty and

eroded the common trust that had enabled the formation of this unique method of economic policymaking. What Childs initially communicated was a process of policy development dictated by gradualism and moderation, not a political system that could be transplanted across the globe. Thus, his “middle way of politics” should have been phrased the “moderate way of policy making.”

This dissertation by Josiah R. Baker fulfills the dissertation requirement for the doctoral degree in Politics approved by James P. O'Leary, Ph.D., as Director, and by John Kromkowski, Ph.D., and Claes G. Ryn, Ph.D., as Readers.

_____

James P. O'Leary, Ph.D., Director

_____

John Kromkowski, Ph.D., Reader

_____

Claes G. Ryn, Ph.D., Reader

Acknowledgements

I would like to show appreciation to the following: Ulf Sandstrom, Esq., Dr. Robert A. Baker, III, Dr. Håkan Wickholm, Dr. James P. O'Leary, Dr. Claes G. Ryn, Dr. John Kromkowski, , the Swedish Club of Sarasota, the Swedish-American Chamber of Commerce of Florida, Maj. Yngve Bergstrom of the Riksdag, Ulf Nilson, the Swedish Riksdag, Eva and Bengt Ebbeson, Allan Mattsson, Kjell Berglund, Tuve Barnabo, Leif and Anneli Hallstrom, Marc Hackel, Pearson Publishing Corporation, the *Washington Times*, Dr. Stephen Baskerville, Dr. Benjamin Arah, Sarah Ulmet, the Swedish Embassy in Washington, the Uppsala International Summer School, Claire Brantley and Kim Brugger of Pearson Education, Anders Edwardsson, Ed Truncellito, Esq., Dr. Stanley Brunn, Lt. Col. Philip Ware, Sr., Jeramie Maxwell, Peter Brown (*Orlando Sentinel)*, Dr. Djehane Hosni, Marita Valentine, The Catholic University of America Politics Department, Dr. Hanna Marks, Dr. Stergos Kaldouis, the Office of International Studies at the University of Central Florida, Dr. Matilda Harris, Shawn Lessard, Maritha Wickholm, Jessica Warden, Hans Lindblad at the Swedish Ministry of Finance, and Annika, Mikael, and Fredrik Sandstrom.

Table of Contents

Introduction 1
The "Middle Way" and FDR 1
Promoting the "Swedish Way" 4
Historical Methodology 10
Introducing *Folkhemmet* 12
Background 19
A Unique Small Country 21
The Need for *Trygghet* 23
A Burgeoning Bureaucracy 29
Chapter One: The Origins of the Great Transformation (1879-1900) 40
The Industrial Revolution in Sweden 47
The Agrarian Revolution 48
Tenacious Traditions 50
Early Industrialization 52
Regulation, Deregulation, and Adjustment 53
Population Explosion 57
Demographic Stages and Development 61
Emergence of Capitalism 66
The Social Democratic Party's Origins 74
The Sundsvall Strike 76
Swedish Industrialization 83
Political Parties: Emergence of Democracy 84
Swedish Social Democratic Party Program of 1897 88
Lagom: A Cultural Source of Moderation 98
Social Democratic Origins 99
Chapter 2: 1900-1920, the Progressive/Reform Movements 112
The 1917 Third Reform of Parliament 112
A Tradition of Trade 114
The Decline of Christianity in Sweden 116
The Stockholm School of Economics 125
The *Folket Hus* 129
Chapter 3: 1921-1932, Liberal-Social Democratic Alliance/Adaptation 133
Reaction to the Soviet Revolution 134
Branting's Legacy: Expanding the Political Base to Include Women and Political Moderates 137
Economic Transformation after World War I 138
Social Cohesion and a Disconnect with the Soviets and Communists 142
Not Quite a Majority 146
Cassel's Warning of Monetary Disaster 148
Hansson Assumes the Party Leadership 149
Chapter 4: 1932-1940, Changing Gears: Moderation and Consensus under International Duress 154
Rise of the Social Democrats 157

Pursuing Moderation in a Turbulent Climate 162
International Pressures 164
Governing with a Plurality 166
Macroeconomic Policy in the 1930s 169
The Pact of Saltsjöbaden, "The Basic Agreement" 174
The Swedish Model 181
The Unique Policymaking Process 181
Swedish Bureaucratic Culture 184
Chapter 5: The War Years: 1939-1945 200
Historical Neutrality 208
Neutrality's Legacy 212
Post-war Neutrality 220
Chapter 6: 1946-1959, Postwar Coalition of Moderation 226
Entering the Golden Age 230
The Gradually Increased Role of Government in the Economy 233
Prime Minister Tage Erlander (1946-1969) 241
Chapter 7: 1960-1970, the Build-up 256
Public Sector Expansion 256
Workers Demanding More 256
Bureaucracy Moves from Macro to Micromanagement 266
Ethnic Homogeneity 278
Social Engineering 279
Swedish Capitalism 290
The Lack of "Creative Destruction" in the Swedish Economy 293
Chapter 8: After 1970 296
Welfare Capitalism 302
The Laffer Curve 317
The Myth of Extremely Low Unemployment 322
Corruption 323
Olof Palme 325
Global Transformations 330
English as a Tool for Success 334
Chapter 9: A Model in Crisis 338
Tax Reform and Family 339
Recession 344
Cooperation Means Less Risk and More Equality 351
Economic Policies and Issues 354
Chapter 10: *Folkhemmet* Crumbles 357
The Corporate Welfare State 361
How *Folkhemmet* "Worked" 371
American Influence 376
Independence and Security 378
Conclusion 379
Appendices 387
Bibliography 395

List of Tables

Table 1: Swedish Urban Growth in the 19th Century 85
Table 2: Major Dates and Developments of the SAP 89
Table 3: Growth of SAP in the Early Years 93
List 1: Jantelagen 97
Table 4: Swedish Migration Trends between 1856 and 1930 103
Table 5: Percentage of Population Living in Urban Areas, by Year 140
Table 6: Percentage of Population Engaged in Farming and Agriculture, by Year 141
Table 7: Percentage of Population Employed by Industry and Crafts, by Year 142
Table 8: Number of Workers Employed in Industry, Mining, and Crafts, by Year 143
Table 9: Shipments from Narvik, Norway (thousands of tons of ore) 217
Table 10: Shipments from Lulea, Sweden (thousands of tons of ore) 217
Table 11: Distribution of Iron Ore Shipments among Scandinavian Ports 219
Table 12: Iron Ore Supplies: Late 1944 to Early 1945 220
Chart 1: Swedish Government Spending from 1860 to 1990, Percentage of GNP 236
Table 13: Type of Employment of Swedish Workers, by Percentage of Workforce, 1870-1949 244
Table 14: Total Expenditures as a Percentage of Gross National Income 251
Table 15: Unemployment Rates in Denmark, Norway, and Sweden, by Percentage of Labor Force, 1951-1990 263
Table 16: Government Spending in Sweden, by Percentage of GDP, 1950-1981 268
Table 17: Total Taxation in Several Nations as a Percentage of GNP in 1969 274
Table 18: Expansion of the Role of Government in Scandinavia, 1960-1980 275
Table 19: Growth Rate of Per Capita GDP in Denmark, Norway, and Sweden vis-à-vis Western European Average by Percentage 279
Table 20: Annual Percentage Increase in Productivity in the Private Sector for Scandinavian Countries, Compared to OECD Average, 1960-1979 287
Table 21: Swedish Tax Rates, 1950-1970, as a Percentage of GNP 292
Table 22: Public Sector Expenditure in Scandinavia, as a Percentage of GDP, 1962-1984 297
Table 23: Sectoral Distribution of Employment, by Percentage of Workers 1950-1990 309
Figure 1: GDP Equation 318
Table 24: Value Added Tax Rates in Sweden, by Percentage of Product Value, 1969-1983 319
Table 25: Sweden's National Election Results, by Numbers of Votes and Seats, 1970-1976 340
Table 26: Percentage of Swedish Labor Force Made Up of Women, 1950-1980 349
Table 27: Percentage Distribution of Business Sector Employment by Enterprise Size, 1991 364
Table 28: Swedish Outward and Inward Foreign Direct Investment in Billions of Dollars, 1961-1990 368

Introduction

The "Middle Way" and FDR

The Swedish system is famously depicted by Marquis W. Childs in his best-selling book *The Middle Way* (1936) as a compromise between Soviet communism and American capitalism. As a result, many academics and people in the media perceive the "Swedish Way" (or "Middle Way") as an ideal economic and political system because it seems to blend the best of capitalism and socialism. This study will show how the Swedish economic system, for much of the 20th century, functioned as a distinct variation of capitalism. In addition, this dissertation intends to prove that what Childs initially communicated was a process of developing policies dictated by gradualism and moderation, not a political system that could be transplanted across the globe. Childs's "Middle Way" of politics should have been phrased the "moderate way of politics." The system that Childs observed in the 1930s was not a result of compromising ideologies, but an example of how the Swedish culture uniquely managed the widespread social and economic upheaval caused by rapid industrialization and urbanization.

As an overseas journalist, Childs created a convenient term, "the Middle Way," for mass public appeal and consumption. Yet this phrase and misinterpretations of what really happened in Sweden became popularized by many comparativists and political economy scholars in subsequent decades. By 1936, more than four years into the crisis of the Great Depression, many American policy experts began to seriously question capitalism's viability. To them, Childs reported a possible solution to America's economic troubles.

The appeal of "the Middle Way" became so widespread that, in June 1936, President Roosevelt publicly took a strong interest in Sweden's unique economic policies. Convinced

that Childs's observations offered potential solutions for the economic crisis of the United States, Roosevelt held a press conference to announce a commission to study Sweden's system. This occasion proved to be a critical juncture in how American academics and scholars viewed Sweden throughout much of the remainder of the 20th century. FDR said:

> I became a good deal interested in the cooperative development in countries abroad, especially Sweden. A very interesting book came out a couple of months ago — *The Middle Way*. I was tremendously interested in what they had done in Scandinavia along those lines. In Sweden, for example, you have a royal family and a Socialist Government and a capitalist system, all working happily side by side. Of course, to be sure, it is a smaller country than ours; but they have conducted some very interesting and, so far, very successful experiments. They have these cooperative movements existing happily and successfully alongside of private industry and distributions of various kinds, both of them making money. I thought it was at least worthy of study from our point of view.[1]

With a virtual presidential endorsement, Childs sold many more copies of his best-selling book, especially through the remainder of the 1930s. During the fall months of 1936, after FDR sent the commission to Sweden, Childs traveled with and reported on Franklin Roosevelt's re-election campaign. Consequently, the President became well-acquainted with Childs and, over the next several years, he would occasionally mention "the Middle Way" in his radio speeches and in one early television broadcast, which also showed a copy of Childs's book on his desk.[2]

Due to FDR's admiration of "the Middle Way," American leftists (especially those who closely listened to FDR's endorsement) have clung to visions of harmoniously integrating socialism and capitalism. David Arter wrote, "Sweden became the epitome of an

---

[1] C. Vann Woodward, *The Comparative Approach to American History* (Oxford: 1997), 302.
[2] Kurt Samuelsson, *From Great Power to Welfare State: 300 Years of Swedish Social Development* (Oxford: Allen & Unwin, 1968).

egalitarian culture and pragmatic style of politics that many yearned to emulate."[3] While the Swedish case appealed to those seeking hope in the 1930s, the American political left has not forgotten the example Sweden seemed to set, while the American political right has sought to prevent a cradle-to-grave social welfare state and has used the image of Swedish socialism as something to prevent.

In the United States, political scientists and Keynesian-oriented economists such as Paul Krugman often point to interpretations of Sweden's *Folkhemmet* ("people's home") policies as a direction or solution for American domestic programs. American advocates of health care reform frequently see Swedish solutions as a potential remedy. Since September 11, 2001, American public policy has embarked on a renewed path of seeking protection and economic security through governmental intervention. The early-21st century mentality of many Americans, who feel insecure because of the war on terrorism, a lack of job security, market instability, and increasing food and fuel prices, is oddly similar to the desperation that Swedes experienced a century ago when they faced insecurities resulting from rapid industrialization and the disruption of pre-industrial small-town life. The threat of terrorism strikes the hearts and minds of many Americans much as fascism and communism effectively drove many Swedes into seeking protection or *trygghet* (security) from a threatening world by clinging to a paternalistic, universal welfare state.

Although the global recessionary conditions of the Great Depression and urgent practical matters stemming from the eruption of World War II discouraged more ambitious Swedish socialists, this study seeks to reveal how unique cultural and geographic factors

---

[3] David Arter, *Scandinavian Politics Today* (Manchester: Manchester University Press, 1999), 145-46.

shaped what Childs observed in the 1930s and helped develop what became famously known as "the Middle Way." Indeed, this study shows how Socialist political power was more nominal in the beginning stages of *Folkhemmet*, in the sense that ideology was not infused with daily politics as some might presume.

Promoting the "Swedish Way"

Thirty years after Childs,[4] Olof Palme (prime minister 1969-1976 and 1982-1986) promoted Sweden's domestic and foreign policies by emphasizing the "Middle Way" as a means to boost Sweden's "nonaligned" status in the Cold War.[5] By the time he became prime minister, Palme and his administration were managing the fully developed "Nordic Model," which had taken decades to establish, despite popular lore and the common perception that Swedish socialism had persisted since 1932. Later, Gøsta Esping-Andersen's *Three Worlds of Welfare Capitalism* (1991) qualified Palme's Nordic Model by pointing out key problems.[6] The 1970s and 1980s left many cracks in the supposedly perfect blend of capitalism and socialism. Though citing the failure of the post-war Bretton Woods-based fixed exchange rate as a contributing factor to the Nordic Model's decline, Esping-Andersen and other authors neglected to explain how the agrarian culture and other social forces during Social Democratic rule contributed to the formation of economic policies that were not nearly as socialist as most would presume.

---

[4] By the 1970s, Childs had become somewhat critical of *Folkhemmet*'s future. When interviewing Palme on several occasions at that time, Childs found the prime minister to be overly confident despite growing negative macroeconomic data.
[5] Olof Ruin, *Tage Erlander*, 1987.
[6] Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Princeton, NJ: Princeton University Press, 1991).

Esping-Andersen's *Three Worlds of Welfare Capitalism* and similar recent works greatly underplay the role of Swedish cultural institutions in influencing the development of Sweden's welfare state. Childs does mention how Per Albin Hansson, Sweden's prime minister from 1932-1946, created the core concept of *Folkhemmet* as a way for the *Sveriges socialdemokratiska arbetareparti*, Sweden's Social Democratic Workers' Party (SAP), to capture and unify the imaginations of the many segments of the working and residual peasant classes in the 1920s and 1930s.[7] However, Childs did not address the effects of Swedish culture on the Swedish Way's core concept: *Folkhemmet*. Although it captured the political imagination of much the public and projected an inspirational image of Sweden's future, the SAP's *Folkhemmet* model was only gradually developed over the course of several decades.

Although many scholars acknowledge the SAP's rule as primarily within a coalition government, they downplay or ignore the fact that Swedish Social Democrats almost always maintained a plurality, not a majority, of the seats in the Riksdag. For example, from 1932 to 1958 the SAP technically led coalitions with center and right-of-center political parties. Also, few scholars emphasize the gradual process of constructing *Folkhemmet*, which took five decades. Not until 1967 did Prime Minister Tage Erlander proclaim the project complete, at which time the engine which primarily funded *Folkhemmet*, the growth of private sector employment which contributed tax revenue to the system, almost immediately began to deteriorate.

By the late 1960s, as Palme[8] strove to lead the "nonaligned" countries in the Cold

---

[7] Marquis W. Childs, *Sweden: The Middle Way on Trial* (New Haven, CT: Yale University Press, 1980), 167.
[8] Prior to serving as prime minister in 1969, Palme created numerous international initiatives as the education minister and as Erlander's heir apparent.

War, he was portraying Sweden's system to the world media as a "Third Way." Palme in particular used the apparent success of Sweden's "Third Way" to justify questioning America's moral hegemony during the Vietnam War. Until the late 1971-1972 recession, for example, Palme and his cohorts could reliably use recent Swedish macroeconomic data to justify their domestic socialist mission and also to boost their efforts in the international realm as peacemakers by using reason and persuasion rather than military supremacy. *Folkhemmet*'s seeming success bolstered the belief that socialism could work and, in some ways, work better than more market-oriented economies.

Palme's polemically charged statements regarding American foreign policy escalated to the point of causing a suspension of official relations between Sweden and the United States. One is tempted to dismiss Palme's statements as following the European balance-of-powers tradition: the United States must be "kept in its place." However, according to Swedish journalist Ulf Nilsson and others who knew the prime minister personally, Palme earnestly believed in pursuing an independent foreign policy.[9] His criticisms were honest and were derived from his independent perspective, not from a European script. In Palme's mind there was no attempt to weaken the strongest player in the room merely because he was the strongest player. He viewed Sweden's as having a special position in the world. In 1969, Sweden became the first industrialized nation outside of the Soviet sphere of influence to establish diplomatic relations with North Vietnam. Later that year, in October, the Swedish government gave $40 million in humanitarian aid (to be distributed over the course of three

[9] Ulf Nilsson, interview by the author, Fort Lauderdale, Florida, November 2003.

years) to the North Vietnamese government as further proof that Palme meant to back up his rhetoric with action.

Palme's approach followed a French tradition in maintaining a policy that pursued the nation's own interests, rather than promoting policy for other countries to follow. A related European international relations tradition was Palme's tendency to balance against the United States as a means to keep a preferred equilibrium between the Superpowers. Yet *Folkhemmet* limited Palme's ambition to develop a separate sphere of influence, because its financial foundation depended absolutely on international commerce and the fluctuations of the world market. Swedish trade policies with other countries never could have fully implemented an absolute compromise between communist East and capitalist West. Though it might have placated communist interests, any policy adjustment that did not maximize Sweden's net export revenue would have meant an economic disaster. In this area of policy, even during the global Depression in the 1930s when some Swedish Liberals considered adopting more restrictive trade policies, SAP Prime Minister Per Albin Hansson and others maintained and promoted export-oriented policies.[10] With the exception of some agricultural subsidies to boost farming production, the Swedish government remained remarkably in favor of free trade. Pragmatism outweighed ideological concerns.

Despite the prevailing rhetoric of political neutrality, Sweden culturally was linked to the West. While leftist sympathizers in the West and some leaders within the world communist bloc, such as Fidel Castro, appreciated Palme's gestures, Soviet leadership never

[10] Early SAP leaders understood the critical role of free trade for their exports. For example, "Hansson stated (in a radio debate) that the tariffs formed an extra tax on the poor and had the effect of paralyzing large parts of the economy." Herbert Tingsten, *The Swedish Social Democrats*, trans. Greta Frankel and Patricia Howard-Rosen (Totowa, NJ: Bedminster Press, 1973), 306.

believed or accepted these efforts as genuine proclamations of neutrality.[11] In fact, the Soviet navy often infiltrated the Swedish coastline for reconnaissance missions. The infamous "Whiskey on the Rocks" incident in October 1981, when a Whiskey-class Soviet submarine, the S-363 (called "U137" by the Swedes), ran aground inside a restricted military zone along the Swedish coast two kilometers from the main naval base at Karlskrona, best exemplifies this practice of quiet distrust.

Furthermore, Soviet military strategists were fully aware that Sweden had become a de facto member of the North Atlantic Treaty Organization (NATO), because President Eisenhower had incorporated the neutral nation into his plan to defend Norway and Denmark from Soviet aggression. American strategists acknowledged Sweden's central location within Scandinavia and the link between its defense and that of Norway and Denmark. Although some Swedish military leaders were aware of this strategy by the early 1950s, many politicians either refused to acknowledge or did not value the presumed American military protection offered without any obligation on Sweden's part. However, many Swedes had no idea that their country enjoyed such a collateral benefit. Instead many Swedes, especially those among the leftist youth culture of the 1960s and 1970s, wholeheartedly believed that Sweden's "neutral" approach to international relations, not indirect American-led NATO protection, was responsible for granting them peace.

George Sander wrote in the *Wilson Quarterly* that a form of "self-righteousness," epitomized by Palme's polemics, emerged in the mindset of the Swedish left and remained

[11] Soviet leadership interpreted much of Swedish foreign policy as the maneuverings of an opportunist country, and the Soviets never forgot the crucial role that Sweden played in sustaining the Reich during the war.

until the great economic crisis and loss of political power in 1976.[12] Marquis Childs, who returned to Sweden in late 1976 and interviewed Palme literally as he was vacating his prime minister office, was told with full confidence by the outgoing prime minister that the SAP would soon return. Though shaken, the SAP was still confident in its ability to rule Sweden. Still, many Swedes could justify the government's "neutral" public image as a way to preserve Sweden's own sense of security during those tumultuous years of the Cold War. In spite of Palme's efforts, Soviet leaders remained skeptical, partly because it was well known that previous SAP leaders, Per Albin Hansson and Tage Erlander, had publicly declared that they were against communist political tactics and that democracy, not communism, was the proper way for Sweden to be governed. Palme's aristocratic family roots, his wealth, and his American education also did not encourage the Soviets to believe that he was a true leftist.

Although Palme represented a new generation of the Swedish left, his most significant effort in persuading Soviet leadership that his rhetoric was more than symbolic included participation in anti-Vietnam demonstrations and giving anti-Vietnam War speeches, which critically harmed U.S. diplomatic relations.[13] However, by the 1970s, Sweden's economic status and reputation as a powerful economy had peaked. Experts began labeling its system the "Nordic Model," because many of Sweden's policies had spread throughout Northern Europe and influenced many other countries, including the United States.[14]

---

[12] Gordon F. Sander, "Sweden: After the Fall," *Wilson Quarterly* 2 (1996): 56.

[13] In *Sweden: The Middle Way on Trial* (1980), Childs points out that many Swedish military goods used American technology or were partially manufactured in the United States. As a result of the poor diplomatic relations, the US government in the 1970s on several occasions vetoed the sale of Swedish military goods, which directly harmed Sweden's economy by causing the loss of at least 500 to 600 jobs on each occasion.

[14] The promise of state-funded universal health care as provided in Sweden is an example of how many in the

Historical Methodology

This cross-sectional historical analysis examines Swedish political and economic events from the 1879 Sundsvall strike to the Social Democrats' 1976 election defeat. New relationships between historical facts are established in this study using economic data obtained from the Swedish government and labor unions from 1880 to 1976. This dissertation explains Sweden's unique cultural conditions that contributed to the construction and progression of *Folkhemmet* as a system as well as the political process that followed. The question of how *Folkhemmet* funded its generous social benefits is also addressed and answered.

The historical analysis incorporates and assesses the applicability of cultural economic theories such as those offered by Joseph Schumpeter and Karl Polanyi. These ideas assist in critically examining the development of the modern Swedish economy. Chapters within the dissertation answer a series of questions pertaining to the relationship between economic policies and the country's economic development. For example, how much direct control did the government exercise over the economy? Was anti-trust legislation required to regulate industries? To what extent did the Social Democrats actually tax businesses? Did the Swedish government achieve its policy goals through coercion or court orders, or was it done by cooperating with private interests? Were property rights, a key ingredient of classic capitalism, limited or maintained and respected? How did property rights in Sweden compare with those in the British and American capitalist systems? How did high property taxes

---

American left began to turn to Sweden for answers.

combined with very high marginal income tax rates on personal income redirect resources away from the private sector to fund government services? To what extent did the government directly own Swedish industries?

The historical analysis explains why *Folkhemmet*, as originally conceived, lasted only as long as two factors persisted: first, the moral-cultural capital that accrued over many generations of feudal and pre-industrial lifestyles, and, second, the financial capital accumulated by Swedish entrepreneurs in the two decades following World War II. Thus, Sweden's economic system through most of the 20th century reflected a market-oriented pre-industrial culture or "feudal capitalism" rather than a compromise between Soviet communism and American capitalism.

The key to understanding the feudal element in Sweden's traditional system is to view it as a cultural and sociological phenomenon, not an economic order as commonly interpreted in the continental European states. The pre-industrial culture served as the moral guide for the construction of *Folkhemmet*, which as a formal system in Sweden was decisively incomplete[15] due to a number of factors later to be discussed. However, the pre-industrial, small-town Protestant Christian cultural roots fostered an innovative nature in Swedish political problem-solving methods, allowing societal and cultural institutional pragmatism to supersede socialist ideology and cultivate the development of a unique cooperative system. For example, trade union leaders were much more concerned about sustaining industries to provide income for workers than following Marxist or related

[15] Eric S. Einhorn and John Logue, *Modern Welfare States: Politics and Policies in Social Democratic Scandinavia*, 1st ed. (New York: Praeger, 1989), 196-197.

political principles.[16] Bolstered by Sweden's geographic proximity to conflict during both world wars, the sense of cooperative national unity crystallized under Prime Minister Per Albin Hansson's establishment of a wartime coalition during World War II. This progression of Swedish culture and geographic factors contributed to forming the public image of the "Swedish Way."

Introducing *Folkhemmet*

Long-standing misunderstandings of Swedish socialism are based on ignoring the cultural factors and institutions that affected the shaping of *Folkhemmet*. This work highlights the social-cultural dynamics that contributed to Sweden's robust 20th-century economy as well as the development of *Folkhemmet* by utilizing cultural insights to reveal a more comprehensive picture of the Swedish system's evolution.

Although Sweden industrialized later than most of Europe, it largely avoided the monopolies and labor violence that had plagued nearly all other countries during the industrialization process. Culturally, the Swedes did not rush to judgment or hastily make important decisions. Instead, consensus-seeking methods of conflict resolution operated at all levels of Swedish society. Industrialization, as Esping-Anderson and others argue, was accompanied by great deliberation and reflection in which rationality prevailed while the predominantly male pre-industrial labor pool became commoditized in conjunction with the urbanization process. Roskin explains that Swedish rationality is "highly prized" but expressed in "an empirical, Lockean, inductive kind of rationality and [they] do not pay too

[16] Allan Mattsson and Kjell Berglund, trade union leaders, interview by the author, Långshyttan, Sweden, December 2008 and August 2009.

much attention to theory or ideological purity."[17]

Unlike those of the United States or other market-based economies, Swedish-style negotiations between employer and employee did not involve direct government intervention, which was viewed by the SAP as unnecessary for substantial labor reform to occur.[18] Regulations and cooperative relations between certain special interests helped form a system dependent upon the redistribution of income rather than assets. Childs and others portray compromise as a prominent feature of Swedish economic development since the time of industrialization.[19] However, negotiation as a method of problem-solving was widespread prior to the 19th century and has deep roots that trace back to the feudal era.

What is often forgotten is that the political and social system also gradually changed throughout the 19th century. This was a nation accustomed to avoiding drastic decisions. In this regard, Swedish Social Democrats, from a tactical perspective, were very traditional Swedes. In many ways, the 20th-century Swedish political processes successfully incorporated much of the pre-industrial policymaking approach towards sharing risks and resources than did the leadership apply strict ideology to their decision-making processes.

Traditional socialist goals of nationalization and other direct governmental controls were largely abandoned after Hjalmar Branting and other socialist leaders received detailed reports of or witnessed human rights disasters during Russia's Bolshevik Revolution (1917-1920). Branting's SAP officially broke with the communists over the second Russian

---

[17] Michael Roskin, *Other Governments of Europe: Sweden, Spain, Italy, Yugoslavia, and East Germany* (Englewood Cliffs, NJ: Prentice-Hall, Contemporary Politics Series, 1977), 24-25.
[18] Marquis W. Childs, *This is Democracy: Collective Bargaining in Scandinavia* (Yale University Press, 1938), 208.
[19] Ibid., 212.

Revolution in October 1917. Branting disagreed with Vladimir Lenin's policies and believed that the violent overthrow of Kerensky's provisional government was unnecessary and morally wrong.[20] Branting's strong beliefs in using democracy to promote political change prohibited him from accepting communist tactics.

Commercial policies and related programs initially proposed by Hjalmar Branting, widely considered to be the father of Swedish socialism, were reliant upon market-based revenue and relatively loose regulations. Trade unions today still proudly exclaim that their system, established under the Basic Agreement of 1938, for many years did not depend upon or need government intervention.[21] Childs notes at the end of his 1980 book, *The Middle Way on Trial*, that the Swedish system slowly introduced economic policies over many decades.[22] Much of this was accomplished by cooperation between employees and employer with relatively loose regulations and a technical absence of direct government intervention. The trade unions, who were largely responsible for establishing the SAP, maintained enough clout within the party that they were able to conduct business independent of Stockholm. Childs observed in 1938 that the trade unions, like the industrialists, believed in solving their own problems,[23] a reflection of the pre-industrial cultural values of self-reliance and individual responsibility.

The slow transformation of economic policies reflected the ardent faith in self-reliance that Social Democratic leaders such as Wigforss, Hansson, and Erlander maintained

---

[20] Numerous sources state this claim.
[21] Trade union leader Allan Mattsson of Metall proudly stated, "We did the Basic Agreement without the government." Mattsson, interview.
[22] Childs, *Sweden: The Middle Way*, 116.
[23] Childs, *This is Democracy*, ____.

in the decades that followed. Patience was considered a virtue in the political left as the public sector, progressively and methodically, with each legislative round at the Riksdag (Sweden's parliament), encroached deeper into all realms of private Swedish life. The Swedish or Nordic system gave conflicting interests the flexibility and latitude to negotiate, arbitrate, and adopt creative and innovative solutions. Nonetheless, it was Branting's inspiration and leadership style that contributed to the gradual formation of institutions that reflected such flexibility. The Social Democrats initially rose to national prominence during World War I, but their economic policy of completing *Folkhemmet* did not become a reality until Prime Minister Tage Erlander's declaration in 1967.

The construction of *Folkhemmet* depended upon an ever-expanding economy to fuel the cradle-to-grave welfare system it supported. For example, rather than cut up the existing pie of resources and distribute it, the program focused on distributing the pie as it expanded so that future growth was the mechanism of change. In this regard, those with more resources were not immediately threatened with losses and those who would benefit did not immediately gain. This dynamic did not alienate the wealthy in the short run, while it encouraged those without wealth to participate and work for a glorious, prosperous future.

However, by 1968, due to a number of changes within the domestic and global economy, the private sector's ability to generate new jobs began to stall. At this time, the SAP, led by cabinet member Alva Myrdal, initiated a full-scale effort to incorporate female labor into the formal economy as a means to promote further economic growth while also achieving social engineering objectives, with a focus on gender equality via subsidized public services. A key defect in this endeavor was that millions of women ended up working

in the service-oriented, tax-subsidized public sector rather than in the manufacturing-oriented, market-driven private sector. Allan Carlson called this the "death of the Swedish housewife."[24] The financial efficiency of using tax revenue to subsidize services so that these women could work at jobs that required additional tax revenue to exist was questionable at best, and such efforts certainly did not promote further economic growth as intended. Indeed, the system began to experience serious fiscal problems once women became commoditized into these publicly funded positions. Had women been incorporated into private-sector positions, if those had been available, the results would have been dramatically different.

Not until the social engineering efforts of governmental experts and the vast expansion of public service jobs during the 1960s did the Swedish political economy finally shed its pre-industrial, small-town culture. Around this time, the traditional extended family structure was collapsing in favor of the nuclear family structure.[25] A key shift in family dynamics due to government social policies meant that the state assumed the burden of meeting the daily needs of the ever-increasing elderly population. This shift in family policy underscored the demise of traditional Swedish life. Thus, the social engineering efforts led by Alva Myrdal's policy reforms accelerated the decline of Sweden's "feudal capitalism," at which time the Folkhemmet began to show its first signs of deterioration.

Not until after *Folkhemmet* was declared "complete" did the typical socialist economic principles of nationalization and wealth redistribution become a top priority.[26]

---

[24]Allan C. Carlson, *Third Ways: How Bulgarian Greens, Swedish Housewives, and Beer-Swilling Englishmen Created Family-Centered Economies – and Why They Disappeared* (Wilmington, DE: Intercollegiate Studies Institute, 2007), ____.
[25] Einhorn and Logue, *Modern Welfare States*, 179.
[26] These goals were aggressively pursued after 1967.

From the early 1930s, the SAP leadership, under Finance Minister Ernst Wigforss and the guidance of the Stockholm School of Economics, adhered to a proto-Keynesian-style of economic management that depended upon growth of the economy and used income taxes as a method to redistribute benefits to all who participated. The wealthiest families in Sweden, through a series of agreements and exemptions, were often able to avoid heavy estate taxes that were intended to redistribute wealth. Still, Branting recognized in the early 20th century and instructed Wigforss and others that there were not enough wealthy Swedes to successfully lift the working and agrarian classes out of poverty. Economic growth, or the expanding of the economic pie, had to be the basis for a long-term aggregate solution.

The more aggressive traditional socialist principles of redistributing capital did not begin to emerge until the split with the Center Party in 1958, and the most ambitious efforts to redistribute income and wealth were not part of policymaking until the mid- to late 1960s. In 1967, when Erlander had announced *Folkhemmet*'s completion, a full ninety percent of production remained in the private sector.[27] By the time the SAP finally lost power in 1976, the majority of the official GDP (excluding black market transactions which became more substantial over time) belonged to government expenditures. In matters of spending, the economy had become socialized. Marginal income tax rates, by then, had reached over ninety percent and in some cases over one hundred percent.

Despite efforts to emphasize the importance of equalizing income and enhancing quality of life through public sector expansion, the SAP's international trade policies

[27] Esping-Andersen, *Three Worlds*, ___.

consistently aimed at goals that maximized export-oriented revenue.[28] Trade union leaders and industrialists respected the need for efficiency and competitiveness. Erlander's lengthy tenure as prime minister (1946-1969) supervised the construction of a benevolent corporatist society where key economic decisions and risks were shared and negotiated through compromise between layers of organized interest groups. According to Hall and Soskice in *Varieties of Capitalism*, Sweden's political process of consensus-seeking created an environment of "organized market economies." Roskin and others describe *Folkhemmet* as evolving into a Swedish version of capitalism that lacked the governmental structure of corporatism but possessed "a highly evolved and institutionalized form of bargaining among interest groups."[29]

For many decades, Social Democratic leadership succeeded by applying its unique adaptation of economic theories to harness the strength of capitalism as a means to maintain and achieve political objectives. At the height of Cold War tensions, the Swedish left followed a more distinct foreign policy agenda in coordination with its economic policies as an effort to build a third way. Olof Palme and other enthusiastic Swedish leaders promoted Sweden's model as transplantable and enduring. Palme possessed what was almost a religious conviction that Swedish social democracy would endure, in spite of pending setbacks. Childs observed that Palme had "the same belief that he was moving with the winds of change."[30]

Marquis Childs, in *The Third Way On Trial?* (1980), wrote of his 1976 interview with

---

[28] Arter, *Scandinavian Politics*, ____.
[29] Roskin, *Other Governments*, 29-31.
[30] Ibid., 170.

Olof Palme after Palme was defeated for re-election as prime minister: "As we left at the end of two hours, just as Fälldin was coming in through another entrance, Palme's parting words were, 'When you return you will see me again in this office.'"[31] In fact, Palme's prognosis of Sweden's short-term political future was correct in that he did become prime minister again, although it took nearly six years and two changes of government before he did. However, by the 1970s, SAP policies had begun to harm Sweden's global economic competitiveness. Financially inefficient government programs gradually eroded *Folkhemmet*'s financial integrity, but they still did not extinguish its political legacy.

Background

By 1879, the year of Sweden's first significant labor strike near the newly industrialized area of Sundsvall, industrialization throughout much of continental and Western Europe had resulted in ever-increasing demands from the Swedish export market for raw materials. Because Sweden was a thickly forested country with plenty of water power and mineral wealth, its timber and mining operations were rapidly developed for export. Foreign commerce, which had been a national priority since at least the Viking Era (the 8th through 11th centuries), served as a catalyst for the mass migration from rural to urban centers. The local and central governments coordinated with private enterprises, both large and small, to orchestrate efforts to modernize Sweden's domestic and international production and distribution systems of manufactured goods. Community leaders developed excellent internal and external communication networks and, through an elaborate, high-

[31] Childs, *Sweden: The Middle Way*, 116.

quality educational foundation based on Lutheran Protestant Christianity, created a highly skilled labor force. These key components contributed to the formation of Swedish capitalism in the late 19th century.

According to Magnusson and Samuelsson, Swedish management strategies for factories, mills, and mines were always directed towards the export market. For centuries, Swedish leaders maintained the common perception that wealth was abundant on the continent and in the British Isles. With a domestic market too small, Swedish management and workers always clearly understood the critical importance of selling their products to the world market. David Ricardo's famous theory of comparative advantage seemed almost a natural fact to educated Swedes of every ideological background. Autarky, a form of economic self-sufficiency in which a country is not dependent upon foreign goods or resources, was never part of the Viking, medieval, or modern tradition in Sweden, nor was any other plan for self-sufficiency on the macro scale. This was a nation of people who always sought to trade for their own benefit. Isolationism, which was attractive to some Marxists in the Soviet Union and in other communist states where a large domestic market already existed, never gained popular support even within the most left-wing elements of the ruling SAP. Being linked to the world markets was a simple matter of common sense for Sweden's politicians.

The practicalities of an export-driven economy paved the way for a cooperative resolution between labor and management. Unlike Germany or China, Sweden rested on a semi-isolated peninsula, and, even during the height of its expansionary phase in the 17th and 18th centuries, it had never possessed a sizable or insulated domestic market. Historically,

any territorial expansion meant acquiring land via a sea route. Swedish political and commercial ambitions always faced instant interaction with other nations and markets; this was a fact of geographical circumstance that could not be ignored.

Prior to industrialization efforts, Swedish monarchs and their royal councils sought to improve commercial contacts, especially after witnessing the futility of using warfare to expand the nation's fortunes. An example of Sweden's early efforts to create international trade opportunities is its initial contact with the United States. In 1783, as part of its pre-industrial mercantilist national trade policy, Sweden became one of the first countries to sign a trade and friendship treaty with the newly formed American government. Although the United States was a small, developing country at the time, Sweden's leaders recognized the value and importance of establishing commercial links with the new nation. The tradition of finding new international trading partners continued for the next two centuries and continues to this day. Even the most radical politicians are checked by the harsh reality of dependence upon trade and reminded of the necessity of cooperating with existing international power structures and external markets.

A Unique Small Country

In the space of two generations, Sweden transformed itself from a country made up predominantly of peasants and craftsmen living in small towns and rural areas to a largely urbanized nation of skilled workers. By the third generation, poverty had virtually vanished in the process. During this period, Sweden's influence on industry, technology, and social theory was proportionately far greater than its modest size. From a labor perspective, Swedes

became known around the world for their hard work, honesty, and fairness. The roots of the Swedish economic transformation and the political reputation of the Swedes rest within in a traditional Lutheran spirit of community, cooperation, and sympathy for the unfortunate. The resulting political-economic system became known, or renowned, as the "Third Way."

Although the economic data now shows 1971 as a turning point for Sweden (which is curiously in synchronicity with the American transition in 1971 from being a trade surplus to a trade deficit economy), for a short time, roughly from Erlander's 1967 proclamation of the completed *Folkhemmet* until the middle 1970s, many political scientists seriously considered Sweden's "Third Way" to be a favorable alterative to the prevailing Cold War options of American-style capitalism or Soviet-style communism. During the peak of Palme's boastful rhetoric about the Swedish way, supporters could point to the 100-year period from 1870 to 1970[32] when the nation achieved real GDP growth rates unmatched in the Western world. Only Japan, which was non-Western and had in the previous 200 years deliberately sealed itself off from the rest of the world under the Shogunate regime, had a growth rate comparable to what the Swedes had accomplished during this period of time.

At its peak, the Social Democrats' *Folkhemmet* model offered a comprehensive list of government-sponsored social services and programs. The complexities of subsidies, tax breaks, and welfare packages yielded a political spoils system that was presented to the public as an investment, or the necessary cost of Swedish security. Eventually the definition of public investment expanded to include all forms of government spending. Many SAP leaders began to prefer quantity rather than quality when assessing the impact of government

[32] Yahoo's Business Reports on Sweden. http://biz.yahoo.com/ifc/se.html. Accessed: July 17, 2008.

expenditures on the economy. This growing preference to increase overall spending rather than targeted spending to stimulate the economy and to incorporate a greater percentage of overall employment within the public sector led to careless and indiscriminate public sector expenditures, culminating in an eventual system crisis. Thus, *Folkhemmet*, which took five decades to construct, experienced severe problems within one generation of its full implementation.

The Need for *Trygghet*

The social upheaval of the pre-industrial social system during the rapid industrialization period, accompanied by a string of national and international challenges that directly threatened traditional Swedish life, greatly influenced the need for economic security. Swedish political progressive groups formed in the 1880s peaked in influence during World War I; these movements coincided with the rise of the communists and subsequent demands for universal suffrage. The year 1917 proved to be a pivotal one in the development of modern Swedish politics, as reform groups, with few exceptions, began to seek consensus and cooperation rather than confrontation to achieve political resolutions.

In the private sector, 1917 was also notable as the year Knut Wallenberg established the first, and biggest, of the private charitable foundations that would become the repositories of most of the Wallenberg family's wealth.[33] This effort to preserve private capital also represented a form of compromise. Although in theory most SAP leaders agreed in principle about delivering equality from the top downwards, these same leaders, such as Branting and

[33] *The Economist*, "The Wallenbergs: The Ties that Bind," January 22, 2009.

later Wigforss, differed from the communists in how they sought to transform capitalism.[34] The communists ultimately accused the socialists of betraying the working class by cooperating with captains of private industry. However, as Esping-Andersen explains, "The socialists had to devise a social policy which both addressed the real need for social relief and would help the socialists come to power."[35]

By the mid-1920s, after suffering a series of political setbacks that were underscored by their inability to obtain a majority of the national vote as anticipated, the Social Democrats wisely readjusted their strategy and formed successful coalitions mainly with support from Agrarian (in Swedish, *Bondeförbundet*, or the Farmers' League) and Liberal[36] (*Folkpartiet liberalerna*, or the People's Liberal Party) political factions. Initially, Branting suggested to Hansson, who then also later advised Erlander, to also invoke a gradualist approach whereby higher taxes would not be immediately imposed. In addition, most previous efforts to have the government nationalize or formally own private enterprises were abandoned (at least until after the completion of *Folkhemmet* in the 1970s).

The reasons for this shift in policymaking are many, but the disturbing reports from the Russian Revolution certainly blunted desires from the left. Swedish society continued to experience social and political upheaval during World War I and through the 1920s, and then during the global depression and the rise of Nazi Germany to the south in the 1930s. By 1940, the nation was surrounded by geopolitical turmoil, which included the Russo-Finnish War and Germany's invasion and subsequent occupation of Norway and Denmark. Social

---

[34] Stefan Berger, "Communism, Social Democracy, and the Democracy Gap," in *Beyond Communism and Social Democracy: The Need to Rethink Democracy* (_____: A.R.A.B., 2002), _____.
[35] Esping-Andersen, *Three Worlds*, 66.
[36] Often the Liberals are referred to as the Folk Party.

Democratic leader Per Albin Hansson wisely initiated an effort to form a four-party coalition government that included all non-fascist and non-communist parties.[37] The SAP still maintained a plurality of the cabinet seats but willingly refused to accept a majority, even though the party did receive a majority of the votes in the 1940 election (see Appendix F).

Hansson's effort in leading a coalition government was meant to ensure that radical political elements would be excluded in favor of voices of moderation. The Swedish cultural concept of *lagom*, which will be discussed later, helps explain the desire of Hansson and earlier SAP leaders to adopt moderate courses in policymaking. The circumstances of the 1940s eased the application of a moderate approach. In 1940, Sweden witnessed a tentative cooperation between its largest trading partner, Germany, and its perennial enemy, the Soviet Union, that involved both sides claiming large portions of the Baltic Sea region. German and Soviet territorial acquisitions caused Stockholm to become nervous about its very survival. Sweden's predicament was recognized all over the world. For example, in April 1940, *TIME Magazine*'s front cover, which featured the beleaguered, 82-year-old Swedish King Gustav V and his advisors, was titled, "Sweden's Dynasty: Seven out of seven of their neighbors have been raped."

Sweden did avoid invasion and thrived after the war. The wartime coalition was not instantly dissolved. Hansson waited until August 1945 to reorganize his cabinet. By then, the SAP no longer possessed a majority of the legislature but held on with a tenuous plurality.

[37] However, Stockholm's mayor, Zeth Höglund, from 1940 to 1950 was a communist.

Only on one occasion (see Appendix F)[38] after World War II did the SAP obtain a majority of the national vote; this occurred in 1968 at the peak of Western Europe's generational wave of young leftist radicals. A year later, the controversial ideologue Olof Palme came to power. By 1970, SAP leadership and its allies, including the *Landsorganisationen i Sverige* ("Swedish Trade Union Confederation", hereafter the LO), had either abandoned or had begun to depart from the more moderate ways of policymaking and their previous decades of control.

The SAP-led government, for its first quarter of a century, had always maintained a coalition with a non-socialist party. For example, between 1945 and 1957, SAP Prime Minister Tage Erlander's administration addressed agrarian interests through its alliance with the Center Party (known at that time, and until 1957, as the Farmer's Party). Lars Magnusson wrote that the SAP "famously horse traded with the Farmer's Party." Social Democrats, since their devastating electoral defeat in 1920,[39] were well aware of the limitations of their public appeal. Prime Minister Hjalmar Branting, who had effectively led the party from obscurity in the 1890s to near national dominance, demanded and insisted that the party's deputies accept the fact that the majority of the people did not support their political platform (29.4 percent in 1920; see Appendix F).

Well aware that they operated only with the consent of a large minority or a plurality of the population (usually between 30 and 40 percent of the national vote; see Appendix F), Social Democratic leaders faced the necessity of compromise as a means to manage their

---

[38] Statistiska centralbyrån [Central Statistics Bureau], "Historisk statistik över valåren 1910-2006: Procentuell fördelning av giltiga valsedlar efter parti och typ av va," http://www.scb.se (accessed May 21, 2009). See Appendix F.
[39] Ibid.

coalition government and maintain power. According to Roskin, Branting deliberately steered the party's primary focus away from labor interests and towards those of the petite bourgeoisie. As the child of a university professor and having grown up in Uppsala, Branting was more familiar than many of the SAP leaders with these semi-affluent, politically liberal city dwellers. In doing so, he correctly targeted members of a weakened Liberal Party and effectively persuaded some middle-class people within the Liberal Party, especially women, to either sympathize with or join the SAP.

Although the SAP's origins rested with organized labor,[40] political necessities forced Branting and other early SAP leaders to expand their appeal to lower-level civil servants, agricultural workers, and women. Still unable to obtain a majority, Social Democrats generally ruled with a plurality, which was partly dependent upon catering to at least some middle-class, white-collar professional interests. When manufacturing jobs declined, the SAP expanded its constituency in public sector service-based occupations. As a means to bolster their base, especially after the break with the Center Party in 1957, Social Democrats embarked on an initiative to commoditize and incorporate women into their economic and political machinery. Alva Myrdal's gender equalization initiatives in the 1960s, according to Allan Carlson, were embraced by more pragmatic Social Democratic leaders because of the practical need to expand their potential tax base.[41] Alva Myrdal's ideological influence coincided with Palme's leftward shift in governance, which also sought to expand the public sector.

---

[40] Enn Kokk, *Swedish Social-Democracy Party Program of 1897*, trans. Daniel Brandell (Stockholm: Social Democratic Party, 1897). See Appendix A.
[41] Carlson, *Third Ways*, ____.

Myrdal presumed that Swedish women, enjoying their newfound independence from the home, would support the Social Democrats and gladly give the party their votes and money out of gratitude for increased *jämlikhet* (gender equality). Although seemingly socialist in intention, the "death of the Swedish housewife" and Myrdal's widespread gender equalization efforts yielded results that further commoditized many services such as childcare by bringing the economic system closer to Anglo-American capitalism than to any Soviet-based variation of feminism.[42] Just as industrialization commoditized labor through a wage system, Myrdal's agenda had hundreds of thousands of women performing the same services for the state that many had already performed within the household. Thus, the work of Swedish women was commoditized.

Though Myrdal intended to empower women and motivate them to gain more influence in society and independence from men, in many cases these women went to work primarily to earn more money, so Myrdal's movement became more financial than social. The restructuring of the tax system caused a necessity condition, in many cases, which coaxed women into the workplace, where the state could and did intervene in their daily lives while also taxing the services that they performed. Individual incentive, not a sense of duty to the community, prevailed in this decision-making process. Women, in effect, became more willing participants in the market and developed a capitalist mindset at the expense of shedding much of their traditional, pre-industrial mentality.

[42] Ibid.

A Burgeoning Bureaucracy

Since the SAP almost always lacked a majority and served as a coalition leader, their role of governance was more accurately that of a manager of policy development. From the 1930s to the 1970s, the SAP's management of government became institutionally entrenched in the sense that the culture of the bureaucracy transformed to support the seemingly perpetual ruling political party. Within Swedish society, organizations within organizations were developed to the point that Sweden became "hyper-organized." Bureaucracies were nestled within bureaucracies. The degree of micromanagement led Allan Carlson and other critics to call Sweden a "Nanny State."

The tight-knit, small-town mentality that had dominated Sweden and applied severe social pressure on its pre-industrial inhabitants had evolved into a national network of governmental services that strove to involve itself in every detail of each citizen's life. In effect, *Folkhemmet* was a national platform to re-create a benevolent, small-town environment for the entire nation. Not everyone appreciated this attempt, but it derived from the inclinations of those who fled rural poverty only to want to re-create the social stability of small town Swedish life in a different, industrialized context.

The foundation of *Folkhemmet*'s economic policymaking began in 1938 with the signing of the Basic Agreement in Saltsjöbaden, a small resort town ten miles south of Stockholm. The agreement stated that the LO would cooperate with the Swedish Employers Association, (SAF, hereafter the employers' union) to craft collective agreements regarding labor and production that would serve the interests of both the workers and the management. Prior to the SAP's rise to political prominence, the LO served as the strongest labor union or

"super-union" within what became the SAP's empire network of labor-based organizations. However, by the 1930s, to better coordinate its ever-expanding political agenda, the SAP had long since shed its direct connections with organized labor, in that union and party leadership had become separate groups of people.

Because the SAP only twice received the majority at the polls (in 1940 and 1968) but consistently maintained a plurality, its legislative agenda was tempered by a variety of political and social interests outside the party during its decades of managing the government. The SAP did dominate political discourse, but negotiations with other parties and interest groups were always in progress. The work of the LO and the employers' union entailed an ever-increasing control of the Swedish economy. Their efforts proceeded in the full confidence that an increasingly planned economy was in the best interests of the nation. Gradually, more radical leftist elements began to sway the SAP's core in the later 1960s. During this period, new regulatory initiatives and mandated benefits began to hinder Swedish industrial competitiveness. However, a lag in the official national economic statistics meant that these problems were not revealed until nearly a decade later.

Though many authors concede that socialist ideology never became overwhelmingly accepted in Sweden, its moral and ethical dominance still remains largely unquestioned. An individual's desire for wealth was seen as equivalent to greed, in that it was considered selfish and disdainful of the welfare of others, according to traditional socialism. Though Sweden technically enjoyed freedom of the press and was controlled mainly by non-socialist groups and families, the Swedish media rarely dared to openly criticize the great socialist

experiment.[43]

Social Democratic leaders, especially Minister of Finance Wigforss, wisely understood the limitations of government officials' capacities and skills, particularly in the short run. For example, civil servants and bureaucrats did not try to assume the expertise of those in the private sector. There was a clear understanding of and respect for such experts; this was solely due to the negotiation process that consensus-building requires, but due to emphasis on the importance of the specialization of labor within the society. Möller in particular believed that management, in order to be responsible for its actions, needed to be relatively independent of direct government control. In 1919, Möller expressed his concern that if labor were allowed complete power in industrial matters, it might "lead employees to champion interests of their plant to the detriment of the overall economy."[44] Swedish culture valued specialized training over generalized because the former indicates a sense of devotion and dedication to a narrowly defined task, a characteristic that was broadly and traditionally admired by the majority of the population.[45]

Swedish central banker Dag Detter's comment to the *Financial Times* further validates the specialization argument: he said it was crucial that companies run with commercial objectives, be insulated from political interference, and be transparent in their actions in order to maintain the trust of the public and the markets. "If any of these three principles are ignored, taxpayers will suffer along with the commercial assets in state

---

[43] When the SAP emerged as a national political force in the 1910s and 1920s, the Liberal Party initially agreed with many political goals but for different reasons.

[44] Tim Tilton, *The Political Theory of Swedish Social Democracy: Through the Welfare State to Socialism* (Oxford: Clarendon Press, 1991), 110.

[45] Håkan Wickholm, chief dentist, interview by the author, Halmstad, Sweden, August 2004.

ownership," he said.[46]

Swedes had a deep respect for education and training; they would not be so presumptuous as to assume professional positions for which they lacked the background or training. This emphasis on professionalism and expertise led to the proliferation of governmental jobs at the *kommun* (municipal) level, and it also contributed to the government's restraining its mandate within the realm of operating businesses. Instead, government expanded largely within the boundaries that Swedish culture found reasonable. This self-imposed recognition of the limits of government helps explain why the system was not purely a socialist movement as often interpreted by outsiders.

Taking over businesses, with de facto or direct efforts of nationalization, was not part of the SAP's agenda. The origins of this approach go back to 1919 when Gustav Möller expressed concern that state-run enterprises would lack competitiveness: "enterprises that lack viability and that cannot keep apace of technical progress will be scrapped."[47] The presence of government was more limited its scale and scope, as was especially evident in the management of Swedish banks. Bo Lundgren, chief of Sweden's debt office, noted, "The word nationalization can have many meanings and not all are effective. Sweden is less nationalized than most people think. 'Socialist' Sweden never dared 'tell the banks how to lend or where to lend,' because that is a management decision." The Swedish government offered itself as a guarantor but refrained from engaging in daily banking operations. The government possessed the foresight to allow private sector managers the autonomy to use

[46] *Financial Times*, March 8, 2009.
[47] Gustav Möller, "Socialiseringsprogrammet: Tysk-Osterrike" [The National Socialization Program of Austria], *Tiden* 11 (1919b): 238.

their specialized skills for the betterment of society as a whole.[48]

The *Financial Times* described the Nordic model as a "variety of European economic systems that emphasized social solidarity in combination with free enterprise." Dirk Schumacher of Goldman Sachs explained, "The social welfare system reduces worker anxiety and enables the economy as a whole to restructure."[49] Education and training programs helped buffer the negative effects of structural unemployment. For many decades these efforts were effective in combating some forms of unemployment, but eventually they were less successful in preventing cyclical unemployment, because fiscal policies discouraged the generation of employment from emerging industries.[50]

Within the SAP, proposals to create new types of taxes were initiated almost on an annual basis. Over time, Swedish fiscal policy became increasingly creative and even entrepreneurial in that the government managed to discover and pioneer new sources of taxes. Politics and residual feudal elements of traditional Swedish culture forced a gradualist process that met with less resistance, not only because of its pace, but also because the public was offered a plethora of public goods and services, which largely convinced them that they were "getting their money's worth." This successful sales pitch, accompanied in the mid-20th century by the people's enduring psychological need to be promised economic security, brought significant prosperity and general support to *Folkhemmet* in the 1950s and 1960s. Eventually, this led to what economist Assar Lindbeck called "arrogance" in Swedish policies. Anyone who resisted the vision of *Folkhemmet* began to be perceived as

---

[48] Gillain Tett, "US is Ready for Swedish Lesson on How to Deal with Its Banks," *Financial Times*, March 13, 2009, 24.
[49] Ibid.
[50] *Financial Times*, "A Quest for Other Ways," March 16, 2009, 7.

uncooperative, immoral, and perhaps even fascist.

Social Democrats, although usually unsuccessful in gaining the majority of Swedish votes,[51] did manage to influence the political culture enough to assume control of defining politically correct policies and the contents of public morality or ethics. The fossil of the State Church had withered away while radio and, later, television broadcasts of the assuring voices of Hansson, Erlander, and Palme preached a message of a rational and bright future to those who would earnestly contribute their financial and political support to the SAP. *Folkhemmet*'s cultural legacy still holds Swedish society in its grasp in that its promotion of a form of political correctness continues to restrain public discussions on reform. The social constructs of Social Democratic ethics eventually held a monopoly, inasmuch as practical solutions were strangled out of the party hierarchy by the early 1970s. Many young Swedes gradually acquired the impression that work was truly optional; the state would provide for them whether they contributed or not. Palme's government in the early to mid-1970s pushed these ideals to their very limits, fully confident of expanding Folkhemmet. The impact of the social program went beyond the SAP and their political allies. When the supposed non-socialist alliance regained power between 1976 and 1982 for the first time since 1932, they actually continued the expansion of governmental programs and expanded the presence of the state. By the 1976, though the SAP fell out of favor with the public, the legacy of Folkhemmet was still alive and well and indeed flourished for a few more years.[52]

The SAP's long possession of the position of prime minister (1932-1976) helped

[51] For all practical purposes, this was achieved only in the election of 1968.
[52] Government spending as a percentage of GDP continued to increase under the non-socialist alliance between 1976 and 1982. Tax increases also accompanied these spending increases. The ideal of Folkhemmet had saturated almost all of the Swedish political spectrum.

cultivate an elitist mentality within its leadership, culminating with Olof Palme portraying and symbolizing the attitude that the government knew what was best for the people better than the people did. As the SAP began to take its power for granted, non-democratic elements began to creep into the daily operations of governance. For example, like in the United Kingdom, Swedish traffic drove on the left side of the road, but when France and other countries began to adopt a right-side-of-the-road traffic system, Palme's government issued a referendum to make the change. The Swedish public decisively voted against switching the traffic system, but Palme's government still issued a designated time that Swedish drivers were required to cross over into the opposite lanes. This switch was actually performed in the middle of rush hour to ensure that the maximum number of people would be forced to make the adjustment at the same time. This example reflects a form of government coercion by elitists who "knew better" than the people, even though these decision-makers supposedly represented the people's will.

Despite such decrees from Stockholm, Swedes continued to generally appreciate the economic security that the system promised, which was dramatically expanded in the 1960s. The continuing positive macroeconomic data quashed doubters while the majority meekly accepted the growing role of government. Even the conservative opposition was forced to modify its public image during these peak *Folkhemmet* years by changing its name to the Moderate Party, implying that they sought a moderate course of socialism rather than taking an opposing position. When Palme assumed power in 1969, the SAP enjoyed near-dominance in Swedish political and social life. Palme's personality and ideological bent did generate some dissenters, but not enough to warrant political change.

As Sweden entered the 1970s, Palme's Social Democrats continued to push policies with the assumption that they alone knew what was best for Sweden. At this point in time, the people's traditional goals of individual economic independence gave way to increasing dependency on the state. Disposable income earned legally through wages became much more difficult for individuals to save or spend for themselves. The ability of those not already legally grandfathered into the system, such as the Wallenberg family, to accumulate wealth diminished with each tax increase and each creation of a new tax. The SAP's political power became entrenched and, gradually, the Social Democrats became in danger of turning into a socialist aristocracy in that their leaders embraced a self-righteous, elitist mentality in both domestic and foreign policies. The charismatic and controversial person of Olof Palme embodied this trend.

By the mid-1970s, personal wealth, income, and class level became marginally important compared to possessing political access to state resources, which meant maintaining favorable connections to the SAP in order to acquire government funding or a professional job. That so many highly skilled immigrants who arrived after the end of the Cold War had difficulty in finding a job that matched their skills exemplifies the sociological bias and the dynamics of social capital in a country otherwise lauded for its egalitarian culture. Even into recent times, select positions within the public and private sector are still acquired mainly by social networking. Obtaining a job meant having an inside connection.

The social experiment's economic policies eventually breached the spirit of Saltsjöbaden (the Basic Agreement) with the controversial Meidner Plan, which sought to transfer ownership of private firms to the trade unions by placing 20% of corporate profits

into a newly issued stock held collectively by the participating unions.[53] Simultaneously, Swedish industry in international markets began to lose its dominance and ability to compete by using its conscientious planning process. In previous decades, sensitivity to international competition acted as a means to limit governmental and trade union control of private industry.

Despite overall labor-cost increases, which included higher wages, shorter workdays, and increasing employer-paid mandatory vacation times, Swedish industry did manage to successfully compete until 1970.[54] However, the mentality of the late 1960s and early 1970s did not prepare economic policymakers to withstand the shocks of the oil embargo in 1973-1974 and 1978-1979. The SAP also found itself unable to successfully incorporate the values of qualitative work within government service as the number of public sector jobs tripled. Simultaneously, it became increasingly difficult to negotiate wages that would continue to favor workers while maintaining lower unemployment, controlling inflation, and meeting production targets.

The Swedish system relied on close cooperation and constant interaction between political interest groups, along with cultural insulation, to maintain its unique brand of democracy. Jorma Ollila, a longtime CEO of Nokia, told the *Financial Times*, "The Nordic model of capitalism means being open to globalization but protecting people from its

---

[53] Einhorn and Logue, *Modern Welfare States*, 254-255.

[54] Not until the early 1970s did Sweden have an official 40-hour work week. For almost the entire period of SAP dominance, there was a 48-hour work week. Wigforss, Ohlin, and most of the Stockholm School generally opposed shortening the work week to increase employment. Instead, they focused on maximizing overall revenue and growth to create new jobs. It was this emphasis on the expansion of labor, which eventually included women as much as possible, that remained a high priority until 1970.

negative aspects and providing everyone a good, egalitarian education".[55]

Challenging conditions ushered in an era in which everyday Swedes were more than willing to sacrifice large portions of their disposable income, as well as their more traditional ways of life, to support government policies that guaranteed economic security in an uncertain world. The faith and commitment maintained by the Social Democrats fostered a level of patience unseen in other countries. Arguably, the progressive groups of the late 19th century began to melt into modern political parties that were willing to negotiate their positions within the Swedish parliament, or Riksdag. A well-constructed modern state mechanism was presumed to be able to supply all of the needs of the Swedish people.

The State Church, which was historically affiliated with the old political guard, was largely cast aside as irrelevant as Swedes sought secular ways to provide a heavenly state on earth. This certainly appealed to Social Democrats with strong Marxist persuasions, and the tumultuous times of the later 19th century and the first half of the 20th century made a compelling argument that government could be far more effective in supporting the needs of the people than could the State Church with its antiquated and more limited scope and resources. Lastly, the industrialization process greatly increased the government's capacity to rapidly expand its role in the economy and in Swedish life.

According to Esping-Andersen, a welfare state's socialist programs are always heavily dependent upon harnessing technology to boost productivity as a means to better meet the demands of the people.[56] Many Social Democratic leaders, including Wigforss in

---

[55] Richard Milne, "Champion of Nordic Capitalism: The Monday Interview," *Financial Times*, March 23, 2009, 5.
[56] Esping-Andersen, *Three Worlds*, ____.

the 1930s, understood that encouraging investment was critical to advancing the nation's productive capacity. The government worked diligently to develop a series of tools that could manipulate and redirect private capital. These mechanisms included tax deferments, tax credits, tax deductions, tax exemptions, and reduced tax liabilities as a means to encourage technological innovation to boost employment and overall productivity.

SAP leaders were not as innovative in their mentality as some might presume, because they used the traditional agrarian concept of planting more seeds for generating greater crop yields as a conscious part of policymaking throughout this period. Early SAP economic policies, with the help of the advice of the Stockholm School of Economics, reflected the belief that investment, rather than consumption, remained crucial in the further development of the economy.[57] Later, when additional tax revenues were needed to cover the cost of *Folkhemmet* programs, the government opted for creating and then increasing the value-added tax rather than increasing certain capital gains taxes (especially for Class A shares, which will be discussed later). Capital gains taxes also were much higher for short-term (fluctuating, but often around 30 percent) than for long-term gains. The tax system reflected a bias against consumption in that a value-added tax (VAT) was introduced and eventually peaked in 1992 at 25 percent (see VAT table), the highest in Europe. Above all, the government sought to use the tax code to encourage specific investment behavior to help generate the necessary funds to create new employment.

[57] The Stockholm School of Economics, partially funded by the Rockefeller Foundation, deserves much of the credit for influencing the SAP.

Chapter 1: The Origins of the Great Transformation (1879-1900)

Many factors contributed to the traditional cultural characteristic of self-sufficiency. Since ancient times, Sweden has been occupied continuously by the same group of people, a longer occupancy than in any other country in Europe.[58] Geographic isolation and a less favorable climate contributed to this remarkable fact. The Baltic and North Seas are barriers to, rather than facilitators of, any casual investigation by bordering states by sea. The thick forests, often rocky terrain, and limited growing season made Sweden less attractive for habitation. Within Western Europe, only France and Spain are larger, so with a very small population growth rate, much of the country remained sparsely populated.

In 1900, although third largest in area, Sweden had almost the lowest population density in Europe. It still remains very low by European standards today. Since the beginning, most Swedish settlements were clustered in the southern portion of the country and along the coasts. The semi-isolation and unpleasant weather for most of the year taught the population the virtue of self-sufficiency. Overly dependent people could not expect to survive such a hostile environment. When King Gustav Vasa established the modern Swedish state in 1523, he sought to centralize the government[59] from his court in Stockholm, but he had only limited success as measured by the degree of central governmental control exercised in the daily lives of villagers.

Arguably, the Church possessed the most comprehensive organization within the country, and it was Vasa's decision to make Sweden a Lutheran state and his pursuit of a

---

[58] Ben A. Arneson, *The Democratic Monarchies of Scandinavia*, 2nd ed. (New York: D. Van Nostrand Company, 1949), 40.

[59] Ingvar Andersson, "Early Democratic Traditions in Scandinavia," in *Scandinavian Democracy: Development of Democratic Thought & Institutions in Denmark, Norway, and Sweden*, ed. J. A. Lauwerys (Copenhagen: American-Scandinavian Foundation, 1958), 79-81.

Bible printed in Swedish that probably had the most immediate and powerful impact during his lifetime. Vasa's influence was much more cultural than political. A poor infrastructure and poor weather helped insulate most Swedish settlements and towns, giving them a comparative autonomy. Serfdom never overtook the country because the peasants were too sparsely scattered and fiercely independent to relinquish their property and freedom.

Prior to the rise of Stockholm, the capital city of Uppsala filled only a symbolic role in the daily lives of most Swedes for centuries. The relocation of the capital to Stockholm coincided with the beginning of the role of the city in Swedish society. City dwellers began to compete for political power with small-town leaders. A clash between big city and local leaders existed because often people in the smaller towns did not want to be bothered and did not feel the need to gain support or attention from the central government. The power struggle continued to a lesser extent into the late 20th century. The tenacity of small-town power, best expressed in the dominate role of the *kommuns* throughout Sweden, is a result of urbanization happening later and in far fewer places than in most industrialized countries.

Later, when commercial and political interests began to consolidate after the early stages of industrialization in Stockholm, the central government still could not hope to maintain a strong grip on the hundreds of *kommuns* scattered throughout the forested and farming landscape. These small, scattered political units, often consisting of around 500 to 1,000 inhabitants in a general area, had operated quasi-independently during the pre-industrial Estates Period (1809-1866). They were formally inducted into Sweden's governmental system in the 1860s and quickly increased in number as the population began to explode. By 1930, when population growth started to level off but the urbanization process

continued, the total number of municipalities reached its peak at 2,532 entities.[60]

The local *kommuns* possessed a highly developed capacity for self-governance and a strong social network. It could easily be surmised that the majority of Swedes knew their neighbors very well. Often the sense of "everybody knowing everyone else" was endemic throughout *kommun* life. Prior to the Industrial Revolution and continuing well into the industrialization process, typical Swedes lived in these smaller communities that possessed strong social controls and social capital. Parish meetings, presided over by rectors, were a primary place for the local population to practice self-rule. Despite existing class differences during feudal and pre-industrial times, the parish and community meetings, along with the support and teachings of the State Church, asserted the basic principles of equality which eventually served as the rationale for much of the moral foundation supporting the modern democracy.

Nonetheless, the State Church also served as a social control mechanism that, starting in the 19th century and culminating in the 20th century, came to represent repression to progressive-minded people. People who did not attend the State Church each week faced potential fines. In addition, the local ministers exercised a unique power in being able to visit each Swedish household to conduct an investigation of moral fitness. Effectively, the Church could exercise theocratic audits that involved clergy members making visits to people's homes and passing moral judgments on how they lived. This tactic used by the State Church persisted well into the 20th century and profoundly restricted community behavior.

As an example of the social and political grip maintained by the State Church is that,

---

[60] Office of the Swedish Government, "Indelning i kommuner och landsting" [The Classification of Municipalities and the Counties], http://www.regeringen.se/sb/d/1906/a/12261 (2009).

until the 1917 *Regeringsformen*, a update to the constitution known hereafter as the 1917 Instrument of Government, weekly Sunday church attendance was legally required. Prior to this, the control of the Church over the population had gradually loosened since the 1866 demise of the Estates system. The liberalization process took nearly a hundred years, in that complete freedom of religion was not technically granted until 1951.

The SAP strongly opposed the degree of power and social control that the State exercised over the people within the context of the church. Local priests were viewed by the SAP as an extension of conservative Stockholm exerting its control on the small towns. The progressive movement in the late 19th century was as religious as it was anti-State Church, as witnessed by the growth of the "Free Churches" (Protestant Christian groups, such as the Baptists and the Salvation Army, that were separate from the State Church). Radicals sought to disengage themselves either from a Church they did not believe in or from a God they thought did not exist.

Social pressure within the community served as a set of informal checks and balances on the everyday behavior of the inhabitants. Police, fire, and many other services were provided on a voluntary basis. The great pressure to cultivate a sense of self-responsibility was reinforced by the need to have everyone contribute to the community. Matters of duty, obligation, and place were often dictated by social mores and by the relationships between extended family members and lifelong friends. The tight social constraints compensated for rigid political control. Many elderly Swedes may recall stories from their youth or from their parents' era when these traditions were practiced prior to the 1917 Instrument of Government, but few realized how this degree of social conformity and homogeneity

contributed to the social and political solidarity experienced during *Folkhemmet*'s construction.

It is important to note that the Swedish political environment sharply contrasts with that of the American West, where social constraints were much looser than in Sweden but where the political power exercised by police forces or the "Sheriff" was much more controlling over people's daily lives. Discussions and social mores remained powerful throughout the industrialization process in Sweden, while in the United States (particularly in the West) it often was rugged individualism that had to be reined in by more autocratic or draconian policing methods. This observation is critical to understanding how a 20th-century economy can be regulated by non-governmental groups cooperating with each other and without the need of direct government intervention, control, or ownership. The Swedish variation of capitalism (feudal capitalism) is riddled with social, not political, regulations. So long as uniformity of cultural values and a homogeneous, open culture persisted, the strength of Sweden's social capital maintained itself without the need for direct governmental force.

The use of strong persuasive methods to control people through social pressure helped the Church and the State rely less on the coercive measures than in most other European pre-industrial states. Economically, a scarcity of labor almost always seemed to exist, not just as a matter of fact, but as a fact widely acknowledged in the way feudal laws and mores were practiced in Sweden. Within the small, largely independent communities, the scarcity of human beings to labor in the fields or to serve in any productive capacity helped prevent the implementation of more authoritarian or draconian policies, which often cheapened human life in many more densely populated states such as Italy or Germany. In a

notable example of Swedish custom emphasizing the importance of individual life, in 1773 King Gustav III announced the abolishment of torture, making Sweden the first nation to give such rights to its citizens.

From 1434-1436, nobleman Engelbrekt Engelbrektsson led a nationalist movement to dissolve the Kalmar Union with Denmark. He received substantial support from many common Swedes who sought to maintain their relatively independent way of life and feared the increasing centralization of government in Denmark. Not only did Engelbrektsson successfully "liberate" Sweden from Denmark, but his efforts managed to help form the Four Estates that composed the first Riksdag (Riksdag of the Estates, or *Ståndsriksdagen*) which resulted in the peasant class never becoming serfs.[61] Therefore, as economic historian Lars Magnusson explains, "peasants were always more independent [than in other European countries]."

Ingvar Andersson adds, "Swedish peasants made good soldiers, which raised their value in the eyes of the political factions and gave them a certain measure of influence as well as elementary guarantees against extortion."[62] In general, this meant that the king, beginning as early as medieval times, often acknowledged the need to conserve the scarce peasant population to help maintain the security of the state. When Russia emerged as a great power in the 18th century, it became clear to most of the elite and those who conducted the daily operations of government that every man was needed to defend the nation. Consequentially, a period of enlightened despotism in Sweden coincided with the rise of

[61] Arneson, *Democratic Monarchies*, 41.
[62] Andersson, "Early Democratic Traditions," 71-78.

Russian might.[63]

The scarcity of Swedish people, especially considering the low population density and the virtually negligible immigrant population, meant that much was demanded of every person at the local and, in theory, national level. Individuals were encouraged to find ways to be innovative as a means to contribute to the economy. Social mores developed that favored production, hard work, and innovation. Individuals were given social and political license to produce whatever they could and as much they could over long periods of time. Taskmasters on the aristocratic estates and early industrialists recognized that abusing the limited number of existing workers could seriously cripple long-term production, reap a negative backlash from the community, and perhaps seriously damage the fragile local economy.

The limited quantity of labor available within the domestic market gave the workers and peasants a much better bargaining position in negotiating wages than in other European countries. Shortages of labor also served as a catalyst to allow people of all backgrounds to have greater occupational choices. Unlike many pre-industrial societies, flexibility in fulfilling the needs of the community outweighed traditional inclinations to force people into the occupations of their fathers. Inevitably, these more favorable market conditions culminated in the manifestation of a basic form of equality. This element of malleability also helps explain the cultural roots of Swedish *jämlikhet*, in that women in these small settlements were often allowed and very much needed to contribute in as many ways as possible. Practical concerns outweighed unproductive or counterproductive customs that persisted in more plentifully populated nations such as France and Germany. These

[63] Ibid.

conditions, over the centuries, solidified Sweden's culture of equality and its approach to labor negotiations, both of which came to fruition in the 20th century.

The Industrial Revolution in Sweden

Economic historian Lars Magnusson described pre-1870 Sweden as "a poor agricultural country."[64] In 1799, the Reverend Thomas Malthus, the father of modern population studies, traveled in Scandinavia to gather material for the second edition of his *Essay on the Principles of Population*. After visiting Norway, his group crossed into Sweden. During his travels from Värmland to Stockholm, Malthus was negatively impressed by the widespread poverty he witnessed.[65] Everywhere, according to his observations, rapid population growth threatened to outstrip the land's ability to meet the needs of the people.

Malthus foresaw much human suffering, and this probably would have happened had it not been for migration to the United States, particularly from Värmland. Nonetheless, at the time, the surplus local populations meant lower standards of living and miserable living conditions of the kind that Malthus feared for England. Despite having a much lower population density than England, Sweden in 1799 exhibited evidence of the dangers of overpopulation due to its more primitive farming methods, lower-quality soil and harsh climate, which prevented higher yields per acre.[66]

---

[64] Lars Magnusson. *An Economic History of Sweden.* (London: Routledge, 2000).
[65] Ibid, 1.
[66] Ibid., 32.

The Agrarian Revolution

Magnusson explained that capitalism arrived with industrialization and was, from its beginning, very much part of a national policy to transform production. The bureaucracy at the time consisted mainly of members of the aristocracy who sought to increase their family wealth. Trade and industrialization were viewed as desirable ways to expand power and influence for particular families and for the nation in general. This was especially critical because military ambitions had faded into neutrality as a result of so many wartime losses. Swedish nobility in the earlier 19th century, after a failure in the Napoleonic Wars that resulted in the loss of Finland, recognized the futility of war, but, very much like the Japanese and the Germans in the later 20th century, they saw economic trade and innovation as a primary and acceptable means to improve and expand the nation's wealth and power. Having elected French Army Marshal Bernadotte, with Napoleon's blessings, to become king, the aristocracy had already demonstrated a greater acceptance of internationalization than most nations.[67]

Ownership in Sweden, like in the United Kingdom, was state-authorized in the sense that property rights, including the owning and controlling of accumulated wealth, were dependent upon the state for enforcement and recognition. As nearby European states industrialized, ambitious Swedish merchants and early manufacturers cultivated international contacts to gain wealth by expanding international trade. Continental demand for raw materials eventually drew Sweden into "a process of international capitalist growth." Rural peasant communities were gradually incorporated into an expanding export sector, often

[67] Some Swedish Republicans, meaning those who favor abolishing the monarchy in favor of a republican form of government, claim the existence of a "French" king makes the office illegitimate.

enticing rural citizens to migrate into cities with offers of a steady wage. Foremen in these developing armament and primitive manufacturing facilities recruited blacksmiths or other craftsmen primarily through word of mouth and relied on the phenomenon of chain migration to continue to supply them with the necessary skilled men as production capacity expanded. Prior to the 1870s, the earlier waves of capitalism lacked the political and economic strength to disintegrate centuries of dominance by the household-based market economy within village communities with the peasant household as its foundation. Social elements, particularly social pressure on individuals, from the pre-industrial era persisted long after industrialization penetrated the bulk of the economy.

The expanding trade-based economy, according to Magnusson, meant that relations with "outer" world politics became increasingly important to Stockholm. He wrote, "the increase in capitalist features appeared to be deliberate interventionism in which the government, not least, played an important part. This view, that capitalism is something imposed by government and other centers of power, is not without foundation. It is a system which often acts as the very antithesis of the simple market economy".[68] The 20th-century emergence of large, dominant private corporations with special privileges exemplifies what Magnusson meant by government interests supporting capital enterprise. Rent-seeking activities were very much a part of the process. This issue will be discussed later, but it is important to recognize that this behavior existed prior to *Folkhemmet* and was a continuation of it, though in a different context.

[68] Lars Magnusson. *An Economic History of Sweden*. (London: Routledge, 2000).

Tenacious Traditions

The presumption that socialism was philosophically progressive or anti-traditional is not entirely accurate. Instead, what Swedes managed to do was to recreate through a democratic mechanism the degree of financial freedom that the peasants enjoyed from the city dwellers—except that the peasants were now living in urban areas while trying to lessen their dependence on their employers. In many ways, it was easy for these people of independent, rural backgrounds to resent the degree of control that a private employer could hold over them. The boss was like an industrial feudal lord.

Unlike the United Kingdom and other countries, which had had established serfdom for many centuries, impoverished Swedes were not socially conditioned to be as obedient and beholden to the boss. For example, union members could express their individuality by rebelling against the power of the employer. In this regard, Swedish socialists were initially not behaviorally progressive but instead anti-institutional, in that they sought and ultimately successfully fought to preserve their freedom from the tyranny of the market as manifested by an almighty employer. Thus the roots of Swedish resistance and organized labor are revealed.

Much of what the SAP sought in the early days was a means to maintain more of their simplified pre-industrial economy through much of the 20th century while auspiciously labeling it "socialism." Magnusson explains that simple market economies at the *kommun*-level had developed their own trade paths independent of government trade policies or authorization. Exchanges of surplus products and local specialties were smaller in scale and

less predictable, but they were also much more directly managed by small-scale players. Industrial capitalism, by contrast, requires regulation, often at the national level. For example, such capitalist regulations could constrain the household-based market economy by controlling farmers and craftsmen in rural areas or by banning some kinds of maritime trade.

The arrival of capitalism meant that smaller-scale operations within the economy often perished or were merged with or acquired by larger, more competitive operations. Such consolidations hastened the pace of urbanization just as the newly formed economic policies from Stockholm vigorously attempted to promote commercial gains for those who could exert influence in the cities and especially in the capital. Thus, from the beginning, capitalism and modern industrialization demanded regulations that would favor these new capitalist and, most frequently, urban rather than rural-based actors.[69]

Aside from accelerating the transition of the economy, the actual nature and length of the macroeconomic business cycles were shortened. The pre-industrial setting functioned on more stable and gradual long-cycles that ultimately relied on low levels of per capita agricultural production. Despite some advances in agricultural technology, there were no major breakthroughs from the Middle Ages until the 18th century. This was largely because individual improvements lacked a diffusive capacity due to isolation and a very poor infrastructure that crippled any potential distribution of agricultural technology and goods. The resulting disconnect, a condition underscored by poor communication between inhabitants of different geographic areas of the countryside in medieval and pre-industrial

[69] Magnusson, *An Economic History*, 1, 32, 57, 80, and 143.

Sweden, meant that productivity as measured by crop yield remained low.[70] Therefore, internal isolation harmed Sweden as much as semi-isolation from external forces seemed to preserve and protect the country from invasions. Since innovations rarely penetrated the wooded inland areas, many hundreds of small communities remained functionally independent and loosely connected under a remote centralized government and the rituals and customs of the State Church.

Early Industrialization

According to Magnusson, the making of non-agricultural products, which included clothing, household implements and utensils, and simple agricultural equipment was a core part of the simple village-based market economy. Traditions required "widespread individual management of the household's economy," which meant that most household articles needed to be manufactured inside the home or on the household property. Village specialists such as blacksmiths, cobblers, and tailors handcrafted necessary household articles. Peasant households also pooled their skills in carpentry and labor for well-digging and constructing barns.[71] Most rural handicrafts were generally only marketed within a very limited geographic scope from outside of the village.[72] Magnusson explains that within the older agrarian economy there existed "proto-industries" that were intertwined in the older agrarian economy, consisting of regions with special "natural" conditions that had access to raw materials. A few specialized commodities were supplied to consumers over fairly large areas

[70] Ibid., 57.
[71] Ibid., 80.
[72] Magnusson, *An Economic History*, 1, 32, 106, and 143.

for centuries.[73] The copper mine in Falun is an example of a proto-industry built nearby resources.

Regulation, Deregulation and Adjustment

In the earliest stages of Sweden's industrialization (1820-1840), a surplus of precious metals such as silver was initially available and grew the economy enough to support an expanding population. Increases in demand for trade from the United Kingdom and the continent prompted government leaders to grant privileges to agricultural and commercial leaders to encourage the country to process its own raw materials in factories, for either domestic or export markets. From the beginning, government leaders were cognizant of the risks of increasing taxes, which could result in agricultural, industrial, and commercial stagnation. The leadership easily understood how the people would react to such policies, especially in a setting with a scarcity of labor and capitalized wealth.

Despite the national government at various times making proclamations and minor gestures of support for expanding commerce, Magnusson argues that in the 18th century proponents of export-related trade and modern manufacturing experienced an uphill battle because agriculture dominated the nation's political and commercial interests. Wealthy farming interests controlled almost all of the towns. Few cities of any size existed. In practice, trade policies were conducted at the local level, not by national edicts. National trade policies at this stage were virtually impossible to implement, due to Sweden's relative isolation and its lack of infrastructure. Almost all trade policies were driven by local events

[73] Ibid., 106.

such as annual harvests.

At the beginning stage of industrialization, dilemmas persisted for those who supported export trade and modern manufacturing, because many believed that increases in trade would yield a zero sum gain effect. A fear persisted that growth in trade-related commerce would be at the expense of agriculture and pre-industrial crafts. The theory of comparative advantage was difficult to perceive from the localized perspective on commerce that existed in a majority of these communities, even those on the coast.

Most of Sweden's ruling elite were leaders of these small agricultural trading centers consisting of a few thousand people. National trade policies often threatened to disrupt town economic policies and special interests who had dominated for many centuries. But as Stockholm and other larger cities grew in size and rose in prominence through increasing trade, the evidence to support national trade policies became more convincing. Despite the positive developments, the ruling elite pursued efforts to contain the emerging industrialized sites such as factories as a form of restraint and what was considered *lagom*, or moderation. The speed of change had to be controlled, but this was and remained a Swedish approach to transformation — gradualism.

Aside from the bias of the ruling class towards maintaining tradition, proponents of increased trade argued that town economic policies often excessively taxed and regulated new industries, which harmed the growth of the overall economy and hindered job creation. Memories of the old elite's methods to retain power at the expense of employment possibilities persisted into the 20th century, which partially explains the SAP's focus on, and even obsession with, supporting trade policies which would maximize jobs even if they

contributed to the further disintegration of pre-industrial life throughout Sweden.[74] *Trygghet*, or economic security, remained the primary goal of the SAP, with the hope of using the market to financially nurture workers while also using collective agreements to protect these same people from unpleasant and sudden changes in the world market. The union, from a traditional worker's perspective, offered freedom from tyranny. Swedes expected themselves to work hard, but they also expected to receive security in the long run — not just higher wages in the short run.

Although it lacked Britain's and Belgium's endowments of coal deposits, Sweden possessed particularly high-quality iron ore, as well as other minerals such as copper. Also, Sweden's dense forests readily supplied a variety of products, including the charcoal needed to smelt iron before the invention of coke furnaces. Britain's industrialization boosted the demand for Swedish raw materials, particularly forest products. But because Swedish traders often felt that British buyers underpaid them for their exported goods, commercial relations were not always smooth. The unfavorable trading conditions resulted in many Swedish business owners and workers viewing British capitalism as exploitive.[75] Cultural differences helped to reinforce this perception.

Despite feelings of distrust, world markets continued to flourish through the 20th century. Commercial opportunities brought new freedoms for common person who then began to demand that the government represent their interests, not just those of the traditional aristocratic class. As their share of the overall population grew and as more formerly rural

---

[74] Ibid., 106.
[75] Many sources confirm these observations.

people began living in the city, their voices began to be heard.[76] According to the Offices of the Swedish Government, in 1862, four special classes of municipalities were created throughout the country, and many central governmental policies were formally delegated to the local governments.[77] Financial rules for individuals were loosened. For example, in 1879 debtors' prison became legally extinct as a result of the new debt law of 1877 that eliminated incarceration for nonpayment of debt to creditors.

In the 1880s, the SAP's efforts to build a strong national organization were greatly assisted by developments in and significant upgrades to the existing infrastructure. Paved roads, railroads, bridges, and the printing press (cheap paper made possible low-cost written materials, which helped educate the populace and eventually augmented Sweden's pool of human resources) helped the SAP spread its message and construct a political party at the grassroots level, away from the traditional special interests of Stockholm. The yearning for political power apart from Stockholm also explains why not all union members or even SAP members were devout socialists. For some, the SAP was the only plausible means by which they could liberate themselves from the traditional institutions and from those who held power while so many seemingly suffered in their rural semi-isolation.

In the 1890s and into the 1900s, vastly improved communication networks via telegraph and telephone helped unite many isolated communities. Under pressure from the rapidly emerging merchant class in new urban areas, the government began to construct a national network of well-paved and well-maintained highways. Though railroad technology arrived late in Sweden, industries demanded that the government assist them in constructing

[76] Swedish Code of Statutes 1868, no 24.
[77] Office of the Swedish Government, "Indelning i kommuner och landsting."

a network of main railways. The need to transport raw materials and agricultural goods rapidly from the interior to coastal ports pushed forward the development of main line railways. The local governments, having always played a strong role in governance, also supervised much of the railroad construction and in many cases became shareholders in what eventually became a national network of railway systems.

Population Explosion

In the 19th century, Sweden's yearly population growth rate peaked at 1.2 percent (i.e., it doubled in less than 60 years).[78] Before the Industrial Revolution, this considerable rate of population growth led to a pauperization of the rural population, since each generation inherited increasingly smaller shares of land. Emigration began as a result of lengthy periods of crop failure between the 1840s and the 1860s, the promise of free land in the United States because of the Homestead Act of 1862,[79] and to a lesser extent religious persecution (from the State Church against the "Free Churches"). Between 1850 and 1930, at least 1,250,000 Swedes emigrated (re-migration excluded), chiefly to Canada, the United States, and Denmark. The exodus was so widespread that nearly every Swede knew of the opportunity to find a better life in America.

If these mostly impoverished, displaced peasants had not left for a better life in the United States, Sweden's population would have grown by at least two million within another generation, and greater social upheaval would likely have resulted. In part, the United States

[78] Keith Montgomery, *The Demographic Transition* (University of Wisconsin, Madison, 2000). See Appendix C.

[79] Despite the Civil War, the Homestead Act of 1862 offered free land to European immigrants, mainly to settle the Plains states.

contributed to stabilizing Sweden's industrialization process in the late 19th and early 20th centuries by absorbing a large proportion of its poorest and most dissatisfied people. Because serfdom never existed in Sweden, there were no legal or other forms of coercive restrictions to prevent peasants from departing. The great migration or outward flow of Sweden's surplus population into the United States continued until 1930, the beginning of the Great Depression. Coincidentally, at this time Sweden was no longer experiencing rapid population growth.[80]

Prior to the 18th century, Sweden experienced an extremely slow population growth, with rates which had an estimated doubling period of two hundred years. Poor sanitary conditions in the larger towns and cities prevented sustained growth there: more people died than were born each year in urban areas. In Stockholm, this situation continued until the middle of the 19th century. Additionally, because of the abundance of wood, most structures easily burned. Every major city and large town experienced devastating fires, which limited the growth of settlements. In the pre-industrial economy, scarcity of labor meant that each peasant and agricultural worker mattered. When industrialization began, labor-saving devices along with a managerial emphasis on maximizing existing human resources were easily incorporated into the production process.[81] Compared to much of the rest of Europe, Sweden's pre-industrial society had a scarcity of peasant labor, a very low population density, and virtually no net immigration which meant that the peasant and farming class had a greater value to the overall economy. Wages were higher and Swedish workers possessed a

---

[80] Montgomery, *Demographic*. See Appendix C.
[81] Rodney Edvinsson, *Growth Accumulation Crisis: with New Macroeconomic Data for Sweden 1800-2000* (Stockholm: Almqvist & Wiksell International, 2005).

much better negotiating position with management than in Britain, France, or Germany.

The small domestic economy valued the input of individual workers. J.A. Lauwerys explained how the conditions of Swedish society encouraged each individual to maximize his contribution: "In small countries where face-to-face relationships continue to be active and vivid, a man can most fully and easily realize his potentialities. He is not drowned in an enormous and amorphous mass of tens or hundreds of millions. It is here that truly democratic conditions provide for a flowering of the human being."[82] Roots of democracy and individual freedom within Swedish culture are directly related to these unique demographic and geographic conditions. Even during times such as Gustav Vasa's reign (1523-1560), when monarchs technically possessed despotic powers, the geographic and environmental isolation of communities within the country allowed the majority of the peasant and farming classes to live a life more autonomous from autocratic rule. In these thousands of very small communities, often numbering less than 500 people, every person mattered.[83] The semi-isolated locations and harsh climate guaranteed that unexpected infusions of immigrants and foreign military invasions would rarely, if ever, occur. Small-town life was stable and often insulated from outside influence.

Despite how most of the villagers felt, the central government remained mindful that more volatile geopolitical conditions on the continent to the south, such as in Italy or Germany, almost always required military strategists to expect security emergencies to arise from unexpected surges of foreign invaders. As a result of these perceived threats, the king

---

[82] J. A. Lauwerys, "The Importance of Small Nations," in *Scandinavian Democracy: Development of Democratic Thought & Institutions in Denmark, Norway, and Sweden*, ed. J. A. Lauwerys (Copenhagen: The American-Scandinavian Foundation, 1958), 412-413.
[83] Andersson, "Early Democratic Traditions," 71-78.

would authorize conscription of young men into the military. Nearly every city in Sweden has a main street named Kungsgatan, or King's Street, and often along this street the young men would gather to train and assemble for military service. Throughout the centuries the military draft represented one of the few occasions, other than the ceremonies of the State Church, when the common people interacted with their central government. In daily affairs, Stockholm was distant and detached. The people did not consider the central government to be nearly as relevant to their lives as the local one.

Despite ongoing concerns, Sweden's central government did not frequently draft young men or impose its political will on the small villages. Sweden's semi-isolated geography contributed to an environment where Machiavellian political principles were rarely, if ever, needed to defend the greater interests of Sweden or even a particular monarch's personal interests. The Baltic Sea and harsh Arctic winds in the winter helped provide a geographical cushion that sheltered Sweden from continental demographic storms. Even Sweden's chief security concern, Russia, often seemed like a faraway threat.

During pre-industrial times, immigrants usually arrived in Sweden on peaceful terms and in very small numbers. For example, many Dutch colonized Gothenburg and the surrounding areas, but they were assimilated. Historically, these foreign individuals either blended into Swedish society through marriage or lived lonely lives that had little effect on the greater culture. In either case, foreign cultural influence from immigration or military invasion was quite minimal. Although educated and well-traveled Swedes (usually the aristocracy, State Church clergy members, and merchants) were influenced by outside forces, these elite members of society used their discretion about how to receive and apply foreign

culture. Thus, these privileged people acted as cultural and political filters. Swedes viewed themselves as different from other countries and viewed ideas such as Marxism with caution and moderation. A generally peaceful existence prevailed on the peninsula, due to the overall political and social stability of most of the settlements during the pre-industrial era.

Demographic Stages and Development

To gain a clearer understanding of why Sweden's population experienced minimal growth for so many years, it is crucial to view the situation in terms of stages of development. Demographers cite these stages as common. For example, the high death rate and high birth rate period, often called Stage One, is also referred to as the "High Stationary Stage" of population growth, meaning the overall population level remains stationary.[84] Death rates are very high in this stage for a number of reasons, including lack of knowledge about disease prevention and cure, occasional food shortages, and outbreaks of infectious diseases such as influenza, scarlet fever, and plague. However, on a daily basis, it was primarily the lack of clean drinking water, inefficient sewage disposal, and poor food hygiene that created an environment in which only a minority of children survived to adulthood. Water- and food-borne diseases such as cholera, typhoid, typhus, dysentery, and diarrhea were common killers, as were TB, measles, diphtheria, and whooping cough. These common causes of death, especially during childhood, are now very rare in post-industrial Sweden.

The second demographic stage, or Stage Two, of population growth results in an

[84] See Appendix C.

increasing population mainly due to declines in death rate (particularly among those under ten years old) and partly due to increases in the birth rate (mainly due to improved nutrition or better crop yields).[85] By the end of the 18th century, Sweden had followed much of Europe into Stage Two, with significant decreases in the death rate. The death decline was attributed initially to improvements in food supply due to higher yields because of better agricultural practices. These innovations included crop rotation, selective breeding, and "seed drill" methods. The greater wealth as measured by vast increases in agricultural productivity also enabled people to marry earlier, which allowed women more fertile years to produce children and caused slight increases in the birth rate.

In agricultural matters, Sweden, like Ireland and other poorer European countries, benefitted from newly discovered sources of food that could be grown efficiently. Many Swedes today find the idea of never eating potatoes unimaginable, but until potatoes were introduced from the Americas, they were not a part of traditional cuisine. Potatoes and corn transformed Swedish daily life, more profoundly in some ways than did advances in medicine. These foods provided an abundance of easy-to-grow calories and greatly boosted the quantity of foodstuffs in the Swedish diet. Potatoes, originating from Bolivia, in the heart of South America, became firmly entrenched in Swedish cuisine and nourished hundreds of thousands of people who might have otherwise starved.

A third factor that boosted population growth was significant improvements in public health that reduced mortality, particularly among children. These health benefits did not initially include medical breakthroughs, but they did include improvements in water quality,

[85] Ibid.

sewage management, food handling, and general personal hygiene stemming from growing scientific knowledge concerning the causes of diseases. Magnusson states that literacy, especially female literacy, meant that housewives began to read material on health and medical trends. Public education programs introduced at the *kommun*-level in the later 19th century resulted in higher levels of literacy. The cultural influence of the Evangelical Lutheran State Church which promoted individuals to read the Bible for themselves contributed to these newly educated mothers taking better care of their children. The quality of family life improved accordingly.

As the 19th century progressed, the gap between the number of deaths and births per year grew wider.[86] Sweden's second-stage population growth climaxed at the end of the 19th and very beginning of the 20th century, prompting a national crisis that directly affected labor policies geared towards full employment. Changes in the population's age composition happened because an increasing proportion of children born survived into adulthood. Although the emigration of as many as 1.5 million Swedes redirected much of this excess supply of labor, intense public pressure remained to maximize employment for the increasing numbers of young people. The volume of Swedes that departed for the United States between 1880 and 1920 also reflected the tremendous demographic pressures stemming from population growth and rural-to-urban displacement. Eroding rural wages and surplus populations in the countryside pushed many farmers into migrating to urban areas. An intense challenge of finding work persisted for the growing number of young people who had no place in an antiquated agricultural system.

[86] See Appendix C.

Since in Stage One, the traditional first demographic phase, the majority of deaths occurred within the first five to ten years of life, so the decline in Stage Two death rates meant that a greater proportion of babies would survive into adulthood and would be available for and needed employment. This trend towards a more youthful population was intensified by the increasing number of children and young adults who initiated reproduction earlier while also maintaining their parents' high fertility habits. Therefore, the unemployment problem that consumed Social Democratic policy in the first decades of the 20th century was not so much an ideological one as a pragmatic concern resulting from the population boom due to the decline in childhood mortality rates.

High unemployment and economic uncertainty contributed to the plummeting birthrates observed through the 1920s and into the 1930s, according to Gunnar and Alva Myrdal's *Crisis in the Population Question.* They concluded that, at best, Sweden had dramatically entered the demographic model's Stage Three, where population growth dramatically slows due to birthrate declines and a condition by which death rates stop declining. Aside from macroeconomic conditions, several societal factors contributed to this demographic shift. First, the continual declines in childhood death rates in rural areas meant that, at some point, parents realized that they did not require so many children to ensure a comfortable old age. As childhood death rates continued to fall, parents became increasingly confident that fewer children would suffice. Second, increasing urbanization modified the traditional value that rural society placed upon fertility and children. Third, urban living raised the cost of dependent children as family structures evolved into nuclear families. Since children in agricultural settings can economically contribute earlier and the standard of living

of urban life is generally higher, the marginal cost of having additional children increases. The newly urbanized economy also carried additional educational requirements for children and brought restrictive safety labor laws. These changes increased the length and overall costs of dependency. Child labor ended roughly at the same time as compulsory schooling, beginning in the 1880s.[87]

At the end of the 1800s, people began to rationally assess just how many children they desired or needed. Once industrial and urban conditions severed the traditional pattern of thinking, the birthrate decline accelerated. Alva Myrdal observed that increasing female literacy and employment lowered the importance of childbearing and motherhood as a measurement of the status of women.[88] Women became valued beyond their childbearing and motherhood functions. An additional factor was that, as they entered the workforce, women's daily lives began to extend beyond the family and neighborly connections they made with other women.

Alva Myrdal and other feminists downplayed or disregarded the loss of social capital[89] that these women incurred by going to work, playing up instead the value of no longer being as isolated from so many segments of society. Myrdal believed that all women did or would eventually desire to participate in production-related activities outside of the home. She assumed that women would shift their overall attitudes concerning the burdens of childbearing. For Myrdal, economic security for women meant financial independence from men and being liberated from the home despite the subtle yet profound dominance that

---

[87] Sammuelsson, *From Great Power*.
[88] Alva Myrdal and Gunnar Myrdal, *Kris i befolkningsfragan* [*Crisis in the Population Question*] (Stockholm: Bonniers, 1936).
[88] Carlson, *Third Ways*, ___.

mothers and wives had within the household.

Industrialization had transformed the Swedish home from a family run operation to one dominated by the housewife. For example, under industrial conditions the father was required to be away from the home for long hours, instead of working on nearby land. As a consequence, women's influence on daily family life increased, even as they began to seek liberation from the farm. The decreasing birth rates during this period indicate how many Swedish women decided to reduce their household burden. Although improvements in birth prevention technology helped curb birth rates in the second half of the 20th century, contraceptives were not widely available in the 19th century and likely contributed little to the decline.[90] Based on this evidence, it is clear that fertility decline was caused by a change in personal values rather than the availability of contraceptives and the knowledge of how to use them. Once again, pragmatism and rationality appear to prevail in the habits of Swedish culture.

Emergence of Capitalism

Capitalism emerged alongside the simple, agrarian-based market economy. Magnusson and Rodney Edvinsson in *Growth Accumulation Crisis: with New Macroeconomic Data for Sweden, 1800-2000* both acknowledge that many scholars recognized that primitive or simpler forms of capitalism existed throughout pre-industrial times in rural Sweden. However, until the 19th century, these elements of capitalism consisted of foreign trade and private banking. Since these elements were geographically

[90] See Appendix C.

limited and had few participants, not many people were directly affected. Despite these limitations, a gradually increasing number of peasants, such as farmers and laborers who spun and wove cloth at their cottages for merchant-employers, were indirectly linked to the developing capitalist system. When not directly engaged in agriculture, particularly in the winter months, people were slowly brought into a "growing international trade sector."[91] However, commercial capitalism did not sufficiently integrate most of the "household-based market economy." Its impact may be viewed as part-time work or supplemental income to the general local economy. This was especially the case considering the seasonal nature of many Swedes' work schedules in the late 19th century.

Gradually, as people adjusted their lifestyles to the additional income, larger numbers participated in and became directly dependent on capitalism for their livelihoods.[92] With a tiny domestic market, Sweden's industries, which included mining, iron and metal bar production, and forest products, became increasingly dependent on and linked to the international economy. Despite that trend, the pre-industrial economy continued to dominate into the 19th century. Very few people participated in large-scale export trading to maximize profits.[93]

The changing economy became based more on industrial labor done by people in urban areas. This shift to urban industry meant dismantling the traditional family- and community-based social safety net that had, for centuries, provided for the individuals who endured material and psychological hardships. Large enterprises introduced division of labor,

---

[91] Magnusson, *An Economic History*, 57, 80, and 106.
[92] Ibid., 143.
[93] Ibid., 106.

machinery, and the common use of money; such changes weakened family ties and fostered mistrust between employers and employees, resulting in widespread poverty.[94] Special-interest groups were formed to address these social strains with the central and local governments.

Many of these modern Swedish organizations were sociological innovations that supplanted traditional rural family life. Workers united by forming quasi-families at first (often these groups consisted of many people who were either closely or distantly related) to pool their collective resources to survive in the new urban environment. The inadequate housing situation in newly industrialized areas contributed to many people being forced to live in close quarters. Within that first generation, these quasi-families began to merge into larger groups which eventually formed into trade unions to protect their economic interests. Karl Polyani wrote in *The Great Transition* (1944) that these social groups were "counter-forces" who were as old as the modern capitalist industrial society itself. Thus, radical economic changes gave rise to new institutional arrangements.

Nineteenth-century Sweden lacked the infrastructure (in 1850, there still were no railroads) to rapidly develop its interior forested lands. For decades only the coastal areas of Sweden were connected to the Industrial Revolution that had spread across continental Europe. Although the government launched far-reaching reforms to tap into the rapid growth of the world's commercial markets, Sweden remained fairly poor and benefited later from the diffusion of Europe's Industrial Revolution. Magnusson argues that the 19th century was a colossal paradox because capitalists were opposed to government intervention and control,

[94] Ibid., 57, 80, 106, and 143.

yet they also depended on the state to maintain their new corporate privileges.[95]

During the mid-19th century despite a growing number of merchants influenced in part by the successes of British and American capitalism who believed that the government should remain laissez-faire, Sweden's government continued to play an important part in industrial expansion. In measuring the extent of industrialization within an economy, there are three general criteria: (1) rapid growth in gross domestic product (GDP) or the economy as a whole, (2) a sharp increase in the industrial sector's share of the economy, and (3) key organizational changes in production, finance, and distribution in the industrial sector that reflect a competitive and innovative marketplace. Magnusson observed that these elements do not have to happen simultaneously or in a particular sequence. In Sweden's case, the economy as a whole did not significantly expand until organizational changes in the areas of production and distribution had happened to a degree that markedly and positively influenced overall industrialization. Other factors such as geographic relocations and internal migration and emigration contributed to accelerating the rate of Sweden's industrial revolution.[96]

By 1879, Sweden had witnessed a dramatic industrial transformation[97] because during the 1870s agriculture as a share of the economy and the percentage of the population engaged in agrarian work began to markedly diminish. Unlike the United States, which possessed its own large-scale internal competitive market, Sweden's emergence as an industrial nation depended upon and was directly linked to the international economy. The influx of foreign capital and shifts of existing domestic capital to new areas dominated

---

[95] Ibid., 57, 80, 106, and 143.
[96] Ibid., 57.
[97] Ibid., 106.

industrial and productive efforts. Its much smaller scale meant that new capital brought rather immediate and decisive results; the correlation further re-enforced ongoing industrial endeavors and an appetite for profit that helped create a powerful cultural force of business.[98]

Modern Swedish business culture developed from a unique regulatory structure due to the way that the state organized settlements into about 2500 municipalities in the late agrarian era into two main groups: *stads* (towns), consisting of 89 larger scale commercial towns which had "town privileges" regulated by the central state and rural towns which initially also included 8 localities given a special status of *köping* (market town) which tolerated and promoted commercial activities in designated rural municipalities. Though the tradition of small-scale market towns or *köping* originated from medieval times, by 1863 under Oskar IV the central government recognized the need to allow some local governments with an official designation of a market place status within the large group of designated rural centers of production.

When industrialization spread the numbers of localities given the status of "köping" increased, especially in the 20th century. By 1959, the number of localities with the designation of "köping" peaked at 95. Between 1863 and 1959 many new settlements especially suburbs around larger municipal areas due to internal migration and the later stage of industrialization were given the title of "köping" which developed into part of their name. Town privileges were granted to these new settlements. From the beginning centralized designations of production meant that private sector interests had to cooperate with public sector demands. This also meant that specific areas were deliberately cultivated by the central

[98] Ibid., 143.

state as a means to better control and channel population and economic growth. The practice of using "köping" status gradually lost its purpose once industrialization had saturated the country but it did not officially lose its function until the municipal reform of 1971[99] which reorganized all local governments into 290 sub-divided municipalities or kommuns. These modern towns routinely use the term "stad" and rarely use "köping" in every day speech.

The local government reform of 1863 was designed to help reorganize a rapidly transforming society into a cooperative system that intended to moderate radical change stemming from urbanization. A balance of power between local and central interests developed. By continental Europe standards, Sweden at this time began to develop stronger democratic practices that included a highly participating public in national, regional, and local politics. In conducting business, the structural reorganization of local governments helped form a culture of cooperation which included the creation of new corporations and firms.

In the 19th century, commercial and governmental customs often reflected a process that resembled that of small-town meetings. For example, communities held regular meetings concerning all kinds of issues, and many people felt an obligation to participate. Schools, the workplace, and various community-interest organizations were places where people discussed their daily concerns. The regulatory structure handed down by Stockholm required that the new Swedish business culture become highly organized, reflecting a general cultural response to industrialization. Thus, the structure imposed by the government helps explain

[99] It is no coincidence that the municipal reform act happened in 1971 as it coincided with the end of the dominance of the last generation that grew up in pre-industrial Sweden. At this time, rapid local government expenditures rapidly increased which contributed to the significant hardships at maintaining Folkhemmet from the early 1970s.

the basis of the functionality the Swedish variation of capitalism. Many decisions were delegated within each municipality by a process of discussion, with leaders placed importance on listening to input from others.

Developing from these traditions and the social upheaval caused by rapid industrialization, three *folkrörelsen*, or popular political movements, emerged between 1880 and 1914. These politically progressive groups proved to be crucial supporters for the reforms initiated in the 1917 Instrument of Government, which created the current modern parliamentarian political system. Since then, Swedish monarchs have not personally interfered with the changing or creating of regimes within the Riskdag. That same year, Poor Laws were enacted by the Liberal-Social Democratic alliance, which possessed a strong "people-first" approach.[100] The SAP's primary task, which coincided with the Liberals' goals, was to dissolve social and class barriers and to incorporate the entire population into a general constituency. Structurally, the 1917 Instrument of Government built the foundation for a sort of liberal democratic parliamentarian system, but it fell short of granting universal suffrage, something that conservatives and King Gustav V fervently opposed and managed to successfully delay until losing control of the government in 1920.[101]

Substantial political transformations occurred simultaneously with rapid industrialization, mainly driven by Swedish inventors and entrepreneurs between 1880 and 1920. Due to Sweden's modest population size, numerous inventions were created

---

[100] Janet Knoedler, Charles Sackrey, and Geoffrey Schneider, "The Middle Way: Swedish Social Democracy," in *Introduction to Political Economy*, 4th ed. (Capital City Press, 2005).

[101] Because of the monarch's greatly diminished role in policymaking today, few Swedes consider the political role played by the kings earlier in the century, especially Gustav V (ruled 1907-1950), who is often remembered more for being homosexual than for representing the monarchy's final attempts to influence foreign and domestic politics.

deliberately to help modernize its export-oriented markets. These included dynamite (invented by Alfred Nobel, who established the Nobel Prize), the self-aligning ball bearing (invented by Sven Wingquist, creator of the SKF company), the sun-valve (invented by Gustav Dahlén, who founded the industrial gas company AGA), and the gas absorption refrigerator (invented by Baltzar von Platen and later used by Electrolux). And there were dozens of other entrepreneurs during the 1880-1920 Era, including the car manufacturer Volvo and the telecommunications company Ericsson.

What made this period unique is that very few large, privately owned Swedish companies came to exist after 1920. Today, almost all of the domestic companies on Stockholm's stock market were started during the late 19th and early 20th century. Innovation and large-business development were particularly strong at that time. During this era, the GDP growth rate fuelled an investment foundation of gross capital formation that propelled the economy for many future decades.

According to Adam Smith in *Moral Sentiments*, every market-based economy relies on cultural or moral constraints as a means of governing an individual's range of behavior. Sometimes this component is expressed as the "invisible handshake." Capitalism depends upon rationality, but it also depends upon a common cultural context or understanding by which people can buy and sell in a secure environment. Some scholars believe that the simple construction of a set of laws will enable a country to develop such internal security. However, the letter of the law is insufficient to install a sense of security, because even when laws are virtually the same, the implementation and execution of specific policies varies according to cultural interpretations and customs.

Sweden was no exception in pre-industrial times to the disengagement that existed between centralized authority and the enforcement of laws at the local level. Since the beginnings of the Agricultural Revolution, which brought sedentary life, peasants retained large degrees of freedom and autonomy.[102] Sweden's unique characteristics meant that those who chose to settle in Sweden were, by default, forced to become self-reliant, disciplined, and cooperative with nature and their neighbors as a matter of survival. Authoritarian, centralized control existed within small communities, but it generally could be only periodically enforced by any central authority. For example, the elected kings of ancient times possessed mainly a symbolic role in daily Swedish life, much as the monarch does today. Even after King Gustav Vasa united and centralized his governmental powers in the 16th century, the leaders of small rural settlements continued to dominate daily Swedish life.[103]

The Social Democratic Party's Origins

Swedish socialism began with the founding of the Stockholm Educational Circle in 1845[104] by Swedes who had worked with Karl Marx and Fredrik Engels in London. Despite the direct connection with Marx and German radicals, Swedish socialists adopted a decisively "Swedish" tone from the very beginning of the movement. For example, as Tingsten explains, "by means of compromise and agreements, the idea of class struggle was

[102] Magnusson, *An Economic History*, 57, 80, 106, and 143.
[103] Ibid., 143.
[104] Educational circles or groups were study groups throughout Europe and later throughout the world that were founded by radical socialists, many coming from France. Sweden's socialist origins come from a group that migrated from London to Stockholm in 1845.

put aside."[105] Rather than proclaiming themselves part of an international movement of struggle and using confrontation, Swedish socialist leaders sought a strategy of social development which "meant increased free cooperation within the framework of the existing system — mainly through cooperation and trade agreements."[106]

To placate its more zealous members, who still sought the ideal of the state assuming control over the means of production, a Socialization Board was created by the SAP to outline and propose future goals. Because of election losses, especially the failure to obtain a majority of voters even after universal suffrage in 1921, the board's function was more theoretical than actual. Eventually, the Socialization Board was dissolved because there "was a considerable gap between theory and practice."[107] Thus, most Swedes did not perceive themselves as international socialists, but instead forged a unique synthesis of classic socialism with traditional Swedish values which included the importance of compromise.

According to Tingsten in *The Swedish Social Democrats*, mechanisms for reconciling differences between segments of Swedish society were well developed before the formation of the SAP. Though possessing new ideas, SAP leaders applied traditional methods to policymaking by addressing and solving problems in similar ways to those of their ancestors. Though there were exceptions, such as Gustav Möller, most of the leaders were farmers at heart, not ideologues. They contemplated issues, discussed them at length with others, and came to decisions after filtering them through a rather exhaustive process of consideration. Rather than attacking industries with physical violence and protests, they brought industrial

---

[105] Tingsten, *Swedish Social Democrats*, 339.
[106] Ibid.
[107] Ibid., 340.

leaders into the decision-making process. This was especially the case after the failure of the 1909 General Strike. Less effort was wasted in fighting with opponents, and more effort was spent on reaching peaceful, workable compromises. Thus, the intellectual heritage of Swedish socialism was a synthesis of Marxism with a mix of down-on-the-farm common sense.

The Sundsvall Strike

In 1879, at the time of the famous strike, although connected to world markets with its iron, wood, and copper exports, Sweden remained less developed and, it is estimated, had a far lower per capita income level than many European economies. One can easily conclude that, in Sweden's early stages of industrialization, its forests served as the foundation of the modernizing economy. Growth, spurred by the Industrial Revolution occurring on the continent and in the British Isles, increased European demand for timber. Sweden had an abundance of timber down to its shoreline, almost ready for instant export. Sundsvall, a small town on the coast with a natural harbor before it and a river system behind it, grew tenfold between 1800 and 1900.

The explosive productivity of timber-related goods brought thousands from the countryside into the city with the promise of steady work. Some of Sweden's wealthiest people owned these newly developed sawmills. As it commonly occurred at that time, the wealthy lived in the city while workers lived in the suburbs, thus creating a geographic divide between "them" and "us." Sweden's segregation was based primarily on socioeconomic class instead of ethnicity, like in many other countries. However, urbanization expanded and

magnified the differences between those who had and those who had very little. Since most Swedes had only recently begun to experience an urban existence, this sharp contrast in living conditions was unique to them and seemed particularly unfair and unjust. In other countries with stronger urban conditions, the poor were much more accustomed to seeing both the discrepancies in living conditions and the socioeconomic segregation which had persisted for centuries prior to industrialization.

Sundsvall's industries included a sizeable number of shipyards, ironworks and water-powered sawmills; shipbuilding; exporting of wood for ship beams; and maritime activities. Industrialization for Sundsvall meant that the sawmills were operated by steam power. Because of its coastal position near Sweden's untapped forests, Sundsvall emerged as the core of Sweden's largest timber production area.[108] Sundsvall, at its peak in the 1890s, became one of the world's largest sawmill districts, with over forty steam-driven saws. The explosive productivity of timber-related goods brought thousands from the countryside into the city with the promise of steady work. Between 1800 and 1900, Sundsvall's population increased tenfold.[109]

World market prices, which were less stable at that time than in later decades, for Swedish exports fell in 1879. In response, management reduced wages for many of the workers. Believing that these actions were unjust, the workers protested and staged Sweden's first major, large-scale strike. The 1879 Sundsvall strike did not immediately bring a victory to the strikers, but it symbolized the general revolt of the newly arrived peasant-workers

---

[108] Barbro Björk, "Sundsvall's History," trans. Gordon Carmichael, Sundsvalls Museum, http://www.sundsvall.se/download/18.12dc30da1188f9f6efc8000921059/Histengelska.pdf (accessed March 2003).
[109] Ibid.

against their recently rich employers. Many frustrated strikers gave up on reform happening in Sweden and immigrated to the United States. A minority of these did eventually return to Sweden and exerted considerable influence through their stories of life in America.[110]

Regardless of the short-term setbacks experienced initially by the strikers, the Norrland region around Sundsvall became the center of the Swedish labor movement. In the 1880s, the movement continued to grow and eventually helped to form a political party for the workers: the SAP which was organized at the local level and often within local workshops, away from the traditional special interests of the Riksdag. Since 1879, Social Democrats and others have viewed Sundsvall as having a special historical status, as being almost a sacred ground as the origin of the worker's revolt. A monument in Sundsvall commemorates the day that low-income, wage-earning workers organized and resisted the unjust terms and demands of their employment by the new wealthy owners of production.[111]

Population growth and the internal migration to these expanding cities helped establish the labor movement. As previously stated, the SAP emerged along Sweden's north central coastal region, where many former peasants had sought a better way of life working in emerging industries to avoid languishing in near-poverty and near-starvation while toiling in the interior and southern portions of the country. Three years after the Sundsvall strike, August Palm published his *Folkviljan* ("*The Will of the People*"); in 1885, three years later, he founded the daily newspaper, *Social Demokraten* ("*The Social Democrat*"). August Palm was a professional agitator, severe and confrontational. For many years, he traveled around Sweden giving speeches to anyone who would listen. At times because of his reputation as a

[110] Ibid.
[111] Ibid.

troublemaker local authorities forbade Palm from using town lecture halls and he had to resort to making speeches at the side of the road.

Hjalmar Branting, the party's first secretary, was a pacifist and a fervent advocate of workers' rights. As a pragmatist, he replaced the less stable Palm as the movement's most influential voice, largely because his rhetoric offered a more moderate stance for societal change. In 1886 Branting became the party's official editor, writing numerous persuasive articles for widely published newspapers and magazines. Although both Palm and Branting privately held the same convictions, Branting projected a more diplomatic public image and possessed a more organized leadership style. His political prowess resulted in his eventual election as the first Social Democratic parliament member. Once elected to the Riksdag, Branting built and solidified his leadership position within the party and throughout Sweden. He became the face, voice, and the very spirit of the movement for the workers. Branting's abilities to massage and mend party policies in those early days built a useful foundation for the party and proved to be an excellent example of how to construct, manage, and maintain political power for the party for many decades to come.

Since the 1889 inception of the SAP, its leaders sought to introduce policies that would construct a welfare state. The formation of Swedish socialism was based on industrial workers, its political party apparatus, and members of the intelligentsia in Stockholm, Malmo, Uppsala, and Gothenburg. At the beginning, its primary focus was on improving the harsh conditions of the workers. For example, in 1891, the average work week was over 62 hours for industrial laborers.[112] In this early stage of their political movement, Swedish SAP

[112] Marianne Sundstrom, "The Swedish Economists, the Labour Movement and the 8-hour Day," in *Swedish*

leaders sought to reduce work-week hours as a means to improve the quality of life and give more time for the political participation of the masses. This meant higher wages. Despite this effort, the SAP did accept the idea that fewer working hours meant increasing employment. This element separated the SAP from other Social Democratic movements, which believed that a reduction of work hours would force more employment.

The Swedish work ethic and the bias towards producing goods and materials for exports contributed to some leaders' reluctance to dramatically reduce work hours. For many leaders, including Branting, there were other injustices that needed to be addressed first. Though hours were substantially reduced by the end of World War I, the Swedes were not forced to the 8-hour day or 40-hour week as demanded by every other labor party movement in Europe.[113] Instead, Swedish leaders were content with higher wages and maintaining industrial competitiveness.[114] Part of this attitude was attributed to a keen focus on competition by SAP leaders, but it also is a tribute to the efforts of Swedish economic experts such as Knut Wicksell, Gustav Cassel, Eli Heckscher, and, later, Bertil Ohlin. Such experts, over a period of decades, wrote thousands of weekly newspaper articles educating the masses on economic theory and competitiveness.

Using comparisons to agricultural production, something that most relatively young, working-class people in the 1890s could easily relate to, Knut Wicksell in particular argued that lowering working hours risked reducing overall production, which would harm wages

---

Economic Thought: Explorations and Advances, ed. Lars Jonung (London: Routledge, 1993).

[113] The demand for an 8-hour workday was a part of the SAP's general platform and remained a key goal on paper. See Appendix A.

[114] Sundstrom, "The Swedish Economists," ___.

and overall economic growth.[115] Both working-class Swedes who maintained a very high literacy rate and their leaders valued and trusted the opinions of their experts in economics, so Wicksell's dogmatic insistence on maintaining Swedish competitiveness through higher productivity was widely received and believed. The influence of farm life, including the need to work longer hours for a bountiful harvest, persisted within the Swedish work ethic at the turn of the century.

Swedish labor leaders remained determined to improve the quality of life for themselves and their constituents, but they also maintained a deep respect for practical matters that superseded ideology. Branting, who studied under Wicksell at Uppsala University, accepted Wicksell's teachings at a general level. Instead of forcing quantitative demands, Swedish labor pursued qualitative objectives, such as more clearly defining the beginning and ending times of work days, defining and maintaining holidays from work, and pursuing uniform labor practices throughout the country to curb the abuse of lengthy working hours by some employers.[116] By 1890 and continuing through much of the 20th century, the SAP concentrated its efforts on forcing employers to adhere to a set national standard of working hours and holiday compensation rather than trying to obtain a bulk reduction of daily or weekly hours.

In the early days, the impact of Swedish emigration to the United States directly affected SAP leaderships. For example, in response to an invitation, in September 1900 August Palm traveled to the United States to visit Scandinavian clubs of the Socialist Labor Party of America. Beginning with the club in Providence, Rhode Island, and in New York

[115] Ibid.
[116] Ibid.

City and Brooklyn, Palm continued west through Pittsburgh, Chicago, and Minneapolis and St. Paul, where he met the governor of Minnesota. He described his journey in the Swedish book *Ögonblicksbilder från en tripp till Amerika* ("*Snapshots from a Trip to America*"), published in 1901.[117] Having observed much of the traditional manufacturing belt of the northern United States, Palm was greatly impressed with the workers' conditions. Inspired by American working-class prosperity, Palm hoped that Swedish workers could eventually achieve a similar standard of living. After returning to Sweden, Palm and others pursued the fight for universal working standards.

Unlike in the United States, which eventually required more rigid legal controls over the workforce, such as a standard 40-hour work week and a national minimum wage, in Sweden many of these policies were unnecessary because Swedish workers maintained much of their feudal work ethic for many decades. For example, higher taxes did not immediately dissuade Swedes still influenced by 19th-century tight-knit society from working hard or doing high-quality work. A feudal sense of obligation to the community persisted. Astrid Lundgren and others who viewed themselves as socialists were often glad or willing to pay higher taxes because they believed that it meant advancing the common good. Those who, like Olof Palme (born 1927), were born after industrialization and lived in urban areas were less endowed with such a connection to the common good. Children who grew up after the great urban migration were socialized under conditions that placed their individual needs before those of the community. Eventually, such an extreme emphasis on self in combination with generous government programs designed to promote the individual's needs cultivated

[117] August Palm, *Ögonblicksbilder från en tripp till Amerika* [Snapshots from a Trip to America], http://runeberg.org/palmtrip/

an entitlement mentality. The gradual emergence of "black money" and increasing non-participation of young people in the workforce are examples of such a decline in willingness to participate or to be controlled by communal social forces. Ultimately, the nature of Sweden's social capital transformed, disabling much of what allowed Childs's "Middle Way" to function.

Swedish Industrialization

Magnusson writes that the roots of Sweden's rapid industrialization coincided with the 1809 Instrument of Government, which most Swedes consider to have established a modern governmental system by formally established the permanent role of the legislature, resulting in power sharing between the monarch and the *Ståndsriksdagen*, or Riksdag of the Estates. This political realignment favored politicians who sought to introduce more economically liberal policies that favored export-oriented firms.[118] Gradually, commercial interests increased in influence and began to replace the remnants of feudal powers. By the 1850s, reports of the success of free trade policies in Great Britain impressed Swedish policymakers such as Prime Minister Louis De Geer into promoting a more free trade agenda. Soon, parliamentary efforts resulted in Swedish trade expanding internationally and domestically. State intervention declined.

De Geer, who strongly supported David Ricardo's free trade theories, sought to restructure Sweden's parliament to dilute the influence of political interests that opposed liberal economic policies. As a consequence of De Geer's efforts, the Riksdag of the Estates

[118] This is liberal by the classic European definition of freedom from governmental controls.

was dissolved in 1866 to create a new, bicameral national Riksdag in which people participated on the basis of income and wealth rather than estate or social class. This structural revision shattered a de facto caste system which had existed since Gustav Vasa's time and benefitted those who sought socioeconomic upward mobility. Unimpressed by the "lack of intelligence" shown by many among the Swedish traditional upper classes, De Geer, who valued competitiveness, recognized the need to encourage ambitious and intelligent men to reach a level of power and influence within Swedish society.[119] The new national Riksdag was intended to allow a greater voice to those who possessed these virtues.

Further political developments continued to encourage individuals to pursue commercial activities as a means of improving their lives. A generation of venture capitalists emerged within this period of financial freedom. Swedish enterprises were developed from a flurry of inventions in the final decades of the 19th century. Entrepreneurial activity began to peak at the same time as the population growth rate peaked. Particularly during the high private investment period of 1880 and 1920, most of Sweden's largest private employers today, including Volvo, L.M. Ericsson, Saab, Scania, and ASEA (now ABB), were established.[120]

Political Parties: Emergence of Democracy

Though the 1809 Instrument of Government created parliamentary powers that began to favor the emerging city-dwelling merchant class, Magnusson describes the living conditions of 19th-century Sweden as "wretched." Cities continued to be plagued by poor

[119] Louis De Geer, *Minnen*, trans. _____ (Stockholm: ____, 1892).
[120] Ibid.

sanitary conditions. Samuelsson describes 19th-century Stockholm, with the exception of Gamla Stan (Old Town), which dumped its waste into the Baltic Sea, as "filthy." Rural life, still overwhelmingly dominant, continued to be hampered by inheritance practices based on primogeniture, which resulted in greater inequalities of land and tended to perpetuate the growth of the working rural poor.

Table 1 below shows how Swedish cities exponentially grew during the 1800s.

Table 1: Swedish Urban Growth in the 19th Century

City	1800	1900
Eskiltuna	1300	13,600
Falun	4800	9600
Gävle	5400	30,000
Gothenburg	12,800	130,600
Hälsingborg	1700	25,000
Malmo	4000	61,000
Norrköping	9000	41,000
Stockholm	75,000	300,000
Uppsala	5100	23,000
Västerås	2800	12,000
Örebro	3300	22,000

Source: Franklin D. Scott, *Sweden: The Nation's History*

Prior to 1800, Sweden was almost entirely rural with Stockholm as the only town of any notable size. The 19th century witnessed a tremendous shift in population density and internal migration. Other cities began to develop. Between 1800 and 1900 Gothenburg, situated on Sweden's west coast became the commercial hub to the West, growing by a factor of ten. Malmo, situated at the mouth of the Baltic Sea at the southwestern corner of Sweden, grew by a factor of fifteen. The wave of urbanization was a consequence of the changing living conditions in the much smaller communities during the late pre-industrial era. Less populated areas generally lacked the necessary resources to support a burgeoning population. Surplus labor persisted in many of these areas unaffected by industrialization.

Rural population growth encouraged migration to new areas of economic development with better opportunities to survive.

By the 1840s, agricultural production could not maintain pace with the demands of a surging population. In response to near-starvation conditions and a deteriorating economy due to an exploding population, King Oskar I (1844-1859) initiated prison and debtor's reforms that resulted in the 1847 Poor Law, which required each parish and town to feed its own needy. This executive order transferring much responsibility to the community was the beginning of increasing the role of local government in providing a safety net to the population. However, despite these efforts, Swedes continued to leave the impoverished countryside. By 1900, nearly a quarter of the population, mainly displaced farmers and their families, had migrated to other countries. The United States absorbed the bulk of departing Swedes, an estimated population of 1.5 million.[121]

The mass exodus of so many Swedes to America established a strong cultural and commercial bond between the two nations. Sweden's label of "neutrality" often makes analysts underestimate the interactive nature of U.S.-Swedish relations, especially from an American perspective. The reasons for leaving Sweden were not solely on a poor economy. In the 19th century, Swedish religious dissidents aimed to escape the near monopoly of power of the State Church to enjoy America's religious freedoms. The larger, second wave of immigrants in the later 19th century did flee Sweden because of desperate poverty and near-starvation conditions. Promises of free land in America and plentiful job opportunities in its

[121] Numerous sources confirm this estimate. According to some sources, this figure is higher, but these sources have poor estimates of reverse migration, which occurred more often than many realize.

rapidly growing cities enticed a wave of Swedes,[122] especially those departing from Malmo and the interior of Smålan (southern Sweden). Ohlsson adds that, by the end of the 19th century, a commonly perception among impoverished Swedes who desired better lives was a choice between departing for America or staying and fighting alongside the socialists for change.[123]

The migration path to America was not just one way. Ohlsson claims that the re-migration of Swedish nationals from the United States back to Sweden was culturally more significant than absolute figures reveal. Not only did re-migrants often re-settle in their native parishes, but they also returned possessing much greater amounts of relative wealth and foreign experience that ensured "a prestigious position in the community."[124] These returning "Americanized" Swedes brought with them American views and values that fostered a popular perception of a certain closeness to the United States, unlike their feelings towards neighboring Denmark and Finland (and unlike the Swedish elite's closeness to Germany).[125] The success of these returning prosperous Swedes further influenced the demand for greater individual freedoms and political reforms. Thus, the United States indirectly nudged social and political reform in the 19th and early years of the 20th century. Today the influence of America continues to be profound, but it is important to realize that this is a continuation of a hundred and fifty year tradition and not a new development.

In effect, Sweden exported people to America, and America exported political and

---

[122] Samuelsson, *From Great Power*.
[123] Per T. Ohlsson, "Close Friends and Distant: Relations between the United States and Sweden over 200 Years" (lecture, Columbia University, New York, NY, September 23, 2003).
[124] Ibid.
[125] Ibid.

social ideas and some people back to Sweden. Ohlsson also claims that the Swedish translation of Alexis de Tocqueville's *Democracy in America* had an enormous impact on reforming the structure of the Swedish political system in the mid-19th century.[126] After thirty years of debates, in 1865, Sweden replaced its medieval Four Estates system of representation with a more modern, bicameral legislative model inspired by the United States. Franklin Scott described the relations between America and Sweden as "emotionally close despite the vast separation of geography."

Swedish Social Democratic Party Program of 1897

According to Joseph Schumpeter, Swedish socialism, like Swedish capitalism, was based on specific, intrinsic cultural qualities within its institutions: "Every country has its own socialism…Take Sweden for an instance. Like her art, her science, her politics, her social institutions and much besides, her socialism owes their distinction not to any peculiar features of principle or intention, but to the stuff the Swedish nation is made of and to its exceptionally well-balanced social structure."[127] *Folkhemmet* was a response to the quest for economic security.[128] which remained a consistent priority during the later portion of the rapid industrialization process. In 1900, Sweden experienced a social revolution that was reflected in the many progressive democratic movements that sought governmental change by demanding that the state provide its people economic security. The centuries-old, village-level social safety net had become tattered by mass migration to the cities and the general

[126] Ibid.
[127] Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy* (New York: Harper Torchbook, 1962), 325.
[128] Especially the *feeling* that one is secure.

disruption of traditional pre-industrial life. Swedish socialist movements, in an alliance with many Liberals, were peopled largely by the children of those who had undertaken mass migrations from the rural areas in search of work and economic resources. Socialism as a system emerged as a palpable solution to the seemingly constant threat of insecurity and prevailing injustice that ostensibly could sweep across a nation dominated by world market fluctuations and devoid of the old, paternalistic ways of rural life.

The SAP's origins trace back to 1889, when Hjalmar Branting and other party officials first organized a unified political program (see table below).

Table 2: Major Dates and Developments of the SAP

1889:	Social Democratic Labor Party is officially constituted
1890:	First of May is celebrated for the first time with big demonstrations
1896-97:	Branting is elected to Riksdag as first Social Democrat MP
1897:	First party program after Gotha (by Danielsson), based on Erfurt program
1898:	LO is formed, formally separating union and party leaders
1902:	Major strikes are initiated as a national tactic
1909:	The Social Democratic Left Party ceases its tactic of the Mass General Strike
1911:	New party program of cooperation
1917:	Formal split with Communists

In 1897, influenced by Germany's Ehrfurt-based Social Democracy Program of 1890, Axel Danielsson drafted Sweden's first such program. However, Danielsson did not simply mimic or slightly adjust German Social Democratic policies; instead, he addressed issues that were unique to Sweden: the proposed role of the Riksdag, the issue of the monarch and the State Church, the role of unions, and other items (see Appendix A) that incorporated a wish list of what many Swedish worker sought in the early days of the movement. As seen in

Appendix A, most of those items eventually did become part of Swedish law. Some reforms took much longer than others, but the success of the SAP from 1890 to the present day is clearly shown by the list of its proposals and accomplishments over time.

Danielsson, like Branting, demanded a social revolution, but he refused to advocate the use of violence. They both considered themselves Marxists in ideology, but they refused to apply the strong-arm tactics of the communists or to take many policies to an extreme, especially when they considered them to be unnecessary. In "The Political Theory of Swedish Social Democracy," Tim Tilton refers to Hjalmar Branting's commentary "A Modern Social Democratic Programme," which cites core features of the agenda as being the most critical to the movement.

First, according to Branting, socialism was a means and not an end. The goal of "the fostering and development of intellectual and material culture" illustrated the intent to use socialism as a method and not necessarily a destination. With an emphasis on process, Branting even as early as 1897 realized that the social and political transformation of Sweden could take generations. Second, Branting acknowledged that the growth of the "new middle-class," consisting of higher-wage workers and emerging professionals, was different from the declining "old middle class" that consisted of cottage-industry producers and tradesmen. In some ways, Branting acknowledged that the new middle class was sociologically as important as the working class. This recognition allowed the SAP leadership to align its primary goals with the progressive movements at the end of the 19th century, which included universal suffrage. By considering the new middle class as a potent and credible political force and not viewing it as an adversary, this explains a political partnership existed with the

Liberals in the earliest years of the SAP's dominance[129]

Branting's third area of emphasis about Danielsson's program dealt with the accusation from German and Austrian Social Democrats that there was an increasing impoverishment of the working class. In Sweden, according to Tilton and other sources, this was simply not the case, and as a result Branting and Danielsson did not perpetuate this "lie".[130] Instead, to Branting it was clear that, as difficult as life was for the newly urbanized working class, it was still a better existence than the absolute poverty and near starvation that so many faced in rural areas. Though Sweden is endowed with plentiful forests, less than ten percent of its total land was useful for substantial agriculture. Unlike Denmark and Germany, which had great tracts of land that could yield substantial harvests, Sweden lacked the land capacity to provide such returns to its hardworking peasants. Thus, for a peasant, relocating to a town and working in an emerging industry was an improvement which Branting and others appreciated. This degree of appreciation removed some of the potential hostility on the part of the peasants and helped foster a more cooperative approach to reforming injustices in the workplace and within this new industrialized society.

Tilton considers Branting's fourth commentary feature the most innovative, because in it Branting observed how capitalism "created a movement that counteracted its own tendencies."[131] *Den motverkande rörelse*, or "the counteracting movement," according to Branting, required the development of labor unions that would represent the interests of the workers but also prevent capitalist-owned industries from self-destructing and harming the

[129] Kokk, *Swedish Social-Democracy*.
[130] Tilton, "Political Theory," ___.
[131] Ibid., 31.

people. Branting's argument included a logical reason why unions were necessary not just for the workers, but for Sweden as a whole. This view enabled the SAP to easily expand its political base to include non-union members. The SAP was not simply a party for the workers or working class, but a social and political movement that intended to benefit all of Sweden by saving capitalism from itself.

Through its program and key commentary by Branting, the SAP offered an alternative version of Marxism that had distinctly Swedish elements. These elements helped form the political backbone of what Childs in 1936 called the Middle Way. Vänster Party (hereafter Left Party) member Johan Lönnroth wrote in "The Third Left" that "Sweden is maybe the only advanced capitalist industrial country, which has had the strongest reformist and weakest revolutionary Marxist tradition within its labor movement."

At the time of its formation in 1889, the SAP consisted of a small, scattered group of local representatives from trade unions. Functioning as a grassroots movement that represented the interests of the workers and, to a degree, the people at-large, the SAP developed as an organization built around local industries. Local SAP units would nominate delegates for regional or national meetings. The widespread geographical distribution of industrial locations served as the foundation for what became a very efficient national organization. Thus, beginning in 1889 the party spread quickly, as rapidly as capitalism did. The table below shows the SAP's quick expansion to a national political movement:

Table 3: Growth of the SAP in the Early Years

Year	Party Membership
1889	3000
1892	5600
1895	10,000
1905	67,000
1915	86,000

Source: Franklin D. Scott, *Sweden: The Nation's History*, 432.

At a glance, these numbers may not seem impressive; however, at this time Sweden had a smaller population and still did not have universal suffrage (even for men). Considering the much-smaller voting population, the growth factor is obvious. Within one generation, the party went from obscurity to a national political force that could demand legislation. As the party expanded in the early years, Branting and others adhered to the view that trade unions were not and could not be the only key interest group within the party leadership. Within a decade, the SAP's political base had expanded enough to justify making a formal split with the trade union leaders. Prior to the 1898 formation of the LO, which technically divorced political and trade union leaders from each other, the SAP directly managed union priorities at the national level.[132]

Branting viewed the separation of union and party leadership as a matter of specialization and a way to expand the effort to broaden the SAP's membership throughout the whole of Swedish society. Branting's strategy contrasted with the initial goals of August Palm, who more vocally embraced the Marxist idea of class consciousness and who, according to his beliefs, should have the SAP only represent the interests of the working class. Palm, unlike Branting, believed that during the era of rapid industrialization the

[132] Ibid.

population's largest growing segment was people of agrarian roots who would serve mainly in the emerging blue-collar employment market. The new middle class that was developing simultaneously with the working class, however, contradicted Palm's opinion.

Education reforms in the 1880s that guaranteed a literacy rate of nearly 100 percent meant that, by 1900, an unprecedented number of young people had the opportunities and skills necessary to earn middle-class wages working within the emerging professional class. These achievers were often members of the Liberal Party, and they believed that in the future more people would be able to better themselves through education, hard work, and the development of more financially rewarding skills. Like Social Democratic leaders, the Liberals believed that universal suffrage would substantially augment their political constituency, a view which justified their demands for a more fully developed democracy.

At this stage, SAP publications and political speeches were primarily concerned with expanding the participation of the working class. Due to its independent origins of the old Estates system, the SAP could credibly claim that it represented a new vision for Sweden. Disenfranchised people could see the SAP as a force of positive political change that represented the will of the common people rather than perpetuating the special interests that had been cultivated over the centuries in Stockholm.

The belief in obtaining a lasting majority helped justify the SAP's 1917 split from the communists who sought a coercive rather than a democratic process in obtaining political power. Branting and other SAP leaders realized that eventually their political base would represent the majority of the society, if women and impoverished men could fully participate

in the political process.[133] Eighty years of voting data indicates that without women's votes, the SAP would have never obtained a majority, or even, in most elections, a plurality.

Many Liberals of the 1920s, especially women, eventually did convert to the Social Democratic cause. The inclusion of middle-class women was part of Branting's plan for the SAP, and it gave the party a democratic foundation, an important departure from the ideas of many of the remaining Swedish communists in the 1920s, who still insisted on a form of a dictatorship of the proletariat. Arguably, the more conservative wing of the SAP began to resemble old Liberal policies, especially in the area of gender issues, as heralded by Alva Myrdal and her feminist cohorts. (Myrdal's efforts were postponed for another generation and did not come to fruition until she obtained a cabinet position in the 1960s.)

Though the trade unions, especially at the local level, were initially focused on reducing the workday to 8 hours, SAP leadership initially pursued universal suffrage. In doing so, the SAP found political allies within the growing urban-dwelling merchant class and particularly among the Liberals. This alliance between SAP and Liberal forces underscored the degree of social upheaval in the years leading up to the 1917 Instrument of Government, which largely eradicated many of the residual pre-industrial elements in the political and legal system.

From its beginning, democratic reform meant expansion of Social Democratic interests, especially as more of the former peasant class became incorporated into Sweden's political system, wielding substantial power. Economic historian Lars Magnusson writes that

---

[133] In the late 19th century a considerable number of lower-class and peasant-level males still were not able to vote. And within the universal suffrage community, there were disagreements over gender participation such that many who identified themselves as supporting "universal suffrage" meant suffrage for men only.

the democratic component is a crucial issue that would separate the Social Democrats from the communists. Unlike the Leninists or Stalinists, who believed in an elite vanguard whose purpose was to manage the working class,[134] Swedish Social Democratic leaders rejected such elitism until the 1960s, instead aiming to expand democracy and promote a populist public image.

The later, unpresumptuous lifestyles of Per Albin Hansson and Tage Erlander, who often rode their bicycles to work as prime ministers, seemed to embody this ascetic style of leadership. Even the outspoken and aristocratic Olof Palme walked the streets of Stockholm free of bodyguards or an entourage, which tragically contributed to his eventual assassination. The party leaders, as a matter of principle, were supposed to live and act like members of common society. *Jämlikhet* meant living more like everyone else. These principles, while claiming to be progressive and forward-thinking, were actually a reflection of what many small Swedish towns already believed and reinforced as a stabilizing mechanism in their society. In this regard, the purported "equality agenda" promoted by the SAP was really a devotion to the feudal principles of *Jantelagen*.

Jantelagen (Jante Law) is a concept created by Danish-Norwegian author Aksel Sandemose in his novel *En flyktning krysser sitt spor* (*A Fugitive Crosses His Tracks*), in which Sandemose, who lived and worked in Canada as a young adult, contrasts his experience of individualism with his feudal roots.[135] In the book, he describes the small Danish town of Jante, modeled after his native town of Nykøbing Mors as he knew it in the

---

[134] Kokk, *Swedish Social-Democracy*.

[135] Sandemose, though he spent most of his life in Norway, actually was forced to live in Sweden during much of World War II because of the Nazi occupation. He fled to Sweden because he was a fugitive as a result of belonging to the resistance against the Germans.

beginning of the 20th century. The fictitious town is meant to be typical of all very small towns where nobody is anonymous. Sandemose wrote about several rules of such towns that were, according to him, unofficial "laws," all of which are variations on a single theme: Don't think you're special or superior. These rules, according to Sandemose, could easily reflect the feudal mentality of small towns in Sweden in 1900:

List 1: Jantelagen

(1) Don't think that you are special.
(2) Don't think that you are of the same standing as us.
(3) Don't think that you are smarter than us.
(4) Don't fancy yourself as being better than us.
(5) Don't think that you know more than us.
(6) Don't think that you are more important than us (the community).
(7) Don't think that you are good at anything.
(8) Don't laugh at us.
(9) Don't think that anyone of us cares about you.
(10) Don't think that you can teach us (the community) anything.
(11) Don't think that there is something we (the community) don't know about you.[136]

Sandemose writes that "Janters" who break these unwritten "laws" are regarded with hostility because such behavior goes against the town's desire to preserve social stability and uniformity. Sandemose's rules are insightful because they demonstrate the strength of the social pressures that existed within small-town Swedish culture, which dominated the nation well into the 20th century. These social pressures shaped and controlled political and economic behavior, and they maintained the sense of obligation and duty that people felt to their communities. This partially explains why, for example, people would not initially

[136] Aksel Sandemose, "A Fugitive Crosses His Tracks," trans. Eugene Gay-Tifft (A. A. Knopf: New York, NY, 1936).

consider their economic losses to increasing taxes and why some would work harder for less money. Individualism was clearly not part of this society, in that the rational self-incentive mindset did not readily govern decision-making in the political or financial realms. The strength of the group and the collective was felt deeply by the Swedish for the first few generations after industrialization, which explains why even the employers organized their own union. Swedes felt comfortable as a group because the social rules effectively demanded group action and effectively discouraged, even crushed, the individual.

Lagom: A Cultural Source of Moderation

Another key cultural variable in understanding the nature of Swedish economic policymaking is the unique concept of *lagom*. The Swedish word *lagom* has no direct equivalent in English, but it roughly means “just the right amount.” The Lexin Swedish-English dictionary defines *lagom* as “enough, sufficient, adequate, just right.” In everyday conversation, *lagom* can usually be translated as “in moderation,” “in balance,” “optimal,” “suitable,” or “average.” *Lagom* also conveys a sense of appropriateness, sensibleness, or correctness. Thus, the Lexin dictionary translates the Swedish proverb “*Lagom är bäst*” literally “*Lagom* is best,” as “Enough is as good as a feast.” The phrase can also mean “There is virtue in moderation,” according to the Prismas Stora Engelska Ordbok.

The term’s origin is an archaic plural form of *lag* ("law"). However, it refers to a type of practical law, not judicial law. *Lagom* is roughly defined as what is perceived to be commonly good. The Swedish Institute recalls a popular folk story going back to Viking times that specifies as *lagom* the amount of mead one should drink from the horn as it is

passed around in order for everyone to receive a fair share.[137] The Lexin dictionary says that *lagom* can be used as an adverb or an adjective and can be applied to everything from food and drink to copyright law and carbon dioxide emissions.[138]

The word *lagom*, while carrying a meaning of sensible moderation, also implies a collective mentality. For example, "You're not supposed to be too good, or too rich."[139] *Lagom* is said to reflect the Swedish national psyche, which is characterized by consensus and equality: The ideal person should be modest and avoid extremes. Everything has a "perfect amount," whether it be food, space, laughter, or sorrow. The concept of *lagom* is similar to Aristotle's "golden mean" of moderation in Western philosophy.

Social Democratic Origins

As mentioned previously, the Social Democrats have the critical distinction of being the only Swedish political party to have evolved separately from the sociopolitical establishment within the Riksdag.[140] In this sense, they were true outside rebels who overtook and eradicated the vestiges of Sweden's pre-industrial class system. In comparison to other European regimes at the time, the old Estates system was not so oppressive, but rather it represented a lengthy compromise between the more centralized, autocratic feudal powers established in the 16th century under King Gustav Vasa and the demands of the emerging merchant class and other 18th- and 19th-century political forces that sought to dilute

---

[137] The Swedish Institute, *That's The Swedish Way: Let's Be Ordinary!*
[138] *Lexin Swedish-English Dictionary Online*, s.v. "Lagom," http://lexikon.nada.kth.se/ (accessed January 12, 2010).
[139] Bengt Gustavsson, "The Human Values of Swedish Management," 1995.
[140] Douglas V. Verney, *Parliamentary Reform in Sweden, 1866-1921* (_____: Clarendon Press, 1957).

such aristocratic authority.

Prior to the 1917 Bolshevik Revolution in Russia, early SAP leaders such as Hjalmar Branting carried a unified view that their political movement adhered to Marx's prescribed political evolution in that the Social Democrats represented the demographic surge of industrial workers and working poor. High birth rates and a declining death rate in particular expanded the political power of this new industrial, blue-collar group. The SAP could count on such future demographic gains to benefit them through the election process, instead of relying on violent tactics to gain political power. Branting's faith in future trends allowed him to pressure other influential SAP leaders into applying traditional Swedish principles of gradual change and compromise, which resulted in a subtle transition from feudalism to industrial capitalism, and, finally, to full-blown socialism. Patience about the evolutionary political process was a virtue that Branting possessed but many leftist radicals in other nations lacked. The 1917 split was beginning of applying gradual rather than radical reform which would dominate the SAP's political process for the next two generations.

Impulses to moderate the SAP's economic policies was dictated by immediate practical concerns. For example, Sweden's financial dependency as a consequence of its position within the world's industrializing markets meant that reformers could never seriously hope to eliminate the influence of the world market or free trade on economic policymaking. SAP leaders could not entertain elaborate or substantial protectionist policies or suggest a "managed trade" platform as a plausible solution to Sweden's economic problems. Everyone knew that Sweden had always possessed a small domestic market that supported the larger and relatively nearby economies of Germany and the United Kingdom

by supplying raw materials. Therefore, SAP economists almost always viewed the export market as a practical remedy for Sweden's economic problems. Many traditional socialist or autarkic policies, such as import substitution, were never considered.

Agrarian life in Sweden became increasingly harsh between 1900 and 1930. Sweden's expanding population placed strains on the small-scale local economies. Limited resources and opportunities pressured many farming families to seek wage-earning jobs that were being created by industrialization in urban areas. Some rural Swedes lived in extreme poverty, and many lived in near-poverty, which is why so many continued to emigrate to America. The pre-industrial economy began to collapse while emerging industrialization replaced it, and not a minute too soon for many desperate people looking for adequate wages. As late as 1913, despite rapid industrialization, Sweden's per capita income remained one of the lowest in Western Europe.[141] Yet, in that same year, Sweden became the world's first country to adopt a universal system to provide old-age pensions.[142] This initiative, though supported by the SAP, was proposed by the Liberal Party.

During this era, Swedish reformists quickly realized the country's vital role in supporting the industrialization of much of Europe. They recognized that Sweden possessed an interdependent relationship with global industrialization and could not follow an autarkic or independent trade strategy. At this time, many had an optimistic view of growth in Sweden's export markets (particularly timber and iron) as a means to finance public spending and to provide necessary employment, a persistent key economic objective during those early

---

[141] Edvinsson, *Growth Accumulation*, 209.
[142] Erik Allardt et al., eds., *Nordic Democracy: Ideas, Issues, and Institutions in Politics, Economy, Education, Social and Cultural Affairs of Denmark, Finland, Iceland, Norway, and Sweden* (Copenhagen: Det Danske Selskab, 1981), 406.

20th-century decades. The domestic economy's modest size and scope demanded that Swedes initiate changes in response to the very early steps of industrialization, which generated world demand.

The Swedish economy's dependence on other countries' economies caused its political leaders to become sensitive to trade relations. For example, for every commercial action Swedes undertook, they had to consider the reaction of trading partners and potential trading partners. The recent economic struggles including periodic food shortages in the 19th century reminded the Swedish of their country's vulnerability. Therefore, the SAP agreed with almost all other parties that to improve commerce was a paternal, feudal duty. This consensus on valuing open trading opportunities moderated the more radical elements within the SAP. This acute sensitivity to a scarcity of resources evoked a spirit of pragmatism that persisted into the 1960s.

A significant pressure valve that released political and social tensions during these early and middle stages of industrialization was the emigration factor: As much as a quarter of the Swedish population departed for the United States during this period. Emigration solved some of Sweden's economic problems. Impoverished or discontented Swedes sold whatever they could in order to afford the cheapest passage to the United States for the promise of a better life. The Homestead Act of 1862, which offered settlers 160 acres of free land, attracted many farmers. At this same time, rapidly industrializing cities such as New York City, Chicago, and Minneapolis demanded considerable amounts of labor. Between 1865 and 1900, roughly one quarter of all Swedes left for the United States seeking land and jobs. Below is a chart showing Swedish migration statistics.

Table 4: Swedish Migration Trends between 1856 and 1930

Period	Emigration within Europe	Emigration outside Europe	Immigration within Europe	Immigration outside Europe	Net Emigration
1856-60	424	3732	0	0	8312
1861-65	7272	12,544	0	0	23,681
1866-70	22,056	80,575	0	0	122,646
1871-75	22,409	42,054	11,122	3514	57,577
1876-80	22,359	60,447	12,051	2891	81,177
1881-85	27,209	147,619	14,208	7172	168,930
1886-90	21,687	179,886	14,190	12,031	178,355
1891-95	19,583	141,879	13,639	25,316	127,313
1896-1900	22,676	62,634	17,050	22,805	53,027
1901-05	17,932	129,746	20,443	19,456	123,133
1906-10	15,692	94,297	18,989	25,536	71,721
1911-15	15,571	63,361	16,705	22,743	39,484
1916-20	16,785	22,658	19,665	16,441	3337
1921-25	13,166	59,438	16,602	15,074	40,928
1926-30	9462	46,579	14,870	15,655	25,516

Source: Franklin D. Scott, "Sweden's Constructive Opposition to Emigration," *Journal of Modern History* 37 (1965): 313.

Despite the primitive state of communication technology in the 19th century, Swedes managed to react rationally to external global pressures by exporting materials and exporting themselves. Despite the distance, families that emigrated to America often regularly wrote to their relatives in Sweden and stayed in contact for decades. The letters from America inspired more people to leave. Chain migration, the phenomenon by which the emigration of a few people encourages many more to follow, happened from one small town to another. Entire extended families left in hope of a better life. By the end of the mass exodus, as many as a third of all Swedes had left the country (though about 10 percent of that total did eventually return to Sweden). Some Swedes who stayed started export-oriented companies. Many of those who lacked commercial ambitions or the willingness to start an entirely different life in America could join the Social Democratic movement. In Ohlsson's words: "Those who lacked the means to initiate business either departed from Sweden to the United

States for better prospects or they remained and joined the rapidly growing Social Democratic movement to better represent their interests."[143]

There is also a geographic explanation for why emigration strengthened the Social Democratic cause. According to Scott, most of those who emigrated lived in the southern and southwestern areas (Småland, Bohuslän, and Värmland) which were more politically conservative.[144] The expansion of industry in the north, as well as the availability of land in the north, where the Social Democrats were stronger, encouraged people in those areas to remain.

Prior to *Folkhemmet*, political leaders recognized that conditions had to improve or else people would continue to leave the country to seek better opportunities elsewhere. In response, taxation on trade had to be light and emigration easy. As an example of the lingering agrarian influence of the pre-industrial era, only agricultural products had any lasting protectionist measures. This was partly a remnant of earlier regulations, but it was also a strategic decision. Periodic food shortages during World War I convinced leadership of all parties that the nation could not afford to become overly dependent upon imported food. A consensus existed that Sweden had to retain its agricultural strength by maximizing its overall food production.[145]

Near-starvation conditions during portions of World War I were a consequence of the neutral position held by Hammarskjold's government, in that neutrality forced Sweden to

---

[143] Ohlsson, "Close Friends."
[144] Franklin D. Scott, *Sweden: The Nation's History* (Minneapolis: University of Minnesota Press, 1977).

[145] The Swedish government did briefly attempt to protect the textile industry, especially at the cottage level — and another example of a pro-feudal policy — but this did not last.

have only very limited trade with the warring parties. In effect, Sweden suffered greatly from the way that it practiced its neutrality. This lesson was learned, and Sweden enjoyed greater trade benefits in World War II as a result. Additionally, as fascism and communism reached their peak in popularity during World War II, Per Albin Hansson's government quickly realized that feeding the people and providing for their material needs through open trade meant maintaining basic security for the nation.

Though critics of Sweden's trade policy during the war years labeled as it blatant opportunism, the strategy represented a continuation of the tradition of engaging in global exchange whenever feasible. Swedish trade negotiators within the private and public sectors understood the advantages of a more open position in international politics. During the industrialization transition, the economy remarkably followed Schumpeter's "creative destruction"[146] pattern in that it appropriately responded to changes in world market demand by generating its own "creation process" that included new, innovative companies which balanced the "destruction" of non-viable economic activities.

Another area in which the Swedish labor movement followed practical rather than idealist impulses was in the policy about total hours worked. In the realm of economic policy, the Swedish work ethic and consensus to perform longer work hours always persisted.[147] Although an 8-hour work day was initially pursued, largely because of the German SDP's influence on the SAP in the late 19th century, never did Swedish labor union members or their leaders push for fewer work hours as a means to boost employment. The policy and practice of deliberately keeping longer working hours was a vast departure from

[146] Schumpeter, *Capitalism*.
[147] Sundstrom, "Swedish Economists."

the tactics of other European labor movements. Instead, as was typical of SAP leadership until the 1960s, Branting and others either understood or respected the economic theories of the Stockholm School of Economics enough to modify their initial agenda.

To their credit, Swedish economists effectively communicated their concerns to the public via newspaper articles, which undoubtedly placed political pressure on the SAP to consider their ideas. Tingsten, Samuelsson, and others readily point to two media advantages that Swedish economists enjoyed over many other nations. First, Swedish people read more newspapers more frequently than virtually any other country. Reading the newspaper was not just a daily ritual, but a national obsession. Second, unlike in the United States, Swedish newspapers were mainly owned and operated by the non-socialist or non-left wing alliance. For example, until 1956, the newspaper *Aftonbladet* ("The Evening Sheet") was owned by the Kreuger family, who supported Liberal Party interests.[148] *Dagens Nyheter* ("The Daily News") and *Expressen* ("The Express") were also considered independent Liberal newspapers.

In particular, Liberal ownership (in the Swedish, not the 20th-century American interpretation of "liberal") controlled as much as three-quarters of all printed press into the 1960s. The newspapers served as a universal means of communicating with the public. During this period, Swedish academics felt not only an obligation but a compulsion to address economic issues with the public. Whereas academic publications in the United States were often minimized in importance by everyday Americans, the Swedes felt a cultural prerogative for discussion and a desire to gain insight. Such societal mores were a

[148] http://www.aftonbladet.se/ history of the newspaper

manifestation of the residual studious values of Lutheran Protestant Christianity and, as such, they encouraged academic contributions to Swedish public policy, especially within the realm of economic public policies, until the late 1960s.

The political issue of working hours reached its peak in 1917, simultaneously with the national food crisis. Due to chronic global food shortages in World War I, food prices skyrocketed, pushing Sweden closer to a political revolution. During the 1917 political crisis, the Liberals formed a coalition government with the Social Democrats and fought initially for an 8-hour work day. However, during the crisis, many employers defused their demands by temporarily compromising, reducing, and adjusting their employment policies to a 10-hour work day.

Swedish workers immediately recognized that the shorter workday would reduce overall income for themselves. Therefore, demands for reduced hours also invoked demands for higher wages. Employers successfully explained that higher wages meant fewer workers would be employed. Ultimately, Swedish laborers were willing to work longer hours for more income overall (largely to purchase food) than to work fewer hours at a higher wage and have fewer people working. Under the practical strains of this heated political debate, those who served on the Social Democratic-Liberal government committee to reduce labor hours felt compelled to keep wage rates lower even if it meant a longer workday. It was a matter of convincing the public that increased production, not just increased wages, would warrant a higher standard of living. In March 1919, Gösta Bagge gave a critical public lecture at the Swedish Technical Association in which he reiterated Knut Wicksell's position from the 1890s, reminding those who attended that overall productivity and wage levels

would be harmed if hours were forcefully reduced.

In 1920, as a result of the civil unrest in the war years but against the wishes of Wicksell, Bagge, and most Swedish economists, the 48-hour work week became standard. This step should be viewed as another classic Swedish compromise between the 52-hour work week already a de facto policy among most employers and the pressures to reduce it. Although it was showcased as only a slight reduction from 52 hours (on average) and still significantly more than the 40 hours originally proposed, the reduction of working hours appeared to produce only negative results.[149] Swedish wages dropped in their absolute and relative values, and inflationary pressures increased.

Perhaps the most critical change was that Swedish working hours were compressed to become more efficient. Workers began to feel more pressure to perform their tasks faster and more efficiently. Breaks were shortened, and every minute at the job was under closer scrutiny. The pressure to produce and to be more efficient, in combination with the questionable financial benefits (usually reduced purchasing power) of the new policy, caused everyone to reconsider the push to reduce working hours later in the 1920s.[150] However, the reduction of working hours did not increase overall employment, something that Social Democratic economist Rehn observed early in his career in the 1930s. This failure to provide new jobs for the working class remained in the consciousness of economic policymakers for the next two generations. Not until the 1960s, when there was a significant population of workers who were too young to remember the failure of previous hour-reduction efforts, did the government seriously attempt to reduce hours again.

---

[149] Ibid.
[150] Edvinsson, *Growth Accumulation*.

The length of the work week was a contentious issue in most industrialized countries, but less so in Sweden. The close and nonconfrontational relationship between labor leaders and Swedish economists greatly contributed to the development of a distinctly different work-week policy. Journalist and Social Democratic politician Awel Uhlén wrote several articles in the daily labor newspaper, *Arbetet*, about the virtues of not reducing the workweek. In 1927, the Committee on Unemployment collaborated with the Stockholm School of Economics. Dag Hammarskjöld wrote a chapter for the final report of the combined Social Democratic-Liberal committee on the work week entitled, "Reductions in Working Hours as a Means against Unemployment." The report explained that hourly reductions did not work to reduce unemployment, which was a higher-priority issue. The decision of Liberals and Social Democrats not to reduce the work week to forty hours was unusual, and it was a key difference between Sweden and most industrialized countries, including France, the United Kingdom, and the United States, all of whom battled over this issue.

After the September 1932 national election, the new SAP-led government assumed greater control of labor policies. The new finance minister, Ernst Wigforss, agreed with arguments against reducing the work week put forward by economists Wicksell, Bagge, and, later, Ohlin. The global depression at the time created a pressing need to increase employment and a bias towards increasing overall productivity. The length of the work week was secondary to these goals. Bertil Ohlin wrote a series of published newspaper articles that focused on utilizing the nation's overall productivity. These articles were widely discussed by the public, which contributed to the SAP's abandonment of the goal of a 40-hour work

week in favor of boosting overall employment and national productivity.[151] This was accomplished despite the fact that the 40-hour work week was not only a significant goal in the SAP's original program (Part VIII, see Appendix A), but it was also an accepted part of the labor movement's economic policies throughout the world.

The decision by key SAP leaders to keep longer working hours is a substantial indicator that the party was willing to exhibit considerable flexibility in solving Sweden's economic ills. Schwartz argues that, from the beginning, Swedish Leftists perceived Marx as a critic of German and British industrialized systems.[152] These leaders, beginning with Branting and continuing with Hansson and Erlander, viewed Sweden as possessing different problems and qualities than Germany. Therefore, it was commonly believed that it was acceptable to deviate from Marxist politics without betraying Marxist values.

Another explanation for the bias towards productivity comes from a farming perspective, as initially offered by Wicksell in the 1890s, which also reflects the influence of pre-industrial ideals on the development of Sweden's industrial policies. Thus, feudal capitalism, not conventional social democratic ideals, inspired labor policy throughout much of Sweden's economic policymaking in the 20th century. Not until Palme's administration in the early 1970s, which coincided with the end of Erlander's generation (still heavily influenced by the agrarian past), did the SAP renew its efforts to establish a 40-hour work week. For many years, Ohlin's argument to boost national capacity eclipsed public demands

---

[151] Sundstrom, "Swedish Economists."
[152] Eli Schwartz, *Trouble in Eden: A Comparison of the British and Swedish Economies* (New York: Praeger Special Studies, Praeger Scientific Publishers, 1980).

to gain eight hours per week of free time.[153] Adhering to Ohlin's theory of international trade gave Swedish industries a competitive edge in productivity, but it also demonstrated the success of educating the Swedish public in economics. Whereas literate people in other cultures either failed to see the value of Ohlin's practical wisdom or pursued principles over pragmatism, Swedes in the 1930s were culturally receptive to Ohlin's ideas from the beginning.

[153] Sundstrom, "Swedish Economists."

Chapter 2: 1900-1920, the Progressive/Reform Movements

The twenty years preceding the 1917 Instrument of Government are commonly perceived to be the peak period of Sweden's rapid industrialization. Coinciding with the rise of industry during the first two decades of the 1900s, Swedish political strength shifted dramatically away from relatively decentralized liberal-progressive movements towards centralized collective groups and cooperatives that focused on the growing working class. Strict party discipline became the norm within the Riksdag.[1] In many ways, the foundation of Sweden's *Folkhemmet* was established during these early years.

The 1917 Third Reform of Parliament

At this time, ancient traditions still heavily influenced modern governance in Sweden. For example, the Swedish parliament (Riksdag) stemmed from tribal courts (*Ting*) and the election of kings in the Viking age. As the outsiders of the Estates system, the Social Democrats were viewed as rebels — very different from their ultra-establishment position of today. In the early 20th century, the Social Democrats were the voice of the opposition, railing against the emerging wealthy industrialists, the established Church, and the remnants of nobility.

In the first two decades of the 1900s, as Sweden rapidly industrialized, the dominant political climate dramatically drifted from the urban, merchant-class liberals towards the working-class, small-town workers. Demographic changes, mass migration, and advances in communication technology (i.e., the Ericsson telephones and telegraphs) contributed to this

[1] Nils Herlitz, *Sweden: A Modern Democracy on Ancient Foundations* (Minneapolis: University of Minnesota Press, 1939), 37.

shift of power, which culminated in a new Instrument of Government. Within the structure of political parties, leaders could more effectively establish guidelines and practice more severe forms of party discipline.[2] One arguable cause of the new tendency to accommodate agrarian Swedes was the declining exodus to America among the peasant class. The outbreak of World War I in 1914 significantly and permanently interrupted the flow of Swedes to America. For example, according to Franklin Scott's statistics on Swedish migration, between 1911 and 1915 some 63,361 Swedes emigrated to North America, yet between 1916 and 1920 only 22,658 did so, with many of those leaving in 1919 and 1920, right after the war. The diminished outward flow of many rural Swedes to the United States meant that the political establishment had to absorb their demands.

Impoverished Swedes, who in earlier years could "escape" to the United States for a better life, were strongly discouraged by the warfare on the open seas from chancing a trans-Atlantic voyage. Social turmoil and hardships such as food shortages erupted during World War I, exacerbated by the decline in emigration of poor Swedes. Radical leftist elements peaked in their popularity among Swedish progressives and reformers just as the Russian Revolution started. At this same time, in 1917, the Social Democrats rose to national prominence by forming a Liberal-Socialist coalition government. The Liberals were not socialists but shared many of the same goals as the SAP. Both sides believed, for example, in helping the less privileged and in universal suffrage. They both also planned to make Sweden a democracy with a government that would help the common people and not serve the special interests of the old aristocracy. As a consequence of this new political alliance, the

[2] Ibid.

coalition government passed the Poor Law of 1918, which gave the local governments direct responsibility for assisting anyone in need but also required that the central government contribute administrative support.[3] This legislation served as the cornerstone of Sweden's cradle-to-grave welfare system.

As the government administered social benefits, pre-industrial cultural elements in the relations between the recipient of these benefits and his local government remained quite strong. For example, in 1918, considerable social pressures and strong interpersonal relations at the *kommun*-level prohibited people from taking advantage of the system. Most of the expenses of operating this primitive form of government assistance were kept at a minimum, because local volunteers did much of the work that, later, *kommun*-level state employees would do for a salary. According to Swedish journalist Ulf Nilsson, who grew up in a small-town setting outside of Halmstad, these unpaid workers were often older housewives who had spent their entire lives in the community, so they knew virtually everyone receiving aid. Cases were handled carefully, and recipients were given quite a bit of scrutiny, especially if they were not actively trying to find employment or improve their lives by their own efforts. As long as this arrangement lasted, and it did until the early 1960s, when the older townswomen were replaced by salaried workers, so did pre-industrial relations within the small-scale state bureaucracy.

A Tradition of Trade

Sweden’s small, sparsely populated land contributed to the formation of a culture that greatly valued the exchange of goods. Its weak domestic market also meant that Swedes, for

[3] Knoedler, Sackrey, and Schneider, “The Middle Way.”

centuries, had to seek trading relations to obtain resources. The Vikings, for example, as Swedish apologists always insist, were engaged in international trade as much as they were in pillaging villages and raping women. The conditions of the country simply made it impossible for the SAP or any other serious political party to consider following an autarkic trade regime. The revenue and resources from Germany alone offered an overwhelming case for ongoing international trade. After the collapse of the Holy Roman Empire and the subsequent rise of Bismarck's Empire, Germany's presence along the Baltic Sea grew, and the nation became Sweden's largest trading partner.

Demands for Swedish raw materials and manufactured goods remained strong in the 1920s and 1930s, as continental Europe repaired itself after World War I. Great Britain also competed for Swedish goods, and it initially hoped to replace Germany as Sweden's top trading partner. However, this was not to be, and in the 1930s, as the German economy performed quite well during the early years of Hitler's rule, Sweden continued to benefit from sharp increases in Germany's demand for its exports. In particular, Swedish raw materials such as iron ore (from near Kiruna), copper (from Falun), and timber (from the Sundsvall area) were highly prized by the growing German economy. Indeed, one could compare Sweden's relationship with Germany to Canada's with the United States: Sociologically and ethnically, the minor differences between northern Germans and Swedes were comparable to differences between Americans living in Michigan or New York and Canadians living in Ontario. Centuries of solid trade encouraged the continuation of positive Swedish-German relations, despite the growing radicalism in Germany.

The Decline of Christianity in Sweden

Since its founding during Gustav Vasa's time, the State Church, Lutheran in faith, acted as a dominant centripetal force for the nation and encouraged solidarity. The church functioned as the center of social, economic, and political life in traditional Sweden, especially in rural areas. From Vasa's rule until the early 20th century, the church also provided the majority of social and governmental services in small communities. At the parish level, the church was responsible for recording births, deaths, and marriages; assisted with collecting censuses; and provided and supervised most social services. Indeed, the church served as social and political glue to the fabric of Swedish society. It reinforced the central government and acted as the state in almost all local matters. While these functions made the church indispensible to the regimes of that period, it also made it a political liability and the traditional enemy of radical reformers.

During its centuries of dominance, the State Church often served the state by teaching and reinforcing conservative and ultra-traditional state policies throughout the 19th century. Priests in small communities during this period held enormous influence and could place considerable social and legal pressure on those who did not adhere to the beliefs of the State Church. Church leaders represented the will of the state and were largely a part of the government machinery. Some priests, particularly before the Estates Era ended in 1866, were members of the aristocracy. Thus priests were often viewed by radicals such as August Palm and Hjalmar Branting as not only unsympathetic to the poor, but also allies of those who were considered responsible for the suffering of the poor. The church, in the view of the early SAP, was the enemy and needed to be dissolved and permanently separated from the

government. This remained a consistent goal of the SAP, despite the fact that the majority of Swedes were against dissolving the State Church. It took many years, until the remainder of the 20th century, for such a goal to be officially accomplished, and by then the church had been reduced to being a peripheral player, at best, in Swedish society.

The decline of the church as a major political force coincided with the success of the SAP, which sought to deliberately secularize Swedish society. In 1914, the Swedish nation unquestionably had a Christian identity. For example, the 1917 Instrument of Government required that all cabinet members of the government "be native-born citizens of pure evangelical faith."[4] When the SAP first became a national political force during World War I, SAP leaders had preached for decades against the State Church, because they viewed it as an oppressive institution that was run by and for the benefit of emerging wealthy industrialists, conservative government officials, and the remnants of nobility. At this time, 99 percent of all Swedes were official members of the State Church. Almost all those who regularly attended the "Free Churches," Christian Protestant churches (such as the Baptist Church and the Salvation Army) that were not part of the State Church, were listed at birth as official members of the State Church. Branting and Palm's families were also official members of the State Church. At this time, being Swedish meant being an official member of the State Church.

In 1917, nearly all Swedes regularly attended their local churches and participated in church activities, not only for religious purposes, but also as an integral part of Swedish social life. In the area of education, positions on the local school boards were usually

[4] Arneson, *Democratic Monarchies*, 136.

assigned by votes of church members. There were some unique operational elements of the church in its later years of dominance. For example, the Swedish church was more democratic and self-governed than other European state churches. For instance, in contrast to Catholic countries, Sweden allowed each parish to elect its own pastor. The Church also maintained an ecclesiastical Riksdag, the Church Assembly (*Kyrkomötet*), which met every four years to discuss and vote on issues that concerned many local church communities.[5]

Political progressive movements often evolved based on relationships formed in Lutheran Bible study groups. Social problems and concerns within the community were frequently addressed in these meetings. For example, the temperance movement began when church members expressed frustration and concern at the widespread high levels of alcohol consumption among working men. Intolerance of alcohol became a public policy movement supported by those who sought to promote the good Christian life. These prohibitionists argued that families endured poverty and other hardships because of the availability of alcohol.

Many political progressives, including the SAP to a limited extent, believed that the consumption of alcohol was not only unhealthy but also morally wrong, and that most of society's ills could be attributed to drinking. The temperance movement's success in Sweden went far beyond that of the United States. For example, during the general strike of 1909, the Riksdag enforced a total prohibition of alcohol. Afterwards, an unofficial prohibition went into effect in 1910. This effort reflected the will of the majority of Swedes, who supported a permanent prohibition. At this time, every Swede knew someone who was an alcoholic, and

[5] Ibid., 144.

nearly every family had witnessed the negative effects of alcoholism.

In 1922, an official referendum for complete prohibition narrowly failed in favor of what was known as the Bratt System of Liquor Control. The liquor problem was solved in a uniquely Swedish way that eventually became known as a compromise "somewhere between complete prohibition on one hand and laissez faire on the other."[6] Until 1955, other comparatively strict forms of prohibition existed in which alcohol was tightly regulated in its quantity and distribution throughout the nation. However, while the Bratt System controlled quantities, it gave considerable flexibility to its users. Nonetheless, the State maintained a high level of control over alcohol, and this was widely supported by the public.

At the municipal level, the SAP-led government established co-operatives that managed liquor sales; many co-operative members belonged to the LO and paid fees to the SAP.[7] With their roots in the progressive popular movement, the co-operatives gradually became what are known as "*systembolaget*," or state-owned liquor monopolies, which still possess substantial control over of the purchase of alcohol in Sweden. The prohibition program funded (and still funds) the SAP for many decades. Technically, thanks to lobbying efforts by the SAP, the liquor monopolies remain a cultural institution that received special exemptions from European Union regulations. The SAP cleverly managed to transform a major social problem in Swedish society into a significant source of long-term financial support for itself and its political allies.

Although a common perception promoted by American newspaper reports[8] was that

---

[6] Arneson, *Democratic Monarchies*, 275-276.
[7] David Ibison, "Vintner Fails to Milk Sweden's Sacred Cow," *Financial Times*, February 17, 2009, 8.
[8] Several prominent American newspapers and magazines reported on Swedish culture in the early 1950s.

Sweden was the world's most secular country in the 1950s, this view was partially a result of the low key tolerance that this Christian society practiced. Swedes were not outspoken about their Christian convictions, because their beliefs were intertwined with their social identity. Their status as Christians was taken for granted and required very little reflection. Members of the Free Churches recognized this lackadaisical attitude, and this prompted more people who did take their Christianity seriously to quit attending the State Church. After World War II, the direct influence of Christianity on daily life did diminish, but its moral legacy and social capital persisted for another generation or two. Yet it was not until television became widely available in the later 1950s and early 1960s that church attendance on Sunday experienced a marked decline.

Swedish Christianity did contribute to the construction of *Folkhemmet*. In 1928, when Hansson began speaking about the formation of the People's Home, Sweden still possessed an overwhelming, yet relatively quiet, supermajority of traditional Christians. Christianity as a political force had already begun its gradual disintegration, but, nonetheless, the Christian culture influenced *Folkhemmet*'s construction in providing its foundational ethos. The SAP sought to elevate the state's role in providing for community needs and, as it did so, the church's influence and importance to the populace diminished. Beginning in the late 1950s, the availability of television and radio in most Swedish households also initiated a marked, long-term decline in church attendance as a social center for communities. Thus, the church lost its role as a helper of the people in their daily lives and also as a center of social life. The SAP's *folket hus*, or community centers, established in nearly every town, also contributed to the church's decline.

Factors outside of politics also strongly contributed to the secularization process. Most notably, urbanization gave the new residents recreational and social outlets that at least rivaled, if not surpassed, what the church could offer. Additionally, most of the 33 percent of the population who emigrated were in the southern interior part of the country, which was proportionally much more socially conservative and religiously observant. Many of the most devout Christians in Sweden had left the country, and those who remained represented the more secular portion of society. A good example to see this contrast of religious versus non-religious Swedes is to see the many religious Swedish-American communities in the Midwestern United States, such as Minnesota. The SAP's political power and influence consistently sought to prevent the Church of Sweden from being a tool for the conservative establishment and to, eventually, either make it part of the SAP's power base or make it irrelevant. As *Folkhemmet* became a reality, most Swedes viewed the church as part of the oppressive past (e.g., prior to the 1917 Instrument of Government, fines were often charge to people who did not attend church regularly). Modernization meant that the Church became increasingly more detached from and irrelevant to daily life.

By the mid-20th century, a strong secular viewpoint, especially within the urban areas, had enveloped Swedish culture. Being religious seemed irrational, and rationality and cooperation became the main emphases of one's life. The rituals and practices of Evangelical Lutheranism began to fade and diminish, along with the memories of traditional small-town, rural life. Rather than eliminating the institution, the SAP sought to constantly reform the Swedish Church by gradually neutralizing its social and moral influence as a traditional force. In fact, the SAP deliberately sought for many years to adjust the Church's practices to

accommodate their vision of a secular, urban life. Independent or Free Churches (Protestant churches not affiliated with the state) absorbed the comparatively few urban-dwelling Swedes who sought a spiritual meaning to life, and these remained only a small minority.

The generational pattern of gradual secularization was fairly consistent throughout the country: the grandparents living on the farm continued to practice their daily and weekly rituals of attending Lutheran services, the children who moved to the city attended occasionally, and the grandchildren attended rarely. The children of those grandchildren today have only a very cursory attachment to the former state religion. The secularization of Sweden paralleled the growth of socialism, in that the state's social programs supplanted much of the need for a church. This was not a coincidence; key Social Democratic ideologues such as Alva Myrdal had fought since the 1950s to officially eliminate the State Church, before it finally happened in 2001.

Rather than being directly hostile to religion as the Soviets were, the Social Democrats sought to alter perceptions of the State Church to suit their own purposes as well as diminish its influence and relevancy. The gradualist strategy worked, in that no significant reactionary revolt or movement seriously countered the secularization effort. For example, Soviet repression of the Orthodox Church forced it underground, and a resurgence of faith emerged there when the communist era imploded, but no such thing happened in Sweden.

In industrialized Sweden, the old ways of the Church gradually became unfashionable, even viewed as irrational because its traditions appeared to contradict modern scientific and secular thinking. The SAP did successfully have the state eventually replace God as the provider of security, hope, and happiness in life. The services provided daily by

the state became more relevant than rituals and traditions that resembled the old Sweden. Some blame the church's poor management, and others point to the secularization of urban life as contributing reasons to the decline, but most agree that the Social Democratic political agenda gradually and greatly reduced the role of the Church as an institution — just as it did with the monarchy.

At a practical level, instead of praying to God or attending the State Church, working class Swedes could congregate to seek social support or community assistance at *folket hus*, literally "the people's house." Built in practically every community in Sweden between the late 19th century and the early decades of the 20th century, these were Social Democratic community centers. In Stockholm, the first *folket hus*, located at Norra Bantorget, was begun in 1897 and opened in 1901. Co-operative ventures and collective efforts among the working class helped fund the construction of a *folket hus* in every community. Voluntary financial contributions and voluntary labor built these centers. Like the formation of the SAP, *folket hus* construction was the result of local initiatives, separate from the central government.

For the working class, *folket hus* replaced church as a meeting place for local community events and unions. The poor would visit the *kommun* government office at the *folket hus* for their daily bread, and they could also receive there other charitable services once provided solely by the State Church. People's faith and hopes became focused on the state rather than the local priest or God.

Traditional Swedish Christianity was swept aside with each passing social initiative. Socialist traditions, especially community gatherings at the *folket hus*, supplanted the old ways of the Christian community. Branting was highly critical of traditional Christianity and

directed the Social Democratic leadership, in effect, to transform the state into a modern church where heaven could be built on earth through taxes and close cooperation, much as Marx taught that heaven should be built on earth.

In building modern Sweden, the SAP, unions, and large industries reshuffled the leadership alliance and excluded religion. In part, the State Church seemed to belong to medieval Sweden and therefore no longer could be tolerated. SAP leaders quietly viewed the State Church as complicit with the old guard. Most SAP leaders were outspoken atheists, though in practice they still observed some of the basic rituals. For example, August Palm had his children baptized. The plan to dissolve the State Church was a part of the party program, but it lacked the popularity to make it a political reality. Instead, SAP leaders sought to neutralize the church as a conservative force. Part of this strategy included taking over church leadership, which the SAP managed to do while in power. In this regard, the Social Democratic platform sociologically reshaped pre-industrial Sweden, giving it the Marxist-secularist mentality that continues to dominate Swedish society.

Full secularization coincided with the collapse of the residual feudal system, which by the late 1960s began to reveal itself in the behavior and lifestyles of the young people, who often chose to cohabit and saw no reason for marriage. Today, empty state churches and sparse Free Churches reflect the lack of interest mainstream Swedes have in maintaining Swedish traditional religious values. Most parents see no reason to include Swedish Christian values in raising their children. Everyone seems content to live in the relative absence of religious concerns.

The Stockholm School of Economics

The community study group is a uniquely Swedish institution. Study groups derived from the Protestant belief that individuals should gain a firm personal understanding of God and Christianity. Lutheran tradition required that individuals read and study the Bible for themselves, rather than learning everything from a priest. The early Lutheran Bible study groups would discuss alternate interpretations of Biblical passages. These exercises could be seen as preparing Swedes for factional but rational political discourse.

Once achieving the luxury of having spare time, many Swedes formed groups to study and to contemplate matters of interest. Technological innovations had granted many hard-working peasants and farmers the leisure to have time for non-labor activities. Using this spare time to study and discuss the Bible was widely supported by the political establishment, especially the State Church, but it also gained support from the developing progressive movements, because discussions of Christian morality could be connected to everyday social and political concerns. For example, if the Riksdag proposed a new law, these study groups could meet to discuss whether the proposed legislation adhered to Christian standards.

When rapid industrialization happened many Swedes used their newly acquired leisure time especially in the winter months participating in study groups. Though many such study groups met in the community's *folket hus*, their origins are within the State Evangelical Lutheran Church. For example, the trade unions formed study groups in every community's newly built *folket hus*, adjusting the informal Lutheran practices to their own political

purposes, as citizens began educating themselves throughout the nation. These groups served as a lifelong informal continuing education program.

Economist Eli Heckscher and his circle of academic and business leaders, led by the Wallenbergs, founded the *Handelshögskolan i Stockholm* (Stockholm School of Economics, hereafter SSE). The SSE was organized as a way to manage rapid industrialization and economic growth by creating well-educated businessmen and company managers. The SSE and other groups, in effect, formed a political opposition that also gave future leaders a strong educational foundation.

Conservatives who resisted progressive political changes sought to use study groups as a way to negotiate a common understanding or to form compromises with those who sought political change. Swedish rationality could be exercised from one *kommun* to another via the study-group process. Later, when the SAP gained even greater control of Sweden's study-group system, discussions of different interpretations of policy were not only tolerated but encouraged. It was presumed that all policymaking would require careful consideration as to its morality, ethics, and even practicality.

Tingsten and Tomasson explain that the ideological extremism that had begun to emerge in the late 19th century, during the progressive movements, had by 1917 markedly shifted towards a willingness to compromise with traditionalists. From this time onward, efforts were made to develop policies using a "far-reaching consensus politics."[9] During this period of pragmatism underscored by the SAP's coalition governments between 1932 and 1958, Swedish economists (many of them non-socialists) had a disproportionate amount of

[9] Tingsten, *Swedish Social Democrats*, viii.

influence on the country's policymaking and economic development. Many of these economists were also strongly influenced by the American academy, having either studied in the United States or worked with American professors. During the later 19th century, the large number of Swedish immigrants to the United States helped nurture these connections.

Largely in response to the civil upheaval that stemmed partly from material and social hardships during World War I, Eli Heckscher organized more meetings of his "Economics Club."[10] At that time, many non-Lutheran and even secular study groups were developed. As a Jew, Heckscher felt reluctant to use State Church study groups as a means to discuss economics. His institution was therefore secular, and it reflected the trends of the time in its disconnect from the vestiges of pre-industrial life.

The SSE was established in 1909 as a private entity, with the help of a substantial contribution by Knut Wallenberg.[11] The school's main building at Sveavägen, in central Stockholm, was built in 1925 and 1926, during a time of political instability. Eli Heckscher, founder of economic history as an independent discipline, is considered the key academic force behind the school's creation. As a member of a prominent, conservative Jewish family, Heckscher in his politics was more closely aligned with the United States and the United Kingdom than with Russia or Germany. The Wallenbergs recognized at the beginning of the 20th century that Sweden lacked entrepreneurs. Thus, part of the SSE's original mission was to create a class of people dedicated to developing new businesses. Even though statistics show that few new businesses emerged in the decades that followed, indicating that the SSE did not succeed at this endeavor, the school did still grow in prestige and in political and

[10] Harry Flam, "Bertil Ohlin's Contributions to International Economics,"
[11] Stockholm School of Economics, http://www.hhs.se/

academic influence. Eventually, it produced two Nobel Memorial Prize winners in Economic Sciences: Gunnar Myrdal (1974) and Bertil Ohlin (1977), who developed the Heckscher-Ohlin model that became the standard international mathematical model for international trade.[12]

Prior to the creation of the SSE, the American connection to Swedish economic policy studies began when Gösta Bagge spent the academic year 1904-1905 at Johns Hopkins University.[13] While in the United States, Bagge studied trade unions and their effects on collective wages and unemployment. Although known primarily as the political leader of the Conservative Party during the 1930s and 1940s, Bagge's experience in the United States during those very early years of the 20th century provided a social network to conduct research on Sweden's economy with American support.

As stated before, Swedish religious practices such as the study group helped make rationality a part of their national political character. Such a legacy, one that emphasized reflection and critical evaluation, strongly influenced the nature of SAP policymaking from the 1920s until the early 1960s, when more radical, modern ideological forces began to dominate (especially under Olof Palme). However, as long as the SAP's coalition governments emphasized discussion, resulting in compromises and modifications to proposed policies, socialist policymaking remained tempered and gradual.

---

[12] The Nobel Prize in Economics was not created until 1968, so many earlier economists from the SSE could not have won.

[13] Eskil Wadensjo, "Gösta Bagge: An Entrepreneur in Swedish Economics,"

The *Folket Hus*

During this same period, the SAP rapidly built a *folket hus* in nearly every city in the nation, so that socialists, workers, and sympathetic people could gather and learn about reshaping a society of equality. Socialist leaders argued that a *folket hus* was necessary in every community — as a meeting place and the center of the community, as a rival to the State Church, and as a means of establishing a separate physical presence from the SAP's conservative opposition, the owners of factories and the leaders of the State Church.

Often, political scientists overlook the unique importance that the *folket hus* had as a Swedish cultural institution in the 20th century. It symbolized the growing strength of the working and peasant classes while also demonstrating the growth of community action and participation outside the traditional bounds of the State Church. Particularly before the SAP's rise to power in 1932, the *folket hus* played a vital role in organizing unions, since company management did not allow workers to meet or gather on company property or inside company-owned or -leased buildings.[14]

The SSE was called a Club in those early years, but Heckscher meant for it to serve as a forum for academic and business leaders to discuss economic policies in Stockholm. Heckscher also sought to engage older economists and young students in lively topics pertaining to Sweden's daily struggles. Heckscher's forum was a critical cultural institution that allowed generations of Swedish experts to explore and brainstorm about a pending crisis. These early experiences in the Economics Club helped make Heckscher's SSE a politically dominant institution in Stockholm.

[14] Mattsson and Berglund, interview.

Heckscher initially held most of his early meetings in his own house. Swedish study groups during the progressive movement were held increasingly often at prominent community leaders' homes, as a further separation from the direct influence of the Swedish State Church. Also, when discussing their opinions on serious subjects, people were more at ease in the comfort of a home than in a church. However, eventually funding became available to create a public place for Heckscher's experts to meet.[15]

In 1913, under pressure from the progressive political movements of the Liberals and the SAP, the Riksdag introduced the world's first comprehensive national old-age and disability pension scheme. The supplementary pension was means-tested, and the disability pension would be directly funded. Even in those early years, the SSE applied its economic expertise to critically analyze proposed economic policies. For example, Gösta Bagge wrote articles questioning how these programs would be funded. A critical distinction between Swedish economists and many American economists was the Swedes' copious publication of articles for public consumption. In this regard, SSE economists steadily influenced public opinion, or at least greatly contributed to it, due to their ongoing engagement with the mainstream citizens who read their frequent columns.[16] Between 1911 and 1920, Bagge wrote sixty articles in conservative journal *Svensk Tidskrift*, and between 1920 and 1930 he wrote another twenty articles.[17]

In 1924, Bagge visited the United States and Canada for an extended period of time with the goal of developing contacts with the Rockefeller Foundation. His entrepreneurial

---

[15] Flam, "Bertil Ohlin's Contributions."
[16] For many years in the 20th century, according to *Expressen* journalist Ulf Nilson, Sweden had one of the highest per capita newspaper subscription rates in the world.
[17] Wadensjo, "Gøsta Bagge."

efforts paid off in the following year, 1925, when the Laura Spellman Rockefeller Memorial funded Bagge for the largest Swedish research project ever in the field of economics. The Rockefeller grant included $75,000 to the Social Science Institute to fund a research program led by Bagge. In 1931, the foundation gave $300,000, of which $100,000 went to the construction of a new building for the School of Social Work and Public Administration and the Social Science Institute. Another grant to construct a library was later given. Considering inflation and the financial difficulties of the Great Depression, these grants were substantial.

Gösta Bagge's research funds and political connections in Sweden and the United States helped form the SSE, which regularly sent many of its members to conduct extended studies in America. Bagge initiated many of these efforts. In this regard, Bagge's legacy in the development of the modern Swedish economy was the inclusion of American studies and the ongoing exchange of ideas between the two nations, particularly in the 1920s and 1930s.

Bagge also helped Bertil Ohlin, a relative of his, to study at Harvard in the United States during 1922 and 1923. During his lifetime, the much younger Ohlin wrote about 1,200 newspaper articles that commented on economic news and events, many of them published in Copenhagen as well as Stockholm.[18] He served as the leader of the Liberal Party from 1934 until his resignation in 1967. Clearly, Ohlin's impact on Swedish economic policy was lasting. His 1977 Nobel Prize in Economics reflected his contribution to the field.

Bagge's Rockefeller-funded project resulted in the publication of *Stockholm Economic Studies.* His exhaustive studies concentrated on the relationship between wages

[18] Flam, "Bertil Ohlin's Contributions."

and unemployment.[19] These studies contributed to a reluctance by the government to create a national minimum wage and a resistance to reducing the work week as a means to decrease unemployment. Bagge's efforts helped ensure that Sweden would never adopt a national minimum wage. Instead, for many decades following the publication of *Stockholm Economic Studies*, collective agreements very carefully adjusted increases in wages. In 1935, Bagge became the leader of the *Högerns riksorganisation* ("National Organization of the Right," hereafter Conservative Party)[20] and participated in Hansson's wartime coalition government as minister of educational affairs.

[19] Wadensjo, "Gøsta Bagge."
[20] The National Organization of the Right eventually became the Moderate Party in 1969. Between 1952 and 1969, it was called the Rightist Party, or, in Swedish, *Högerpartiet.*

Chapter 3: 1921-1932, Liberal-Social Democratic Alliance/Adaptation

The founders of Swedish socialism, August Palm (1849-1922) and Hjalmar Branting (1860-1925), were both early admirers of hopeful Russian communists.[1] Although Palm never personally saw the Bolshevik Revolution, he frequently corresponded with many people directly affiliated with Vladimir Lenin. Early in his career, Branting, who became the first Social Democratic member of the Riksdag, also expressed a keen interest in helping his Russian colleagues to establish a socialist regime. However, neither Branting nor Palm ever felt completely comfortable advocating the use of force as a means to obtain political objectives.[2] They both were children of educators who believed that persuasion was the best means of encouraging political action.[3] Branting and Palm correctly recognized that the culture of Swedish politics is based on persuasion and reasoning, not force or violence.

In 1900, Palm visited the United States as guest of the Scandinavian club of the Socialist Labor Party of America in Providence, Rhode Island. He also attended similar clubs in New York City and Brooklyn to give speeches in support of the U.S. labor movement.[4] Also, Palm's journey included visits to Pittsburgh, Chicago, and Minnesota, where he met with many Swedes who had found success in the United States. Palm was very impressed with the standard of living in the United States and the working conditions of the people, and he wished Sweden could achieve a similar outcome. Palm wrote a book about his trip, *Ögonblicksbilder från en tripp till Amerika* ("Snapshots from a Trip to America"), which was

---

[1] Numerous sources confirm that Palm and Branting admired the Bolsheviks prior to the 1917 Russian Revolution.

[2] Palm's rhetoric was much harsher than Branting's, but he still privately did not see violence as a justifiable means.

[3] Palm's father was a schoolteacher, and Branting's father was a university professor.

[4] August Palm, *Ögonblicksbilder från en tripp till Amerika* [Snapshots from a Trip to America] (Stockholm, 1901), http://runeberg.org/palmtrip/ (accessed February 2, 2010).

published in 1901. His experience in the United States also contributed to his toning down of any rhetoric that might support violent political change, and it inspired him to hope that workers could get economic security and rights by more moderate tactics.

His reluctance to employ violence was characteristic of Swedes, with only few exceptions. For example, despite the stresses and problems that came with urbanization, Swedish labor conflicts were few, and on only one occasion, in the late 19th century at the Sundsvall Strike of 1889 (not to be confused with the Sundsvall strike of 1879), did a death result from labor unrest. Branting and Palm sought to draw on Swedish cultural standards, largely persuasion and negotiation, for political change, which meant a steady, cooperative approach towards political change rather than a violent overthrow of government.

Reaction to the Soviet Revolution

In April 1917, Vladimir Lenin, on his way to initiate revolutionary activity in Russia, made a brief visit to Stockholm but was greeted by only a few members of the SAP's leadership, including Zeth Höglund. At this time, the communists and the SAP were still political allies. Höglund, who later served as Stockholm's communist mayor between 1940 and 1950, exemplified this relationship in that he helped buy Lenin a new suit so that he could look impressive while he addressed the Russian people. During this period of time, Höglund's rhetoric became more radical. He believed that Sweden should follow Russia's example and advocated a forced change of government. Branting, who did not see Lenin during his visit, took a more moderate position. He believed in cooperation and, more importantly, in having a democratically-based revolution. The debate in how political change

should occur — democracy or forced change — eventually the split alliance between the SAP and the communists.

In 1917, the radicals, led by Höglund and Fredrik Ström, challenged Branting's authority and questioned his tactics and even his ideology. Their revolutionary fervor, demonstrated within a month of Lenin's visit when soldiers and workers marched the streets of Stockholm on May Day, helped galvanize the split between the more moderate SAP and the communists. There followed a couple of very tense years, but by 1920, when the SAP finally received enough electoral support to form its first government, Branting had firm control of the party he had dominated for nearly 25 years.[5] The Swedish communists remained strong supporters of Lenin's Russian Revolution of 1917-1920, but later, under Stalin, the revolution proved to be a human-rights embarrassment. The ongoing unpleasant, tumultuous civil war also disturbed the existing Swedish communists, such as Zeth Höglund and Fredrik Ström, who had moderate political proclivities and adhered to a form of Yugoslavian-style nationalist communism.[6] Even they could not support Stalin's authoritarian style.

Höglund and Ström, though, were clearly on the left fringe of Swedish politics and supported Stalin until later in the 1920s when they had received reports of Russian brutality between 1917 and 1921. These stories in the early 1920s strengthened Branting's resolve and gave him greater moral credibility among the ranks of the Left. These reports from Russia further strengthened Branting's resolve to pursue a constructive, cooperative strategy in the

---

[5] Hjalmar Branting was the first SAP-elected Member of Parliament. He was the senior elected officer in the Party, as well as its organizational leader.
[6] Roskin, *Other Governments*, 11-41.

realm of economic policy. The violence in Russia boosted Branting's pacifist efforts to nudge the SAP further towards the political center. Under his leadership, Soviet-style solutions became widely rejected, even at the street level. The 1917 schism within the SAP resulted in the extreme leftists of the SAP, or Left Socialists, breaking away and officially forming the Communist Party.[7] The departure of many extreme Leftists from the SAP further supported Branting's insistence on political moderation, while helping to give the party the appearance of being within the mainstream of Swedish society. It was much easier for some Swedes to vote for the SAP, knowing that the communists were officially separated from them.

By 1922, many Swedish communists, including Höglund and Ström, had visited the newly communist Russia to observe and to help with its revolution. Some Swedish radicals had lived there for a couple of years with the intention of learning from the Russians how to convert Sweden into a post-capitalist society. These idealists initially had hoped to bring their knowledge and experience of Russia's revolution back to Sweden, where they could implement their own communist system. However, by the end of the 1920s, despite the Swedish economy's ongoing problems, the vast majority of Swedes who had witnessed or participated in Russia's revolutionary activities became opposed to using such drastic tactics for political change in their own country. The bloodshed, starvation, and human suffering occurring in Russia caused even the most enthusiastic Swedish socialists to take pause and reconsider how best to implement political change.

Not until later in the 1920s, when the horrors of Stalinism echoed across the Baltic Sea, did Per Albin Hansson and other socialists became determined not to emulate the

[7] Arneson, *Democratic Monarchies*, 69.

Russians. Another crucial component to understanding the moderate tendencies of Swedish leftists is to acknowledge that Russia was Sweden's historical enemy. The Swedes had lost their Baltic Empire by losing at least five wars to the Russians between the 17th and 19th centuries. For centuries, the Swedish military spent the bulk of its resources training to defend the country from an ever-impending Russian invasion.

Disappointed with their lack of enthusiasm for Russia's radical reforms, the Bolsheviks expelled Swedish communists and left-wing sympathizers. In some cases, Swedes were imprisoned and mistreated for years before being allowed to return home. These stories also helped quash some of the extremist zest that had been fermenting on the streets of Stockholm in the earlier years of the Russian Revolution. The harsh reality of what happened in Saint Petersburg and Moscow bolstered support for left-wing pacifists such as Hjalmar Branting. SAP leaders became convinced that a Swedish revolution would possess a culturally Swedish characteristic. Rhetoric emphasizing moderation and compromise increasingly replaced discussion of coercive tactics.

Branting's Legacy: Expanding the Political Base to Include Women and Political Moderates

Within two decades of the SAP's formation in 1890, Branting's pleas for moderation helped the party usher in the Swedish socialist model and, with it, Sweden's "Golden Age." Branting's years as the first Social Democratic prime minister (1920, 1921-23, 1924-25) began a period of cooperation with non-socialist parties. During the brief periods in the 1920s when he was not in power, Branting led efforts to renew an alliance with the Liberal

Party to create an SAP-led coalition government.

From early on, Branting's SAP sought to guarantee universal suffrage, believing that once women gained the right to vote it would further strengthen the party's political base. Branting predicted that women, more than men, would support SAP initiatives in the future, because he believed that women would value the security that the state could offer them more than would the average man. This presumption was apparently correct, especially after the feminist reforms in the 1960s.

Beginning by granting women the right to vote in 1921, Swedish gender policies continued the efforts to achieve *jämlikhet*, or equality, and they were pushed further in Sweden than in perhaps any other country. Women became a key constituent group to the SAP's political foundation. In the area of foreign policy, Branting was a pacifist and a strong supporter of neutrality; he correctly believed that, generally, women would support these policies more than men, giving further impetus to his desire to grant them the right to vote.

Economic Transformation after World War I

By remaining neutral during World War I, Sweden kept its productive capacity from being damaged by warfare. When reconstruction efforts began in 1919, demand grew for Swedish exports in Germany, Britain, Belgium, and France, all seeking to reconstruct their war-damaged economies. Sweden, untouched by the conflict and possessing well-developed mining and timber industries, earned substantial revenue by providing crucial raw materials to a recovering Europe.[8] By 1920, Sweden had many industries that flourished and rapidly

[8] This situation was repeated, and with much greater positive impact for Sweden, during Europe's

expanded into the voracious international market, including those built by Nobel and Ericsson. Sweden rapidly developed a fully industrialized economy as the country's iron, timber, shipping, and other industries boomed.

During the years of World War I, Sweden's industrialization and urbanization had began to transform and modernize the economy at a rate that only Japan and a handful of other later-industrialized nations have experienced. Harold Tingsten, in his "History of Sweden's Social Democratic Party," explains how World War I helped cast aside many of the residual socioeconomic barriers that had existed in pre-industrial Sweden. He also observed how the urbanization process, as measured by the rate of relocation of people from rural areas to areas of high population density, peaked between 1900 and 1920. Tingsten and Childs both noted that the shift from a society based primarily in small villages with significant agricultural work to one of medium-sized cities with scattered industrialized areas was smooth in comparison to the chaos that the United Kingdom experienced. Esping-Andersen indicates that, although urbanization in Sweden contributed to poverty and the creation of the welfare state, it was also urbanization that enabled the modern state to gather enough resources to eventually eliminate much of the poverty and urban blight initially experienced during the great internal migration.[9]

Below are four sets of statistics that highlight the shifts in population and employment type during this period of great social disruption. The increase in the SAP's political strength between the late 19th and early 20th centuries corresponds with the progression of this transition. The agrarian roots of the SAP's political strength are evidenced

---

reconstruction after World War II.

[9] Esping-Andersen, *Three Worlds*, 92.

by the statistics below, which show that most SAP members would have been born on farms or near a rural environment during these early years. These statistics also show how the SAP's alliance with the Center Party (then called the Farmer's Party) made practical sense because, even after the larger part of the urbanization process, there were still many people whose jobs were in agriculture, affiliated with it, or engaged in industries derived from it.

Table 5: Percentage of Population Living in Urban Areas, by Year

1870	1900	1935
13	21.5	35.6

Source: Tingsten, *Swedish Social Democrats*, 7.

Within sixty-five years, the urban population nearly tripled as a proportion of the total population. Most of these newly arriving migrants were agricultural workers searching for higher-paying jobs in manufacturing or within a manufacturing-related activity. The population surge during this period contributed to a surplus number of workers in rural areas which drove already depressed wages downward. Agricultural successes in Sweden like most every other country did not result in expanding overall employment within agriculture but caused it to contract as an employment mechanism. Technological advances in agriculture sometimes referred to a "technology treadmill" in Economics literature resulted in decreases in demand for labor in rural and semi-rural areas. Many Swedes left for the United States, while many others relocated to the newly developing urban centers that offered employment and income far exceeding the dwindling opportunities in the countryside.

Table 6: Percentage of Population Engaged in Farming and Agriculture, by Year

1880	1910	1930
72.4	55.1	39.4

Source: Tingsten, *Swedish Social Democrats*, 7.

There is a correlation between migration to the urban areas and decrease in overall employment in agricultural activities. However, the majority of the Swedish population did not work in non-agricultural activities until during the years of World War I (1914-1918). Global demand, triggered by shortages in war-torn continental Europe, spiked demand for Swedish manufactured goods. The Swedish economy responded by rapidly industrializing, which resulted in a sharp decrease in agricultural employment.

The figure below illustrates a marked increase in employment in industry.

Table 7: Percentage of Population Employed in Industry and Crafts, by Year

1870	1900	1930
14.6	27.8	35.7

Source: Tingsten, *Swedish Social Democrats*, 7.

Newly emerging industries successfully absorbed the migrating population. Just as the percentage of the population living in urban areas nearly tripled within this timeframe, so did the percentage of those employed in industry. The transition from working on a farm in a small, peasant-based community towards working in a factory in a medium-size to large urban setting correlates strongly with the rise of the SAP, which sought to renegotiate and redistribute power toward this new mode of work and life. The figure below shows the actual

numbers of employees in various fields and also illustrates how population growth contributed to raising overall employment numbers.

Table 8: Number of Workers Employed in Industry, Mining, and Crafts, by Year

1870	1880	1890	1900
96,000	137,000	189,000	400,000

Source: Tingsten, *Swedish Social Democrats*, 7.

Social Cohesion and a Disconnect with the Soviets and Communists

The relatively small population of the country helped foster a close cultural solidarity, since many socialist and non-socialist leaders shared a common background. For example, Hjalmar Branting attended Uppsala University at the same time as King Gustav V (then crown prince). During their years at Uppsala, the two became good friends, and they maintained a cordial relationship throughout the rest of their lives despite their vast differences in ideology. Even though the cultivation of such a friendship likely softened Branting's revolutionary tendencies, it is more significant that such relationships would convince reformers such as Branting that political problems could be peacefully resolved.

Sweden's considerable social cohesion contributed to the gradual nature of its political changes. The monarch personified the tightly knit society. For example, Swedish radicals such as Branting personally knew the king. Enduring through both world wars, Gustav V's lengthy reign (1907-1950) also proved to be a stabilizing force. Gradually and grudgingly, Gustav V accepted a secondary and, finally, a more symbolic role. As the king aged, his political ambitions deteriorated in step with them the role of the monarch in

Swedish society. Gustav V, as a conservative king, worked diligently earlier in his reign to maintain the monarchy's influence. In 1912, he used his constitutional veto, which was the last time a monarch exercised direct political power.[10] Unlike the Russian czar, Gustav V also attempted to maintain a more populist public image. His congenial efforts helped preserve the monarchy.

The SAP's inherent distrust of the Soviets resulted partly from the experience of many socialist leaders, who either themselves or through close friends and relatives had participated in intense military training in preparation for a seemingly inevitable Russian attack. Wariness of excessive Russian influence, along with a widespread knowledge of Swedish territorial losses (especially Finland) to Russia, was still deeply fixed in the Swedish political consciousness. In addition to this, until 1917 the Russians still occupied the Åland islands between Finland and Sweden. Although the islands were demilitarized during most of the Russian occupation, Sweden was only a very short boat ride of twenty-five miles from this Russian territory. In spite of efforts by the SAP leadership to follow a neutral course, most Swedish communists and members of the far left knew that the typical Swede distrusted and still felt threatened by the Russians. Branting instructed his followers, especially Hansson, to follow a more moderate and independent course than Moscow's new leaders would have liked.

The Bolshevik Revolution of 1917, along with the disagreement about the use violence as a means to evoke political change, caused the Social Democrats to formally split

[10] Arneson, *Democratic Monarchies*, 105.

with the communists.[11] At this time, and continuing until they obtained power through an alliance with the Farmer's Party in 1932, the SAP found its greatest political ally in the Liberal Party. Both Childs and Tingsten explain that, beginning in 1918 and continuing into the 1930s, Social Democrats and Liberals cooperated and shared many political goals – most importantly, the desire for universal suffrage. Once that goal was accomplished in 1921, both parties strongly believed in the modernization of Sweden (socially and technologically) and sought to minimize the power and influence of the monarchy, the State Church, and the remnants of the old aristocracy. Both parties also sought to improve the standard of living for the rapidly growing urban populations.

Later in the 1920s, with 1928 being an exceptional year of leftist activism within the SAP, the party temporarily became more idealistic. However, these efforts failed to gain the SAP enough voter support to maintain control of the government. Upon failing to obtain a majority of the votes in the 1920s, Per Albin Hansson (prime minister from 1932 to 1936 and 1936 to 1946), became politically pragmatic. He, no doubt, also felt compelled by the conditions of the global depression and World War II to find practical solutions in those tense times.

During Hansson's tenure as SAP leader, the party leadership was still mainly dominated by left-wing politicians with socialist inclinations, but other than Möller, few were outspoken ideologues.[12] In 1938, Childs wrote that the SAP was much more concerned with practical matters, such as having enough galoshes to cover the workers' feet during the

---

[11] Branting officially supported the first Russian Revolution in 1917 and the Kaminsky provisional government. He did not believe that Lenin's second revolution was necessary.

[12] Liberal, in the Swedish sense, meant that they shared more beliefs with the Liberal Party than with the communists.

winter months,[13] than with nationalization. Swedish society was still absorbing the aftershocks of the chaos produced when rapid industrialization and urbanization occurred within the same generation. Rather than seizing more power for the state, Hansson intended to unify the working and agrarian classes with a common vision for the future. For some, this effort was best exemplified in the ideal of *Folkhemmet*. Hansson envisioned a government that would steadily improve the standard of living for all workers while piecing together voting blocs to maintain the SAP's plurality of power. It is critical to realize that not until 1940 did the SAP achieve the support of a majority of the voters, and that happened under the unusual circumstances of World War II, when many Swedes felt the need to remain cohesive and unified against the immediate threats of invasion from Russia and Germany.

In the mean time, between the 1920s and into the 1950s, communists were excluded from the Swedish government. Relations between the SAP and the Communists had deteriorated during the interwar period but then gradually improved, to allow the limited amount of cooperation witnessed in the late 1950s. When the coalition with the Farmer's Party dissolved in 1957 over a disagreement about overhauling the national pension system, the Communists supported the SAP in order to retain control of the government but were not allowed to participate in the cabinet. The SAP managed to exclude them, because they knew that the communists would gladly support the Social Democrats rather than allowing the non-socialist bloc of parties to regain control of the government. In this regard, even Swedish communists exhibited the very Swedish political characteristic of compromise.

---

[13] Ibid.

Not Quite a Majority

The 1920 election loss that failed to obtain an SAP majority within the Riksdag convinced Branting to strongly suggest that the party modify its strategies to accommodate the average Swede, not just the working class. During the 1920s, according to Tingsten, the Social Democrats sought to soften their rhetoric as an attempt to further separate their public image from that of the communists. Swedish socialist leaders did not want a Russian-style revolution. In Branting's final years, pragmatism and gradualism became his primary message. Part of this effort to change the party's public image involved changing the party's official name from the Social Democratic Labor Party to the Social Democrats in 1923.[14] Branting's legacy left an SAP that deliberately incorporated more moderate and liberal elements into its overall membership.

From the mid-1920s until the 1960s, the SAP leadership always included a healthy number of moderately left-wing members, who tempered the party's political initiatives. Since cooperation and democracy agreed with traditional Lutheran ethics, early SAP leaders felt not only a practical but also a form of moral responsibility to forge compromises with traditionalists, liberals, and at times, the far left.[15] Prime Minister Hansson's wartime coalition from 1939 to 1945 perhaps best embodied this kind of cooperative spirit that prevailed during the first and second generations of SAP dominance.

The more moderate internal political shift in the SAP occurred at roughly the same time that the SAP's former coalition partner, the Liberal Party, began closely cooperating with the Conservative Party, then called the *Allmänna valmansförbundet* or General Electoral

---

[14] Arneson, *Democratic Monarchies*, 68.
[15] Tingsten, *Swedish Social Democrats*.

Union.[16] The decline of the Liberals had much to do with some of them joining the SAP (on the left) and some of them supporting the Conservatives (on the right). The effect of so many more moderate Liberals who joined the SAP was arguably considerable until the mid-1960s, by then moderates within the SAP lost their influence. When the party won a majority of the votes in the 1968 election from that point onward, more left-wing elements dominated the SAP, especially under Olof Palme's leadership.

The SAP's credibility as a stabilizing force stemmed from the collapse of a prosperous era in the 1920s. At that time, one consequence of the mostly positive changes was continual urbanization, which carried a stiff social price because often housing and living conditions for new urban-dwelling workers was less than adequate. The wealth of Swedish industrialists and entrepreneurs continued to grow and generate resentment from those living in crowded, squalid conditions. At this time, Sweden's economy became more linked to global markets. Commercial networks in London, New York, and Paris began to regard Sweden as a place to do business. Probably the best example of Sweden's new relevance to the global economy was the spectacular career of financier Ivar Kreuger, the so-called "Match King." Krueger, who based many of his business dealings in New York, appeared close to achieving a worldwide monopoly on match production. For example, by 1927 Kreuger's financial position was so strong that he loaned the French government $75 million and, later, loaned the German government an even larger amount.

[16] Ibid., 64. The Liberals began cooperating with the Right Party in 1927.

Cassel's Warning of Monetary Disaster

By the late 1920s, as the global economy continued to expand, there were some signs of trouble. Gustav Cassel, a member of the SSE, gave a presentation in the spring of 1928 to the Banking Committee for the U.S. House of Representatives. In it, he warned that the U.S. Federal Reserve's tight monetary controls "would provoke a depression."[17] Cassel also wrote a newspaper article in English and published it in the *New York Times* on March 5, 1928, issuing a stern warning of an economic depression soon to come. The attention Swedish experts focused on the U.S. economy was a result of the major role that the Federal Reserve played in maintaining the stability of global currencies, which, in turn, directly affected Sweden's export-driven economy. Swedes also had an interest in the United States because of the roughly two million Swedish immigrants residing in the United States at that time, many of whom they still maintained contact with through letters.

The economic depression that struck the United States in late 1929 did gradually spread throughout the industrialized world. Market demand for manufactured goods and raw materials collapsed. Despite Cassel's warnings in 1928, the U.S. Congress passed the infamous Smoot-Hawley Act of 1930, severely damaging the market for European exports to the United States. Such protectionist trade policies and very conservative monetary policies were intended to boost U.S. industries, and they were made without regard to how they would damage European markets. Swedish industries, dependent upon export revenue to survive, began to lay off workers. Cyclical unemployment in Sweden eventually peaked at 25 percent; while this rate was still much lower than Germany's, it nearly matched U.S. levels of

[17] Benny Carlson, "The Long Retreat: Gustav Cassel and Eli Heckscher on the 'New Economics' of the 1930s,"

unemployment.

Hansson Assumes the Party Leadership

During this economic crisis, Per Albin Hansson became Branting's surprise successor. Most Swedish historians explain his rise to prominence within the SAP by saying he was the right age at the right time and in the right place at the right time. Initially, political observers early in the 1920s did not foreseen Hansson's future as that influential. However, in 1928, Hansson made his indelible mark on Swedish political thought by inspiring Swedes with the image of an ideal society, *Folkhemmet*. His ability to promote his vision of a perfect Sweden enabled Hansson to firmly secure the leadership of the SAP prior to the 1932 election.

Critics of *Folkhemmet* immediately point to some curious similarities between Hansson's initial descriptions of "the people's home" and the contents of Mussolini's fascist speeches[18] given to his Italian subjects earlier in the 1920s. Despite this, Hansson's proposal endured and consumed the political imagination of the Swedish left and, more gradually, of many moderates. Hansson's famous 1928 speech to a large Swedish trade union was the first to explicitly describe *Folkhemmet*,[19] and in it he challenged Sweden to build a society that would care for and adequately provide for everyone. Hansson's personal pleas and the moral overtones of his speech convinced many Swedes that crafting *Folkhemmet* was not only the morally correct way to cure Sweden of its ills, but also that they had an opportunity to construct an ideal society. *Folkhemmet* began to symbolize Sweden's future. Esping-

[18] Per Bylund made this observation.
[19] Kurt Samuelsson, *History of Sweden* (New York: ____, 1971).

Andersen argues that *Folkhemmet* was a visual device intended to unify the vast segments of the working class, [20] indicating that Swedish labor was much more diverse in its origins than many would assume. *Folkhemmet*, therefore, served as a centripetal geopolitical force.

Hansson incorporated Branting's skillful rhetoric by issuing radio and live speeches to motivate the Swedish masses to want to build an ideal society. He sold a powerful message of hope that crystallized under the pressures of a souring global economy and the growing nearby communist and later fascist threats. Hansson implored the average Swede to feel a patriotic obligation to their fellow brothers and sisters to build a "people's home."

Strong social pressures, a holdover from small-town life in the agrarian villages, still dominated the Swedish psyche. In some ways, Swedish political collective actions resembled the traditions of small-town collective efforts. With appropriate leadership, the state could assume the responsibility of this noble work. Cooperation within the government and with private industry seemed to be a practical means of resolving societal conflict. For this reason, key industrialists were included by Hansson and others in the decision-making. Private industrial leaders, motivated by the promise of securing long-term, predictable profits by having a more functional relationship with unions, quietly joined the SAP alliance and effectively assisted them in the first crucial steps towards socializing Sweden.[21]

Swenson and others argue that Swedish industrial leaders, having already established themselves a few decades earlier, were against competition and many elements of the free market. These industrialists were as concerned about securing their long-term future as the

---

[20] Esping-Andersen, *Three Worlds*, 67.

[21] See Peter A. Swenson, *Capitalists Against Markets: The Making of Labor Markets and Welfare States in the United States and Sweden* (New York: Oxford, 2003) for the details of the arrangement between industry leaders and Leftist leaders.

workers were. Therefore, even the Swedish "right" no longer truly adhered to liberal, free market ideals[22] but instead sought the security that they believed a certain form of government could provide. These views were especially prominent in the chaotic 1930s, when collapsing global markets appeared to threaten all Swedish industries. Gradually, the SAP's political tent expanded to preserve the positions of the fortunate twenty or so families that controlled the majority of industry and, in effect, to provide jobs for the bulk of the SAP's electorate.

The SAP's original economic plan aimed to provide workers[23] with health insurance, old-age pensions, unemployment protection, and other social benefits, all to be financed by worker and employer taxes. By claiming that its agenda represented the people's interests by building *Folkhemmet*, SAP leaders persuaded the populace to entrust them with Sweden's financial resources and its future.[24]

Although it won a plurality of seats in the 1932 election, the SAP required support from the Farmer's Party to form a coalition government. The participation of the Farmer's Party in the coalition government during the global depression had a profound effect, moderating the SAP's most radical economic policies.[25]

The harsh economic conditions affected a wide range of society, not just the working class and the rural poor. Under such recessionary conditions, the concept of the "people" had become a hegemonic part of political consciousness. As a consequence, Hansson's

---

[22] This pertains to domestic economic conditions. Never did Swedish industrialists imagine that they could restrict or manage world market structures. They sought a form of internal protectionism.
[23] Later, this would include all Swedes.
[24] www.geocities.com/CapitolHill/2418/*Folkhemmet*.html
[25] For example, in 1932, the Farmer's Party essentially forced the reduction of the SAP's proposed deficit spending on public works, intended to stimulate employment, from 160 to 100 million Swedish *kronor* (SEK).

Folkhemmet of 1928 felt far more relevant, to many more people, by 1932. Bertil Ohlin commented in 1938, "In recent years…it has become obvious that…many forms of 'consumption' — food, clothing, housing, recreation — …represent an investment in the most valuable productive instrument of all, the people itself."[26]

Hansson had followed Branting's example in pursuing a public image that possessed a calm resolve and confidence. He expressed a continual belief in constructing political compromises. Hansson and others, including Wigforss, exuded a longstanding belief that Sweden would eventually evolve into a socialist society, almost as a matter of scientific fact. In his last decade of life, Branting constantly instructed his protégés, including Per Albin Hansson, to deliberately and patiently pursue more diplomatic efforts. Branting's influence on Social Democratic strategy is easily observed in the ongoing agreements, effectively durable partnerships, struck between labor and Sweden's large businesses. Compromise became a way to defuse potentially volatile situations. Hansson and, later, Erlander recognized the practical necessity of cooperating with key Swedish private industries. Collusion between the state and a select group of favorite industries, which employed a large portion of the private sector, would form the foundation of the Third Way.[27]

Beginning with Branting and continuing under Hansson, SAP leadership recognized that its ability to govern Sweden was limited by the necessity of managing Sweden's economic and societal needs while possessing usually only a plurality of the vote. The electoral system of proportional representation, which in Germany had contributed to the

---

[26] Bertil Ohlin, "Economic Progress in Sweden," *The Annals of the American Academy of Political and Social Science* 197 (1938): 1-7.
[27] Swenson, *Capitalists Against Markets*.

chaotic Weimar Republic and ultimately helped catapult Hitler to power, in Sweden resulted in the opposite effect. Instead of forcing Swedish leftists farther to the left, the proportional system effectively tempered their position by requiring them cooperate with political moderates to make their government work. The SAP's decades of governing with a plurality rather than a majority meant that pragmatic sensibilities rather than extremism became the main focus of political strategy.

Branting chose a moderate path, which Hansson and others perpetuated because they were convinced that moderation still meant progress. The system of proportional representation allowed smaller parties to retain an influential voice within the main government or the opposition. Branting and Hansson were also conscious of the fact that the majority of the people had not accepted their political ideals. Their acknowledgement that they lacked a mandate, as well as their response of diluting and delaying much of their political agenda, muted potential unified backlashes from the opposition. Their process of policymaking managed to disarm the opposition enough that they avoided defeat. It took the passing of that first generation of SAP leaders for an elitist impulse, under the leadership of Palme, to emerge. For thirty years of power, from 1932 to 1962, SAP leaders adhered to Branting's strategy of moderation and cooperation. This period of time represented the Third Way that Childs described.

Chapter 4: 1932-1940, Changing Gears: Moderation and Consensus under International Duress

The history of socialism knows no more successful combination of pragmatism and path finding in economic theory, of caution and willing acceptance of the risk of error, of loyalty to the socialist tradition and realistic choice of the most promising political strategy than the policies of the Swedish Social Democrats during the 1930s.
-Carl Landauer[1]

In terms of political ideas and aspirations, Sweden and the United States were never closer than during the 1930s. With the financial support of the Carnegie Foundation, Gunnar and Alva Myrdal traveled and lived in the United States between 1929 and 1931. Between 1938 and 1942, they returned to the United States, and Gunnar wrote his famous book on American race relations, *An American Dilemma*, again with the support of the Carnegie Foundation. Childs describes the Myrdals' views as epitomizing those of a typical Swede who admires the United States but is troubled by its behavior.[2] After returning to Sweden, the Myrdals and other SSE economists, many of whom had also studied in the United States as a result of Gösta Bagge's political and entrepreneurial efforts during the first decade of the 20th century, encouraged other intellectuals and politicians to consider American-style solutions.

Many members of the SSE, especially Gunnar Myrdal, had spent a considerable amount of time in the United States during the very early stages of the Great Depression. Ongoing communication between U.S. progressive economists and those in Stockholm helped push a type of New Deal in Sweden that, in turn, influenced reform in the United States. For example, while left-wing Swedish politicians were intrigued by FDR's economic

[1] Carl Landauer, *European Socialism* (Berkeley: University of California Press, 1959), 437-444.
[2] Childs, *Sweden: The Middle Way on Trial*, 148.

and social policies, the U.S. government in 1938 adopted the American Food Stamps program, which had originated in a Swedish government report communicated to the Roosevelt administration. For a period of time, it seemed that American and Swedish economic policies were converging. However, tax rates and government spending in the United States were much higher than in Sweden. At this point, the United States had a more socialized economy than Sweden. This fact is infrequently observed by most scholars, because the United States continued to display a culture of capitalism despite having fiscal policies which contradicted it.

Before the Myrdals, most Swedes viewed America as a land of commercial opportunity. After the Myrdals returned to Stockholm, America became perceived (especially by those who admired them) as land of intellectual and scientific opportunity. The Myrdals continued to lay the foundation that was started in 1904 by Bagge, and they diligently kept on doing so long after World War II. American science and American universities soon started to attract young Swedes. By the 1930s, the United States began to replace Germany as a cultural and intellectual center in the eyes of many Swedes. Consequently, English replaced German as the preferred second language in the Swedish educational system. After having lived in the United States, Gunnar and Alva Myrdal observed, "The class in Sweden that is most American in its personality type is without doubt the working class."

Twentieth-century Sweden witnessed a socioeconomic phenomenon known according to The Economist as *klassresa*, or "class travel or class mobility,"[3] meaning that people of working-class origins could rise up or "travel" to higher socioeconomic positions

[3] Charlemagne [pseud.], "Snakes and Ladders: Europe is Economically Inflexible, but Socially Mobile. Whence This Strange Combination?" *The Economist*, May 27, 2006, 52.

through hard work and talent. The Swedish version of the "American Dream" meant social mobility and improved quality of living, rather than just increases in material possessions. Swedes and Americans shared the belief that equality (for Swedes, *jämlikhet*) could be accomplished through merit and hard work. In the 1930s, the Myrdals and other SAP intellectuals stressed that social mobility must be earned through effort, not granted by state-mandated entitlements.

By the 1960s, this belief in social mobility through merit had gradually changed direction due to a growing anti-competitive cultural trend in education and Swedish society in general. Although the idea of a meritocracy fit well with the residual values of earlier feudal times, when peasants were largely independent and could freely use additional productivity and ingenuity to improve their lives, by the early 1960s group cooperation rather than individual success had begun to be valued by the elite of the SAP. Job creation, especially at the local level, existed mainly within the large corporations sheltered by deals of the 1930s and within the ever-growing public sector. Growth in social programs correlated with increased taxes.

Education played a significant role in shaping the newly urbanized Swedish mentality. The 1964 American tax cuts, inspired by President Kennedy's pleas prior to his assassination, caused the United States to embark on a separate path of fiscal policy from that of Sweden. American entrepreneurship and individual performance persisted in a suburbanized setting. The two systems, which seemingly had much in common in the 1940s and 1950s, began to diverge in the 1960s and continued to do so in the 1970s. Arguably, the Swedish meritocracy never possessed the same penchant for rugged individualism as the

American version, but it became increasingly communal in emphasis as *Folkhemmet* came into full bloom.

A cultural tradition that began in the Lutheran Bible study groups and continued in the Social Democratic study groups in a *folket hus* finally flowered in the form of universal public education and lifelong learning in the *vuxenskolan*, or "adult school." Education was further developed by the Social Democratic leadership as both the means to promote socialism and the way to prevent the development of a rival ideology. Social engineering in these group-learning settings would help solidify the party's grasp on society in the present and for the future.

"School is the spearhead of socialism," said Ingvar Carlson in 1969, before he replaced Olof Palme as education minister and again as prime minister in 1986. He added, "Pre-school training is essential to eliminate the social heritage of undesirable, reactionary parental views."[4] However, as long as a version of meritocracy persisted in Swedish political culture, productivity and hard work continued to drive economic policies.

Rise of the Social Democrats

In 1930, as the global depression worsened and directly affected Sweden, tensions between labor and business rose. Before resorting to layoffs, Swedish industries initially cut wages to balance their sagging revenue. Workers reacted by going on strike. The non-socialist ruling government routinely deployed soldiers to strike sites to maintain order.

Sawmill workers in Åden, in the northern Ådalen Valley, went on strike in 1931. The

---

[4] John R. Lott, Jr., *Freedomnomics: Why the Free Market Works and Other Half-baked Theories Don't* (Washington, DC: Regnery Publishing, 2007), 189.

soldiers sent to Åden to keep the peace confronted the striking crowd and fired, killing four demonstrators and a spectator. This is one of only two recorded instances of labor violence resulting in deaths in Sweden, and it was called the Ådalen massacre. In addition, Liberal Party member and "Match King" Ivar Krueger witnessed his financial empire collapse in a series of financial scandals, which led eventually to his suicide. Public reaction to these deaths contributed to the resignation of the Liberal Party's coalition government and an electoral victory for the Social Democrats in 1932.

In 1928, the SAP temporarily shifted its policies more to the left, causing its alliance with the Liberals to implode. At this time, Hansson began making speeches about his vision of *Folkhemmet*, a concept that Liberals generally did not accept or desire for Sweden's future. Though forsaking many of Sweden's traditions, Liberals emphasized individualism far more than collective welfare, especially if the state was to be the primary creator of such welfare. *Folkhemmet* became a key reason for the division between Liberals and Social Democrats. From this point onward, cooperation between the two parties became less frequent. Over time, the Liberal Party would become more firmly entrenched with the non-socialist coalition.

In his final years, Branting repeatedly advised Hansson and others to pull political strength from the political center, to have patience, and to believe that history was on their side. In doing so, the goal was to expand the constituency of the SAP beyond the working class. It was practical politics, and Hansson in 1929 decided to heed Branting's advice by toning down his leftist rhetoric. In effect, he choose to reach towards the center at the expense of alienating the extreme left. In the long run, the extreme left was far more loyal to

the SAP, so this was a political calculation that brought a net benefit to the party. Though the SAP appeared to take the extreme left for granted, and in fact it did, in the long run its social and economic policies gradually addressed and satisfied many of leftist goals, such as greater income and wealth distribution, in the 1920s. The key differences between the parties were methods, timing, and a few key exceptions and deals cut with industry leaders to satisfy a broader political base.

Hansson's inability to obtain a majority in the 1920s and early 1930s contributed to his desire to pull political strength from the center rather than the extreme left. In doing so, the SAP found a somewhat natural ally in the Farmer's Party. Though the SAP was union part, an organization for the workers, most of these people had agrarian roots and were personally sympathetic to many of the aims of the Farmer's Party. Farmers were appreciated, valued, and even sympathized with by many SAP members. Though farmers were large property owners involved in individual businesses, they were not perceived as the enemy or as a part of the political opposition. The workers' struggle was primarily at the workplace and within the city. They did not think farmers were causing problems for them, nor did they think farmers were morally obligated to improve the workers' quality of life (unlike owners of industry).

The food shortages during World War I were still remembered by all of Sweden in the late 1920s. It was probably a greater stretch, politically, for the Farmer's Party to submit to SAP leadership. In return for their cooperation, the SAP supported minimal taxes for agricultural productivity and minimal restrictions on production. Proposed regulations would favor and subsidize many farmers. To the extent that it was possible, SAP policy aimed to

maximize agricultural revenue. A sense of national self-sufficiency was encouraged. Swedish farmers cooperated with Social Democrats to form a new government. The SAP would rely on this kind of political alliance in the decades that followed as a way to perpetuate its position managing Sweden's government and its overall economy. In his 1936 book *The Middle Way* and again in 1938, Childs observed that Social Democrats during the 1930s ruled as leaders of a cooperative group and were willing to make many compromises with other political parties. Since in many countries during the global depression of the 1930s, political extremism and conflict dominated the scene, Childs hailed Sweden's efforts as an innovative form of democracy. The impact of the SAP's approach in policymaking spread outside of Sweden to neighboring countries such as Norway, Finland, and Denmark. It also gained the attention of the American press, who brought Childs to Sweden. As a consequence, Swedish politics served as a source of inspiration to FDR and other reformers in the United States during the 1930s.

As stated earlier, the combination of Krueger's suicide and the Ådalen massacre contributed to the Liberal Party's deflating political strength, which eased the SAP's efforts to regain its preeminent role as the leader of a new coalition government.[5] Roskin and others point to the global depression as a cause of the decline, but it was more like a continuation of the decline, since the Liberal Party peaked in 1911 with 40 percent of the popular vote. By 1928, the Liberals earned less than 16 percent.[6] It is true that the 1932 national vote gave the Liberals their lowest result until the 1973 election, only 11.7 percent. However, during the global depression, the SAP managed to convince many former Liberals and other non-

[5] Roskin, "Sweden," in *Other Governments*.
[6] SCB, "Historisk statistik."

socialists that the proposed budget cuts would harm the economy. Most notably, Ernst Wigforss, whom Hansson appointed as finance minister after the 1932 election, wrote a convincing, widely distributed pamphlet, "*Har vi råd att arbeta?*" ("Can we afford to work?"), which helped garner greater support for the SAP platform, which included a proposal to increase government spending as a pre-Keynesian solution to the declining macroeconomy. Comparing the elections of 1928 and 1932, the SAP only gained an additional 3.7 percent of the national vote, but this was enough to secure the government, with 41.7 percent of the total. The Liberals lost more votes than the SAP had gained, indicating that a large share of people who formerly voted for the Liberal Party decided to support the SAP. Voting trends for the next 20 years indicate that this trend continued.

Hansson led the SAP's inclusive effort, which had a moderating effect on the party's political agenda until the 1958 election. Once Hansson became prime minister in 1932, rather than instantly pushing for an extreme left policy initiative, he sought to strengthen a society by giving the appearance of being a unifier in times of trouble. He attempted to give the public the impression that, through his vision of *Folkhemmet*, all Swedes would gain security and would share in a prosperous future. Hansson exuded a grandfatherly public image.

His radio speeches and public appearances sought to calm a deeply concerned populace. The international events of the 1930s troubled most Swedes into seeking security. Childs observed that Hansson wisely shelved stacks of previously designated radical political proposals, including one requesting the socialization (or nationalization) of "certain export industries, notably paper." During the global depression years, Hansson's leadership role as prime minister was only briefly interrupted, in the summer months of 1936, when the

Farmer's Party temporarily led the government.[7] Aside from this, Hansson was largely responsible for soothing the public's rattled nerves for a total of fourteen years (from 1932 to 1946).

Pursuing Moderation in a Turbulent Climate

During their first years in power, Social Democratic leaders still heeded the advice of Branting, who warned them not to take their authority for granted. The SAP's brief election loss in 1920 and the subsequent electoral plateau served as a harsh reminder of the inadequate popularity of their mandate. Because Hansson and Wigforss were mindful of their limited appeal to the Swedish public, they deliberately adopted more pragmatic economic policies despite their personal political beliefs. Wigforss, according to Tim Tilton, especially deserves credit for postponing the implementation of his own ideals in the 1930s.[8]

In 1991, John Kenneth Galbraith wrote in *A History of Economics: The Past as the Present* that Wigforss was primarily responsible for Sweden's eventual high-tax policies. Not until 1962 did the SAP begin to formally and boldly incorporate many of Wigforss's taxation ideas into public policy. This type of delayed political gratification, a solid display of patience, separated Swedish socialists from any other political group in the world. However, the decades of political developments under the SAP suggest that such restraint was also due to a deep faith that eventually socialism would dominate Sweden, much as Branting appears to have expressed in his later years.

---

[7] Once again, this illustrates the important role that Agrarian political elements played in Sweden's economic development in the 20th century.
[8] Tilton, *Political Theory*.

Hansson's vision of *Folkhemmet* became a reality only very slowly, and it never came close to fruition during his tenure as prime minister. He followed Branting's advice in promoting a gradual transformation and addressed more immediate priorities, such as managing the global economic crisis and responding to World War II. Despite the slow progress in fulfilling his socialist agenda, Hansson's political rhetoric in his public speeches persistently articulated his desire to implement structural policies to benefit "all Swedes."

However, those early years of SAP dominance in the 1930s were mildly revolutionary, because of the pressing need to be pragmatic. Social Democratic leaders continually received input from prominent Stockholm-based economists such as Gunnar Myrdal, Gustav Cassel, Eli Heckscher, and Bertil Ohlin. The SSE economists famously met and cooperated as a group to build a stronger Sweden. The SSE's contributions shaped Swedish economic policy for much of the next thirty years, since its expertise provided the Social Democrats with a well-formulated technical foundation for their economic policies. This relationship between the school and the SAP illustrates how Swedish culture in the 1930s valued expertise even more than its cultural ideals.

Tingsten notes that the Social Democrats were politically innovative in their approach to policymaking. The SAP was the first socialist political party in the world to gradually change the role of the state, rather than applying violence and revolutionary tactics. As Childs observed in *The Middle Way* (1936), a spirit of cooperation rather than coercion prevailed. Reason and rationality dominated the discourse among the participating parties. Traditional values helped dictate the negotiation process, in that socialists of that generation still possessed a clear understanding of farm life and small-town Sweden. At that time, such

an understanding provided social cohesion between farmers and labor-based socialists.

The alliance between the socialist and agrarian factions provided a “solid foundation” on which to base continuing reforms aimed at reducing inequality of income and of access to resources and services. This socialist-agrarian political coalition was a “parallel partnership” that coincided with a commercial alliance between the captains of industries (e.g., the Wallenbergs) and the major trade unions (e.g., the LO). Thus, a political union and an economic union allowed a significant degree of coordination between market and non-market variables in policymaking.

International Pressures

Arguably, most Swedish Marxist intellectuals were culturally connected to a pragmatic, farm-life background, which moderated their idealism. The stern warning of the humanitarian disaster in nearby Russia also steered ideologues towards the political center. Another factor contributing to Sweden being spared much of the turmoil caused by radical communists of the East was their centuries-long distrust of Russian influence and dominance.

The nervous political environment of the early 1930s helped the SAP to cultivate among the Swedish people a desire for security, which for decades was more important to them than any purely ideological impulse. Although the SAP came to power by representing the labor movement and advocating socialism, what resulted from their administration was not Marxist socialism but a democratic social welfare state. Thus 90 percent of Swedish capital remained private, but the government greatly influenced the production and distribution of goods and services through regulation, taxation, price controls, and social

programs.

Hansson's administration faced a politically challenging international-relations environment to the south (Nazi Germany) and the east (Soviet Russia). Geopolitical threats peaked after the outbreak of hostilities in September 1939. As soon as possible, Hansson declared Sweden's neutrality to the world, with the chief goal of avoiding direct involvement in the growing conflict. On December 1, 1939, he restructured his cabinet to incorporate all non-extremist political parties into a collective power-sharing arrangement in which the SAP held five cabinet positions while three non-socialist parties controlled six.[9] Despite obtaining in 1940 a very rare majority of the national vote (see Appendix F), Hansson largely ignored the election's outcomes, because he and other political leaders interpreted this outcome as a vote of confidence that the Social Democrats could keep Sweden stable during a time of war.[10] Believing that it was critical to maintain the power-sharing coalition for the sake of unifying Sweden's more moderate political parties, Hansson continued the arrangement until after the war ended.

In the 1930s, the turmoil from ongoing disasters in Russia, such as the failed collectivized agriculture program in the Ukraine, discredited the socialists' push to nationalize large tracts of land. Even though land and property redistribution had been rarely emphasized as a primary economic goal, any desire on the part of SAP leaders to pursue such radical reforms was quickly quashed when they observed Russia's failures and felt the pressures from SSE economists and their coalition partner the Farmer's Party.

Swedish conservatives were more likely to turn to Germany than to Russia for

[9] Numerous sources verify these details of Hansson's wartime coalition.
[10] The Swedish Institute, *Sweden Fact Sheet* (Swedish Institute, March 2007), 2.

economic and political support when the Left appeared too extreme. Given Sweden's proximity to Germany and the growth of fascist political movements throughout Europe, Hansson understood the urgency of keeping the SAP on a moderate course. Any movement to the left would have inspired more people to flock to the emerging Nazi political wave. Hansson's effort to moderate the SAP was thus partially separate from the necessity of appeasing the Farmer's Party, which was strong in the south and also an ardent supporter of individual, private farms. Ideological bickering withered under the pressure of survival, causing Hansson and other socialist leaders to focus on unemployment issues that also distressed the Farmer's Party rather than on concerns about inequality of wealth or income. The fascist and communist solutions to such inequalities also pushed Hansson away from a class-warfare approach.

Governing with a Plurality

Finance Minister Wigforss (in office 1932-1949) exhibited considerable patience in implementing many SAP economic policies, demonstrating a rational, calculating attitude as minister of finance for many years and clinging to the hope that the longer the SAP could hold onto power, the greater the likelihood that SAP ideals would eventually be integrated into mainstream Swedish society. And even though much of the SAP's economic agenda was delayed, some significant pieces of legislation were introduced in these early years, such as the 1937[11] creation of the national old-age pension program that functioned as the welfare

[11] This was two years after the United States, under FDR, installed the Social Security system.

state's backbone.[12] Indeed, by the early 1960s, the SAP's influence on the populace had become so great that the party convinced the electorate to support a dramatic expansion of government and taxation.

Since Social Democrats had a pragmatic approach to cultivating, maintaining, and expanding their power, it was the immediate issue of reducing unemployment that consumed most of Hansson's energy during his first years in office. Under Hansson's leadership, portions of socialist doctrines were quickly abandoned as the party took cooperative measures to appease the Farmer's Party and as the residual feudal work ethic continued to supersede ideology.[13] For example, the SAP initiated public spending increases for infrastructure development, but, as of 1933, the wages paid on public works projects were based directly on the open market.[14]

However, as a means to build a reliable constituency, Social Democrats sought to make people dependent upon the services that their political agenda provided. In 1934, a state-subsidized unemployment insurance known as *Socialstyrelsen* was instituted by the SAP-dominated Riksdag.[15] To avoid financial strain on the government, the insurance plan was paid for largely by unemployment funds collected in payroll taxes. As in the U.S. Social Security system, half such payments came from the employer and the other half from the employee's paycheck. All Swedish workers could then depend upon social insurance to cover them in the event of a layoff, which was a very real fear during the Depression years of the 1930s. Gustav Möller, as minister of social affairs (1936-38, 1939-51), is considered the

---

[12] www.geocities.com/CapitolHill/2418/*Folkhemmet*.html
[13] Marquis W. Childs, *Sweden: Where Capitalism is Controlled* (New York: John Day Pamphlets, 1934).
[14] Arneson, *Democratic Monarchies*, 237.
[15] Ibid., 226.

creator of Sweden's social security system. With the goal of maximizing employment, the state required all local governments to open labor exchange offices where those out of work could obtain information about job openings.[16]

Unemployment insurance in the 1930s was meant to be as temporary as possible. This agreed with Swedish rural traditions of hard work and responsibility. However, as the system became more generous and permissive of abuse, people stayed on the welfare programs for much longer periods of time. Economist Assar Lindbeck observed that a dependent class of young people had emerged in the 1960s who no longer felt the attachment to work and cooperation that their agrarian ancestors had. Thus, the social pressures that made such programs work had nearly disappeared within forty years of implementation.

Such services did help create a form of dependency or "red thread"[17] that eventually bound most Swedes to the system. Lindbeck writes of a condition of passivity by which "individuals expect somebody else, such as the government, to take care of them."[18] Swedish psychologist David Magnusson calls this phenomenon "learned helplessness," which happens when individuals learn that they cannot influence or improve their situation by their own efforts.[19] The term "Daddy State" reflects the dependency that people feel on the state.[20] Individuality and self-reliance are replaced by dependent, collective behavior. Therefore, the long-term psychological effect, according to Huntford, was that socialism eventually

---

[16] Ibid., 227.

[17] A "red thread" is a Swedish term that roughly means a lynchpin or a key component holding a series of ideas together. It is a crucial component of any public policy or social phenomenon.

[18] Assar Lindbeck, "Individual Freedom and Welfare State Policy," in *The Welfare State* (Brookfield, VT: Edward Elgar Press, 1993), 240.

[19] David Magnusson, "Learned Helplessness," *Skandinaviska Banken Quarterly Review* 3-4 (1980): 67-74.

[20] Many Swedes who may or may not be self-described socialists view the state as their father or parent. As the state takes on a greater role in meeting their daily needs, the Swedish family diminishes as a primary source of support. Who needs a mother or a father when the state can do so much better for you than they could?

caused the state, rather than the individual, to became the true Swedish king, the center of modern Sweden.[21]

Macroeconomic Policy in the 1930s

Until 1932, government spending had been kept below 10 percent of GDP, but the Social Democrats under Hansson sought to increase public expenditure and remake Sweden into a *folkhem*, or "people's home". The earliest years of Social Democratic rule in the 1930s brought a flurry of creative ideas for "good government," many coming from the SSE. Such optimism sprung from the positive experience of observing how Swedish Keynesian policies lifted the nation out of the Great Depression. And the first couple of years of SAP power did bring increases to government spending, though not as much as planned.

The SAP's fiscal policies were orchestrated with the help of the Farmer's Party, which worked intensely with private industrial leaders to ensure consistent and dependable spending at the macro level. However, SAP leadership also maintained an unusual and innovative desire to apply monetary policy to the management of the economy. The influence of the SSE was profound during this decade. Its expertise, especially Gustav Cassel's critique of the U.S. Federal Reserve's failures in monetary management, also helped minimize the negative effects of 1930s global monetary shocks on Sweden. Proto-Keynesian techniques, in conjunction with prudent monetarism, insulated the economy from the troubles that so many other nations experienced.

Cassel and his colleagues at the SSE had carefully studied the U.S. Federal Reserve's

[21] Lindbeck, "Individual Freedom."

failures between 1927 and 1932. The 1930s slump, according to Cassel, was a deflationary crisis with its origins traceable to war debts, payments made in gold instead of goods, and an overly conservative monetary policy.[22] Cassel's observations predated Milton Friedman's more articulate criticisms of the 1960s. Despite Cassel's non-socialist political orientation, Hansson and his government respected his technical expertise and used Cassel's skillful monetary policy, which encouraged expansion of money supply as a countercyclical strategy.

Rather than indiscriminately spending public funds to stimulate the economy, the SAP struck a series of deals between 1932 and 1936 with the Farmer's Party that included deficit-financed public works, which paid workers the current union wage, as well as agreements that created agricultural loans, strategic protective tariffs, and specialized agricultural subsidies.[23] The overall macroeconomic policy was focused on minimizing unemployment by hiring workers to finish public works, especially works that would upgrade the infrastructure. To moderate public spending, famed Swedish economist Eli Heckscher demanded that the Riksdag put in place "constitutional guarantees" to end public works projects during boom times, to ensure that they would only be used as a countercyclical measure.[24]

Concern that government spending would greatly expand over time was immediately brought to the Riksdag by Heckscher and other SSE economists. Prime Minister Hansson, who had defeated Gustav Möller in the SAP's leadership election because of his preference for higher taxation, pursued a moderate position and temporarily heeded Heckscher's advice

---

[22] Benny Carlson, "The Long Retreat: Gustav Cassel and Eli Heckscher on the 'New Economics' of the 1930s,"
[23] Thomas Janoski and Alexander M. Hicks, *The Comparative Political Economy of the Welfare State* (New York: Cambridge University Press, 1994).
[24] Benny Carlson, "The Long Retreat,"

by containing expenditures to avoid tax hikes. This lasted until late 1937, when the threat of a pending war on the continent demanded that government expenditures increase to bolster the nation's defenses. In 1938 and 1939, Swedish military spending dramatically increased as the country prepared to defend itself from potential Nazi and Soviet aggression. Nonetheless, Hansson's SAP was cautious about using public spending as a stimulus, fully aware of its limited usefulness at the beginning of the process.[25] Finance Minister Wigforss, despite his own ideology, was selective in targeting fiscal spending and authorizing the duration of particular programs or projects, which helped Sweden fare significantly better than most of Europe during the 1930s.[26] His caution helped navigate Sweden through ongoing global economic tremors, which might otherwise have destabilize the nation's export-driven economy. The result of Wigforss's application of a variation on Keynesian economic policies was a gradual reduction of unemployment to reasonable levels, especially compared to most of Europe.

At this time, American connections to Swedish policymaking were more profound than is popularly known. For example, during the 1930s, the Rockefeller Foundation-funded SSE recommended and helped initiate a series of new macroeconomic policies.[27] Sweden was the first industrialized nation to apply Keynesian theory on a scale "sufficient to make the difference between continuing decline and reviving prosperity." Indeed, Swedish Keynesian techniques predate Keynes's publication of his *General Theory* in 1936. By the

---

[25] Childs, *Sweden: Where Capitalism is Controlled*, 32.
[26] Edvinsson, *Growth Accumulation*.
[27] The American influence on Swedish economic policy was most evident in the collective experience of SSE economists who had spent substantial time in the United States, studied there, or received grants and other forms of direct funding from the United States. This level of influence and support far exceeded any support coming from the Soviet Union.

early 1930s, most of Keynes's ideas had already been discussed and were well known within the SSE. Had it not been for a lag in publication whereby Swedish academic works were not immediately published in English and dissemination of Swedish-based economic ideas to the rest of the world was delayed, Keynesianism might have been labeled something else.

After witnessing Keynes publish his most influential work, *General Theory*, several years after several Swedish publications expressed virtually the same ideas, Swedish economists quickly realized that the publication lag was a serious disadvantage to their long-term interests. Sweden's strong academic links to the United States, due largely to the Rockefeller Foundation's support in the 1930s, contributed to the widespread use of English as a dominant language within Swedish academic publications on economics after the mid-1930s.

Although Meidner, Rehn, and Wigforss more vigorously adhered to Keynesian techniques after World War II, the government began using a Swedish variant of Keynesianism in 1934 to stimulate wage levels and to restore workers' "purchasing power to the level of 1930."[28] A cultural respect for expertise helped convince the incoming Social Democratic leaders to value input and meet regularly with the SSE group. Finance Minister Wigforss was, in fact, a member of the SSE. Gunnar Myrdal, who had recently converted to the SAP, was a newly elected member of parliament and also a member of the SSE. As a result, not only could economic experts and SAP leaders carefully coordinate fiscal policies, but they managed to execute their decisions in ways that moderated socialist inclinations. These social networks such as the SSE in Stockholm and in nearby Uppsala helped form and

[28] Childs, *Sweden: Where Capitalism is Controlled*, 32.

sustain a social solidarity that allowed everyone to voice an opinion, which naturally, in Swedish culture, led to compromise.

In the late 1930s, as war loomed on the horizon, government spending in cooperation with large industries sought to solidify Sweden's strategic position against both German and Russian security threats. By 1939, labor interests in the SAP shifted, because cyclical unemployment had become negligible.[29] Hansson's public messages were deliberately intended to defuse class conflict, and he sought to unify the country in order to combat adverse conditions from the near abroad. He de-emphasized class loyalty and supplanted it with patriotism.

Hansson presented his political vision of *Folkhemmet* as a way of meeting the needs of all people, not just those with low incomes and the working class. As Przeworski explains,[30] Hansson's efforts made the SAP qualitatively less different from other parties by allowing non-socialists to participate and support the broader-based political agenda of *Folkhemmet*. The government of the late 1930s demonstrated an appropriate responsiveness to the immediate issues of the time, providing the people with an organized, practical approach to economic security.

Childs and others noted that, by the mid-1930s, wages had returned to their pre-Depression levels, and this was an indicator that Swedish fiscal policies had overcome much of the crisis brought on by the Great Depression. Impressed with Sweden's economic performance, Childs returned to Sweden in 1936 to observe how the northern-European

---

[29] Some argue that unemployment was "cured" by Germany's large purchases of Swedish exports in preparation for war.

[30] Adam Przeworski, *Capitalism and Social Democracy* (New York: Cambridge University Press, 1985), 28-29.

country had managed so well during the Great Depression. The result of his trip was a book published later that same year, *The Middle Way,* which has since become the template for the views of many political scientists and scholars about Sweden's position on the ideological spectrum. In his concluding paragraphs, Childs states that Sweden had managed to find a compromise between Soviet socialism and Anglo-American capitalism. He notes that Sweden's neutrality in World War I helped it avoid much of the traumatic political aftermath that troubled its southern neighbor, Germany. Childs agrees with Tungsten's observations that World War I created a sense of solidarity between the different classes of Swedes. The nearby hostilities to the south and the hardships of food shortages helped political parties overcome their immediate differences in favor of maintaining a cooperative, peaceful existence.

Finally, Childs explains in his book how the Social Democrats came to power in 1932 and found a compromise between the harsh realities of pure capitalism and authoritarian communism. *The Middle Way* became a best seller in the United States, where President Roosevelt held a press conference, with Childs's book on the table in front of him, to announce a commission to study Sweden's system. At that time, in the later 1930s, Sweden was a source of inspiration to economically struggling Americans.

The Pact of Saltsjöbaden, "The Basic Agreement"

Although technically not legislation, the 1938 Saltsjöbaden Agreement (named after the Swedish resort where the meetings were based) served as an ongoing, informal arrangement and, as Childs correctly predicted, it served as a foundation for future

negotiations between labor and management interests. The arrangement resolved several market issues, embodying a particular form of industrial relations — the so-called "Saltsjöbaden spirit" — which is marked by a willingness to cooperate and a mutual sense of responsibility to respond to developments in the labor market. For thirty years, a little more than one generation, this unofficial understanding between trade unions and employers proved largely satisfactory. Michael Roskin lists the key points of the Basic Agreement:

> 1) No strikes are allowed while a contract is in effect; they can be called only after it has expired.
> 2) Wildcat strikes[31] are illegal, and those who engage in them are liable to civil (but not criminal) penalties.
> 3) Labor and management must negotiate their disputes; a detailed outline for procedure is included.
> 4) Management lockouts of workers are prohibited.
> 5) Secondary boycotts are severely limited.
> 6) Both sides *must* live up to their contracts, no matter for how long a term they run.
> 7) Whole industries come under one contract.
> 8) The unions cannot block industrial modernization and the replacing of men by machinery.[32]

The Saltsjöbaden Agreement, or the Basic Agreement, acted as a labor-relations peace treaty, and it did bring peace until the early 1970s, when SAP's leadership (under Palme) moved politically left and began disassembling it. Nonetheless the agreement was a grand compromise that benefited both employers and employees in different ways. For example, restricting strikes and prohibiting worker opposition to new machinery seem to favor employers. Yet there were also binding long-term, industry-wide, collective agreements that benefited labor.[33] The Saltsjöbaden Agreement instilled in labor relations a

---

[31] "Wildcat strikes" are labor strikes done without permission from union leadership.
[32] Roskin, *Other Governments*, 28.
[33] Ibid.

process of consultation and negotiation that became de facto governance. For example, a process called *remiss* involved creating a Commission of Inquiry prior to any major change in the laws or policies affecting a given industry. The Saltsjöbaden arrangement also established a Labor Court, partially staffed by appointees from the LO and employers' union, which interpreted contract disputes and negotiated future deals. This legal partnership between the LO and the employers' union facilitated collective bargaining to moderate disputes.

In accordance with the Saltsjöbaden Agreement, each side agreed to give the other advance warning of any significant action, allowing for negotiation and even mediation. Fear and insecurity usually inspired both sides to quickly come to an agreement, since both labor and management realized that they could lose autonomy if the disputes continued long enough to justify government interference. The net results of Saltsjöbaden included more solidaristic wage policies and a minimal loss of productivity in creating such policies. While it may seem like a solidaristic policy implies minimal loss of productivity, that isn't necessarily so. In the United States, it is tricky to create wage policies with a sense of solidarity between both parties, even when there is much to lose on both sides, so it is worth saying that the Saltsjöbaden Agreement was, essentially, a process done quickly and with as little interruption as possible.

The economic benefits of the Basic Agreement were most tangible in the lack of labor strikes in the decades that followed its creation. Fewer strike days meant higher productivity and greater, more consistent flows of revenue for public and private consumption. While Italy and the United Kingdom were paralyzed with strikes, Sweden suffered fewer strike days

between 1936 and 1976 than any Western European country except Switzerland and West Germany. Roskin explains that tendencies toward moderation on both sides allowed the Saltsjöbaden arrangement to function so well. He summarizes, "Swedish labor does not try to bring the country to a halt and Swedish management does not try to sweat workers."[34]

Swedish industrial and labor leaders shared the belief that economic security meant maintaining and creating employment by promoting the growth of the export market. This acknowledgement, along with decades of taking appropriate steps as outlined in the Saltsjöbaden Agreement, meant that the industrial-labor aspect of the Swedish economic system was, from the very beginning, inherently moderate and cooperative. However, industrialists and laborers were powerful interest groups, and the solidarity between them developed into a form of what Huntford later called "corporatism."[35] The cooperation of workers and employers in managing and controlling market activities within an economy is not a new development, though. Essentially, the Basic Agreement was similar to medieval guilds, trade organizations in which craftsman and merchants, especially in Germany and Italy, exerted considerable influence on commercial interactions and politics. A key difference between the medieval guild and the Basic Agreement is the isolation factor. In medieval times, domestic and export markets moved much more slowly, and global market conditions took much longer to affect production and revenue. In the 20th century, the Basic Agreement still served these feudal "corporate" interests, but only from a domestic or internal perspective. Such cooperation could directly affect only what occurred inside Sweden and the reactions of Swedes to rapidly changing market conditions abroad.

---

[34] Ibid., 29.
[35] Huntford, *The New Totalitarians*, 86.

In *The New Totalitarians*, Huntford accurately describes the new phenomenon of "hyperorganization" within Swedish society, especially in Swedish politics, but he addresses only the emerging structure. He misses the fact that the values and cultural impulses of the Basic Agreement and Swedish “corporatism” were a perpetuation of pre-industrial societal relations. “Corporatism” was an adaptation of Swedish thinking in response to global pressures, viz., the Great Depression, World War II, and post-war reconstruction. Tingsten confirms that only extremists within the SAP believed in, or wished for, a violent class struggle.[36] The 1917 party split with the communists confirmed this. After the split, Branting, Hansson, Erlander, and others wanted only continued prosperity, and they sought it through cooperation. The Basic Agreement, which deliberately excluded the government from a formal role in labor relations, served to update social relations while continuing to adhere to the same, close-knit social values that had characterized small-town Swedish life for centuries. Both “sides” of the cooperative recognized that the structure of the Basic Agreement could protect all. Stability, not modernity, was the primary motivator.

World-market fluctuations and the growth of external commercial connections were so obviously beneficial to all involved that no one, not even those on the far left, seriously attempted to alter trade policies for fear it would disrupt a positive current account balance. The communication process implemented by Saltsjöbaden’s guidelines ensured that all Swedish politicians were aware of the practical realities that each export-driven industry faced.

For several reasons, Swedish labor also did not adopt a traditional Marxist approach.

---

[36] Tingsten,

First among those reasons was simply that Sweden's domestic market was not large enough to entertain protectionist policies. Instead, the Left focused on employment and, toward that end, ensured that first- and second-generation city-dwellers had jobs and the security that they sought in their new, urban way of life. For many, a return to rural life would mean almost certain poverty or worse. Memories of periodic food shortages in isolated villages haunted many families, causing them to seek access to a more stable supply of nondurable necessities. Second, as Tingsten explains, Marxist ideas became heavily diluted by Swedish cultural institutions, particularly the Lutheran culture that emphasized caring for the weak while promoting individual accountability and responsibility to society. The promise of stable employment meant that the people would receive social as well as material security. Because most Swedes needed a higher standard of living, and because there was a scarcity of labor, industrialists and workers had to compromise. Third, Branting's influence as a pacifist in his final years drove Social Democratic policymaking much closer to the center. Last, the 1917 Instrument of Government instituted a form of proportional representation that permitted many smaller parties to actively participate in government, so the Social Democrats rarely possessed a majority of the Riksdag seats and were almost always forced to act within a coalition or form de facto coalitions to pass legislation.

Ultimately, it was the consciousness of employers and employees that they were dependent upon export sales for their livelihood, as well as significant cultural and political encouragement to cooperate, that forced both sides to cooperate. Labor promised not to strike, and, in return, management promised to provide more benefits and to raise wages in cooperation with the unions through the collective bargaining process. The resulting high

(and virtually uninterrupted) productivity kept the customer cost of Sweden's exports relatively low, yielding a steady international demand for Swedish goods. As Childs put it, "So long as the international competitiveness of industry, privately owned up to 90 percent or 95 percent, continued to increase, with prosperity thereby sustained, the growing scope of welfarism could be supported through taxation that tended to keep pace with welfare benefits."[37]

The Saltsjöbaden Agreement underscored how the Swedish economic engine heavily depended upon the export of manufactured goods and raw materials to the world's markets. A solidaristic wage policy gave the socialists enough security in the short run. Economic growth, it was assumed, would create more private jobs and, consequently, produce more tax revenue to fund government programs.[38] Even though employers were limited in their freedom to fire or lay off employees, labor leaders pressured their workers to perform well to earn their wages. The traditional desire to positively contribute to society by doing an honest day's work meant that Swedes rarely performed poorly enough to warrant a reprimand. Higher wages meant working longer hours (forty-five to forty-eight hours per week until the 1960s), resulting in increased production overall. High-quality work, combined with a high hourly productivity rates, helped trade union leaders justify demands for higher wages and better benefits. From 1945 to 1965, according to Swanson in *Capitalists Against Markets*, industrial leaders generally could count on a consistent level of profits.

---

[37] Childs, *Sweden: The Middle Way on Trial*? 19.

[38] Numerous sources indicate that the initial tax hikes were geared towards middle-income wage earners. In effect, these workers were collectively paying for programs that were designed for them. This was not a wealth distribution scheme, nor, at the beginning, was it an income distribution scheme. Instead, the fiscal policies of the 1930s, 1940s, and early 1950s were designed to help those who funded them. Therefore, government money represented pooled resources, more like the system of a small community or a farm than like a tax structure reflecting class warfare or redistributing income.

The Swedish Model

> *The Nordic model of capitalism means being open to globalization but protecting people from its negative aspects and providing everyone a good, egalitarian education.*
>
> -*Jorma Ollila, longtime CEO of Nokia, to the* Financial Times.[39]

Swedish Finance Minister Anders Borg said the Swedish model is characterized by a large public sector, generous social insurance systems, high marginal tax rates, an emphasis on active labor market policy, an elevated degree of unionization, and a well-coordinated wage bargaining system.[40] Former Social Democratic economist Assar Lindbeck likewise claimed that it was Sweden's institutional features, not income or wealth distribution, that made the Swedish model unique.[41]

The Unique Policymaking Process

Folkhemmet was not only unique because of its content but also by the process of its construction. Participants generally exhibited an extraordinary amount of patience and deliberation in the crafting of new policies. In contrast to the United States legislation is often hastily thrown together which then requires further modification later (usually due to problems enforcing the law or lawsuits), the tedious process of Swedish legislation minimizes procedural conflict and interpretation issues that could arise later. Key to the Swedish model is its underlying and often observed "rationality." This "rationality" was

---

[39] Milne, Richard. The *Financial Times*, March 23, 2009. "Champion of Nordic Capitalism: The Monday Interview." Pg. 5.
[40] Anders Borg, *The Swedish Model: What Went Wrong?* (Stockholm: Ministry of Finance, 2006).
[41] Assar Lindbeck, "The Swedish Experiment," *Journal of Economic Literature* 35 (September 1997): 1273-1319.

incorporated into policymaking through a four-step process that included (1) commissions, (2) remiss, (3) Riksdag deliberations, and (4) application. At each stage, policy changes are examined and re-examined and subject to sensible modifications or even stopped by people inside and outside of the Riksdag. Rarely do policies get made into laws without this four-step process. The bias for good quality and well studied laws resulted in more thorough legislation.

At the first stage, commissions, differences of opinion are not only tolerated, but are encouraged as a means to allow as many perspectives as possible to influence the outcome. This strategy is believed to be more democratic, but more importantly, it provides an opportunity for virtually every segment of Swedish society to become engaged in the political process. Expert witnesses and leaders of associations or groups regularly participate in commission proceedings. This helps prevent the feelings of isolation and frustration commonly experienced by political groups in systems that do not allow them any input or voice. Compromises can be arranged at this stage, and attention can be paid to smaller details. This system allows variations on a policy idea to emerge and helps prevent a dominant political group from forcing through a standard policy. After the commission is finished, it publishes a “final report” that is circulated back to the participating groups and experts who were included in the commission.

The second, or "remiss," stage addresses each group’s demands and opinions about the proposed change in law which serves as a type of proofing of the report. This stage attempts to include interested people and groups that were not active during the commission stage. During the “remiss” stage, outsiders can see the changes proposed by the commission.

Scrutiny is applied to avoid potential misinterpretations of a proposed law, accidental exclusions, and other problematic matters. These issues are then addressed to the Riksdag. Since Sweden has one of the most literate societies in the world and its educational system emphasizes individual studiousness (part of the cultural legacy of Protestant Christianity), those who are involved in legislative proposals to the Riksdag usually thoroughly read the commission's report and contact either the commission or the Riksdag if they find a glaring error or problem. The proposed legislation is open to criticism at this stage. The bias is to allow an honest inquiry on the effectiveness of the potential change in law.

The third stage, "deliberations," provides an opportunity to further reconcile differences between interest groups. All Riksdag members cooperate with special interest groups or associations involved in policymaking outside of the Riksdag. This means that, usually, each interest group (and its members) has a strong contact in the Riksdag to whom it can address concerns. The deliberation stage allows further negotiations to occur behind closed doors between Riksdag members who represent these different interest groups.

Finally, there is the application stage, which is the critical difference from the American policymaking process. Due to their historical legacy of strong local governments, Swedes have always recognized that the implementation of a law is more crucial than its passage. This stage includes an active engagement of exchanges of opinions and concerns from the bureaucrats who are responsible for implementing the law to the Riksdag members and from the special interest groups to the bureaucrats. Traditionally, unlike the American legislative process, Swedish bureaucrats as experts in their area are given the capacity to adjust how the law should be written and implemented. The resulting legislation is generally

well thought out and by their efforts of consent and customary consensus-making, laws often are flexible and sensible.

In other words, those who enforce the law are given tremendous leeway in determining how to do so at the local level. There are no broad, generalized laws that smother unique circumstances. Swedes recognize that what works in Stockholm may not work so well in a small-town setting. Local bureaucrats, such as police officers or social workers, almost always function without a constant fear of lawsuits or legal actions directed against them. A more flexible bureaucratic environment helps prevent the uniform application of the letter of the law purely as a shield from such actions. In a sparsely populated country dominated by small towns, where the bureaucrats personally know many of the local people, bureaucrats can easily adjust policies that appear unjust or nonsensical to produce fair results that meet the individual's and the community's needs. The cold, unfeeling culture of "red tape," as experienced by people interacting with bureaucracies in other countries, is amazingly absent from much of Sweden due to these customs. Thus, social welfare policies can be practiced more efficiently because feudal elements are incorporated into the local bureaucratic process.[42]

Swedish Bureaucratic Culture

Swedish fiscal policies were carefully scrutinized by Riksdag members, especially in the 1930s and 1940s, when neither a single Krona of tax revenue nor the SAP's political

[42] In criminal law, Swedish police are allowed to discuss a problem with someone who is accused of breaking the law. The police can exercise discretion and are not obligated to take someone to jail. A prevailing common-sense approach allows all parties to gain an understanding of what is going on and come to an agreement. This practice supports societal solidarity because it is inclusive.

position could be taken for granted. The comparatively small nation had to carefully manage its resources to guarantee its survival. Per Albin Hansson and his cabinet ran an interactive political coalition and held ongoing consultations with the SSE. Fiscal policies in this period paid attention to qualitative impact rather than succumbing to the politics of raw quantitative government spending, since SSE economists explained that spending money alone would not guarantee long-term favorable results, offering instead the more sophisticated view that what mattered was not whether state money was spent, but how it was spent.

Despite enthusiasm within the SAP to increase the government's role in the economy, in practice its leadership strictly limited such expansion. Bo Lundgren, the former head of Sweden's debt office, noted, "The word nationalization can have many meanings and not all are effective. Sweden is less nationalized than most people think." Lundgren added, "Socialist Sweden never dared tell the banks how to lend or where to lend, because that is a management decision." This observation reflects the role of the Swedish government in that it could offer a blanket guarantee backing banks and industries, but it would not get involved with running them.[43] As part of their culture, Swedish politicians respected bankers' education and training. Knowing their own limitations, SAP leaders chose not to micromanage these industries, unlike many socialist and Left-leaning regimes including the U.S. government, who had exercised considerable authority over the Federal Reserve during the 1930s and 1940s.

The SAP's social solidarity was a reflection of its feudal-capitalist foundation. The "Nordic model" that emerged from its response to industrialization emphasized stability in

[43] Tett, "US is Ready," 24.

combination with free enterprise. The *Financial Times* quoted Dirk Schumacher of Goldman Sachs as saying, "The social welfare system reduces worker anxiety and enables the economy as a whole to restructure." The SAP coalition created education and training programs as a way to buffer the negative effects of structural unemployment. In doing so, the coalition became more effective at combating cyclical unemployment, and, by increasing and upgrading the skills of its labor force, the party generated new forms of employment in emerging industries.[44]

However, due to restrictive regulations and payroll liabilities, by the 1980s and 1990s many of the new high-tech jobs were for self-employed business-owners with no employees. Prior to that, large-scale businesses into the early 1970s had managed to keep their labor pool technologically savvy and highly skilled. During slower periods, rotations between work and training were regularly run according to business cycles and times of the calendar year.

Most of those who constructed the Swedish system understood the value of specialization, and their restriction of the socialist urge to nationalize industries was a distinct type of moderation. These government officials possessed the foresight to allow industrial leaders to do their jobs by retaining their role as private sector workers. As Swedish business analyst Dag Detter explains, it is crucial that private companies are run with commercial objectives, insulated from political interference, and transparent in their actions in order to maintain the trust of the public and the markets. "If any of these three principles are ignored, taxpayers will suffer along with the commercial assets in state ownership."[45] With the Saltsjöbaden Agreement as a foundation, a set of closely negotiated, de facto regulations kept

---

[44] *Financial Times*, "A Quest for Other Ways," March 16, 2009.
[45] The *Financial Times*, March 18, 2009.

labor's best interests in mind, which satisfied the socialists of that generation. This approach toward managing government and industry relations exemplified a modified Marxism, in that the SAP leadership did not feel compelled to incorporate all labor or industry into the public sector out of principle. [46]

A sense of accountability persisted in that first generation of Social Democratic leaders. For example, when public works programs were initiated, sunset clauses were immediately placed on them. Not only was it understood that stimulus spending would be short-lived, but it was formalized and agreed upon prior to its implementation. The early SAP leaders lacked the political confidence to push programs indefinitely and were too new in power to desire to manipulate the rules. Thus, practical reservations dictated the implementation and shelf life of most fiscal policies.

The origins of what became the world's highest-taxed economy began in 1932 when the SAP adjusted its party program to include welfare policies designed to benefit "all Swedes." These original programs of the 1930s assumed that demographic trends prevailing at the time of the policies' creation (such as higher birth rates, a much smaller elderly population, and a very low immigration rate) would not change. However, unlike leading socialist parties in other countries, the SAP was slow to bring these ideas into law. Their hesitancy to implement the socialist agenda was initially supported by the harsh economic circumstances of the global depression, a coalition government that required cooperation

[46] Wigforss and Gunnar Myrdal believed that the government's influence would gradually increase, leaving private industry merely symbolically independent. Many publications, led by the LO's Meidner and Rehn, advocated nationalization or similar policies, but the trade union and SAP leadership moderated this position in negotiations with industry and in their actual policymaking. Nonetheless, in private, Hansson and Erlander adhered to a nearly religious belief that private industry, like the monarchy and the church, were to become obsolete as a matter of human progress.

from the Farmers' Party, and the Swedish tendency to move with careful consideration and moderation.

Prime Minister Hansson strove to promote an image of economic security in his public speeches that focused on his vision of *Folkhemmet*. A unique method of obtaining this ideal society was Hansson's administration's efforts to boost the standard of living for working-class Swedes by increasing employment. Rather than demand immediate redistribution of income or wealth, Hansson and his cabinet understood and accepted the 19th-century observations of conservative economist, Knut Wicksell, whose hundreds of newspaper articles explained how increased production would lead to greater yields and wealth for the people. In addition, the agrarian strategy of increasing crop yields through additional work still prevailed within SAP policy. As finance minister, Ernst Wigforss exemplified Hansson's cautious strategy. His affiliation with the SSE gained him close contact to Heckscher, who urged him to apply a cautious, expansionist "crisis policy" in 1933. Another measure that held greater impact in later decades was Gustav Cassel's recommendation to devalue the *Krona* as a means to increase the competitiveness of Swedish goods.

In its narrower sense, the "Swedish model" usually refers to the special relationship between employers and employees that developed under the Basic Agreement, or Saltsjöbaden Agreement, in the later part of the 1930s. This arrangement allowed wage negotiations between the LO and the employers' union to function outside of direct governmental supervision. Provisions under the Saltsjöbaden Agreement helped form a wage solidarity policy and fostered a working environment that sought to avoid industrial conflicts.

An innovative element of the Swedish model was its emphasis on how workers and employers needed to respond to the world market. The global depression of the 1930s laid the foundation for this mentality. The tense situation during World War II and the subsequent Cold War years also contributed to a constant desire on the part of workers and employers to work together to provide employment and a reasonable, predictable return of profits to employers. The welfare policy was the attempt to attain permanent, full employment. Though definitions of "full employment" vary, the Swedes at this stage aimed to eliminate the loss of jobs due to cyclical unemployment. In this regard, the Swedish model met its long-term goals.

Later agreements modified the definition of full employment. These agreements were applied with mixed results. For example, the effort to minimize frictional unemployment (unemployment caused when employees were fired or quit their jobs) resulted in conditions under which employers, by the 1970s, found it very difficult to fire a worker for poor performance. Another example of a questionable, though less controversial, policy outcome was in expanding worker-education programs intended to minimize structural unemployment, that is, unemployment caused when workers' skills became obsolete as a result of improved technology. According to this agreement, laid-off workers could spend extra time obtaining the education and training that would enable them to become more productive. However, many workers spent an excessive amount of time obtaining their training, and the programs lacked incentives for people in training to quickly find regular employment. Nonetheless, the objective of the SAP was to allow every potential worker to contribute to increasing the nation's productivity. A job meant economic security, and at this

stage (prior to 1975), most people felt obligated to work to earn their living. Thus the Swedish model depended on both sides seeking a civil and non-violent means of solving the classic principle-agent problem in labor economics.

Financed by income taxes and employer contributions, the Swedish model eventually provided Swedes with unemployment insurance, a general pension fund, improved and widely available medical care, mass housing starts, and a refurbished and fully-subsidized public education system. The Wallenbergs and about twenty other families who owned the majority of Sweden's largest industries[47] (by 1990 the number of families eventually declined to about a dozen) cooperated, given the tacit assurance that *Folkhemmet* would be financed by taxing income, rather than by further taxing wealth (a small wealth tax already existed, implemented in 1910 by the ruling Liberals). As part of fulfilling their agreement, the SAP kept the wealth-tax rate unchanged for decades. Despite an ideological aversion to inequalities of wealth, SAP leaders honored their deals with the large companies and did not adopt a capital gains tax until 1995.

The market instability of the 1930s did not harm and probably reinforced the traditionally strong Swedish work ethic. Public spending helped those who could not find employment in the private sector; such people were promptly employed in public works projects, many of which upgraded the nation's infrastructure and consequently greatly accelerated the distribution of people, goods, and ideas as they migrated from one *län* (county) to the next. These improvements later helped Sweden prepare for the German and

[47] According to Childs in the 1930s, the SAP and the LO were initially inclined to cooperate with capitalists who employed thousands while they ignored small and most medium-sized business. Instead over the following decades, SAP tactics encouraged the consolidation of smaller employers into fewer very large ones.

Soviet threats. After the war, Swedish like American industries unharmed by wartime activities had an advantage in being able to immediately move their finished and raw products to ports for export.

Under Wigforss, the SAP applied these Keynesian-like policies in order to reduce cyclical unemployment. The economic growth financed projects that acted as long-term investments, yielding benefits far beyond expectations at the time of the global depression. Though there were cases of directly aiding existing export-related firms, most projects enabled the further expansion of Sweden's export market. Port facilities, for example, were upgraded and increased in number, which enabled trade with Germany through the end of World War II. As the 1930's progressed, new programs were developed to stimulate investment from the private sector. Rather than attempting to directly control investors or tax them, the government introduced a tax code provision that permitted businesses to obtain a tax deduction if they placed up to half their profits in the Central Bank.

These efforts culminated in the Investment Reserve Act of 1938, which offered firms the ability to invest tax-free during the recession. All business income could be deducted if channeled back into investments, creating a de facto tax deferment on business profits. At the same time, dividends, if taken as income and not redirected into re-investment, were subject to double taxation for individual owners (but not for institutional owners).[48] The "tax-free" incentive put a substantial amount of private money at the government's disposal for use in public works and in executing regional policies designed to equalize income throughout the country. The tax policy also facilitated the consolidation of existing firms but discouraged

[48] Shares of stock were divided into two classes, one for institutional ownership and the other for profit-sharing. The class of stock for institutional ownership was consistently given preferential treatment.

start-up businesses.

In 1938, two years after Childs's publication of *The Middle Way*, the Riksdag put in place the second[49] element of the projected welfare state: a mandatory two-week paid vacation for all Swedish workers. That same year, confederated labor and industrial leaders signed the Saltsjöbaden Agreement. The two sides sought to avert the threat of government intervention in labor disputes and agreed to be bound by procedures regulating collective bargaining and strikes. The ensuing labor peace allowed employers to build up factories that had been laid low by the depression. The Saltsjöbaden Agreement, and the spirit of cooperation it represented, became the real basis for the Swedish model.

However, the SAP's original programs were based on demographic trends that prevailed early in the 20th century, such as higher birthrates, a small elderly population, and a very low immigration rate. The flaws in design of a program built around such trends became apparent in 1938 when Gunnar and Alva Myrdal published *Crisis in the Population Question*, which forecasted a demographic catastrophe if Swedish birthrates remained low. Although Alva Myrdal sought to incorporate all women into the taxable labor market for a variety of ideological and practical reasons, she observed that the average woman who worked full-time was not likely to produce more than two children. Since the birthrate necessary to replace the current population required roughly 2.2 to 2.4 children per woman,[50]

[49] The first initiative was updating the old-age pension in 1937.

[50] The replacement level is dependent upon the effect of the infant mortality rate. In cases where it is lower, 2.2 to 2.4 is enough, but if mortality is higher, then a rate of 2.6 to 2.8 may be necessary to provide enough children to stabilize the population. Either way, some Swedish women must have a third child if the population is to maintain itself in the long run.

the Myrdals suggested that government spending be adjusted to provide incentives for producing more children.

Taken as a general statement of the reproduction rates of women in the workforce, Alva Myrdal's observation was remarkably accurate: Almost every industrialized nation that later incorporated the majority of its women into the formal labor market also ended up with long-term fertility rates below replacement level. Even when industrial economies transitioned into post-industrial, service-oriented systems, fertility rates did not change without adding incentives. This slump of birthrates especially alarmed the Myrdals.[51]

Although Swedish policymakers soon recognized the need to reverse the downward trend in birthrates, the stresses of World War II delayed proposed legislation. It took until 1947 for the Riksdag to approve a universal child-allowance program, which provided cash payments to mothers according to their number of children.[52] Alva Myrdal opposed this effort because she wanted only working women, not housewives, to receive these benefits. She did not want the Riksdag to encourage "full-time motherhood;" she wanted a nation "of working mothers" like herself. Despite her objections, the program was immediately popular. Almost all Swedish mothers were very pleased to receive state-funded "child support."[53] This pioneering effort also seemed to boost Swedish birthrates in the late 1940s and 1950s.

For most Swedes, receiving government assistance for having children created the impression that the government had a direct and concerned interest in their lives. The

---

[51] Alva Myrdal and Gunnar Myrdal, *The Population Crisis* (Uppsala, Sweden: Uppsala University, 1938).
[52] Carlson, *Third Ways*, 124.
[53] It is critical to note that "child support" in Sweden meant that the state, often the local government or *kommun*, would send monthly allowances to the child's mother until the child reached a specified age. This is dramatically different from "child support" in the United States, in which the state demands a transfer payment usually from one parent to the other. Decades later, the United States did develop a "tax credit" system benefiting parents, but it never established a direct-payment system like Sweden's.

program provided a positive link between Stockholm and the typical Swedish household. This first significant intrusion into the Swedish home was intended to preserve the society over the long term, but it also introduced an increased, direct role of government in family affairs that hastened the dissolution of the remnants of Swedish feudal culture.

Mothers did not usually resist the state's encroachment into their home because of the promise of a vast array of state services that could help her raise her children. Carlson and Baskerville explain that when the state assumes the roles of protector, provider, and disciplinarian, the state takes on the role of the father.[54] The traditional Swedish extended family, a vestige of feudal times, eroded further from a nuclear to a splintered structure after the early 1970s. Soon, the majority of children were born to unmarried, cohabiting parents. Initially, over 70 percent of these cohabitating partners remained together for long periods of time, but within one generation, nearly half of all children grew up with their parents living apart.

Baskerville argues that this is the story of modern politics: an increasingly large, centralized authority develops a welfare state on the promise of various forms of security and services: "These paternal—and increasingly maternal—substitutes brought massive bureaucracies, fulfilling Tocqueville's prophecy that democracy would lead to increasingly bureaucratic intrusion into private life."[55] Huntford, in "The New Totalitarians," addressed some of these concerns as he witnessed the Swedish government "invade" and micromanage nearly every facet of life by the end of the 1960s.

---

[54] Carlson, *Third Ways*.
[55] Stephen Baskerville, "Married to the State," *The American Conservative Magazine*, September 24, 2009, http://www.amconmag.com/blog/married-to-the-state/ (accessed September 26, 2009).

Obtaining "free" services and "free" government money also appeared quite attractive and was increasingly popular among the Swedish populace. From the 1930s, the SAP borrowed some of the Myrdals' rhetoric by rephrasing government spending on public welfare programs as a "common investment." Gradually, "investing" in welfare programs was perceived as having equal importance to investing in industry or in national defense. Residual agrarian and Lutheran ethics also reinforced the belief that the less fortunate deserved some form of public assistance. The editorial staff of *Morgonbris* wrote, "…between an unbridled capitalism and a totalitarian state socialism[,] [f]or us Democratic Socialism stands out clearly as the third alternative, which alone can accord humankind both freedom and security."[56] In a country void of large congested areas, the tight-knit culture meant that everybody still knew somebody and, more importantly, the poor and deserving were not unknown. Those who needed public assistance were usually known by, related to, or neighbors of those who had wealth or who wielded influence at the *kommun* level of governance.

It is critical to note that public welfare, especially in the area of child support, had very little to do with equalization of income or wealth, having much more to do with maximizing the quality of the people entering the workforce. For example, this approach to public spending meant that not only was "child support" provided as an incentive to have children, but that it was "invested" so that these children could later become high-quality, productive workers.

[56] Ibid., 125.

Since the 1930s, the Myrdals sought to improve the skills and qualifications of the Swedish working class as a means to address the growing challenges of future technologies. Such welfare investments were genuinely perceived as investments, in that practical returns, not ideological ones, were expected. Sweden differed from other states that pursued social welfare agendas in how it approached the issues of ownership and control of production. Swedish socialists generally maintained that individuals were dependent on the state, much as feudal peasants were dependent on the local lord. Public welfare was thus a reflection of the former socioeconomic order. Meanwhile, industrialization and export revenue yanked the nation towards a market-based system. Feudalism and market-based economics fused to become a new variation of industrial capitalism: feudal capitalism.

After the mid-1930s, public welfare emerged as such a high priority within public policymaking that non-socialist policies adopted a common understanding of "investing" in Swedish children. The SAP maintained control of the agenda. The political opposition was always on the defensive and could pursue only those strategies that moderated the extent or the costs of proposed welfare programs. In fact, in 1969, the conservative Rightist Party (*Högerpartiet*) changed its name to the Moderate Party (*Moderata samlingspartiet*, literally the Moderate Coalition Party), which was a reflection of its position within Swedish politics.

The SAP's leadership managed to further unify Sweden during the hardships of World War II. Memories of the Great War were revived, and events in nearby Norway and Denmark provided stark objective lessons. Sweden was boosted by the nearby threats in Norway and Denmark, but also by recent memories of World War I. Swedes began to perceive collective social programs almost as expressions of patriotism and solidarity against

the forces of fascism. The SAP consistently portrayed welfare programs as "investments" and built a base of loyal constituents who benefited from an ever-increasing list of entitlements. Many believed that the abundance of government-promised benefits justified high taxes and, therefore, supported the expansion of existing programs and increased government spending.

A leftist politician, Per Albin Hansson[57] privately held favorable views of many Soviet[58] communist ideals, but he still could not embrace Soviet ideology or welcome its influence. Instead, he tended to look more towards the British and German labor movements for guidance. Tingsten notes that the SAP elite routinely communicated with labor groups in the United Kingdom and Germany to share ideas and tactics. The ideological influence of German labor movements is best reflected in the official party platform (see Appendix B).

Throughout the 20th century, Sweden's primary commercial links, as measured by value and volume in its export-import markets, consistently were to the west and south, not the east. Once Hitler's economic policies began to resuscitate the German economy in the 1930s, the volume of Swedish exports exploded as trade interests grew to the south. While Germany's economy blossomed, the Soviet economy became hampered by the failures of collectivized agriculture that left the majority poor, malnourished, and commercially isolated. At a fundamental level, Wigforss and other influential cabinet members recognized that *Folkhemmet*'s funding had to come from export sales to Germany, the United Kingdom, and other non-communist, industrialized nations that possessed the means to purchase Swedish

[57] This was especially the case prior to Branting's warning to Hansson and other SAP lieutenants to moderate their course of political action. Political feasibility began to control policymaking decisions.
[58] Josef Stalin did not officially form the Soviet Union until 1922, so relations prior to that time are labeled Russian and after that time Soviet.

manufactured goods and raw materials.

Under these conditions, it was the Germans, not the Soviets, who demanded a good portion of Sweden's available iron ore, timber, and other raw materials. Even though much of this was directed towards Hitler's construction of a war machine, the German economy was, in every category, far more developed, advanced, and wealthy than that of the U.S.S.R. The Germans were willing, eager, and able to give Sweden enough business to help support the LO's goal of full employment while also ensuring profitability for management.[59] During the global depression, the Soviets could offer comparatively little to Sweden as a trade partner due to the ongoing failures of its misguided macroeconomic and agricultural policies. Stalin's regime could not offer anything approaching what Germany offered in terms of economic security for Swedish labor union leaders.

By 1938, as war grew imminent, Hansson's government redirected spending to private armament industries to solidify Sweden's strategic position against both the German and the Soviet threats.[60] Prior to September 1939, Social Democratic Prime Minister Per Albin Hansson had reorganized his government to include experts and leaders from other political parties as a means to form a united front. Within the SAP, fears of sympathy towards Germany or the USSR and of having to rush to the defense of an invaded Finland stirred constant worry, prompting internal negotiations that increased the effectiveness of Hansson's special, multi-party wartime coalition.

Conservative Swedes and many of the highest-ranking military officers initially

---

[59] Gerard Aalders and Cees Wiebes, *The Art of Cloaking: The Case of Sweden Ownership. The Secret Collaboration and Protection of the German War Industry by the Neutrals* (The Netherlands: Amsterdam University Press, 1996).

[60] *Time*, "Sweden's Dynasty: Seven out of Seven of Their Neighbors Have Been Raped," April 29, 1940.

possessed a strong bias in favor of Germany. Within the royal family, King Gustav V's wife, Princess Victoria of Baden, was a German-born princess. Even though she died in 1930, their nearly fifty-year marriage helped solidify many social and political connections with the remaining members of the German aristocracy during the 1930s. Northern Germany and Sweden shared the same religious preferences, the Lutheran form of Protestantism, and King Gustav Vasa had actually imported Lutheranism from Germany as a replacement for Catholicism.

In the 1930s, Sweden was still culturally closely linked with Germany also in philosophy, music, and literature. Social mores were very similar. German was known by all Swedes with a high school education. German cultural biases also partly supported Sweden's persistent distrust of the Soviet Union, to the point that many in Stockholm continued to feel more threatened by Moscow than by Berlin well into the late 1930s. Reports of Stalin's brutal acts did not encourage Swedes to change the persistent uneasiness that many felt towards Russia. Swedish military strategy continued to maintain an almost exclusive focus on Russia. For example, its largest military installation remained in the far north in Boden to brace the nation against a potential Russian attack. A continual concern for the traditional defense of the north persisted[61] and continued long after the Cold War began.

Aside from cultural connections, commercial linkages between Germany and Sweden had thrived for many centuries. Since the Viking era, these two nations had traded throughout the Baltic, and they had continued to trade in medieval times via the Hanseatic League. Mercantilism and industrialization brought Dutch and British traffic into the region, but it

[61] The town of Boden, for example, served as a fortress where all foreigners were forbidden and where the Swedish government housed its defensive resources to fend off a potential Soviet land invasion.

also increased trade with Germany. Trade relations with Germany were facilitated by the minimal language barrier: Swedish is linguistically a Germanic language, and it is fairly easy for Germans and Swedes to understand each other. Last, Sweden's proximity to Germany, with only the Baltic Sea separating the two countries, and centuries of well-established trade routes between the two solidified a deep connection between the nations.

Chapter 5: The War Years: 1939-1945

Friendly with all other nations and strongly linked to our neighbors, we look on no one as our enemy. There is no place in the thoughts of our people for aggression against any other country, and we note with gratitude assurances from others that they have no wish to disturb our peace, our freedom, or our independence. The strengthening of our defense preparations serves merely to underline our fixed determination to keep our country outside the conflicts among others and, during such conflicts, to safeguard the existence of our people.

—Per Albin Hansson, September 1, 1939

With the eruption of World War II on September 1, 1939, Swedish politicians naturally became concerned with the fate of their nation. On December 1 of that year, the day after the outbreak of the Soviet-Finnish War, or Winter War, Hansson wisely formed a four-party coalition government to manage Sweden during World War II. Hansson's concession to include the four mainstream political parties (the SAP and the three largest non-socialist parties, but not the communists) in the cabinet of his government was a result of careful calculations and was intended to maintain internal political stability. Under Hansson's calming and diplomatic leadership, the wartime coalition collectively made executive decisions. The level of cooperation between the four participating parties was genuine enough to support the claim that Sweden had only a nominally SAP-dominated government.

Although the SAP won a majority vote for the first time in its history in 1940, Hansson gave the SAP only a plurality of the cabinet positions within the coalition.[1] Arguably, the four-party coalition was not politically necessary at all, but Hansson's innovative approach to power sharing enabled Swedish political factions to voice their concerns and the Swedish government to make more consensus-based decisions. These

[1] Arneson, *Democratic Monarchies*, 48-49.

primary examples of Swedish political power-sharing techniques illustrate how the security of the group or the community held a higher priority than the possession of raw political power.

Moderate Prime Minister Carl Bildt (in office 1991-1994) stated, "[Swedish] neutrality was not only a question of geopolitical necessity but also an ideological choice linked to a belief that this was a superior form of society," one that was a model of peace and cooperation for the entire world.[2] Sweden's wartime government included four of the five parties within the Riksdag, which was not the typical majority-based coalition but one that included the Conservatives and the Liberals in the SAP's alliance with the Farmer's Party. The four-party alliance sought to keep the country politically moderate by excluding fascist and communist influences. A unified front by these four parties meant that a high degree of solidarity and cooperation existed during the war.[3]

Hansson and his cabinet members sought to keep Sweden neutral in the war for economic as well as political reasons. Neutrality would allow Sweden to trade with both sides. While Most Swedes viewed their neutrality as morally correct, some, especially among the leaders of industry, understood how neutrality could be financially lucrative.

Nonetheless, as Childs explains, Sweden stayed neutral "with great difficulty."[4] One reason for this was that many Swedes wanted to assist the Finns against the Soviets. Until 1809, when it was ceded to Russia, Finland was considered by many to be East Sweden. During centuries of occupation, Swedes felt a strong connection to Finland. In 1939, a large

---

[2] Childs, *Sweden: The Middle Way on Trial*, 122.
[3] Carl Bildt, "The Myth of Swedish Superiority," *Financial Times*, August 6, 2003.
[4] Childs, *Sweden: The Middle Way on Trial*, 121.

Swedish minority, much larger than today, still resided in Finland. This circumstance, and other residual animosities toward Russia, kept Sweden from being truly neutral.

A slight departure from Sweden's strict interpretation of neutrality occurred during the 1939-1940 Winter War. Sweden acted as a non-belligerent participant by sending medicine, food, weapons, aircraft, and other essentials to Finland. In addition, nearly 30,000 Swedes volunteered to fight in Finland, despite Hansson's public pleas to remain non-belligerent. Few Swedes actually participated in combat, though, because the Finns signed a ceasefire with the Soviets before the volunteers could arrive at the front. Nevertheless, despite such internal pressures and the involvement of individual Swedish citizens, Sweden proved its determination not to be drawn into armed conflict.

Unlike the Soviet invasion of Scandinavia, Germany's occupation did not yield the response. Some argue that being anti-Soviet made Sweden pro-German, because far fewer Swedes were interested in volunteering to fight with the Norwegians and Danes against the Germans or even to provide relief supplies. Perhaps conservative Swedes were still resentful about losing Norway in the 1905 dissolution; in any case, their overall response to the Germans invasion of Denmark and Norway in April 1940 was not so strong as it had been to the Russian attack of Finland on November 30, 1939, just five months before.

Geopolitical strains forced the Swedish government to readjust its political priorities in favor of more unifying diplomatic efforts. During the war years, the coalition government veered away from class warfare and even temporarily ceased discussion of the Social Democratic ideal of *Folkhemmet*. The risk of war caused even the most fervent SAP politicians to reprioritize their goals, which meant postponing efforts to socialize the

economy.[5] Instead, export-revenue issues dominated internal Swedish politics and the Swedish economy during these stressful years. The Wallenbergs and another twenty or so powerful Swedish families worked to maintain healthy trade relations with as much of the world as possible, which provided vital imports and employment for Swedes. Meanwhile, in addition to international diplomatic efforts to keep trade possible, the SAP continued its tacit assurance to the wealthy that government social programs would be financed by taxing income, rather than increased taxation of wealth.

A further step toward cooperation involved the SAP tolerating and even encouraging King Gustav V to use his family and social connections with Germany as a means to prevent war. For this relatively brief period of time, the monarch temporarily resumed an influential role in the realm of foreign policy. Even though his was not a dominant role and this was the last time a Swedish monarch had any meaningful influence on overall policy, King Gustav V significantly offset the odds of a German invasion; his visits to Germany and his entertainment of German guests at Drottningholm Castle helped to smooth relations at times when war seemed almost inevitable.

In addition to such actions, which promoted good, yet neutral relations with Germany, and despite Sweden's reputation as the most liberal and socially progressive nation in the world, a Nazi network and propaganda within Sweden had nudged the political temperament closer to Berlin. For example, in spite of efforts from nearly all mainstream political parties to curb fascism in Sweden, the *Svenska National Socialistika Parti* (Swedish National Socialist Party) led by Sven Olaf Lindhom, "Sweden's Hitler" of the former Fascist

[5] One very notable exception was the large expansion of rent-controlled housing in Stockholm, Malmo, Gothenberg, and a few other large cities during the war years.

People's Party of Sweden, received 1.6 percent of the vote in 1930. This small group of Swedish Nazis and sympathizers caused Hansson's administration to become sensitive to Germany's demands as a means to continue the course of neutrality. The coalition government helped reinforce Swedish solidarity as a statement of unity against foreign, particularly German, political influence.

Although a controversial policy on the surface, Sweden continued to trade with Nazi Germany throughout World War II. Neutrality principles, as dictated by the Hague Convention of 1907, which Sweden had signed, allowed for trade between belligerent countries and neutral countries without the neutral countries being considered to be in favor of those at war. Therefore, its status of neutrality enabled Sweden to maintain and even expand its trade relations with Germany. Indeed, especially in the early years of the war, cutting off trade would most likely have provoked German aggression, whereas continuing it was both financially and diplomatically profitable.

Sweden was naturally motivated to continue Swedish-German relations for cultural, commercial, and diplomatic reasons. However, another indirect reason for continuing such relations lay in Sweden's centuries-long fear of Russian aggression, demonstrated in their exceptional reaction to the Soviet-Finnish War. Many Swedes, especially those who were not communists or Social Democrats, perceived a strong Germany as a counterweight to Soviet-communist aggression. Since German and Soviet forces were constantly on watch against each other, despite many years of pacts and efforts for better relations between them, it was widely thought by Swedes that a strong Germany might act as a de facto ally in preventing a Soviet-occupied Sweden. The invasion of Finland and the horror stories coming from Josef

Stalin's totalitarian regime reinforced beliefs in maintaining a cordial relationship with Germany to maintain a balance in the arena of European international relations. Swedish leaders believed that a Soviet invasion of Sweden would be perceived as a threat to Germany, not only geographically but also financially, in that it might potentially cut off the Swedish trade that was fundamental to the functioning of the German war-machine. Even leftists who approved of the Soviet communist political principles felt that Sweden should remain neutral and did not oppose Swedish-German trade.

Traditional Swedish neutrality principles dictated that Sweden must defend itself without relying on others, and this precluded any official secondary or conditional alliances. Self-reliance also helped establish a domestic arms industry such that, even though firearms were very difficult for Sweden's ordinary citizens to legally own, Swedish weapons were known for their quality and sold throughout the world during the war and afterwards.[6] Since an invasion would at least delay production and distribution of vital wartime goods, such as iron ore for weaponry, high-quality Swedish firearms, and ball-bearings for tanks and airplanes, Sweden's voluntary trade with Germany inadvertently contributed to staving off a German invasion.

Early in the war, German and Allied strategies concerning Scandinavia revolved around securing the Swedish resources and goods so essential to Germany. To protect its Swedish supply line, Germany invaded and occupied Norway and Denmark, as well as establishing a blockade in the North Sea on April 9, 1940. Effectively, these actions nearly cut off Sweden from trade with western countries and made German goodwill towards

[6] The arms sales financed much of Sweden's military expenses.

Sweden even more essential, especially as Sweden's overall trade was significantly reduced and it began experiencing serious fuel, food, and other shortages. Although initially resentful about Sweden remaining neutral, some Norwegians and Danes came to quietly approve of Sweden's position because they believed it kept the country free from German occupation.[7]

A *Time Magazine* cover story, "Sweden's Dynasty: Seven out of seven of their neighbors have been raped" on April 29, 1940, claimed that Sweden's military strength and industrial capacity to resist Hitler had probably saved Sweden from, or at least delayed, a German invasion.[8] The article states, "Sweden can probably thank their military strength for still being at peace last week. But for it, Hitler would have probably have included Sweden in his Blitzkrieg on Denmark and Norway.…Adolf Hitler may believe that he can get Sweden's iron and her arsenal, immobilize her Army and her Navy, without firing a shot or crossing a frontier uninvited." However, although military spending had increased tenfold from 1937 to 1942, nobody in Sweden expected to be able to successfully defend a German invasion. Even the Swedish high command could only give Germany the impression that an invasion and the resulting occupation would be inconvenient for the Germans.

Even in its capacity as a neutral country, Sweden was active in world affairs, but, because of its precarious position during World War II, many of the more notable instances of successful international relations occurred towards the end of the war. For instance, in 1944 and 1945, at great personal risk, Raoul Wallenberg[9] and Per Johan Valentin Anger used

---

[7] Ibid.
[8] *Time*, "Sweden's Dynasty."
[9] According to Penny Schreiber, he attended the University of Michigan between 1931 and 1935 where he learned English, French, and German. Some people suspect that he may have cooperated with the U.S. Office of Strategic Services during the war.

their diplomatic roles in the Swedish legislation in Budapest to secure the safety of many Jews in Nazi-occupied Hungary by issuing protective passports that identified them as Swedish citizens and ensured their treatment as such. Also, in the later years of the war, Count Folke Bernadotte, the vice president of the Swedish Red Cross, negotiated exchanges of disabled war prisoners between Britain and Germany via Sweden. In 1945, he ran a rescue operation, commonly known as "White Buses," that negotiated for the release of and transported tens of thousands of German concentration-camp inmates to Swedish hospitals. Meanwhile, he also attempted to negotiate an armistice between the Allies and Germany and finally assisted German SS leader Heinrich Himmler in conveying a conditional surrender to the United States and Great Britain. (It was not accepted.)

When the United Nations was established in 1945, Sweden became an early and very active member. Count Folke Bernadotte was chosen as mediator in the Arab-Jewish conflict in Palestine in 1948, which made him the first official mediator for the United Nations. SSE economist Dag Hammarskjöld served as UN Secretary-General from 1953 until his untimely death in a 1961 plane crash in Africa. Later, Olof Palme and Carl Bildt continued Sweden's involvement in promoting world peace.

Historical Neutrality

Although it is deeply imbued in the modern Swedish psyche, neutrality is only a relatively new perspective for Swedish leaders. Sagas of the Vikings and ambitious earlier kings shaped a historical view that, for centuries, motivated Swedish leadership to assume an active military role in trying to increase Sweden's territorial possessions.

At one time, Sweden ranked among the major European military powers, and it attained "Great Power" status during the 17th century. However, a series of disastrous wars with Russia between the early 18th and early 19th centuries eventually caused Sweden to completely abandon its expansionist ambitions. In fact, Sweden has not fully participated in any war since 1814, near the end of the Napoleonic Wars.[10] Persistent losses to Russia reduced Sweden to a minor state with a deep revulsion for war and a desire to remain more separate from continental politics. In addition to a change in ambitions, the diminishment of the Swedish Empire (particularly due to Russian expansionist efforts) imposed a fear of invasion and of territorial loss upon Sweden. However, the warrior heritage also left Sweden with a disproportionately large and centralized state administration and a culture that possessed a profound popular respect for the authority of the state. For example, compared to many European nations, the average Swede was much more patriotic. This is still the case today.

The roots of modern Swedish neutrality are based less on ideology than on the harsh, practical results of failure in warfare. Beginning with King Charles XII's decision to invade Russia for territorial gains in 1707, Swedish military offensives repeatedly met with disaster. Continued Russian victories, especially at the Battle of Poltava (1709) in Russia, gradually forced Swedish leaders to recognize that, among other problems, it could not muster large enough armies to combat a continental empire like Russia.

The desire of Swedish rulers to pursue foreign military invasions perished largely with King Charles XII's death in 1718. The pursuit of Swedish neutrality in international

[10] Swedish volunteers and unofficial involvement with wars have occurred since.

relations began with the assassination of Charles XII and has possibly began to end with the assassination of Olof Palme in 1986. Afterwards, Palme's successors began efforts to join the European Union. Gradually, during this period that strove for neutrality, Swedish political priorities shifted from external dominance towards internal security. The warfare that riddled much of Sweden's prior history became increasingly less frequent and less of a concern. Military strategy became decisively defense-oriented, and security objectives were adjusted to satisfy regional and domestic concerns. Accordingly, Swedish foreign policy and international influence came to operate through commercial and cultural interactions rather than through military force.

Since the Napoleonic Wars, Sweden has declared to the world that they are officially neutral. In fact, Sweden is the country with the longest consecutive period of peace. No war has been fought on its own territory since Russia invaded and took Finland in 1809, and Sweden has not officially participated in any war as a belligerent party since 1814, when Swedish forces played a small role in the Napoleonic Wars. Sweden's last notable instance of foreign military assistance, during the brief 1940 Soviet-Finnish War, was largely a matter of providing goods and, unofficially, military volunteers.[11]

After the loss of Finland, Swedish diplomacy pursued a careful course of balancing interests using constructive dialogue and cooperation to offset any risk of war which was believed to only yield more territorial losses. Creating mutually beneficial trade relations became a favorite approach to international affairs, since this strategy could stave off potential animosity. The adaptation of open market policies, the resourcefulness of its people,

[11] An estimated 5,000 Swedish soldiers came to the defense of Finland after the Soviet attack.

and its successful adaption of neutrality helped give Sweden the highest per-capita income growth in the world between 1870 and 1950, culminating when Sweden became the world's third-richest country in 1950, behind only the United States and Switzerland.

Traditional Swedish foreign policy was based on the premise that national security is best served by staying free of alliances in peacetime in order to remain neutral in the event of war. During the Cold War, this foreign policy resulted in high defense spending by Western European standards and close attention to foreign trade opportunities through global economic cooperation. Being able to afford the self-reliance of Swedish neutrality meant placing a great importance on international law and multilateralism. Fortunately for Sweden, neutrality had also meant avoiding World War II hostilities, so relatively little time for postwar recovery was necessary. That Sweden experienced little to no delay in its industries' production as a result of World War II led an immediate economic upswing that continued during the decades of rebuilding European infrastructure, allowing Sweden to easily afford its defense expenditures.

Although Sweden maintained an officially neutral stance and continued its armed neutrality policy during the Cold War, Swedish defense planners became increasingly dependent upon the United States and NATO for its defense against potential invasions. For example in the 1960s, Sweden had one of the largest and most advanced Air Forces in Europe yet by 1995 when it joined the European Union that was no longer the case. Globalization pressures after the end of the Cold War forced Sweden to reassess its traditional foreign policy strategy and eventually led to its membership in the European Union. On paper, this significantly changed Sweden's status as a neutral nation especially

because by then it let its defense expenditures decline and its overall defensive capabilities to deteriorate.

Neutrality's Legacy

The concept of neutrality has dominated and characterized Swedish political culture for more than two centuries. In the area of foreign policy, political parties generally held a consensus on the issue of neutrality.[12] Despite external pressures, Sweden maintained armed neutrality during both world wars. Although Swedish neutrality is famous, attaining and maintaining such status was not a consequence of inaction or neglect but a result of having taken a series of cautious steps. Both world wars brought serious challenges to the existing governments and created political fractures within the country that were difficult to overcome. Neutrality was not the path of least resistance as often portrayed in textbooks. Instead, it was an objective that involved considerable deliberation, struggle, and grief. Today, many Swedes still have mixed feelings about the decision to maintain neutrality, especially considering that their Scandinavian neighbors became embroiled in war and suffered, while Sweden financially benefitted during and after the wars by supplying crucial raw materials and goods for war efforts during these wars and for reconstruction after the wars.

Neutrality not only seemed to be the morally correct decision. Sweden, especially in the years following World War II, cherished its role of global arbitrator and provider. Swedish leaders maintained a sense of superiority and confidence that they possessed the

[12] Arneson, *Democratic Monarchies*, 69.

rationality, sensibilities, and persuasiveness to promote a vision of peace and cooperation to the entire world. In this regard, Swedish leaders, especially Palme, had a similar self-image to that of the Americans, believing they offered what John Winthrop referred to as a "beacon on the hill," or example for the world; Hansson even described Sweden as "Europe's conscience."[13]

In this regard, in the areas where Swedish policy differed from American and Soviet values, there was a "Third Way." However, Sweden profited from two world wars that had left many neighboring countries in dire need of the trade goods and resources that Swedish industries happened to produce relatively nearby. Sweden's resulting "Golden Years" brought several decades-long financial benefits from such war-related commerce. Practical circumstances, rather than ideology, molded policymaking for much of this period. Nonetheless, admirers still promoted the "Middle Way" and the "Third Way," both common expressions used to describe Sweden's unique path of success.[14]

World War II intervened before the Basic Agreement was accepted as a given by labor and business interests and before the Social Democratic agenda was solidified. Major legislation was postponed or modified because of wartime conditions. During the war years, voters were less concerned with the SAP's ideological agenda and more focused on immediate matters. Hansson and others recognized the need to be practical and to postpone the construction of *Folkhemmet*. In his case, unfortunately, he never lived to see *Folkhemmet* become reality.

---

[13] Boris Michael Brennan, *The Billion Dollar Murder: An Investigation into a Criminal Conspiracy* (Century Press, 1961), 221.

[14] Scott, *Sweden: The Nation's History*.

On September 1, 1939, less than nine months after the Saltsjöbaden Agreement, Germany invaded Poland. Seven months later, in April 1940, the Nazi juggernaut engulfed Denmark and Norway. Sweden hoped its declared neutrality would keep it from being overrun. Its declaration of neutrality notwithstanding, Sweden did prepare for war and had armed itself while still working hard diplomatically to stay out of the war. In 1940 and 1941, especially prior to Operation Barbarossa or the invasion of the Soviet Union, the Swedish government was preoccupied with the strong possibility of a German invasion. This was especially a concern because declarations of neutrality had done little to deter Hitler from invading Sweden's neighbors.

Sweden cautiously mobilized its resources to defend itself while pursuing diplomatic measures to prevent a military conflict with the Reich. Fortunately, the worst never came. Hitler evidently decided that Sweden, like Switzerland, could remain neutral so long as it served Germany's purposes. Numerous facts demonstrate that Sweden was a silent partner to Germany during at least the first half of the war. Sweden tolerated regular violations of its neutral status. The larger of these violations included: (1) more than two million German soldiers were transported via train through Sweden to and from both Norway and Finland from 1940 to 1943; (2) the German navy was allowed to operate within Swedish waters; and (3) the German Air Force was allowed to fly across Swedish airspace.

In addition to these concessions during the 1939-1943 period of the war, German pressure caused the revival of an obsolete law that made it illegal in Sweden to print material offensive to a foreign state. [15] In 1941, an amendment was adopted that allowed censoring of

[15] Arneson, *Democratic Monarchies*, 47-48.

the press. Throughout the war, Sweden regularly, as a matter of national policy, arrested and held communists in internment camps but allowed members of Germany's Nazi Party and other fascist parties to come and go as they pleased.[16] Last, the Swedish ball-bearing giant SKF, a Wallenberg family company, clearly helped the German war effort by providing crucial materials until early 1944.[17]

When the tide of war turned against the Germans, the Wallenbergs and the Swedish Foreign Office downplayed the Wallenbergs' role.[18] While one can argue that wartime business with the Germans was simply "good" business for the Wallenbergs, they clearly were involved in sustaining the economic well-being of the Reich for their own enrichment, which seriously disturbed the Allies. Suspicions about the extent of the Wallenbergs' involvement with the Germans came to a head when, in 1944, there was an increase in black market currency exchanges through Swedish banks, especially through the Wallenberg-controlled Enskilda Bank, followed by investments in Swedish industries, especially in the Wallenberg-owned SKF.[19] After some examination, it appeared that German agencies and businessmen were trying to launder their financial capital by currency exchanges via several sources, often making the final exchange through Sweden agencies and, frequently and specifically, through Wallenberg interests. However, according to Aalders and Wiebes in *The Art of Cloaking* the Wallenberg's significant control of the Swedish banking and financial sector made it difficult not to do business in Sweden without going through the Wallenbergs'

---

[16] Aalders and Wiebes, *The Art of Cloaking*.
[17] Ibid.
[18] Ibid.
[19] Göran Ahlström and Benny Carlson, "What Did Iver Olsen Tell Harry White? Sweden at the End of World War II from the 'Olsen Angle,'" *Lund Papers in Economic History* 98 (2005): 10.

channels of commerce. Still, this led to various investigations and concluded when the United States blacklisted the Wallenbergs and the Enskilda Bank between 1945 and 1947.[20] However, the Wallenbergs' influence and prestige was such that, even though Minister of Finance Wigforss could have tried achieving his ideological goal of nationalizing the bank, using the U.S. blacklisting as an excuse, the Wallenbergs experienced little fallout in the end.

Despite appearances, the Wallenbergs were not necessarily involved in every permutation of these transactions. The Germans had shown themselves to be clever in constructing legal cloaking devices to operate businesses in other countries, including inside the Soviet Union. Largely, this was what had led to the currency exchanges and subsequent investments going through without easily identifiable sources or investors. Although the Riksdag did enact "anti-dummy" company laws in 1935 to prevent Germans from creating "Swedish firms" or from allowing foreign interests, especially Nazi interests, to control Swedish industries, these statutes proved to be ineffective.[21]

Even outside of Wallenberg businesses, Sweden's passive partnership with Germany was substantial out of a practical motive to turn a profit. The level of Swedish cooperation with Germany for financial gain can be more vividly seen through an analysis of shipments of its high-quality iron ore during the war. The next two tables show the level of trade in iron ore between Sweden and Germany, starting with the onset of World War II and ending with the German invasion and occupation of Norway and Denmark. The first table shows shipments from Narvik, a year-round Norwegian port commonly used for Swedish exportation of iron ore; the second table shows shipments from Luleå, a Swedish port that is

[20] Ibid., 16.
[21] Ibid., 15.

blocked by ice for part of each winter.

Table 9: Shipments from Narvik, Norway (thousands of tons of ore)

Previous Year's Shipments in Brackets

1939			**1940**		
Sept	165	[462]	Jan	511	[609]
Oct	227	[418]	Feb	290	[587]
Nov	249	[418]	March	376	[724]
Dec	294	[464]	April	168	[687]

Table 10: Shipments from Luleå, Sweden (thousands of tons of ore)

Previous Year's Shipments in Brackets

1939		
Sept	592	[374]
Oct	579	[230]
Nov	514	[155]
Dec	186	[-]

The importance of winter shipments to Germany from Narvik, Norway, (Table 9) can be seen by comparing the previous year's shipments to those of late 1939 and early 1940. These dropped between 40 and 65 percent, with the single exception of January 1940 shipments, which only fell 16 percent. This drop quantitatively shows a certain amount of non-cooperation on the part of Norway, a neutral country, in supplying Germany's war-machine, even simply as a passage for Swedish trade goods. In part, the drop in shipments to Germany was due to Britain's increased dependence on the Norwegian merchant fleet once the war started, which shows how "neutral" Norway also willingly cooperated and became a

"passive" partner with a belligerent country during the war. Although Norway also did this for financial gains and to obtain vital commodities from Britain, Germany could have supplied these commodities for Norway as it did for Sweden.

Meanwhile, Luleå's exports as much as tripled and more than made up for the difference in Narvik's exports from September to December, but the port was closed during the remaining winter months. Shipments from Oxelösund, year-round Swedish port further south, were almost twice as high (519,000 tons) between September and December of 1939 as they were a year previously (286,000 tons), but the port was not able to handle the much higher volume of iron ore required to compensate for the drop in exports during the months when Luleå was blocked by ice. However, such substantial increases of exported iron ore tonnage in both Swedish ports demonstrate cooperation with German demands, even as Sweden's neutral neighbor Norway cooperated with the British before April of 1940.

As can be seen in the next table, Narvik decreased in reliability and at no point during the war recovered its pre-war or even pre-occupation shipping capabilities. However, Germany secured the Swedish Baltic ports by occupying Norway and Denmark, and Swedish ports compensated for the loss accordingly. Childs notes that about 21 percent of all German iron ore consumption was provided by Sweden in 1941.[22] Although the origins of exported Swedish iron ore changed over the course of the war, the overall distribution of its exportation remained largely the same from the time Norway and Denmark were occupied until the final full year of the war. However, this reflects an overall drop in iron ore exportation rather than any holding back or last-minute lack of cooperation on the part of

[22] Childs, *Sweden: The Middle Way on Trial*, 125.

Sweden.

Table 11: Distribution of Iron Ore Shipments among Scandinavian Ports

(percentage of total tonnage)

Year	Narvik	Luleå	Oxelösund	Others
1938	54	21	16	9
1939	44	27	18	11
1940	13	53	17	17
1941	8	49	22	21
1942	13	43	21	21
1943	19	43	20	18
1944	24	31	22	23

Though Germany lost naval control over the North Sea by late 1944, the other ports well inside the Baltic Sea remained open for trade until the final days of the war. A turning point in Sweden's wartime trade policy happened after the German defeat in the battle of Stalingrad. Afterwards, in 1943, Sweden signed a trade agreement with Britain to slowly limit its importation of iron ore into Germany and stop all exportation of ball bearings. Despite its promise to the Allies, Sweden still managed to work around the agreement by selling Germany high-grade steel which would then be transformed into the much needed bearings. Even after Sweden was reasonably certain that Germany was going to lose the war and exports had been substantially reduced, as seen in the table on the next page, Sweden continued to export as much as it could, for as long as possible, without technically breaking any agreements.

Table 12: Iron Ore Supplies: Late 1944 to Early 1945

(in thousands of tons of iron)

	Production	Imports		
Month	**Reich**	**Sweden**	**Other**	**Stocks on Hand at Month's End**
Oct	415	34	32	2681
Nov	389	52	15	2371
Dec	320	22	18	2204
Jan	300			?

However, continuing to trade with Germany throughout the war was also a diplomatic and internally stabilizing move for Sweden. Centuries of lucrative Swedish-German trade relations helped smooth over uncomfortable moments, even in the final months. Also, ironically, the continued trade of goods and raw materials with Germany helped provide employment in the areas of forestry and manufacturing for the many tens of thousands of refugees in Sweden who had escaped the Germans. In the end, practicality, in terms of political and economic security, won out over ideology and, to some degree, any foreign questioning of Sweden's ethics or morality in supplying Germany with materials for war.

Post-war Neutrality

In the post-war period, Sweden's historical neutrality was revised to address changing security and welfare issues. By the 1960s and 1970s, Erlander and Palme interpreted Sweden's neutrality as incompatible with European Commission (EC) membership. Citing his desire to remain disentangled from continental politics, Erlander famously proclaimed

that the rest of Europe was too "conservative, Catholic, and capitalist."[23] In Erlander's mind, closer involvement with continental Europe would not only pollute the Social Democratic experiment but would risk bringing new problems to the nation that would undermine its success.

Since Sweden was geographically positioned alongside Norway, its neutrality after 1945 always contained subtle links to the West. Moscow did not overlook or forget how Swedish raw materials kept the German war-machine running to the end of the war. The Soviets, who lost 27 million people because of the 1941 German invasion, did not accept Sweden's position as a neutral state during the war.

When Sweden received over $150 million worth of financial support from the Marshall Plan, more than triple the amount given to Nazi-occupied Norway, Soviet suspicions that Sweden had not actually been neutral were reinforced.[24] Allen W. Dulles noted in *The Marshall Plan* how, in spite of this, the Swedes "made an expensive attempt to buy Soviet good will" in 1946 that caused a currency exchange-rate difficulty.[25]

Sweden offered the U.S.S.R. financial assistance in the form of what Dulles called "very favorable trade and exchange rate terms."[26] Gunnar Myrdal, who had become minister of trade[27] by 1946, proposed and promoted the Swedish-Soviet Credit and Trade Agreement, or *Ryssavtalet*. This agreement was signed on October 7, 1946, and gave a credit to Moscow of one billion SEK, or an estimated $280,000,000. This credit was meant to be used between

---

[23] Ulf Nilson, interview by the author, Fort Lauderdale, FL, November 2003.
[24] Ibid., 48.
[25] Allen W. Dulles, *The Marshall Plan* (Ann Arbor, MI: Berg Publishers, 1993), 78.
[26] Ibid.
[27] Aalders and Wiebes, *The Art of Cloaking*, 114-125.

1947 and 1952, and it was to be repaid between 1962 and 1967 at the very low interest rate of 2.38 percent.[28] Though Moscow never fully believed in or accepted Swedish neutrality, the Soviets accepted these favorable financial terms. However, the Soviets only utilized 517 million SEK, slightly more than half, of the credit that was offered.

Some U.S. companies that held business interests in Sweden did put pressure on the Swedish government and Swedish firms to avoid exporting their goods to Russia. Tage Erlander expressed in his private diary that he was "afraid to do business with Russia" because of pending threats of U.S. anti-trust lawsuits, which could be initiated on behalf of American firms who sought non-delivery of Swedish-made goods to Russia. However, on their own initiative, the Soviets limited the scale of this assistance program, and no such threats came to fruition.

In September of 1948, President Truman approved National Security Council document NSC28, which dealt with Norway, Denmark and Sweden in that order of importance. This document singled out Sweden for its "subjective neutrality" while noting that the Swedish government got high marks for dealing somewhat harshly with domestic communists. Although Sweden was not given the same military priority as Allied countries, NSC28 left open the possibility of American assistance to Sweden in a crisis. A second document, NSC121, accepted Sweden's role outside NATO and treated it as a member of the Western bloc.

During the 1960s, the United States reconsidered its defensive policies concerning Sweden. In 1960, President Eisenhower approved NSC6006/1, which dealt with Scandinavia

[28] Ibid., 108-109.

as a whole, but specifically stated that the United States should "be prepared to come to the assistance of Sweden" in case of Soviet aggression. In November 1962, President Kennedy advanced his Swedish strategy in the document *Guidelines for Policy and Operations: Sweden*, which specifically states that the United States will "undertake to come to the assistance" of Sweden. The gradually pro-Sweden bias of the United States increased through the 1960s, until the Vietnam War became a key dividing issue between the two countries, particularly after Olof Palme became prime minister in 1969.

While the Soviet government appreciated the inflammatory anti-Vietnam rhetoric of Olof Palme and Gunnar Myrdal, it never viewed these public gestures as demonstrating significant independence from NATO or American influence. Prior to becoming prime minister, Palme clearly communicated his views on U.S. foreign policy while serving as education minister. For example, in a well-publicized event in Stockholm on February 21, 1968, Palme demonstrated by marching alongside North Vietnamese Soviet Ambassador Nguyen Tho Chanh against U.S. involvement in South Vietnam.[29] In protest, the U.S. government withdrew Ambassador William Heath and allowed fifteen months to elapse before finding a replacement.[30] Palme's aggressive attempts to separate Sweden from the United States in foreign policy matters did very little to change Soviet views of Sweden. The ancient Russian-Swedish rivalry, cultural differences, and distrust prevented the Soviets from viewing Sweden as neutral and independent as Palme had desired.

Edvardsson and Klinghoffer argue that Palme's public foreign relations efforts during this period were actually part of a domestic agenda to placate and garner support from the

[29] Åsa Linderborg, "Detta borde vara vårt arv," *Aftonbladet*, February 28, 2006.
[30] Ruth Link, "Ambassador Holland and the Swedes," *The Crisis* 78, no. 2 (March 1971), 43-48.

upcoming left-leaning youth generation of the late 1960s and early 1970s. According to Klinghoffer, Erlander as prime minister defended Palme's march with Nguyen Tho Chanh to the U.S. ambassador as a means to prevent communists from dominating the event. Later that year, the September 15, 1968, election rewarded the SAP with their first majority victory (50.1 percent) since 1940. Yet Palme's efforts to lure in leftist youths opposed to the United States continued. Stockholm continually challenged America publicly and, according to Klinghoffer, chided the United States a total of ninety-three times between February 1968 and 1972. This also was the period when the Swedish youth most strongly supported the SAP. Edvardsson apologizes for Palme's grandstanding against the United States because this effort helped contain a very strong movement to the left. Therefore the SAP's success in 1968 resulted not from luring voters from the center into their fold, but from bringing in those who might otherwise have voted for the extreme left.

In this regard, Palme's antics and Erlander's tolerance were examples of practicing moderation and promoting a consensus to govern. The SAP's leadership succeeded in convincing a crucial small percentage[31] of young Leftist voters that to vote for them in 1968 would have been *lagom*, while supporting Swedish communists may not have been "just right" or "just enough." The SAP had become flexible enough, at least in its public image, to serve as a moderating force very much in the opposite direction from the way that it functioned in the 1930s and 1940s, when the youth were likelier to support the extreme right.

Despite the fact that the U.S. government under presidents Johnson and Nixon clearly

[31] The SAP had received 47.3 percent of the vote in 1964. The gain was a mere 3 percent, yet it was significant because it allowed the SAP to surpass the 50 percent barrier. Also, the SAP had earned 414,000 more votes in 1968 than it had in 1964, while the Communists had lost roughly 80,000 votes. Palme apologists point to these numbers to justify catering to the Leftists.

did not appreciate these efforts, America's overall Cold War strategy in Scandinavia did not change. According to Rolf Ekéus,[32] who investigated Sweden's security policy, regardless of significant diplomatic strains that resulted mostly from Olof Palme's efforts to promote his government as the leader of non-aligned countries, there was no evidence that U.S. strategy fundamentally changed during the 1970s and 1980s. Ostensibly, right up until the end of the Cold War, Sweden remained protected by the United States. It is possible that Swedish leadership understood American policy in such a way as to believe that, in a time of crisis, they would receive military aid from the United States and Great Britain regardless of political tensions. Knowing that the Norwegians and Danes were guaranteed U.S. support, Swedish military, strategic, and security experts quietly maintained that they would also be a beneficiary of NATO without paying the political price of belonging to an alliance with the West. Neutrality, if for nothing more than the sake of appearances and for the purpose of remaining consistent at a superficial level, had to be preserved.

[32] Ohlson, 2003.

Chapter 6: 1946-1959, Postwar Coalition of Moderation

An example of postwar moderation within the SAP is the rejection of Gustav Möller, who served as minister of social affairs and is credited as one of the major architects of *Folkhemmet*.[1]In the 1946 SAP election for party leadership, Möller lost mainly due to his insistence on imposing high taxes to fund the welfare state.[2] Instead, party officials chose Education Minister Tage Erlander, who advocated a more moderate approach to tax increases. His strategy of moderation appealed to the public and contributed to the SAP easily winning a plurality[3] in the 1946 election. According to Rothstein, Möller eventually resigned from the SAP in 1951 because of his frustration and disappointment with Erlander's good relationship with Center Party leader Gunnar Hedlund and in protest against the coalition government.

With its economy intact and mobilized, and with the largest export capacity in Europe, Sweden was experiencing an economic boom. Following the blueprint drawn up before the war, the Social Democrats resumed their efforts to realize their vision of the perfect society, complete with child allowances, low-cost housing, and old-age pensions. Although Hansson is considered *Folkhemmet*'s chief visionary and Gustav Möller is often cited as responsible for the actual formation of social policy as Sweden's social minister until 1947, it was the succeeding prime minister, Tage Erlander (in office 1946-1968), who implemented most of *Folkhemmet*'s policies. Plank by plank, the "first floor" of the long-awaited, cradle-to-grave welfare state was built. Sweden's "Golden Age" had begun.

---

[1] Tilton, "Political Theory," 103.

[2] Bo Rothstein, "Managing the Welfare State: Lessons from Gustav Möller," *Scandinavian Political Studies* 8, No. 3 (1 Oct 2007): 151-170.

[3] They failed to obtain a majority, though they had done so in the previous national election of 1940, and they were forced to resume their partnership with the Farmer's Party as they had done prior to the wartime coalition government.

The Swedish system aimed to incorporate every person at every stage of life into a government plan that possessed series of social program to meet their needs. Welfare was not reserved for the needy or for select groups of people, but was universally extended to everyone. A similar program in the United States would place each person in a Social Security program regardless of age, disability, and income status. In the Swedish system, economic privileges were given to all Swedes, which over time made every individual dependent upon state subsidies and programs at every stage of life.

Although the United States also has subsidies and programs that help people throughout their lives, the public in Sweden is much more aware of its connection to the welfare system, due largely to the Swedish system's more direct, personal approach and to the proportionally higher cost of the system. The economic security found in pre-industrial, traditional life was replicated in the industrialized economy, using the government as the guarantor of stability. The power of the *kommun* is quite similar to the semi-autonomous role that many small villages and towns enjoyed during the medieval period. Through *Folkhemmet*, Swedes re-created the security they lost to industrialization and urbanization, and because the system was standardized, technologically modern, and assisted by increased productivity, their standard of living markedly increased while they remained sheltered from the ups and downs of the market.

By incorporating all Swedes into these programs, the SAP forged a durable political constituency. According to Roskin and Swenson, a corporatist political environment developed[4] under the SAP in which deals were struck to ensure long-term, predictable profits

[4] Roskin, *Other Governments*, 11-41.

for select business owners in return for tacit support of a political platform that would placate union members, including agreements with key industrial leaders to secure stable jobs for union members.[5]

The 1938 Saltsjöbaden Agreement and its spirit of cooperation proved amazingly durable. With the Social Democratic government looking benignly on, Sweden's well-organized labor confederations, representing 95 percent of the nation's blue-collar workers, and the equally well-organized Swedish employer associations were usually able to reach swift agreements on wages and working conditions by following the guidelines in the Saltsjöbaden Agreement. Strikes and work stoppages were rare, and Swedish industry hummed. Exports increased from a low of 5 percent of GDP at the end of World War II to more than 22 percent of GDP in 1950.[6] Through the late 1940s and 1950s, Swedish industries' international competitiveness grew, allowing the welfare state to thrive.

When World War II ended, the political leadership of Sweden under the wartime coalition breathed a sigh of relief. In his 1943 visit to Stockholm as a member of a team of American journalists, Childs estimated that 90 percent to 95 percent of Swedes were pro-Allies in their beliefs, but that they understood the necessity of trading and cooperating with the Germans.[7] After witnessing all other Scandinavian countries being pulled into World War II, the Swedes felt particularly fortunate to have once again averted direct involvement. During the hostilities, Sweden received many thousands of fleeing Norwegians, Danes, and Finns, not to mention escaping Jews from the continent. Witnessing the plight of these

---

[5] See Swenson, "Capitalists Against Markets," for the details of the arrangement made between leaders in industry and leaders of the Left.
[6] Edvinsson, *Growth Accumulation*
[7] Childs, *Sweden: The Middle Way on Trial*, 125.

refugees further heightened the insecurity that many Swedes experienced during the war years.

As during World War I, Swedish political neutrality in World War II had substantial benefits with regard to export markets. However, in many ways World War II proved to be far more beneficial to Sweden than World War I. This is partly because Sweden was a much more economically developed country in 1939 than in 1914, which enabled it to be in a better position (i.e., more industrially developed) to respond to surging demands for Swedish exports. Also, Sweden was better prepared in 1939 for the conditions of a full-scale war. The Swedish government had expected war then, if not sooner, while the sudden outbreak of World War I in 1914 was completely unexpected, especially those in industry. In addition, World War II was not only longer in duration but larger in scale, which resulted in greater profits for Sweden due to global dependence on its export-oriented industries.

Wise agricultural policies, partly due to the coalition government that included the Farmer's Party from 1932 to 1939, meant that Sweden had become nearly self-sufficient in producing food prior to the German invasion of Poland. In contrast, in 1917, severe food shortages had plagued the nation and contributed to the national crisis that nearly overthrew the government. Although Sweden did experience scattered food, fuel, and other shortages between 1940 and 1941 due to German and British naval blockades, the Swedes were able to cope by rationing, ramping up food production, using wood products as substitutes for various forms of fuel, and so on. Therefore, Sweden emerged from the hardships of World War II in a much better position than after World War I, by almost any measurement and in both absolute and relative economic terms.

In the years immediately following World War II, there was minimal meaningful industrial competition from continental Europe. Between 1945 and 1955, the final significant phase of considerable structural adjustments in employment occurred as Sweden's labor force migrated once more from agricultural to industrial work.[8] With this redistribution of labor, Sweden was poised to maximize its revenue in the tattered global market of the post-war period.

Entering the Golden Age

As the manufacturing industries expanded during Sweden's "Golden Age," SAP leaders redirected and used Sweden's burgeoning financial gains to fund the cradle-to-grave social programs of their long-awaited *Folkhemmet*. The years between 1945 and the oil embargo of 1974 are commonly described as the "Golden Age." However, macroeconomic data and other factors do not necessarily agree with this assessment. Nonetheless, for most of the first generation after World War II, Sweden experienced a special period of prosperity. In the earlier portion of this period, however, due to political power sharing, the SAP's timetable and methods for implementing *Folkhemmet* were modified and moderated in their scope and scale.

Nearly 20 percent of the workforce had stopped working in the agricultural sector in the twenty years since 1930,[9] but rural customs still dominated Swedish society in the early 1950s. Voters were constrained by these traditions, as well as cautious not to disrupt a highly

---

[8] Hans Sjögren, "Scandinavia," in *European Economies Since the Second World War*, ed. Bernard J. Foley (New York: St. Martin's, 1998), 161.
[9] *Ibid.*

valued peaceful existence. When the war ended, the Swedish public breathed a collective sigh of relief for having successfully avoided another horrific war. Sheltering tens of thousands of escaped Norwegians particularly gave urban Swedes the sense that they were lucky and fortunate.

The appreciative Swedish public continued to give the SAP enough of the overall vote to retain power in the Riksdag (see Appendix F). However, unlike in the 1940 election, the SAP failed to obtain a majority in the 1950s and was forced to resume its coalition with the Farmer's Party. A deep desire for stability and security meant that Swedes were not willing to support any radical changes from the SAP's coalition government. An additional factor causing the delay and further moderation of policy was Hansson's sudden and unexpected death of a heart attack as he stepped off a tram while heading home from work in October 6, 1946. Tage Erlander, who as the minister of education was initially viewed as a temporary replacement by some SAP leaders and the Swedish media, graciously assumed the leadership position.[10] Initially his economic policies were a continuation of Hansson's wartime pragmatism. Erlander's first eleven years as prime minister was also a coalition with non-socialist parties. Erlander, like Branting and Hansson, exhibited considerable patience and took his time in accumulating the political capital necessary to launch substantial economic policy reform.

The fading political influence and increasingly symbolic power of the monarchy also contributed to delays in radical reforms. King Gustav V, the last monarch to wield any tangible political power and influence, became the longest-living king in Swedish history,

[10] Ruin, *Tage Erlander*.

managing to cling to his throne until his death at age 92 in 1950. Even though the importance of the waning influence of the monarch has been often overlooked or minimized by political scientists, the monarch's continued presence for the five years after the end of the war still helped stall the reform of economic policies. Traditions did not evaporate overnight but faded gradually.

King Gustav V, who began his rule in 1907 prior to the 1917 Instrument of Government, inherited the mentality that a monarch should have an active role in the daily operation of the government. Since the king had opposed universal suffrage and many other earlier reforms, his presence in Stockholm continued to evoke the values of the past. Even in his final years, his rule served as a reminder of Sweden's 19th-century, quasi-feudal era. His influence was especially evident among the central Swedish bureaucracy, who remained loyal to the monarch out of principle.[11] If King Gustav V had died in 1945 instead of 1950, there would have been less public resistance to the SAP agenda, especially within the conservative social circles of the powerful elite in Stockholm. Their resistance delayed the SAP's political momentum, which translated into years of delay, especially in a culture that inherently incorporates compromise and consensus into political processes. Knowing that the king had only a short time left to live, some SAP leaders simply quietly waited for his death. In this, they exhibited the kind of patience Branting had instilled in them, reflecting their firm belief that the future was socialist and that their movement would continue to shape modern Swedish society.

[11] Arneson, *Democratic Monarchies*.

The Gradually Increased Role of Government in the Economy

Prior to the 20th century, government spending typically increased during wars and then gradually decreased back to its previous level. However, this historical pattern changed on a global scale after World War I, when government spending as a percentage of GDP began to rapidly and steadily increase. There are several prominent economic theories about why this happened. British economists Alan Peacock and Jack Wiseman suggest a "ratchet effect,"[12] suggesting that, if a war raises a country's expenditures, spending after the war will not fall all the way back to prewar levels. The "ratchet effect" of government fiscal policy mirrors the pattern of individual spending observed by Dussenberry and Friedman, in which expenses are also very reluctant to decrease after a period of rapid increases. An earlier rationale, labeled the "leviathan" theory, holds that governments try to control as much of the economy as possible. Wagner's Law, which emerged in the 1880s and is named after German economist Adolph Wagner (1835-1917), states that the growing government share of GNP is simply a result of economic progress via stage development or increase in economic activity. The assumption is that industrial growth and government growth are strongly correlated. Evidence of this exists for every country that has industrialized. Government services appear to expand with the urbanization that accompanies industrialization.

The global increase in government expenditures is partly caused by the proliferation of stronger and more sophisticated lobbies that seek to enrich their own special interests. The improvement of communication technology helps lobbyists engage in "rent-seeking

[12] http://www.springerlink.com/content/172r717201qn5878

behavior" in seeking government funds and new regulations that favor their clients.[13] Another cause is the simple size of government as a percentage of total GDP. An expanded government with more agencies and more individuals who feel they are commissioned to support a segment of the economy through fiscal policies involving taxation and spending possessed many internally driven self-perpetuating elements. As the relative size of the government grows, internal pressure to gain a share of government funds increases.

While agencies and individuals within the government are behaving this way, individuals outside of the government who seek funds will see a larger target. The opportunity for wealth transfer increases with the size of the government. Forms of government expenditures include subsidies, tax credits, authorization of new programs, and expansion of existing ones. Regarding rent seeking, for example, the taxpayer costs of agricultural price-support programs are often disproportionately in favor of the farmers in relation to their overall financial benefits for the rest of society.

George Mason University economist Gordon Tolluck explains in mathematical and graphical terms how a society loses money when special interest groups are successful.[14] He refers to this as "dead weight loss." Successful specific funding usually leads to less-efficient spending, and less-efficient spending is more likely to lead to more spending. Once a government reaches a critical size, its growth seems inevitable. In the 1940s (see Chart 1 below), the Swedish government's role in the overall economy had reached this point.

---

[13] Gordon Tullock, "The Welfare Costs of Tariffs, Monopolies, and Theft," *Western Economic Journal* 5, No. 3 (1967): 224–232.
[14] Ibid.

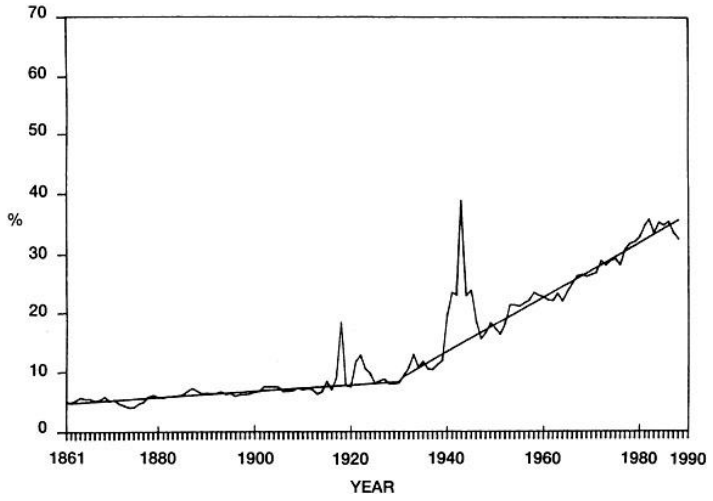
Gradually, the profit-seeking inclinations of lobbyists and special interest groups succeeded at the expense of the greater economy and the society as a whole.[15]

This conflict of interest is one of many paradoxes within the realm of public policy regarding the role of individuals versus the role of society at large. Rent-seeking in conjunction with the expanding welfare state helped to significantly increase government spending as a fraction of GDP in the first two decades after World War II. Coincidentally, Tolluck identified the costs of the rent-seeking phenomenon in an article published in 1967, about the same time that the negative effects of the phenomenon began to reveal themselves in the Swedish economy.

The growth of rent-seeking behavior corresponded with an increase in overall government spending. Consequently, economic policy-making perpetuated the trend of public spending to appease special interest groups. The history of such growth is in Chart 1 which displays Sweden's central government expenditures as a percent of GNP. As the chart shows, the central government's share of the total economy was remarkably stable for nearly 150 years but then rapidly grew starting in the 1930s. Though as an armed neutral country with no military allies, Sweden did have to spend a greater proportion of its GDP on military and defense matters, these increases and many others began to occur after the SAP obtained power.

[15] Ibid.

Chart 1: Swedish Government Spending from 1860 to 1990, Percentage of GNP



In 1950, despite the implementation of a national health care system,[16] the overall tax burden on the average Swede still remained very low as compared to later levels.[17] In the early 1950s, revenue from income tax managed to surpass excise and customs taxes for the first time, but Sweden's total tax revenue was still only 21 percent of GDP, considerably less than in non-neutral countries during World War II. Towards the end of the war and within that first decade afterwards, the idea of a grand socialist experiment became more acceptable to the public, whom like most of post-war Europe, sought and demanded economic security from their government. This sentiment was reflected by a temporary increase in the popularity of the Swedish communist party who obtained 10.3 percent of the vote in 1944. Conservatives continued to suffer in elections dropping to 9.4 percent of the vote in 1956 (see Appendix F). While politicians who continued to build Folkhemmet gained sufficient

[16] This national program was affordable and amazingly efficient and cost-effective, compared to the Medicare system initiated nearly twenty years later in the United States.
[17] Knoedler, Sackrey, and Schneider, "The Middle Way."

voter loyalty. Naturally, as more people directly benefited from short-run gains, these programs and government initiatives acquired more support. With this support, the SAP's coalition government commenced a period of continual taxation expansion.

At the street level, only gradually did the vast majority of Swedes embrace the socialist ideals of the Social Democrats. Late in the 1950s, education, including the cost of attending college, became free to the general public. Making higher education a state-funded entitlement was wildly popular and helped convince the public to accept the SAP's economic policies.

Sweden's economic growth throughout the 1950s and the favorable global circumstances regarding its export markets also contributed to the SAP reaching the zenith of its popularity in the late 1950s. As in many democracies, the outcome of Sweden's elections was often determined by how well the general population felt that the existing government had managed the economy. Even though this displays a lack of understanding of macroeconomic theories, a democratic system that is dependent upon the impulses of the population often will reward or punish the political party in power on the basis of the economy, regardless of whether there is any direct evidence that the government is culpable for the state of said economy.

Since the vision of a Social Democracy was usually nurtured in the trade unions, relations between the trade unions and the SAP, according to Franklin D. Scott's *Sweden: The Nation's History*, were "always intimate." As the membership of trade unions grew, so did the fortunes of the SAP. Within the organizational bureaucracy of these trade unions also rested considerable political control. Regarding economic policymaking, though not every

trade union leader was a devout socialist, most were. As the decades progressed in the 20th century, trade union leaders gradually increased their demands as their organizations became more entrenched into the process of economic policymaking. By 1960, the trade union bureaucracy held a virtual veto over all labor market-oriented legislation. To placate the demands of the trade unions, the Riksdag instituted expansive economic policies, even under the pressure of the supply shocks in the mid-1970s, to maintain full employment.[18]

Beginning with the Basic Agreement in 1938, trade unions were able to coordinate wage formations through a series of collective agreements with the employers' union. The global market had only an indirect role in determining wage adjustments. Trade unions were so successful that a national governmental regulation of wages, such as a national minimum wage, was never needed. Instead, the collective agreements served as a de facto minimum wage.

Wages were managed not by legislation but through direct negotiation between employers and employees. Whereas in a free market there often is a wide distribution of wage levels because of individualized negotiations, the process dictated by the trade unions limited such large differences. In this regard, workers receiving more money than others were less likely to be overcompensated. An advantage to controlling the high end of these wages meant that inefficiencies due to overcompensation were reduced, which helped reduced the effect of demand-driven inflation. The LO became deeply engaged in making firms' wage structures more similar and "fair," inspired by the political ideal of *jämlikhet*. Aside from the conditions of the Basic Agreement, which aided the trade unions in obtaining

[18] Lennart Erixon, *A Swedish Economic Policy — the Theory, Application, and Validity of the Rehn-Meidner Model* (Stockholm University, 2000).

their objectives, their close alliances with the ever-increasing political hegemony of the SAP after World War II only furthered their ability to get what they wanted in future agreements.

In 1951, trade union economists Gösta Rehn and Rudolf Meidner proposed major modifications to the "Basic Agreement" in their published paper *Trade Unions and Full Employment*.[19] This document, though it was not immediately made into public policy, served as the foundation for postwar economic and wage policies. Rehn and Meidner's plan applied a modified version of Keynesian economics, combining the objectives of full employment, economic growth with price stability, equity of income, and marginal employment subsidies to encourage industries to retain workers during downward portions of the production cycle. With some exceptions, the model favored employment over containing inflation.

The Rehn-Meidner model possessed five primary economic elements: (1) a dynamic description of wage formation, (2) flexibility for competitive forces, (3) relative wage preferences, (4) labor market policy, and (5) wage policy of fairness. Their model postulated that profit squeezes should support structural change by encouraging increased re-investment into company productivity.[20] For over twenty years, private firms did pour much of their profit into further capital investments. However, gradually, the practice of what became known as "wage solidarity" actually increased profit margins and led to greater inequality of wealth than Meidner or Rehn wanted. The attempts to correct this discrepancy in their 1975 plan failed to gain popular support and contributed to the SAP's 1976 electoral losses.[21]

---

[19] Janoski and Hicks, *Comparative Political Economy*.
[20] Scott, *Sweden: The Nation's History*.
[21] Einhorn and Logue, *Modern Welfare States*, 254-255.

In the late 1940s, after receiving over $150 million in financial support from the United States through the Marshall Plan, Sweden's economy began to overheat from the inability of its small domestic companies to fulfill increased demand for new housing, goods, and services.[22] In 1947-1949, as a response to unfulfilled domestic demand accompanied by growing imports, the government imposed restrictions on imports and devalued the Swedish *krona* in 1949; this was to favor domestic industries and better control the current-account deficit by increasing export revenue. Trade unions also had to agree to a wage freeze as the *krona's* value depreciated by 30 percent compared to the U.S. dollar. Despite these efforts to avert a crisis, a short recession emerged in the early 1950s.

The recessionary period in the early 1950s, although mild compared to the hardships of the 1930s, proved damaging enough to discourage the Social Democrats from fully implementing the Rehn-Meidner plan through most of the 1950s. Global market disruption from the Korean War temporarily harmed Sweden's export market. However, within a short time, Swedish exports rebounded because of their competitive pricing. By 1953, Sweden's export market had clearly begun to benefit from the Korean War. A second boom developed but began to overheat the economy again.

In 1955-1956, the government imposed another set of monetary restraints that included duties on investments and increased corporate taxes. Despite these increases for corporations, Swedish corporate taxes remained significantly lower than in the United States throughout this period, and even to the present day.[23] In addition, companies were given considerable latitude in determining business expenses and deductions. This led to the

---

[22] Ibid.
[23] Daniel Mitchell, *What Can the United States Learn from the Nordic Model?* (CATO Institute, 2007).

creative mixing of company and personal expenses for many Swedes in the 1960s and beyond who had managed to keep their businesses going.[24] Nonetheless, these efforts that slowly introduced new forms of taxation represented the incrementalist process of constructing *Folkhemmet*.[25]

Prime Minister Tage Erlander (1946-1969)

> *It is not the ownership of the instruments of production which it is important for the state to assume. If the state is able to determine the aggregate amount of resources devoted to augmenting industries, the instruments, and the basic reward to those who own them, it will have accomplished all that is necessary.*
>
> *-John M. Keynes*[26]

SAP Prime Minister Tage Erlander, by circumstance more than by design, ended up implementing the bulk of SAP policies during Sweden's "Golden Age" in the 1950s and 1960s. Erlander's unassuming leadership style helped him smoothly manage socialist and non-socialist interests as his administration initiated one economic policy after another. According to Olof Ruin of Stockholm University, Erlander was an affirmed anti-communist and preferred to form partnerships with the Farmer's Party (later the Center Party) rather than the Communist Party. Arguably, Erlander's preference was influenced by his own agrarian roots; he had grown up in an agricultural setting in Swedish Värmland, which was also surrounded by small businesses. Only when he attended Lund University did he develop a

---

[24] Increasingly, labor-related expenses because of the trade unions caused many smaller employees to shut down their operations, allow an acquisition, or hire more sub-contractors and off-the-books labor.
[25] Erixon, "Swedish Economic Policy."
[26] John M. Keynes, *The Theory of General Employment, Interest, and Money*, qtd. in Adam Przeworski, *Capitalism and Social Democracy* (New York: Cambridge University Press, 1985), 207.

sincere interest in socialism.[27]

Erlander's rise to power was almost coincidental: he was at the right place at the right age.[28] Olof Ruin argues that more surprising than Erlander obtaining the top leadership position was his ability to continue holding it. No one expected Erlander to remain the leader of Sweden longer than any prime minister in history, much less hold the record as the longest-serving head of government in any democratic country.

Erlander's lengthy tenure of leadership solidified Sweden's status as one of Europe's most politically stable countries as an entire generation grew up under the hegemony of the SAP and under only one leader. Yet Erlander lacked charisma. Ruin describes Erlander's public image and private life as remarkably unremarkable. However, it is possible that his blandness added to the ongoing feeling of stability that the SAP offered to the Swedish public during this era. For example, many non-socialists felt less threatened by the SAP's long-term agenda because of Erlander's subtle approach. The length of his term illustrates the effectiveness of Erlander's diplomacy, but it also demonstrates the degree of stability in Swedish society and reflects the people's desire for a long-term status quo.

In Erlander's earlier years, he inspired and motivated the Farmer's Party and the trade unions to maintain a political alliance. The promise of a government obligated to care for everyone resonated with the Swedish public and, as it did so, the SAP (with the help of trade union leaders) forged quiet agreements with key industrial leaders to better secure stable jobs for its union members. Industrial leaders were given deals that ensured long-term, predictable profits in return for the tacit support of a political platform that would placate union

[27] Ruin, *Tage Erlander*.
[28] Ibid.

members.[29] Within the financial sector, the Wallenbergs increasingly created and held dual stocks to ensure their control of ownership while also keeping their profits tax-free according to arrangements with the SAP.[30]

The persistence of Sweden's feudal foundation, even into the late 1940s, should not be easily dismissed. Although industrialization commenced in the 1870s, the average Swede continued to subsist exclusively or partially through agricultural labor into the 1890s. The first two decades of the 20th century witnessed a tremendous societal shift from rural to urban, but rural roots persisted decades longer. Esping-Andersen explains that "in the inter-war years, the rural classes were the linchpin of a broad popular alliance, and the socialists tried with varying success to mobilize the agrarian classes."[31] Thus, it made political sense for Hansson and Erlander to maintain positive relations with the Farmer's Party and form a coalition with them. Olof Ruin explains that Erlander and other SAP leaders of that generation grew up in a rural setting[32] and could immediately relate to the concerns and views of many the farmers and rural people who, although aging, still represented the backbone of the Farmer's Party in the 1940s and 1950s.

The table below shows that, although rapidly urbanizing, Sweden still lacked an urban ghetto culture in the sense that its working class and socialist cultural impulses were still rooted in the common perception of life in a small, rural community. For example, the majority (55.1 percent) of people still worked in agriculture in 1900, while the percentage of

---

[29] Swenson's "Capitalists Against Markets," covers the details of the arrangement made between leaders in industry and leaders of the Left.
[30] Peter Högfeldt, "Socialist Ideal that Tied Up Swedish Riches," *Financial Times*, October 16, 2008.
[31] Esping-Andersen, *Three Worlds*, 68.
[32] Ruin, *Tage Erlander*.

workers involved in public service jobs during this period actually declined.

Table 13: Type of Employment of Swedish Workers, by Percentage of Workforce, 1870-1949

Percentage of population Engaged in	*1870*	*1900*	*1940*	*1949*
Agriculture and similar occupations	72.4	55.1	34.1	29.7
Industry and handicrafts	14.6	27.8	38.2	39.7
Commerce and trade	5.2	10.4	19.5	20.9
Public service and professions	7.8	6.7	8.2	9.7

Source: Douglas V. Verney, *Parliamentary Reform in Sweden, 1866-1921* (Oxford: Clarendon Press, 1957), 247.

Urbanization required a couple of generations to fully assimilate its participants into the capitalist mentality of individualism. Thus, at that time the Swedish mindset contained residual elements of rural living that continued to influence both public life and policymaking decades after urbanization commenced. When these remnants of agrarian life vanished in the third generation after the departure from the farm (mainly among the youth in the 1960s), the self-serving elements of individualism began to appear and numerous moral hazards emerged in the Swedish system. The close-knit *kommun* that had continually watched over those in the community began to disintegrate under the pressures of modern life.

Gunnar and Alva Myrdal's 1935 book, *Crisis in the Population Question*, paid careful attention to this social phenomenon and responded with this conclusion: "Each individual family can no longer solve its life problems by itself. It is too closely subject to powerful social circumstances. But by common efforts many families together can restructure these

conditions so that they expand the scope for the life of individual families."[33] Although almost all SAP leaders were fully aware of the social upheaval caused by urbanization, their solutions varied, and they often did not perceive the critical effect of the disruption of traditional, pre-industrial family life.

As agricultural workers continued to make the transition from farm life to factory life, Erlander's political strategies also continued to incorporate agricultural sensibilities into policymaking through the 1950s and early 1960s. He was a small-town man of rural origins, and, despite living in Stockholm for many years, still retained much of the cultural foundation of his youth. Erlander's positive relationship with farmers and members of the Farmer's and, later, Center Party, is well-documented in his speeches, friendships, and in the policies that he proposed while serving as prime minister. The SAP leadership maintained this rather solid cultural link to Swedish working-class, rural life until the cosmopolitan Olof Palme took the helm in 1969 with radical ideas for a "new" Sweden.

Despite the migration of young working Swedes to industrial settings, the agricultural society persisted in the minds of those born and raised on farms. Per Bylund wrote how his grandmother was born in a small town in 1920[34] and belonged to the last generation of rural Swedes; many of these "average Swedes" had "left the farm" as young adults, often seeking wage-based jobs in the 1930s and 1940s. This same group assumed leadership positions throughout the government and urban society in the post-war years and maintained much of their influence into the 1960s, much as Erlander himself had done.

---

[33] Myrdal and Myrdal, *Kris i befolkningsfragan* [*Crisis in the Population Question*], 385.

[34] Per Bylund, "How the Welfare State Corrupted Sweden," *Mises Daily*, May 31, 2006, www.Mises.biglist.com (accessed ____).

Part of Erlander's success is attributed to his ability to form a cooperative coalition government with the Farmer's Party between 1951 and 1957, a feat that was largely due to his good relations with Farmer's Party leader Gunnar Hedlund. Throughout the 1950s, the Social Democrat-Farmer's Party alliance served as a critical link between Sweden's past and present. Although the majority of Swedes no longer earned a living in an agricultural setting, a significant minority still lived on farms or ancestral lands.

Erlander and other party leaders shared a common interest in building a solid future for the country and, inasmuch as that was so, pragmatism still prevailed over ideology. Despite SAP rhetoric and continuing governance, the Swedish system still possessed a form of capitalism for most of the 1950s. Not until after the break with the Farmer's Party in 1958 did Tage Erlander accelerate the construction *Folkhemmet*. Sweden's post-war success helped convince the populace to support Erlander's efforts to complete the cradle-to-grave system aimed at ensuring economic security for all Swedes.

Erlander's steady leadership style, combined with his unassuming persona, assured many voters that he was an honest and moral leader who had only the best intentions for the people. The program of *Folkhemmet* was meant to offer the common Swede "womb to tomb" economic security that included a lengthy list of beneficial government programs. The costs of this elaborate system grew at a rate of 7.1 percent per year between 1951 and 1977, whereas the national economy grew at an annual rate of 4.2 percent during the same period.[35] To make up the difference, a series of increased taxes on income, payroll, consumption, property, and wealth were implemented. Eventually, by the early 1970s, Sweden became the

[35] Neil Elder, Alastair H. Thomas, and David Arter, *The Consensual Democracies? The Government and Politics of Scandinavian States* (Oxford: Martin Robinson and Company, 1982), 92-33.

world's most taxed nation.

Voters were not introduced to the idea of a high-tax society from the beginning of this process, but were seduced into believing that higher taxes were necessary as the state, step by step, offered them even greater security. The majority of Swedish taxpayers even began to view their taxes as an investment in their own personal welfare; thus, mandatory increases in such an "investment" became somewhat socially acceptable. A collective bias towards serving the common good persisted and exemplified the declining, but still substantial, influence of traditional Lutheran values that prevailed throughout the society in the 1960s.

However, successfully constructing the world's highest-taxed economy was not an easy accomplishment for politicians. Erlander carefully navigated the political differences within the SAP and with other parties to obtain the results needed to pave the way for a positive future. Special arrangements with leaders of industry ensured that profits remained untaxed. For example, Sweden did not levy a capital gains tax on select high employment industries until 1995. Revenue redirected towards investment, including research and development, was never taxed. Technically, Swedish socialism sought to acquire the means of production, but, in practice, the government acquired very little actual ownership of industry. Instead, the government pursued taxation and regulation. Domestic firms cooperated and complied to the extent that the government never needed to take action. Technical acquisition became viewed as unnecessary and disruptive.

Swedish culture's sense of fairness and *jämlikhet* greatly contributed to moderating Sweden's socialist course. Since employers and employees were considered "equals" in the bargaining process, they were less adversarial in negotiations. The opinion was that, rather

than declaring a winner and a loser, everyone should benefit and share, which caused employers to feel less threatened by socialist agendas. The Swedish government recognized that this balance between employer and employee had to be maintained to keep a lively export sector going, and, in implementing policies, it made sure to protect this sense of equality.

"Nordic welfare states were born from a shared sense of a 'people's community.'"[36] Because the society possessed a deep sense of commonality, Per Albin Hansson could easily promote and gain an instant acceptance for the concept of "the people's home." One of *Folkhemmet*'s founding principles adhered to Marx's famous dictum: "from each according to ability, to each according to needs."[37] The fruits of this largesse were not always what was expected. For example, in 1942 an emergency housing crisis was observed as people flocked to Stockholm to seek better employment in response to wartime economic conditions. Gustav Möller, Minister of Social Affairs, in cooperation with Alf Johansson, Director General of the Royal Board of Housing, promoted a construction program in Stockholm and other large cities designed to guarantee all citizens high-quality housing. In 1948, Johansson could claim that rent controls helped keep the situation from getting worse.[38] However, within a few years, a strong black market had developed within the housing sector due to severe shortages.

Rent controls were included in the program to ensure affordability, but the rents proved insufficient to cover costs. Without enough revenue to justify their costs, construction

---

[36] "Krybbe to grav." *The Economist*. June 12, 2003.

[37] This quotation is from Karl Marx in his 1875 *Critique of the Gotha Program*. *Folkhemmet* was in effect a Swedish adaptation of Marxism.

[38] Sven Rydenfelt, "Rent Control in Sweden: Lessons from a Thirty Year Old Socio-economic Experiment," in *Toward Liberty: Essays in Honor of Ludwig von Mises on the Occasion of his 90th Birthday, September 29, 1971*, ed. Friedrich August von Hayek et al. (Menlo Park: Institute for Humane Studies, 1971), 1:__.

firms built far fewer units. By the 1970s, it became virtually impossible to buy, lease, or rent an apartment without paying "black money" or unreported bribes to realtors or people in a position to broker access to such affordable housing units. While the intent of government was to provide affordable housing for working-class families with children, this case is one of many where the results substantially harmed the public good.[39]

After the split with the Center Party (formerly the Farmer's Party), the SAP accelerated its social welfare program to eliminate poverty by providing extensive government benefits to everyone. Erlander's welfare state was universal, meaning that everyone has a right to health care, family services, old-age pensions, and other social benefits regardless of income.[40] Swedish cultural logic conveyed the message that, since everyone is entitled to these benefits, everyone must pay for them through taxes.[41]

Though SAP ideologues argued that Social Democracy is a way for the less wealthy majority to get benefits paid for by the minority, there were not nearly enough wealthy Swedes to tax to pay for these programs.[42] Instead, the tax system resulted in an income-transfer payment arrangement whereby mainly middle-class workers paid into a system that gave them middle-class benefits. Thus, initially, working-class Swedes were fiscally responsible for maintaining *Folkhemmet*. The reality and, more important, the perception of this responsibility persisted for the first generation who witnessed the Swedish system's full

---

[39] Assar Lindbeck famously said that rent control was more effective than bombing at destroying a city.
[40] This is also called the "Swedish Model."
[41] www.geocities.com/CapitolHill/2418/*Folkhemmet*.html
[42] Branting and Hansson recognized this in earlier days, which was part of the reason why they encouraged private sector growth to supply employment and to broaden the tax base to pay for the system. Gradually, under the second generation led by Erlander, these observations were forgotten or ignored as prosperity and continued success for the SAP emboldened many of its leaders into pursuing more ideologically-based policies such as the Meidner plan.

implementation.

Rural memories and customs served as key sociological components of the Swedish mentality of cooperation that persisted throughout the country and within the Riksdag until the early 1960s. Life on a farm inherently involved substantial self-reliance, self-discipline, routine, and ritual. Agrarian workers were expected to work together as a group for the benefit and survival of their own farms and those immediately around them. People were accustomed to communicating their needs and listening to others' needs because of the most recent traditions of farm life. During urbanization, this collective mentality helped feed the approach initiated by labor unions, which gave socialist agendas a certain amount of credibility with many Swedes.

Between 1958 and 1976, the Social Democratic government slowly seduced the populace into accepting occasional and systematic tax increases. Esping-Andersen and others have observed that Sweden was not alone in this approach to continual government growth within the domestic economy. After World War II, such gradual growth of government in fully industrialized economies became prevalent throughout most of the developed world.[43] As can be seen in the table below, Sweden's government expenditures on social programs, although somewhat higher than in some nations, largely kept pace with the expenditures of other Scandinavian countries during Erlander's tenure as prime minister.

[43] Even in the tax-conscious United States, for example, there has been a gradual increase of sales, excise, utility, property, and user taxes, with only sporadic resistance.

Table 14: Total Social Expenditures as a Percentage of Gross National Income

	1950	1960	1970
Denmark	8.6	10.7	19.0
Finland	8.3	9.4	15.7
Iceland	6.2	7.7	10.2
Norway	6.3	9.8	14.8
Sweden	8.2	10.5	17.9

Source: Nordick Statistick Skriftseries, No. 24.[44]

Government expenditures as a percentage of official GDP, the most common measurement used to determine the degree of direct government influence over a domestic economy, became higher in Sweden than anywhere else in the world by 1970 and remained there for decades.[45] Although growth of government in the overall economy after 1945 was not unusual in itself, what made the Swedish experience different and significant was the degree of its government's control over the economy, what Assar Lindbeck proclaimed as the "great experiment."

Completing *Folkhemmet*, especially trying to do so during Erlander's administration, meant overseeing a tremendous increase in the state's control of the overall economy, as measured by government expenditures as a percentage of total GDP. The first few years after World War II were marked by substantial efforts within the SAP to create a national

[44] Erik Allardt et al., eds., *Nordic Democracy: Ideas, Issues, and Institutions in Politics, Economy, Education, Social and Cultural Affairs of Denmark, Finland, Iceland, Norway, and Sweden* (Copenhagen: Det Danske Selskab, 1981).

[45] One alternative view of what happened in Sweden is that this measurement did not account for money circulating because of black market activities or informal market activities. Also, money from Swedes living abroad and money earned by Swedes in overseas locations that circulated back into the Swedish economy were not calculated. Given that estimates have suggested that this money made up as much as 30 percent of the official economy, it is possible that Sweden may not have been as functionally socialist in the real daily operations of its economy. However, common perception, boosted by the common official measurements. still credits Sweden with being the most socialized economy in the world.

economic plan. This push coincided with much of what was happening in the United Kingdom with the Beveridge Report and in the United States with the Full Employment Act of 1948.[46] In the British and American cases, neither program was ever fully implemented. In Sweden, Gunnar Myrdal led the way in creating a national economic plan similar to those of the other two countries. However, Erlander and other SAP leaders rejected Myrdal's plan in favor of allowing the Basic Agreement and its extensions to continue to run the system, as it had prior to the war. In this way, SAP leaders resembled the Labour and Democratic parties of the United Kingdom and the United States in that they intended to enact full employment legislation but opted out of it. In Sweden's case, the success of the Basic Agreement of 1938 caused the SAP's leadership to immediately reject Myrdal's program. Disappointed, Myrdal shifted his efforts to foreign policy and later became responsible for promoting Sweden's anti-Vietnam position. He never again attempted to wield such influence on economic policymaking.[47]

In his 1952 election campaign, U.S. presidential candidate Dwight D. Eisenhower promised not to take the United States in a leftward direction like Sweden. However, it was Sweden that had successfully resisted the West's trends toward the left and clung to its unique way of organizing production within its own economic system. The Basic Agreement and collective bargaining process had remained detached from direct governmental controls. Substantial autonomy from the government existed in the areas of wage making and workplace regulations. Swedish trade relations were also consistently independent. For example, in 1962, Erlander demanded that Sweden ignore international pressures by rejecting

[46] W. H. Beveridge, *Full Employment in a Free Society* (British Government, London: 1944).
[47] Childs, *Sweden: The Middle Way on Trial*.

the first offer to join the European Economic Community.[48] In 1971, Palme offered a similar response to another such offer.[49]

Sweden's post-war economic success brought it much attention. The perception that Sweden had a benevolent government that combined practical economic policies began to spread to other countries, especially other European states. In 1953, fascinated with Hansson's vision of *Folkhemmet*, the American magazine *Town and Country* sent two of its journalists to Sweden, with the assistance of *ASNE* (American Society of News Editors) to report on Swedish cultural life. The result was a richly illustrated article about Sweden's cultural scene in that year's November issue of *Town and Country*.

In 1955-56, after the Korean War crisis ended, a second postwar boom struck the Swedish economy, which ignited the SAP's ambitions to accelerate the construction of *Folkhemmet*. The nation's financial prosperity bolstered the hopes of Social Democrats that they could finally obtain a majority in elections. In addition, the country's economic expansion justified the ambitions of the SAP to gradually implement *Folkhemmet* as planned in the 1920s. As the economic pie expanded in the 1950s, Wigforss and others who had waited for a long time began to make solid plans to spend the money generated from the boom. During the 1950s, economic policies slowly drifted away from the political center. As a consequence, the alliance with the Farmer's Party disintegrated in 1957. By 1959, political scientist Joseph B. Board noted, the public sector's growth began to expand rapidly. However, since prosperity continued, a majority of Swedes were not alarmed by the expansion of government at this stage. Erlander continued to hold the reins of power, and, as

[48] Ulf Nilson, interview.
[49] Childs, *Sweden: The Middle Way on Trial*.

the 1960s approached, Swedish politics continued to move more towards the left with a smug sense of optimism. Voters were consistent in their support, with a plurality believing that stability meant sticking to the same political party election after election.

Since they could achieve an absolute majority in the 1950s, the Social Democrats maintained control of the Riksdag mainly through appealing to the predominant middle class by extending "social benefits not just to the most vulnerable in the society…but to all, regardless of income."[50] Erlander's strategy garnered middle-class support but had the logical consequence of tailoring the great expansion of the welfare state to meeting the special interests of the middle class. The revised national pension system constructed at the end of the 1950s, for example, meant that the SAP was no longer a party for trade union workers, but a national political organization that represented a much broader base.

During this same period, the Social Democrats slowly began to supplant the many generations of Conservatives that had dominated the government's civil service with new crops of public employees dedicated to their cause. This factor is frequently overlooked in evaluating the truly moderate nature of the first two decades of SAP control. In the 1930s and 1940s, Sweden's bureaucracy was still run by dedicated, traditionally-minded men who were not part of the SAP's movement. Therefore, the daily operations of the central government were managed without the direct political interests of the SAP in mind. By the end of the 1950s, the mentality of many central administrators began to change. The interests of the SAP began to play an increasing role in how the government was managed and how policies were executed. This trend continued in later decades and continues to this day.

---

[50] Samuelsson, *From Great Power*.

Slowly, the power traditionally enjoyed by conservatives within Stockholm's bureaucratic ranks for so many centuries began to wither. However, it did take almost two generations for the SAP to replace these older conservative men with a younger group of much more left-wing men and women. The gradual process, taking place through retirements and natural attrition, reflects the very gradual transformation that was occurring throughout the nation as traditional, pre-industrial influences were replaced with urban, politically progressive elements.

Chapter 7: 1960-1970, the Build-up

Public Sector Expansion

As stated before, because of the success of the 1938 Saltsjöbaden Agreement, the Swedish government permitted but did not directly control or supervise large-scale collective national wage agreements between employers and labor unions. By 1969, the Saltsjöbaden Agreement had expanded to represent nearly 90 percent of all non-governmental workers.[1] Unlike the United States, Sweden never established an official national minimum wage; *län*-level (county) or *kommun*-level (municipal) minimum wages were also never created. Instead, workers continued to be represented by labor union leaders who negotiated on their behalf through this system of compromise.

Workers Demanding More

Macroeconomic statistics continued to show substantial expansion in the 1960s. These statistics and the overall improvements in the quality of life of almost all workers caused increasing demands from the trade unions. Gradually, the annual negotiations became more lax, in that employers routinely caved in to labor demands. This was partially because during the 1960s many Swedish industries were still earning consistent profits and were often still able to take advantage of tax deferments by reinvesting their proceeds into expanding their industrial capacity. At this time, workers' wages were nearly automatically increased on an annual basis. Gradually, this system also became lax, in that eventually wage increases were granted regardless of worker performance.

Worker protection expanded beyond the concerns of the 1930s, when the focus was

[1] www.geocities.com/CapitolHill/2418/*Folkhemmet*.html

on countering the negative consequences of cyclical unemployment. Instead, workers began to experience a form of protection that developed into full security from frictional unemployment, meaning that, instead of being protected from market trends over which they had no control, workers were now protected from their own poor performance, which they obviously could directly control. This shift in labor policy alone correlates very strongly with the decline of the Swedish model. Economic security, once applied to protecting the jobs of poorly performing workers, contributed to rising and increasingly uncompetitive labor costs.

The economic policy of the 1930s, which had focused on overall production, faded. This new generation of trade union leaders increased their demands. In 1973, the work week was finally slashed to a standard 40 hours, in some cases less. Within a decade of these final acts, and in conjunction with the oil shocks, inflationary pressures began to build. Milton Friedman, who later received the 1976 Nobel Prize in Economics, claimed that if wages are assumed to automatically increase each year, then businesses will plan on increasing the costs of their goods and services to acquire the necessary revenue to match the increased costs. In Sweden, the assumption of annual increases eventually fed the inflationary process, adding to overall inflation because of the phenomenon of rational expectations.[2] Thus, inflation caused more inflation.

In the early 1970s, the LO's chief economists presented the Rehn-Meidner Plan, which orchestrated a centralized coordination of wage adjustments known as "wage solidarity," which was intended to improve the government's and central bank's ability to manage inflationary growth. The 1970s oil shocks and Sweden's inability to kick start

[2] Mitchell, *What Can the United States Learn.*

exports with a series of currency devaluations eventually revealed fundamental problems with the wage solidarity approach to stabilizing inflationary pressure. The LO and most economists in the early 1970s either did not realize or overlooked the fact that, by 1971, Sweden's manufacturing and its export sector had effectively peaked in ability to produce taxable employment.

Though the private sector gave in to labor demands from existing workers, the overall number of new private sector jobs was no longer increasing. For those who already had jobs, this did not matter (especially in the short run). Other government programs helped to delay whatever immediate problems could have emerged when Swedish industries failed to create new jobs. For example, many of the young Swedes who would have entered the job market in the early 1970s were enjoying extra years at the university and receiving government financial assistance, which in effect subsidized their delayed entry into the workforce. Since Swedish culture strongly valued education, few people in the early 1970s recognized how the university financial aid system helped to cloak more severe economic developments.

The SAP was not completely oblivious to the situation. However, they did lose sight of the importance of private sector jobs in relation to how the system itself was funded. When the manufacturing sector's ability to generate new jobs began to wane in the middle of the 1960s, threats of unemployment growth motivated the ruling SAP into expanding the public sector, especially within the local *kommuns* or municipalities. Faced with the need to further expand its tax base to financially support the burgeoning public budget, the SAP once again turned to public sector employment. However, unlike the 1930s public works projects, which were commissioned to reduce unemployment, these were not temporary jobs with

concrete limits. Also, instead of focusing on infrastructure, these positions were service-based to accommodate the expected influx of female workers. Thus, the post-industrial phase in Sweden generated 80 percent of its new jobs in the public sector. Of these, 75 percent were in health care, education, and social work, and roughly 75 percent of all of these jobs were occupied by women. Esping-Andersen writes, "the Swedish employment-structure is evolving towards two economies: one, a heavily male private sector; the other, a female-dominated public sector."[3]

Stockholm's push for public job creation in the 1960s was generally cheered on by Alva Myrdal and supporters of her pursuit of *jämlikhet*. They viewed this initiative as an opportunity to liberate women from the home. In 1966, Alva Myrdal became a cabinet member, which greatly increased her influence on labor and tax policies.[4] Sweden's traditional respect for education and expertise also paved the way for the public to accept and embrace a professional class of government expert workers at the *kommun* level. The idea of having an expert replace the volunteer could justify higher taxes because it presumed that better services would be provided to the community. Alva Myrdal believed in breaking up the traditional Swedish family not just to liberate women, but to benefit children in doing so. She questioned the competence of the average housewife and believed that a professional class of caregivers could provide a better life for children in general.[5] As a mother of three children, Alva believed that children needed to be "wanted, well-treated, and well-

[3] Esping-Andersen, *Three Worlds*, 214-215.
[4] Childs, *Sweden: The Middle Way on Trial*.
[5] Allan Carlson, *The Swedish Expert in Family Politic* (New York: Transaction Publishers, 1990).

educated."[6]

Providing daycare for all children meant that not only could mothers pursue life outside of the home, but most children would enjoy a nursery school of higher quality than the average parents could provide. The Myrdals' attitude reflected their own elitist, intellectual approach towards solving social problems: a collective approach in which the state would supplant not just the institution of church (as it had largely already done), but also the family.

In 1935, the Myrdals recommended lifting abortion restrictions and also suggested that "sterilization could cleanse the population from undesirable genetic traits."[7] The Myrdals' main concern was that people who were too unintelligent to practice birth control would bear large numbers of children in disadvantageous circumstances. In defense of their perspective, the Myrdals believed that increasing technology in the future would demand greater intellect and character. They feared that people born with significant genetic flaws, who might have functioned adequately as peasants in a pre-industrial setting, might end up unemployable or become social outcasts in modern society.[8]

The Myrdals emphasized elevating the quality of Sweden's human resources because they viewed it as necessary for a better future. They wrote:

> To isolate all individuals who aren't top notch into special institutions will become too expensive and is unnecessarily grim. In order to preserve their own happiness and equally to protect society against their associability that they will otherwise develop and the costs it will entail, these people must be incorporated into the common working life of citizens to the greatest possible extent.[9]

---

[6] Tilton, *Political Theory*,
[7] Myrdal and Myrdal, *Kris i befolkningsfragan* [*Crisis in the Population Question*], 252.
[8] Allan Carlson, *Swedish Expert*.
[9] Myrdal and Myrdal, *Kris i befolkningsfragan.* [*Crisis in the Population Question*], 255.

The Myrdals, like many social scientists in the 1930s, developed the belief that it was most cost-efficient to simply prevent such groups of potential misfits from ever existing. Their judgment was that if people of lesser, but not severely damaged, quality were born, then it was the government's obligation to maximize these people's potential and place them into the workforce. The Swedish government took the Myrdals' advice and initiated national education and training programs for the disadvantaged. The policy initiative, as a matter of efficiency for the greater Swedish society, also involuntarily sterilized tens of thousands of "severely defective" or severely handicapped people until the early 1970s. This program, while compassionate to some degree, also illustrates that *Folkhemmet* had standards that not every human being met.

The Myrdals argued that women, like disadvantaged peasants, needed to be compensated for the many services that they provided for their families and communities (traditionally as volunteers). Formalizing these services into jobs meant that these activities could be controlled better by regulations, they could be taxed and better managed by the Swedish government as it sought to create public sector jobs that would incorporate many of the services women already did in the home, such as child care or care for the elderly. These efforts "liberated" women from the household and gave them daily independence and increased financial freedom while also greatly expanding the government's tax base.

The process of integrating the bulk of women of the right age into the workforce was completed by the end of the 1970s. Making "women's work" taxable rather than informal or underground required some financial incentives, such as lucrative pensions for part-time work or less than full-time service. The promise of having an independent source of income

for work that many of these housewives did already without direct compensation helped lure many women into formal, taxable employment.[10] In this way, Swedish women were plugged into the modern economy and disconnected or "liberated" from the remnants of feudal traditions in their home life.

A 1994 issue of *The Economist* offered this criticism of integrating women into public sector employment: "A large fraction of women in the public sector took care of the children of other women who work in the public sector who took care of the parents of the women who are looking after their children."[11] This expansion of public sector employment, at considerable cost to Swedish taxpayers who paid their salaries, offered only marginal productivity gains. Nonetheless, the formalization meant an expansion of government services. This obvious example of productive capacity cannibalization (in other words, no new sources of productivity were developed, but at considerable loss due to dead weight loss) resulted in the increased influence of the government on the economy. Formal jobs became more evenly re-distributed and standardized in the sense that the government produced proper training materials for these new public sector workers. Alva Myrdal argued that incorporating the public sector into these traditional roles would boost the overall quality of child care, housekeeping, and other domestic services. While she had faith in women's equality, she did not trust the average housewife to perform at the same level as a professional. The respect for expertise and education reinforced the need to professionalize these services.

The Myrdals considered the boost in quality and the desirable effects of incorporating

---

[10] Esping-Andersen, *Three Worlds*, 223.
[11] *The Economist*, February18-24, 1994, 44.

women into the workforce to be worth the additional losses to the overall welfare of the economy that would be experienced as a result of what Gordon Tolluck called a "dead weight loss."[12] Money was spent to produce something that was already produced, but the transaction costs of applying the new method of productivity caused a net detrimental effect to the macroeconomy.

The chart below shows how Sweden compared to its neighbors in measured unemployment. In the 1950s, Sweden did have the lowest unemployment of the three. By 1960, the Danes had lower unemployment rates. However, after 1971 and in spite of Sweden's efforts to expand employment through the creation of public sector jobs, Norway still generally had lower unemployment rates than Sweden (a trend that resumed after 1990).

Table 15: Unemployment Rates in Denmark, Norway, and Sweden, by Percentage of Labor Force, 1951-1990

	Denmark	Norway	Sweden
1951-1960	**4.3**	**2.1**	**1.8**
1961-1970	**1.4**	**1.9**	**1.7**
1971-1980	**4.6**	**1.7**	**2.4**
1981-1990	**9.1**	**3.0**	**2.9**

Source: Derived from Maddison (1991), 262.[13] These statistics are often criticized as being artificially low because of state programs that hire laid off workers and retrain them. Other unemployed workers are given public sector jobs that require little or no real work.

Decades of higher wages for blue-collar workers caused many Swedes to feel proud that their "innovative" democratic society had indeed found a "middle way" between Soviet

[12] Tullock, "Welfare Costs," 224–232.
[13] Sjögren, Hans. "Scandinavia," 98.

socialism and American capitalism.[14] Their economic ideology fit nicely with their top three political tenets: neutrality, rationality, and compromise. As lovers of peace and seekers of a common ground, many Swedes believed that the collectivized approach initiated in the 1930s represented the best of both worlds.[15] These principles of compromise clearly separated the Swedish Left from the Soviets and others.

As shown previously, Swedish pre-industrial culture possessed values that required the government to seek and to form a negotiated "Third Way." Hence, the SAP's goals were consistently more moderate than Soviet objectives and methods. However, the "Third Way" was not so much a model based on ideology but as a means of Swedish policy making. The model was shaped largely by events in and ties to Sweden's history, as well as by commercial links to the outside world. Neutrality, rationality, and compromise seemed to be inherent Swedish political characteristics that dominated its civil society.

The success of the "Swedish Model" depended upon several key variables: (1) the dominance of a common culture underscored by a common set of values, (2) steady economic growth during the period that the model was implemented, (3) few direct international entanglements, such as wars or other conflicts, that could have disrupted its development, and (4) few immigration problems which could have substantially altered its cultural or demographic foundation. Between 1945 and 1965 Sweden possessed all of the right conditions for these variables to operate successfully.

Unfortunately, the model experienced a short span of success because of a changing world economy. Despite its attempts at neutrality and independence, by 1970 Sweden had

---

[14] www.geocities.com/CapitolHill/2418/*Folkhemmet*.html
[15] Childs, *This is Democracy.*

become increasingly dependent on world market fluctuations. Since the world price of petroleum was linked to the U.S. dollar, when Nixon withdrew from the Bretton Woods Accord on August 15, 1971, the dollar's value began to float, causing its depreciation. Oil prices soared, increasing by nearly a factor of five between 1970 and 1975. The Swedish economy stagnated under the monetary uncertainty resulting from Nixon's decision to abandon the fixed exchange rate system. The oil embargo of the Organization of the Petroleum Exporting Countries (OPEC) between October 1973 and March 1974 aggravated the situation. These events caused short-term "shocks" that particularly damaged Sweden, because it still relied on imported oil and coal to fill 75 percent of its energy needs.[16] To cover its payments for the imported petroleum and coal, the Swedish government was forced to borrow abroad.

Realizing that energy self-sufficiency would reduce its future international debt load, Palme's government aimed to rapidly increase Sweden's nuclear power capacity to offset foreign-oil dependency. Although this effort technically reduced the Swedish economy's dependence on imported energy, a new environmental activist group emerged in Swedish politics that vehemently opposed fission power. Palme's energy policies inadvertently helped create a significant fissure within left-wing Swedish politics, which caused the further disintegration of the SAP's dominance.

Eventually, these anti-nuclear, environmental activists formed the Green Party. However, prior to the Green Party's formation in the 1970s, relatively large numbers of Center Party and SAP members had begun to express dissatisfaction with Palme's leadership.

[16] Sjögren, "Scandinavia," 43.

United with some of the intellectuals and liberals who had traditionally agreed with Hansson's and Erlander's policies, vestiges of Swedish agrarian politics opposed Palme's nuclear plan. Therefore, the SAP's decline in the 1970s came partially from within its own ranks, as well as from the growing popularity of other parties that presented policies that appealed to environmentally conscious Swedes.

Bureaucracy Moves from Macro- to Micromanagement

The role of the government as a measure of overall expenditures has dominated the economy since the middle 1970s. Wigforss, who served in Branting's third cabinet in 1924, was especially proud to see the dominance of government spending in the overall economy and viewed it as a grand accomplishment. Though he retired from politics by the 1960s, he lived (until 1977) to see *Folkhemmet* and the level of government expenditures grow beyond 50 percent of the total GNP. An ever-expanding bureaucracy to address additional regulatory concerns and issues contribute to the increase in government spending as a percentage of overall GDP. Thus, the Swedish model meant forming more organizations, especially at the *kommun* governmental level.

Gunnar Myrdal justified an ever-increasingly organized society in his 1962 book, *Challenge of Affluence*, saying, "smaller countries are better organized. They are neat and clean....they manage their tax collection well, which can not be said for states like France and Italy."[17] A bias towards specialization and hyperorganization in Sweden supported the expansion of private and public sector bureaucratic groups. The contemplative nature of

[17] Ulf Nilson, *Nordstjernan* 12 (March 24, 2005).

Swedish culture, in conjunction with the residual societal prevalence of 19th-century study groups, augmented this long-term trend. The difference here was that study groups in the past were voluntary, unpaid positions. By 1967, Erlander's government, under Alva Myrdal's influence, had created public sector positions that were paid, permanent, and professional.

In the early 1960s, a few years after splitting with the Center Party, the SAP began to accelerate the growth and role of government in the economy. In contrast, at this same time, President Kennedy began pressuring Congress to reduce the role of government in the U.S. economy through tax reduction. At this time, the Swedish and American tax systems were quite similar in their overall liability to taxpayers. However, from this point onward, these two countries began to take very separate paths, as the United States took moderate steps towards a less regulated and less taxed, market-based economy.

The delay in implementing the SAP's ambitions was in part due to the party's lack of a political majority in both houses of the Riksdag (*Första kammaren,* the First Chamber, and *Andra kammaren,* the Second Chamber). Despite this, by 1965, on the basis of tax liability and governmental expenditures, Sweden did surpass the United States as having an economy more dominated by the government. Many American academics overlook U.S. tax policies during FDR's and Truman's administrations, which were far more distributive and progressive than Sweden's policies at the time. In fact, the U.S. rates of income, wealth, and inheritance taxes after World War I were generally higher and more progressive than in Sweden, until the middle 1960s (particularly until Lyndon B. Johnson's tax cut of 1964).[18] Though Swedes had inspired American policymaking in the 1930s with programs such as

[18] This is measured as a percentage of GDP. For example, government spending as a percentage of total GDP was lower in Sweden during this period than it was in the United States.

Food Stamps, numerous American socialist and corporatist policies between 1920 and 1960 inspired Swedish socialists.

Government spending as a proportion of overall GDP is a primary indicator in measuring how much of the economy is socialized. If an economy has government spending exceeding 50 percent of overall GDP, then arguably that system is socialist, in that the majority of its value is directly related to the public sector. When the private sector is a minority contributor, capitalism's presence and function is diminished. The table below shows the rapid increase of Swedish government spending as a percentage of overall GDP from 1950 to 1981.

Table 16: Government Spending in Sweden, by Percentage of GDP, 1950-1981[19]

Year	Percentage of GDP
1950	20.4
1960	28.8
1970	40.5
1980	49.2
1981	50.2

Source: Skattebetalarna, 2010.

What is curious is that Swedish government spending had not yet approached 40 percent of GDP when Erlander in 1967 declared *Folkhemmet* to be complete. This is a critical observation, because it implies that *Folkhemmet* was achieved without technically making Sweden a socialist economy. Thus, it was initially a limited welfare state. The private sector still contributed more than 60 percent of total GDP, meaning that *Folkhemmet* was a mixed system, or a compromise between capitalism and socialism. However, the SAP

[19] http://www.skattebetalarna.se/Main.aspx?ObjectID=2696&Template=Printable_News1.ascx
Källa: http://www.konj.se/.

continued to push for the expansion of the state. The 1970s witnessed the surge in government expenditures from 40.5 percent to 49.2 percent as a percentage of GDP, which coincided with the long-term stagnation of the economy.

These substantial increases in government expenditures represented a significant change in national economic policymaking. For example, in the decades prior to 1960, there was considerably lower local government spending than in the decades after 1960. The shift happened as many previously unemployed housewives became hired by local governments to work in public sector jobs. This shift of economic policies from a centralized to a localized application resulted in these greater increases in overall government spending.

In essence, rather than serving as a broad-scale stabilizing force as it had previously done in the 1930s, by the 1960s, the Swedish government through its fiscal policies had begun to micromanage the Swedish economy at the village level. Consequently, the traditionally independent, *kommun*-level society was replaced with well-meaning Stockholm bureaucrats who sought to promote the Swedish ideal of *jämlikhet* among small-town people. When *jämlikhet* was used as a standard, regional imbalances became a national concern. The SAP believed that it could boost its national base while addressing inequalities between rural districts and urban areas by providing massive funding and governmental services throughout all of Sweden. The urban-rural inequality concern resonated strongly among older SAP party leaders who often had family ties to the disadvantaged areas. This decentralized approach to macroeconomic fiscal management catapulted the national economy much closer to classic socialist standards. Government subsidies meant a regional redistribution of income to fight against this class-based inequality.

Prior to 1965, many policies had the goal of "men to jobs," which focused on developing a mobile labor force and alleviating localities that experienced labor shortages or surpluses while stimulating overall economic growth. However, after 1965, the SAP's policy became "jobs to men," whereby the national government became concerned with stimulating local economies rather than the economy as a whole. These efforts stimulated lagging economies only in the short run (people were still leaving for the big cities) and proved prohibitively expensive in the long run as county and municipal governments became populated by expensive professionals with lofty goals rather than by mainly volunteers with much more modest objectives.

Ultimately, this key change in macroeconomic policy led the economy towards socialism. More money, redistributed from wealthier to poorer areas, was directed to *kommun* levels, where county and municipal governments could resume their historically important role in Swedish politics. Governmental expenses skyrocketed to apply to every *kommun* the party's new political mandates. Income taxes, especially in the form of payroll taxes, mushroomed and accounted for a major share of local government spending. Today, payroll taxes for many regular employees exceed 30 percent of gross pay, which is a substantial hindrance to job creation.

In contrast to the relatively consistent growth in Stockholm and a few other urban areas, relatively few economic opportunities existed in the northern and forested interior areas. As part of the ideal of *jämlikhet* in the realm of economic development, government-authorized transfer payments were applied to subsidize the maintenance of *kommuns* that were destined to shrink and, in some cases, disappear. The imbalance was not only in relation

to population distribution, but also in terms of income and productivity. For example, although only 7 percent of the Swedish population lived in the Stockholm area in 1870, by 1970 its population share had risen to 18 percent and accounted for nearly 24 percent of GDP. Many Riksdag members were reluctant to accept the growing dominance of Stockholm, the center of Sweden's export-driven system, as the nation's primate city or the growing linkage of its local economy to the global economy. Instead, Riksdag policies continued to attempt to address economic disparities, which led to more financial redistribution within the country. Because of the importance of achieving *jämlikhet* throughout the nation, transfer payments continued. It is equally critical to recognize that the SAP and the Left Party were much stronger in the sparsely populated north. Therefore, channeling more funds to these areas was a way to financially support their political base at the expense of the Southern portion of the country.

In the attempt to equalize standards of living throughout Sweden, the government adhered to a policy founded on the "solidarity principle," which sought to equalize wages throughout the country. This demonstrated a lack of understanding of the idea of purchasing power parity, pioneered by SSE economists. By the late 1960s, the SSE's ability to influence an increasingly leftist government had waned. Many economic policy recommendations originated in the zealous rhetoric of Palme and his group. As a result of this shift in economic policy development, regional differences in purchasing power were ignored, and equal standards of living across the regions were not achieved.

Legislation that consolidated the municipalities was intended to provide the public with "more rational, professional administration." Although mergers generally reduced

governmental costs by eliminating duplication, Sweden's traditional *kommunerna* (community leaders) were decision-makers who often volunteered their services by working for free. When professional employees replaced the volunteers, a tremendous financial burden was placed on these communities. SAP fiscal strategies, however, recognized that these new community "experts" were more than just new expenses to be shouldered by the locals.[20] Geographic redistribution of tax revenue emerged as a central effort during the rapid expansion of government in the 1960s and 1970s. The government strove to keep small-town Sweden alive.

A strong psychological link to semi-rural Sweden persisted, especially during this generation, because many traditional, "old time"[21] local politicians still personally knew their constituents. They would often interact at events at the local *folket hus*. Longtime *Expressen* newspaper journalist Ulf Nilsson explains that in his home village of Slöinge, everyone knew that they could go visit the cobbler, who was also the village council chairman, to discuss their problems. Such tight-knit communities allowed an effective form of social monitoring that often would restrict bad behavior and, in later years, prevented many from taking advantage of or "cheating" the welfare system. As urbanization progressed and the SAP hired "experts" to move into these smaller communities, local community leaders were officially replaced, thereby causing social bonds to weaken or even be severed.[22]

These new municipality administrations grew into large, complex organizations. In almost all of the 288 *kommuns*, the local government became the largest employer. New

---

[20] Nilson, *Sweden in 2005.*
[21] A common term in Swedish, usually indicating a time before World War II.
[22] Nilson, *Sweden in 2005.*

public sector jobs were authorized by the central government in Stockholm. These new positions were given almost every conceivable task, from snow-sweeping to health care. Local and *län*-level politicians often were simply overwhelmed with the extent of the social responsibilities put upon them and, consequently, became overly dependent on hired "experts" who were expensive and of inconsistent quality.[23]

Because so much money flowed through the *kommun*, many administrative scandals occurred. Mismanagement and outright graft persisted, typically with an attitude of "*klia mig pa ryggen,*" or "if you scratch my back, I'll scratch yours." The spoils system gave jobs to those who were connected to the party machinery if they adhered to the following conditions: (1) obey orders without question, (2) vote for the party, and (3) do everything you can to make everyone else vote the same way.[24]

Ulf Nilson compares the local *kommun* at this time to old Chicago or New York City a hundred years ago. Rather than functioning as a way to provide truly cost-effective servants to the public, the typical Swedish *kommun* came to act as a self-serving political machine, usually composed of coalitions that passed around group benefits and ultimately increased bureaucratic inefficiency. The many governmental financial troubles that came after such influxes of money and "experts" into the *kommuns* had their roots in this political machine.

Under Erlander, the expansion of taxation continued. In the 1960s, beginning with the supplementary pension, responsibility for social security contributions shifted from individuals to employers. In 1960, the Riksdag introduced a 4 percent general sales tax; in 1969, the value-added tax (VAT) replaced the sales tax and imposed a 10 percent charge on

[23] Ibid.
[24] Ibid.

all retail sales.

Table 17: Total Taxation in Several Nations as a Percentage of GNP in 1969

Country	Percentage
Sweden	41.7
Norway	39.9
France	37.2
West Germany	35.9
U.K.	35.9
Italy	30.5
U.S.	29.9

Source: Roskin, *Other Governments*, 37.

Government expenditures continued to expand so that by 1969, as shown in Table 17 above, Sweden had the highest tax burden as a percentage of GDP among industrialized nations. The largest proportional jump (see Table 18) occurred between 1965 and 1970 which coincides with rise of the left wing faction of the SAP. The trend of expanding government as the primary force within the economy continued into the 1970s when the GDP growth rates became stagnant. Public sector employment growth created increased tax burdens on the private. Fiscal imbalances developed. National debt in relation to GDP rapidly rose from 19 percent to 61 percent between 1972 and 1984. Swedish Finance Minister Anders Borg explained the resulting "Nordic Model" as featuring the following characteristics: (1) a large public sector, (2) a generous social benefits system, (3) high tax rates, (4) a focus on active labor market policies, (5) a high degree of unionization, and (6) coordinated wage negotiations.[25] The next table (Table 18) shows the rapid expansion of

[25] Anders Borg, *The Nordic Model* (Stockholm: Swedish Ministry of Finance, 2006).

government spending in Scandinavian countries after 1960.

Table 18: Expansion of the Role of Government in Scandinavia, 1960-1980

	1960	1965	1970	1975	1980
A. Total Public Expenditures (Percentage of GDP)					
Denmark	24.8	29.9	40.2	48.2	56.2
Norway	29.9	34.2	41.0	46.6	48.9
Sweden	31.1	36.1	43.7	49.3	62.1
B. Public Consumption (Percentage of GDP)					
Denmark	13.3	16.3	20.0	24.6	26.8
Norway	12.9	15.0	16.9	19.3	18.8
Sweden	15.8	17.8	21.6	23.8	28.9
C. Share of Public Sector Employment (Percentage of All Employment)					
Denmark	--	13.2	16.8	23.6	28.3
Norway	12.0	13.9	16.4	19.2	21.9
Sweden	12.8	15.3	20.6	25.5	30.7

Source: OECD Historical Statistics, 1986.[26]

The data for the 1960s show a rapid increase in the percentage of workers involved in government service in Sweden, and this percentage was always the highest in Scandinavia by any measurement. Though the percentages of Denmark and Norway also increased, they did not match the rate of increase in Sweden during the 1960s. With a coalition government operating from the left rather than center-left, Sweden under the SAP sought to create a society in which all who wanted to work could work, even if it meant employing people in taxed-funded government jobs with questionable value and productivity. Unemployment remained very low for decades, rarely rising above 1 percent, according to Swedish

[26] Sjögren, "Scandinavia." 112.

government calculations. However, by the 1960s, ways to increase fiscal spending had to be invented to keep unemployment so low. Invariably, these increases in fiscal expenditures demanded sizable tax increases.

During the 1950s and 1960s, the worldwide demand for such Swedish products as paper pulp and ball bearings was so great that tens of thousands of skilled and semiskilled workers migrated into Sweden every year. Labor migration came primarily from Finland and other neighboring Nordic countries, but workers were also recruited in Italy, western Germany, the Netherlands, and other European countries. These immigrants (*invandrare*, in Swedish) were welcomed into the bountiful *Folkhemmet* system and included in the taxation that funded it. Swedish exports of paper, metal, and other goods soon doubled; the annual growth of exports reached an extraordinary 5.1 percent in 1964. This export-led expansion of Sweden's tax base permitted the construction of a lavish "second story" of services and benefits: improved health care, a four-week mandatory holiday, better care for the elderly, and a so-called "million housing project" that was designed to provide 100,000 new, low-cost apartments annually during the decade of the 1960s.

By 1960, after the SAP's political alliance with the Farmer's Party had begun to shake apart, a new generation of Social Democrats had entered the political arena. The young people who became adults during the 1950s boom were increasingly raised in an urban, secular culture in which many of the social mores and traditions that had been imbued in previous generations, including hard work and self-reliance, were devalued. These new, young urban leftists no longer cared solely for material goals, and they started to demand that the government provide more than just job security. Among the new demands was an

insistence on expanding services, but there were also calls for more environmental regulation of industries, which culminated in an environmentalist movement that cared more about "saving the planet" than preserving Swedish manufacturing jobs.[27]

The younger generation, who had grown up under the welfare state, enjoyed the intangible yet substantial psychological benefits of feeling completely economically secure.[28] This feeling ushered in a post-materialistic movement that began to peak with the student revolts of 1968 and led later to the fracturing of Sweden's political left in the mid-1970s. The lack of unity within the SAP and among its allies made the left vulnerable and compromised its ability to maintain or revise a public policy agenda as dominant and broad as *Folkhemmet*. In this regard, *Folkhemmet* became a victim of its own success.

By the middle of the 1960s, Swedish communists (now the Vänster Party, or Left Party) experienced a substantial political comeback. The shift from agricultural socialism to urban socialism contributed to the financial stress on *Folkhemmet*'s success, as more taxes and more government programs intended mainly for city dwellers drained the economy of its private sector resources. In other countries, such a transition would have been more dramatic, but this was not the Swedish way. Instead, discussion and compromise initiated a series of progressively intrusive governmental programs and policies aimed at serving newly urbanized Sweden.

While embarking on a series of key economic adjustments to complete *Folkhemmet*, SAP leadership rejected two opportunities to join the European Economic Community

---

[27] Ronald Inglehart, "The Silent Revolution in Europe: Intergenerational Change in Post-Industrial Societies," *The American Political Science Review* 65, no. 4 (December 1971): 991-1017.
[28] Einhorn and Logue, *Modern Welfare States*, 204-205.

(EEC). Erlander led the 1962 decision because joining the EEC would not enable the SAP to promote what he called "the strong society." Olof Palme rejected the second offer in 1972, claiming that Sweden needed to avoid the "Four K's": Catholicism, Capitalism, Communism, and Competition (these are all spelled with a "k" in Swedish). Palme considered the "Four K's" to be potential sources of corruption and waste to which Sweden could not afford to be exposed. Ironically, Palme's tax policies contributed substantially cultivating a business culture of passive aggressive corruption: growing proportions of unreported income.

Ethnic Homogeneity

John Roemer of Yale University suggests that ethnically homogeneous societies are more willing to pay taxes. Tranaes also observes, "In homogeneous Denmark, people trust that the government will use revenues in the right way. But a more multi-ethnic society poses a threat to this attitude." Although at the beginning of the 20th century Sweden had a largely homogeneous, agrarian society, its structure quickly deteriorated as industrialization progressed. Beginning in the 1960s, much of traditional culture began to change due to the effects of immigration[29]. An urbanized, increasingly post-industrial, hybrid ethnic group emerged within Stockholm, Malmo, and Goteborg. By the 1970s, many young Swedes who had grown up in an industrialized and not an agrarian world considered themselves entitled to "free" public services, while, at the same time, more cynical Swedes began to develop a distrust of the government's high taxes. The result was the rapid creation of a thriving black

[29] Initially, immigrants were from Finland and other neighboring Scandinavian countries.

market, something not witnessed in Sweden since World War II, when it had had an entirely different purpose (obtaining hard-to-find goods rather than evading taxes).

As increasing numbers of people sought to avoid paying high taxes, black market jobs and "black money" grew to the point that participation in these activities appeared to be a normal, nationwide business practice. The commitment of even traditionally minded Swedes to their cherished system loosened as they increasingly engaged in black market or informal activities on a regular basis. Table 19 below shows how Sweden's GDP dropped precipitously after 1973, growing at a much slower rate than neighboring Denmark and Norway. By 1994, Sweden could no longer boast of its economic performance.

Table 19: Growth Rate of Per Capita GDPs in Denmark, Norway, and Sweden, vis-à-vis Western European Average, by Percentage

	1870-1913	1913-1950	1950-1973	1973-1994
Denmark	**1.6**	**1.6**	**3.1**	**1.6**
Norway	**1.3**	**2.1**	**3.2**	**2.9**
Sweden	**1.5**	**2.1**	**3.1**	**1.2**
Western Europe (12)*	**1.3**	**1.2**	**3.8**	**1.8**

*Excludes southern Europe and Ireland. Source: Maddison (1995), Table 3-2, 62.[30]

Social Engineering: Creating Gender Equality by Sending Women to Work

Between 1950 and 1952, American magazines such as *Look*, *Time*, and *Newsweek* ran articles on Sweden's "Third Way." These articles which showcased Sweden as a modern, secular and socially progressive country became noticed by American politicians. For example, in 1952 General Dwight D. Eisenhower famously referred to Sweden when running

[30] Sjögren, "Scandinavia." 27.

for president against Truman as the type of country he did not want America to emulate. Eisenhower, though a political moderate, echoed a popular sentiment among the American social conservatives who began to view some of Sweden's social and economic policies as being immoral or "un-American". The foreign press, particularly left-leaning journalists, marveled at and admired Swedish leaders for their sensible approach to incorporating socialism with a market-based economy. They also were impressed at how Swedes seemingly freely expressed new social ideas.

By the 1960s, the foreign press began to enthusiastically report how Swedish socialists were successfully incorporating women into the workplace. One principle behind Swedish efforts to achieve gender equality is that all people in the labor force, regardless of gender, should be able to live on their salaries and thus not depend on others for their living. Eventually, entire sets of laws and ordinances were introduced to guarantee equal rights and equal pay for the same work and to prohibit discrimination and sexual harassment.

The desire to improve the position of women in society was an important driving ideological force that further justified the expansion of the welfare state. By the end of the 1970s, Swedish feminists had succeeded in developing the world's most generous parental insurance system, which enabled mothers to be at home with their children for up to sixteen months with paid leave. To be consistent in terms of gender equalization, Sweden was also the first country in the world to give two of these months of paid leave into mandatory leave or "daddy months" for fathers with infants.

Child care, as a result, became an important function of the welfare state. Virtually all the growth in employment since the early 1960s, according to University of Chicago

economist Sherwin Rosen, resulted in women entering the labor force and working in a local "*dagis*" (day care centers) or in other local government jobs. The government's "greatly enlarged role in household and family activities" was what made Sweden differ so markedly from advanced Western countries outside Scandinavia.

The disintegration of the traditional Swedish community, the family and customary values was a constant, indirect part of the socialist strategy for decades. Nilson and Carlson claim that the Myrdals wanted the state to expand *Folkhemmet* to supplant all family-oriented informal services. To them Swedish traditions including the household competed with or was at least an obstacle to accomplishing their ideological goals of gender equality which was perceived as a natural extension of a true social democracy. Myrdal and her cohorts were absolutely convinced that a modern government could provide for all Swedes better than traditional ways of the past including the household. SAP leaders were convinced that the promise of offering many attractive government services as part of "the people's home" would garner the support of most Swedes. Many of the elite's social engineering goals[31] could then be taught to members of the next generation without substantial resistance from families.

As late as 1965, only 25 percent of Swedish women with children under the age of seven were employed outside the home, and most of these worked only part time. Daycare centers were relatively scarce. However, debate about "sex roles" became a national passion during the 1960s, especially after 1966, when Alva Myrdal began to exert significant

[31] As part of their respect for education, Swedes generally also respected specialists and deferred to them as the experts to solving any problem. The respect for experts allowed many Swedes to agree with social engineering plans.

influence on domestic policy. An egalitarian society, it was argued, required the modification or even elimination of different sex roles for men and women. Progressives argued persuasively that women, even those with young children, should have the right to pursue a career. Between 1965 and 1980, the proportion of working women with preschool children rose from 27 percent to 64 percent.[32]

From 1967 to 1976 during Sweden's "red years" a series of key economic and social adjustments were made after Folkhemmet's completion that pushed the Swedish socialist system beyond the original intentions of some of its planners. Although some of the social engineering goals such as those pursued by Alva Myrdal were supposedly aimed at achieving gender equality, the changes in the tax code, according to Nilson and Carlson, effectively forced Swedish women to work and permanently changed the fabric of Swedish family life. While Myrdal may have wanted the Swedish family to disintegrate, according to Carlson and others the majority of Swedish women did not necessarily want this. They wanted greater opportunities to make income and more personal freedom, but many of them still wanted to have a choice to be a housewife or not. The tax code revision of 1970 gave many women no such choice. A drop in Sweden's birthrate coincided with this societal shift, which integrated almost a third of the population into the formal economy mainly as workers in the public sector within the kommun.

Unlike small-scale private sector positions, which require efficient performance to justify compensation levels, Sweden's new publicly funded positions lacked such accountability. The vast majority of these newly working women served in the expanded

---

[32] Allan Carlson. *Third Ways: How Bulgarian Greens, Swedish Housewives, and Beer-Swilling Englishmen Created Family-Centered Economies – and Why They Disappeared.*

bureaucracy. Most of these service-based jobs lacked the quantitative element required to accurately gauge productivity in relation to compensation. Given this lack, it was not a surprise to see demand-driven inflationary pressures increase correspondingly with the creation of these additional jobs. Much of this female-dominated public sector work generated little tangible productivity, instead merely formalized many of the services into taxable activities which were performed voluntarily or informally in private life.

A form of cannibalization within the workforce occurred in that economic costs increased without as much additional production because many of these same tasks were done previously on a volunteer basis. The plan intended to transform the social fabric of society while also expanding the tax base to pay for these services. This was a financial failure, but an ideological success for feminists such as Myrdal. Swedish women did become liberated from the household and did participate in the workforce more than almost any other country in the world.

Pursuing women's liberation from the home by creating new jobs for them was a strategic decision by SAP leaders. For the SAP the creation of these jobs was intended to also further guarantee the support of female voters by rewarding them with government positions.[33] Loyalty and perpetuating political power had supplanted the practicalities that dominated much of Swedish politics a generation before.

The tendency to place women in public sector jobs was a way to comfortably remove

[33] As a goal of expanding their political base, this effort largely failed because the percentage of female voters that supported the SAP did not increase substantially and over the long run. The SAP already had a substantial portion of females voters so the real result was that this rewarded past loyalty to the SAP by giving women guaranteed employment. It was a lifestyle change, but it did not yield greater efficiencies within the economy as some had claimed or hoped.

Swedish women from their traditional place in the home to a governmental site where, in many ways, they could perform similar domestic services, including child care, elderly care, and health care. However, instead of being at home and working for their families, these co-opted women worked for the community and the state. This dramatic transition was deliberate and was orchestrated by the SAP under Alva Myrdal's guidance. Her strategy was intended to strengthen the state's influence at the household level by giving every member of the family a formal contributing role in the government. Women were "liberated" from the home by serving the state. Children were placed under the direct care of state workers and were "liberated" from the home as well. Myrdal sought to increase the working population's dependency on large-scale state services that were previously considered part of private domestic life.

These efforts to make female labor into a taxable service in the name of gender equality were greatly strengthened in 1968, when Alva Myrdal joined Palme's cabinet as minister of disarmament and church affairs (despite being an atheist). She chaired a commission on "equality" that concluded that no adult should be dependent on another adult.[34] Achieving "equality" meant "liberation" from the household so that women would earn their incomes and would no longer depend on men for direct financial support. Ideally, each individual would stand on the same footing as any other individual, relative to the state. To evoke a dramatic response from households around the country, the commission recommended taxing individuals rather than households. In Myrdal's view, the change in taxation would induce women to integrate themselves into the workplace and no longer be

[34] Allan Carlson, *Fractured Generations: Crafting a Family Policy for 21st Century America.* (New Brunswick, Canada: Transaction Publishers, 2005), 46.

kept as household servants ("slaves" as Myrdal sometimes described to be). Moreover, women would be "freed" – whether or not they wanted to be. Tax reform policy would liberate women from the home. The traditional dynamic between family and society by which the household was separate from society at large was dismantled to the extent that Myrdal's tax restructuring could accomplish it.

Myrdal had pursued this goal since the publication of the book she co-authored with her husband on Sweden's population crisis in 1938, so the direction she took in office surprised no one. Since she was a proclaimed atheist, her policies were expected to be antagonistic to the "church affairs" component of her post. For Myrdal, life in the 20th century required that women be the equal of men in every aspect. Biblical pronouncements and traditional relations between men and women were no longer relevant. She may have realized that dismantling the family removed a keystone of the nation's culture and that this could alter or weaken other remnants of feudal life. However, it is unlikely that Myrdal, or anyone in the government, realized the extent to which the success of these socialist polices depended on the set of values they were decimating. Feudal values had governed Sweden for centuries, long enough for them to have become part of the background. No one understood their true importance, their contribution to the moral fiber of the people and their encouragement of the Swedish values of cooperation and cohesiveness best expressed in the ideal of *lagom*.

By redirecting women's lives away from the informal economic activities of the home and into the taxable, market-based activities of a formal workplace, the Swedish government freed women to pursue their own careers while contributing a substantial portion

of their wages to the government. To ensure their long-term commitment to the workforce, Swedish women were offered strong financial incentives in the package of welfare benefits and direct and indirect tax reductions if they continued to work. All public and the majority of private sector jobs guaranteed that the newly "liberated" woman would secure a revenue stream along with work-related benefits equivalent to the traditional support she could have received from a working husband. The SAP anticipated that, in return for this new way of life, women would become a loyal and reliable constituency of the state that they primarily served. Indeed, voting statistics from Sweden's Central Statistics Bureau indicate that without the strong support of women, the SAP never would have received enough votes to sustain and develop these programs. By tracking voting results since Universal Suffrage, (see Appendix F) one can see that the expansion of the state coincided with the greater role of women in elections and in general government operations.

Unfortunately, the timing of increased public sector female employed also coincided with declines in increased productivity within the private sector. Table 20 (see next page) shows the decline in Sweden's annual private sector productivity between 1973 and 1979. This deterioration sharply contrasts with the period between 1940 and 1970, when Sweden's economy continued to perform at a pace enviable to the industrialized world. In the 1960s Sweden's productivity still did not increase as much as Denmark or Norway. This factor is partially explained by the private sector's inability to generate new jobs after the middle to late 1960s. Swedish manufacturing and general production goals were still regularly met in those years despite slowing increases in productivity rates. Arguably, since so many other economic indicators also showed very positive results the momentum of previous decades

continued to push Sweden forward well into the 1970s, allowing many politicians and political scientists to believe in its position of socioeconomic superiority.

Table 20: Annual Percentage Increase in Productivity in the Private Sector for Scandinavian Countries, Compared to OECD Average, 1960-1979

	1960-1973	1973-1979
Denmark	**4.3**	**2.6**
Norway	**4.2**	**3.9**
Sweden	**3.9**	**1.4**
OECD Average	**4.4**	**2.3**

Source: OECD statistics.[35]

Table 20 above shows the beginning stages of Sweden's relative decline in comparison to the OECD average and neighboring Denmark and Norway. Swedish economists Magnus Henrekson, Lars Jonung,[36] and Joakim Stymne observed that in the 1970s and later the public sector had become swollen, resulting in fiscal policy imbalances. Macroeconomic policies became less manageable, less efficient, and less able to "adapt to shocks and disturbances." These problems contributed to the decline of Sweden's economic growth rate in the 1970s and 1980s. Additionally, the globalization of the economy was a factor in the decline of Sweden's growth rate. For a century, Sweden had enjoyed Ricardian[37] comparative advantages, in the form of a relatively well-educated populace, a strong work ethic, and a rich supply of raw materials that were in demand, which contributed to sustained and rapid economic growth. Gradually, as much of the developing world caught up with the

[35] Sjögren, "Scandinavia," 162.
[36] Jonung was a colleague of Lindbeck, and he held similar views on what had happened to Sweden's economic policies in the 1960s and 1970s.
[37] "Ricardian" advantages are named after British economist David Ricardo, who in the 1820s lobbied on behalf of and wrote about the benefits of free trade because of what he called "comparative advantages."

process of industrial globalization, alterations occurred to the comparative advantages of production and the specialized nature of labor that had benefited Sweden for so long.

Increased labor costs and higher taxation yielded the creation of a new category of employment often known as "black jobs." These are often lower paying unofficial jobs that primarily younger people and increasingly immigrant people took. Prior to 1960, Sweden had practically no black market activities.[38] However, with the growth of taxation throughout the 1960s, almost a fifth of the economy went underground to avoid taxes. Some experts believed that nearly 25 percent of Sweden's economy became unreported, but these estimates are conservative in that they only take into account the black money that was recirculated back into the Swedish economy.[39] Since many Swedes lived abroad and travelled internationally, Swedish "black money" was also spent outside of the country. To avoid detection of this unreported income, most of this money is widely believed to have been spent on individual consumption as opposed to investments or savings.[40]

The full extent of tax evasion or aversion in Sweden is difficult to determine because of: (1) falsification, (2) omission, (3) exaggeration of cost, and (4) inaccurate income figures.[41] Generally, black market employment and income are acts of substitution: The higher an individual's tax liability, the greater the incentive to earn unreported money. This

---

[38] http://www.rsv.se/broschyrer/152/15201/1521j.pdf. In interviews with Swedes (2004-2010) who worked before 1970, few said that they knew of anyone who at that time worked in a black market job. Thus, the increase in black market activity appears to be traceable to the large tax increases particularly as the creation and rapid increases in the value added tax (VAT) that began in 1960.

[39] This is a general estimate based on lists of expenses in comparison with reported income. There is a clear discrepancy between how much money was spent and how much was reported earned and saved.

[40] Economists such as Dussenberry have done studies that indicate that consumption and lifestyle patterns, once established, are difficult to break. So if extra money is earned on the side, it becomes absorbed into a new lifestyle which in essence becomes a habit very difficult to break.

[41] When most everybody lies at every step of the process, the truth is nearly impossible to determine. Evaders are caught when there are discrepancies between wholesaler and retailer, but if both lie, then evasion is difficult to detect.

behavior is part of a substitution effect, a fundamental economic behavior witnessed in all societies and economies. If taxed high enough over long enough periods of time, taxpayers will gradually resort to alternative behaviors that will yield them higher income than that allowed if they had adhered to the restrictions imposed upon them by the government. Therefore, the system unintentionally introduces the following problems: (1) the creation of moral hazards, (2) destruction of self-incentive, (3) creation of deadweight loss, (4) the promotion of rent-seeking activity, and (5) the encouragement of a non-productive life.[42]

Unofficial goods and services remain unreported and therefore undetected by an oppressive tax structure. As a consequence, the Swedish economy began to operate with two price structures: one "white" and one "black." The "white" price structure, or official price, is much higher in order to accommodate the tax and regulatory guidelines. The unofficial "black" price is much lower and is largely undetected by taxation and regulation.

In 1776, Adam Smith in his book *Wealth of Nations* described an "invisible hand" by which people in society, without governmental guidance or coercion, automatically adjust levels of supply and demand.[43] By their own intuition, people generally know if goods are priced too high or too low. Individuals, without any education or training, are perfectly capable of making purchasing decisions and innumerable adjustments to daily market conditions. According to Smith, in addition to buying, individuals are equally capable of selling their goods or services.

---

[42] This is an economics term that describes how money is lost due to its transfer from private to public hands; economist Gordon Tullock writes that inefficiency is caused by such governmental intervention. Rent-seeking behaviors are activities that are done to gain political favor and economic gains for special groups of people at the expense of others.

[43] Adam Smith, *Wealth of Nations* (1776).

Smith's observations helped to form the foundation of the free market model, which defined modern capitalism. As Karl Polanyi would argue, when Smith wrote his first observations centuries ago, these observations were made in a British cultural setting. What made capitalism in Sweden truly unique was how Swedish cultural institutions contributed to it.

Swedish Capitalism

Swedish capitalism had a distinct style and structure that fit with the traditional Swedish mentality. It was not until the late 1960s that mainstream politicians of the SAP began to seek direct government ownership of businesses. Even then, overall, the SAP rejected nationalization or any other means of direct government ownership, instead continuing to seek cooperation with various corporate interests. For example, the controversial Meidner Plan of 1975, which had nationalizing aims, was formally endorsed in 1976 by the LO but not by the majority of the SAP's leadership.[44] Such cases meant that economic growth, not redistribution of wealth, was to serve as the long-term and primary means of developing and constructing *Folkhemmet*.

Throughout many of the construction years of *Folkhemmet* taxes on corporate profits remained low due to numerous loopholes and tax credits (mainly for re-investment purposes). Also, until the 1970s some tax policies were poorly enforced, which was a

[44] The redistribution of "windfall" profits to LO ownership was discussed in prior LO Congresses (1961, 1966, and 1971) before the LO turned to Meidner for a solution. The LO interpreted profits to be a "windfall" of they exceeded more than a few annual percentage points.

peculiar feature in a society that assumed (at that time) that everyone will obey the rules.[45] In Sweden's case, tax collectors felt less of a need to aggressively enforce taxation because tradition morals made many corporate leaders feel responsible for their actions and therefore initially behaved with a strong sense of self-responsibility. Also, there was the practical concern that companies needed to keep control of their profits as an incentive to fuel progress and the potential gain to society in the possibility that more employment would be generated from such progress. For many years, the Swedish government consistently turned to employment as the primary means of funding its programs, believing that more people in the formal workforce meant a bigger tax base. In light of this belief, Alva Myrdal's feminism appears less noble in its effort to empower women, since it also made the labor of women a commodity.

Through Alva Myrdal's rhetoric and political efforts, Swedish women became more endemically engaged with capitalist and market activities. Indeed, through social services, they were linked to the formal economy in very practical ways. Thus, Alva Myrdal was not the vaunted socialist that many believed her to have been. In reality, she acted as a diehard capitalist who, more than any single person, is responsible for successfully eradicating the most substantial residual feudal element in the Swedish system. The death of the Swedish housewife ushered in a new era that unintentionally killed *Folkhemmet*. "The people's home" needed women in the traditional family home, because they played a primary role in the household and were at the center of traditional Swedish culture. When women became actively engaged in the market to pursue their own interests, the collective interests of the

[45] Knoedler, Sackrey, and Schneider, "The Middle Way."

home began to disintegrate and the cultural foundation of the Swedish household became a skeletal remnant of an institution, much like the State Church.

Through the 1960s and 1970s, Sweden experienced a gradual increase in social spending and the overall cost of government as a proportion of GDP. To fund the growing annual budget, the government introduced the "necessary" fiscal steps of creating new types of taxes and increasing tax rates. Consequently, Swedish taxpayers were obligated to take on the long-term financial liabilities of increased taxation in exchange for perceived government benefits that were often inherently short term.

Below is a table that illustrates tax changes from 1950 to 1970, expressed as a percentage of GNP.

Table 21: Swedish Tax Rates, 1950-1970, as a Percentage of GNP

	1950	1960	1970
Income tax, households	**10.3**	**14.9**	**21.1**
Income tax, corporations	**3.0**	**2.4**	**1.8**
Employer fees	**0.0**	**1.5**	**6.0**
General pension fee			
Sales tax		**1.5**	**4.2**
All direct taxes	**0.9**	**0.8**	**0.7**
All indirect taxes	**6.7**	**7.6**	**6.3**
Total taxes	**20.9**	**28.7**	**40.1**

Source: Swedish Ministry of Finance, 2006.

The evolution of Sweden's ever-increasing tax burden can be best described by comparing it to slowly boiling a toad: if the heat of the water is gradually increased, the toad cannot tell that it is slowly being boiled to death and will not jump out of the pot. Similarly, a long-term, gradual tax encroachment can choke to death the capacity of individuals to have

enough money for substantial personal investment or consumption before the individuals become fully aware of their circumstances. In Sweden's case, from the Social Democratic perspective this was deliberate because individuals were not supposed to garner wealth or need to consume so much individually because the State would provide the equivalent if not greater goods and services through *Folkhemmet's* programs. The slow boil escalated in the 1960s. While the SAP achieved a majority in the 1968 election, it is doubtful that the majority of Swedes desired to lose so much financial autonomy. They voted for the proposed benefits without realizing the long term costs.

By 1967, Erlander's SAP had largely realized its vision of a *Folkhemmet* welfare state.[46] All Swedes could rely upon the government to provide them with a multitude of benefits. Health care, education at all levels, and many other government services were generally available at no direct cost to those who used them. When Erlander's lengthy tenure ended in 1969, poverty was virtually nonexistent. Hansson's visionary *Folkhemmet* had become, for the most part, a concrete reality.[47] However, by the mid-1970s, Sweden's effective marginal income tax rates had increased to 87 percent and in some cases 102 percent.[48]

The Lack of "Creative Destruction" in the Swedish Economy

The Austrian-American economist Joseph Schumpeter developed a concept of long-

[46] Several members of Palme's cabinet, and Palme himself, asserted in the years between 1969 and the mid-1970s that the socialist dream had been fulfilled.
[47] Nilson, interview.
[48] Astrid Lindgren, "Pomperipossa in Monismanien," *Expressen*, March 3, 1976.

term growth in a capitalist economy that he termed "creative destruction." [49] In 1942, Schumpeter wrote that the economic development process is guided by entrepreneurial efforts, which constantly provide innovation in the marketplace, and that older structures within an economy are destroyed through the same process via the competition mechanism.

Sweden, like almost all developed Western economies in the middle of the 20th century, adopted a variation on Keynesian economics (fiscal policies to stimulate aggregate demand) to manage economic performance. For instance, the Swedish system depended upon close cooperation between its largest corporations and the LO. The relationship is best reflected by the implementation of the Basic Agreement. However, unlike most industrialized economies including the United States, Sweden's cooperation was a continuation of its traditional consensus-building dynamics. Its mercantilist approach towards overall production and maximization of trade revenues pre-dated Keynes and persisted through this period. Its proximity and commercial linkages to a rapidly expanding German economy in the 1930s helped favor Swedish export-oriented industries as a means to earn much needed revenue to benefit the country as a whole. The practical need to trade overwhelmed ideology. Feudal capitalism was evident in the way workers were still protected from exploitation, with the help of the government, and the way the government cooperated with industry without strangling its competitiveness until at least the mid-1960s.

The Schumpeterian perspective highlights important aspects of development in the labor market. Sweden's small, open economy allowed it to efficiently absorb technological innovations as they were introduced via international trade. As Schumpeter observed, the

[49] "Global Heroes," *The Economist*, March 14, 2009.

process of destroying noncompetitive industries remains omnipresent in a free trade world, generating structural unemployment in different segments of the economy. However, SAP supporters would argue that Sweden's continual dedication to human resource development, practiced through government-subsidized training programs and generous unemployment benefits in conjunction with rigorous retraining, better prepared the country's small workforce to face the dramatic changes caused by global competition. Although SAP critics may agree with the pragmatic mission of the retraining programs, they disagree with the extent and cost of these programs, arguing that such policies could be implemented with less waste. Most important, as Hans Lindblad of the ministry of finance explained, "We often agree on many of the policy ideas, but we disagree on how they are done and to their extent."[50]

[50] Hans Lindblad, interview by the author, Stockholm, January 2008.

Chapter 8: After 1970

There is little cheating in Sweden; neither citizens nor administrators stand for it. Swedes feel compelled to work diligently; theirs is not a lazy culture.

-Michael Roskin[1]

By the end of the 1960s, many Social Democratic leaders began to showcase the Swedish system as a model for the world to emulate. Sweden's apparent blend of the best of communism and capitalism attracted media and academic attention. Olof Palme frequently heralded his "Third Way" as the perfect compromise between communist brutality and the injustice of capitalism. In his bolder moments, Palme believed that Sweden could effectively become a third superpower.[2] From the mid-1930s until the late 1970s, Sweden's "Third Way" agenda served as a source of inspiration for Western left-wing academics and politicians who had similar beliefs to FDR's.[3] However, the system as it operated in 1969 did not last, since by that time the factors that had made the system successful had already been fundamentally altered.

In the early 1970s, Palme's boldest claim, that Sweden had the world's highest standard of living, was based on the successful equalizing of income through redistribution, not on the status of the national economy or the purchasing power of the Swedish *krona*. Employment levels peaked at this time, when hundreds of thousands of women had entered into mainly public service. Meanwhile, the production of traditional export-oriented manufacturing jobs maintained at their historic peak levels. The Swedish welfare state experiment that began with the 1917 Instrument of Government finally reached its

[1] Roskin, *Other Governments*, 38.
[2] Nilson, interview.
[3] http://www.sweden.se/templates/SASTopic____2416.asp?launched=true

completion around 1970. Many experts on economic systems agree that Sweden's "cradle-to-grave" system represented the most comprehensive attempt to form a fully socialized democracy.

Since the 1930s, the SAP had carefully crafted a system that shifted income, tax subsidies, and tax credits from one group to another. This complex financial shell game was designed to be appealing enough to persuade many significant players to participate. The popularity of these policies increased because so many people believed that their cost was less than their overall benefit. Proposed spending cuts or reductions of these benefits would often be met with stiff resistance and instant criticism. In effect, there was a continual "purchase" of votes through direct spending that benefited the core special-interest groups of the dominant power. Subsidies to key industries to keep union members employed are a prime example.[4] As can be seen in the table below, although other Scandinavian countries also significantly increased their expenditures on social programs between 1962 and 1984, Sweden spent proportionally more and did so at a more accelerated rate, particularly between 1972 and 1984.

Table 22: Public Social Expenditure in Scandinavia, as a Percentage of GDP, 1962-1984

	1962	1972	1984
Denmark	**11.4**	**19.4**	**27.1**
Norway	**10.9**	**15.8**	**22.6**
Sweden	**12.3**	**20.3**	**32.7**

Source: Nordic Council, *Yearbook of Nordic Statistics* (1965 and 1987).[5]

[4] The Swedish government has regularly made agreements with the unions whereby, in exchange for their support during elections, the government offers them subsidies and breaks.
[5] Einhorn and Logue, *Modern Welfare States*, 178.

Einhorn and Logue explain that the welfare programs of the 1930s and 1940 were "assumed to be self-limiting" because they were viewed as temporary measures taken by the state in response to global and domestic market failures.[6] Viable full employment, one of the primary goals of the SAP, enacted as a policy would have helped minimize the long-term need of state social programs. Nobody foresaw the cultural and economic changes that would nudge growing numbers of the population into financial dependence upon the state.

Meanwhile, the Swedish labor market became one of the most unionized in the world. By 1970, around 85 percent of all employed were members of a trade union (in comparison, the typical trade union membership in other West European countries was between 30 percent and 40 percent of all employed). Among the Swedish unions, the coalition of manual workers (that is, the LO) was the largest, organizing around 60 percent of all unionized labor power. Although the Basic Agreement was designed to maximize the number of gainfully employed workers, by the mid-1960s, private industries and public sector jobs were unable to create adequate employment that would generate enough productivity to justify their expenses. Consequently, many state jobs were often called "fake jobs," a confirmation that Swedes recognized the questionable productive value of these jobs.

When the employment environment and the culture began to change in the late 1950s, the financial maintenance of ever-increasing social expenditures required dramatic tax increases. A primary indicator of the heavy tax burden, especially for lower-income to middle-income Swedes, was the creation and rapid increase of the value-added tax (VAT),

[6] Ibid.

which eventually peaked at 25 percent on almost all goods and services.[7] This extremely high consumer tax is clearly a regressive tax in that lower- and middle-income earners spend proportionally more of their disposable earnings on consumer goods and services for daily living than do higher income people, who can more easily afford basic living costs and spend larger proportions of their net cash flow on investments. Swedish economic policy seemed to ignore the basic Keynesian theories of the marginal propensity to save and the marginal propensity to consume.

This is especially noteworthy because such a regressive tax policy harms the very working class that the SAP was supposed to protect most. Instead, this policy benefited the highest-earning income earners because they could avoid the VAT or were not as strongly affected by it. Higher-income earners in Sweden at this time could still often redirect a greater percentage of their salary towards tax-free or tax-deferred investments. Higher-income earners also could afford to travel more often away from Sweden and spend more of their consumer-oriented expenditures in countries with lower VAT rates. Thus, this tax policy fundamentally betrayed one of the most basic tenets of the SAP's original policy program (see Appendix F).

Misguided fiscal policies also directly discouraged the creation of new jobs. For example, beginning in the early 1960s, the government increased employer fees for employees (Social Security and Medicare taxes are American equivalents) from 12.5 percent to 36.7 percent, nearly tripling them. This rapid increase of employee or payroll taxes coincided with the inability of the private sector to generate new positions. Taxation

squeezed out enough profits from private firms to diminish employment growth. Macroeconomic statistics in the mid-late 1960s concealed or had the effect of masking the negative impact of these anti-growth fiscal policies.

Although 90 percent of Swedish businesses remained privately owned in 1970, labor leaders began to ask for union representation on the boards of directors of private companies. Supposedly, this was not a threat to corporate ownership, just a way for union representatives to better convey their needs to the company. Still not satisfied, labor leaders attempted to create a fund that would unions to purchase of company shares. This strategy was strongly resisted by the employers' union and by significant numbers of influential Riksdag deputies. As a consequence, the unions' efforts only resulted in the acquisition of about 1 percent of the value of Swedish companies through the established fund.

At the height of *Folkhemmet*, during Palme's first administration (1969-1976), entrepreneurs were treated like pariahs. IKEA founder Ingvar Kamprad told Forbes magazine that Swedish tax bureaucrats would frequently accuse him of using people and "only wanting profits." Many thousands, perhaps tens of thousands of other successful Swedish businessmen left their home country as tax exiles to avoid costly levies and the constant scrutiny of the Swedish *skatteverket*, the tax authority.

Since its heyday in the 1970s, Sweden's economic record has shown that the dream of an egalitarian society had considerable shortcomings, most notably favoritism. For example, one of the LO's board members arranged for his two children to receive two apartments in central Stockholm, bypassing a lengthy wait list for such prime real estate. Such favoritism for the well-connected labor union leaders resembled the situation in the

former USSR, where the Communist Party elite took advantage of access to benefits like special food, cheap liquor, free vacations, and premium housing that few others could obtain.

In the 1970s, Sweden's long-successful economic formula, interlaced as it was with substantial welfare elements, started to face many obstacles: (1) high unemployment, (2) a declining manufacturing base, (3) capital flight, (4) brain drain, (5) rising maintenance costs, and (6) a declining position in world markets. When manufacturing began to slip, especially after the oil shocks of 1973-1974, the unemployed were increasingly transferred to public enterprises run by the government.

Swedish labor costs became the highest in Europe, and increasing numbers of Swedes began to live off the cradle-to-grave system rather than contributing to it. For example, the rules governing the receipt of sick benefits by workers employed in public enterprises gradually were manipulated by workers, who could "earn" up to 570 days of paid leave per year if desired. Many more counterproductive mechanisms unintentionally developed that SAP economists never could effectively correct. The traditional values of performing honest work for wages eroded into situations of people receiving money for not doing work. The lucrative system of programs yielded opportunities for free riders, those who take more from the economy than they contribute.

Though Erlander proclaimed *Folkhemmet* complete in 1967, additional programs and adjustments continued to build more rooms in Hansson's "people's home" until the economic crisis of the mid-1970s. Rapidly increasing production costs, along with the breakdown of the Basic Agreement, pressured Swedish politicians to alter the country's monetary policies. Swedish goods were no longer competitive in the open market. Devaluing the *krona* had

been effective in boosting sagging export sales in 1931-32, and so the tactic was tried three times: twice in the fall of 1976 and again in the spring of 1977. As expected, sales increased and short-term government debt declined, but, unexpectedly, inflation continued to increase. In effect, the devaluation unintentionally forced all sectors of the Swedish economy to subsidize the export business due to surges in demand-driven inflation. To worsen matters, real improvement in the balance of payments was marginal. Sweden's macroeconomic conditions began to stagnate. Marcus Wallenberg, Jr., the banker and industrialist and the Chairman of the Board of Skandinaviska Enskilda Banken (the Scandinavian Enskilda Bank), remarked, "Devaluation is like peeing in your pants. It feels warm and good in the beginning, but then it becomes uncomfortable."[8]

Welfare Capitalism

The period from the end of the 1940s to the beginning of the 1970s is sometimes referred to as Sweden's "golden years."[9] Gross domestic product growth in Sweden was faster than in most other Western countries by an average annual rate of 3.3 percent from 1951 to 1955, 3.4 percent from 1956 to 1960, 5.2 percent from 1961 to 1965, and 4.1 percent from 1966 to 1970.[10] After this period, growth was more moderate, and after 1975 it fell to barely 2 percent per year. Throughout these years, Sweden's main engine for economic growth continued to be the export sector, which included traditional industries such as steel, paper, and wood pulp.

The rapid economic growth between 1945 and 1965 revolutionized the standard of

[8] Nilson, interview.
[9] http://www.questia.com/read/102808731
[10] Knoedler, Sackrey, and Schneider, "The Middle Way," 18.

living in Sweden. A vast segment of the population began to enjoy modern mass consumption. For example, for the first time, average workers could afford to own a car, and many of them even bought summer homes. Aside from a boost in overall consumption, there was also an enormous improvement in housing standards. During the 1950s and 1960s, most of the overcrowded tenement apartments in the cities and older homes without indoor plumbing were replaced with modern, detached, owner-occupied houses. Electricity, plumbing, and other modern conveniences became nearly universal within a decade. These increases in quality of life helped reward the SAP with a majority of the vote in 1968.

Another important effect of Sweden's rapid growth was a greater equalization of incomes due to the growth of higher-paying manufacturing jobs. Millions of Swedes were no longer living on the edge of poverty as they had in the 19th-century agrarian setting. This trend became noticeable in the early 1930s, and, according to Magnusson, it was widely evident by the end of World War II. The driving factor of this transformation was the mass migration from rural farming communities towards urbanized areas offering higher-paid work. However, through the 1950s and the 1960s, the rate of wage equalization dropped as fewer people made the agricultural-to-industrial transition.

Due to Sweden's economic growth during these years, the increased demand for workers to produce much-needed basic goods and services was accompanied by an increase in the number of lower-wage jobs, which not only discouraged migration but also broadened the income range of urban Swedes. By the 1970s, Sweden's extensive social welfare services offered many more service-oriented public sector jobs, and local authorities played a dominant role in providing educational, health, old-age, disability, unemployment, and other

social services.

Economist Per Bylund explains, "One enduring welfare state myth is that a nation can have a high standard of living — even if no one really has to work — as long as government transfers massive amounts of wealth from those who are well off to those who are less well off."[11] For many years, news stories, books, and public commentary portrayed Sweden as an ideal society in which one enjoyed free medical care, generous welfare benefits, time off from work, and subsidies for nearly everything.[12] When the enormously high tax rates were mentioned, the standard reply was, "That is true, but look at we receive for our payments."[13]

Sweden's welfare state was designed to discourage its citizens to accumulate substantial wealth in terms of assets. For example, the SAP updated the wealth tax in 1948 as a means to discourage and to redistribute wealth from those who would make the attempt. It has never been a major source of government revenue. The wealth tax was meant to promote equality and to redistribute wealth. There were some exemptions from the wealth tax such as it did not include pension accounts or savings in tax deferred pension savings accounts. Also, the values of cars, boats, art, and life insurance were not included as well as most assets abroad. Proponents of the wealth tax system claim that the exemption level excluded on average, more than 90–95 percent of all households from paying any taxes at all.[14]

Not only would this have contradicted the goal of minimizing wealth inequalities, but the system was designed to relieve workers from the lifelong burden of independently acquiring economic security. The system provided security, which offered the people

---

[11] Per Bylund, *Keynesian Sweden.*
[12] William Anderson, *Sweden: Poorer Than You Think* (Auburn, Alabama: Von Mises Institute, 2002).
[13] Ibid.
[14] Henry Ohlsson. *Wealth Mobility.* (Uppsala University, 2010)

guaranteed access to resources that, in theory, only successful people could acquire within a capitalist system. Those who had had wealth prior to the implementation of the cradle-to-grave system were allowed to keep much of their status and positions, but those who desired to move upwards in terms of wealth were shut out by *Folkhemmet*, a system under which no one could be poor or rich.[15]

This lack of financial mobility occurred partly by design and partly out of necessity. The design of *Folkhemmet* was based on the ideological belief that people should not aspire to acquire wealth, but instead work all their lives and contribute a fair amount. The necessity of taxing those who acquired new wealth was a result of the need to fund the system's benefits. Since those whose income quickly increases are usually most easily taxed for the greatest gain, new wealth became difficult to keep.

Despite tax collection problems, SAP leaders could claim their achievement of having formed a system that yielded substantial equality and considerable socioeconomic mobility. According to the *Economist*, Sweden's superior educational system (based on the OECD's school-appraisal system) produced a highly educated group of workers. The SAP's tough redistributive fiscal policies also contributed to a greater equalization of income between the generations, as many such policies benefited the young through child support subsidies, education, and health care.[16] The *Economist* cited that about 75 percent of males born in the late 1950s earned enough to move out of the bottom 20th percentile for income by the time they were in their early 40s. Also, those born at the bottom 20th percentile for income earned

---

[15] The only exceptions were those who belonged to an older, wealthy family that had a special deal with socialist leaders.

[16] Charlemagne [pseud.], "Snakes and Ladders: Europe is Economically Inflexible, but Socially Mobile. Whence This Strange Combination?" *The Economist*, May 27, 2006, 52.

almost the same amount as those who were born in the next 20 percent bracket above them. Thus, Swedish equality policies aiming for *jämlikhet* were successful and resulted in a far more socioeconomically mobile society than the United States when comparing incomes of children to those of their parents.[17]

In a social democracy, economic security generated by prosperity manifests itself as a transient sensation of the ease of everyday life, rather than as personal wealth that finances personal freedom. In contrast, the capitalist system rewards the lucky, hard-working minority. Few obtain financial independence; most are subject to the precarious nature of the market and must endure the effects of its ups and downs. In a purely capitalist system, the average worker must work in an insecure environment for the vast majority of his life. Stress and threats of job loss and reductions in wages or bonuses can make working a daily struggle, and personal comfort can be elusive. The Social Democrats sought to provide a cure for the social ills of a market-driven system by developing state programs that provided a level of comfort and security to everyone, not just the lucky few. With time and especially if they are democratically elected, such policymakers become tempted to figuratively throw money at the public as a way to demonstrate their administrative competence and ensure their re-election.

The welfare state operates under the following premises: (1) free markets, if unregulated, will cause greater inequality and wealth will become increasingly concentrated and placed in the control of the elite, (2) the only way to counter these results is for the state to seize a large percentage of the earnings of high-income and high-wealth individuals and

[17] Ibid.

transfer it to those who earn or have less, (3) large-scale redistribution of income and wealth will enable economic growth, and (4) a decline in private market goods will promote more practical goods to be purchased by sensible, reduced-income or previously wealthy people, thus minimizing conspicuous consumption, or high amounts of "worthless" luxury expenses.[18] Most of these ideas were loosely based on the theories of Karl Marx, who exposed capitalism as having a series of "internal contradictions." Thorstein Veblen contributed much to the idea that conspicuous consumption by the wealthy is immoral.

Yet there are arguments that suggest that unfettered capitalism can result in a substantial increase in the standard of living for the masses. For example, Austrian economists Ludwig von Mises and Murray Rothbard wrote that private-market systems give individuals the freedom to become wealthy by producing goods that are demanded by large numbers of people. The prospect of accumulated wealth and its privileges provide a substantial incentive to entrepreneurial effort. Henry Ford exemplifies a man who became rich producing affordable cars for the masses, while other early car manufacturers, who focused on making cars for the wealthy elite, were far less successful. Ford's production methods dropped costs low enough to create cars that could be afforded by the masses, and this allowed him to not only make a profit but to acquire substantial wealth because of the quantity sold.[19] The incentive for the capitalist to meet the demands and desires of society is the potential reward: relative, or even vast, wealth. When markets are efficient, they distribute this type of bonus.[20]

---

[18] Anderson, *Sweden: Poorer Than You Think*.
[19] Ibid.
[20] Ibid.

Sweden's economic success in the post-war years relied on the careful management of an industrial base that had competitive advantages over rivals. So long as Sweden maintained this advantage, the system seemed to work. When growth began to stall in the mid-1970s, measures were taken to try keep Sweden's economic engine running. In 1980, Childs wrote: "The three bourgeois parties, during the brief time of their coalition, socialized more of the economy than the Social Democrats ever did. They did this by intervening to put the state in a substantial position of ownership in major industries — steel, mining, shipbuilding — primarily to save these industries from bankruptcy under the impact of the recession and the decline of the export market."[21]

As increased government spending required higher wages to cover the amount needed from taxes, cost advantages deteriorated. The expanded government which included many service-oriented public sector jobs could not apply accurate cost-benefit calculations in determining the overall value of their productivity. For example, unions could much more easily calculate a steel worker's productive value and could calibrate the wage according to those estimates. In essence, many post-industrial jobs within the government were overcompensated, and their productivity was nearly impossible to quantify. Unions could better estimate production and cost figures in a manufacturing setting than they could for more qualitative services; thus it was difficult for unions to determine what government services should cost and negotiate accordingly.

Below is a table that illustrates the transformation of employment within the Swedish economy from 1950 to 1990. As the table indicates, Sweden and its neighbors all followed

[21] Childs, *Sweden: The Middle Way on Trial*, 169.

the trend of shifting employment towards services and away from industry and agriculture. Services employment increased from 38.9 percent to 68 percent of the workforce, which more than absorbed all of the lost agricultural jobs. The decline in industrial and agricultural jobs producing quantifiable goods also explains the increasing problem of determining a wage that accurately accounts for the overall productivity of a job. For example, agricultural workers can measure the value of the harvest and adjust their wages accordingly, while a former agricultural worker serving the *kommun* as a social worker may provide useful services to the community, but it is far more difficult to calculate the value of his work.

Table 23: Sectoral Distribution of Employment, by Percentage of Workforce, 1950-1990

	Agriculture		**Industry**		**Services**	
	1950	**1990**	**1950**	**1990**	**1950**	**1990**
SWEDEN						
Employment	**20.3**	**4.0**	**40.8**	**29.0**	**38.9**	**68.0**
DENMARK						
Employment	**25.1**	**6.0**	**33.3**	**27.0**	**41.6**	**67.0**
NORWAY						
Employment	**29.8**	**6.4**	**33.2**	**24.8**	**37.0**	**68.8**

Sources: For 1950, Maddison, 248. For 1990, OECD Country Surveys.[22]

By the 1960s, the majority of Swedish politicians began to believe that a unicameral legislative body would manage *Folkhemmet* more efficiently. For different reasons than the Social Democrats, Swedish Liberals agreed to push for consolidating legislative power into one body. The Liberals, more influenced by the perceived success of the British House of Commons, saw merit in a unicameral legislative body. These Liberals envisioned the Riksdag serving as a House of Commons without the nuisance of a House of Lords.

[22] Sjögren, "Scandinavia." 122.

In 1970, Social Democratic leadership forged a compromise with the Liberals and pushed to substantially change the 1809 Instrument of Government, which resulted in reorganizing the Riksdag from a bicameral to a unicameral legislature.[23] Though many Liberals believed that consolidating legislative power into a single body could limit Social Democratic power, their plan backfired, because with a unicameral legislature the SAP could more quickly implement its agenda with less structural resistance. Without a competing legislative branch, Social Democratic agendas could be proposed and made law without any significant opposition or delay. With a bicameral legislature, even when the same political party controls both legislative bodies, there are often delays in implementation due to procedural matters. These delays allow time for amending and editing proposed changes and for negotiating dramatic changes through delay or filibuster. However, in Sweden's unicameral Riksdag, rapid changes could be implemented without taking time to reflect upon them.

The constitutional changes in the 1970s were arranged so that whichever party controlled the Riksdag could more easily maintain a political monopoly in Stockholm. This lack of competition in the legislative process did not promote negotiation or compromise but instead fostered the support of a single dominant force, and, effectively, further rejected traditional Swedish principles that endorsed cooperation and equal bargaining between opposing interests.

Sweden's present Instrument of Government was presented to the public as a "tidying-up exercise" intended to make the 1809 version more contemporary and consistent

[23] This became part of Sweden's 1974 Instrument of Government, which took effect on January 1, 1975.

with the principles of a modern democracy. Initially the Riksdag reformation stipulated 350 members within a unicameral body who were to be popularly elected every three years. Later, these rules were adjusted to require an odd number of Riksdag members (349) and to expand the term of office to four years. In addition, the new Instrument of Government virtually eliminated all of the monarch's formal powers and political duties. [24]

The SAP gradually developed something near to a political monopoly, culminating in its control over the newly formed unicameral legislature. By 1970, the Social Democratic political agenda, by varying degrees, had penetrated the hearts and minds of Swedish society. Thus, the "cradle-to-grave" system came to be seen as an entitlement by the bulk of the population. The masses expected and demanded complete economic security. Increasingly dependent upon the experiment, Swedes were more and more often willing to sacrifice their financial independence to maintain the social contract offered to them by the state, and their willingness to do so widened the scope of its control.

As a consequence of this "spoils system," votes were "bought." The SAP carefully crafted a system in which income, tax subsidies, and tax credits were shifted from one group to another. Due to the costs of the system, small businesses, entrepreneurs, and anyone not part of the establishment had little chance of improving their fortunes. Childs explained, "In slicing the economic pie, little is left for investment funds essential to industrial development and the competitive position of the Swedish economy."[25] Once the voting public became accustomed to receiving such benefits, a continual "purchase" of votes occurred via direct

[24] Elder, Thomas, and Arter, *Consensual Democracies*, 101. An example of the monarch's remaining power is that he or she is still technically above the law and cannot be arrested.
[25] Childs, *Sweden: The Middle Way on Trial*, 169.

spending that benefited the core special-interest groups of the dominant power.

The eventual increase of government intervention in the economy resulted by the 1970s under the SAP and afterwards in subsidizing key industries to satisfy union demands and the expectations of the public. These measures had short-term merit in maintaining employment levels and in sheltering workers from what were perceived as temporary fluctuations in demand for key industrial products. However, perpetual subsidies became costly and usually eventually failed to yield long run benefits to the economy.[26] In the early 1970s government intervention was viewed as a rational approach because Sweden's political climate dictated such an approach. Buffered by a long-term virtual political monopoly, the Social Democrats gave the Swedish public the false impression that they were secure from an increasingly competitive outside world. Statistically, Sweden still appeared as strong as one could expect in the early 1970s. Few believed that the global markets would significantly change and threaten Sweden's export-driven industries and its ability to attract foreign investment.

Investors and taxpayers, comfortable with the market that they knew and the successes in earlier times were resistant to pull out of Sweden or to initially believe how damaging the dramatic changes in the tax codes between 1960 and 1975 would be. An element of stickiness persisted before the full negative consequences of increased taxation were revealed. According to the CATO Institute, the United States and Sweden maintained a remarkably similar tax structure until 1960, though the United States did have much higher

[26] Perpetual subsidies discourage innovation in production efficiency. The lack of direct, daily competition reduces incentive to better use capital to substitute for labor.

marginal income tax rates from the 1930s through the mid-1960s.[27] Sweden's increases in taxation during the 1960s and into the 1970s resulted in multiple layers of taxes imposed on average working Swedes because they were deemed necessary to fund state spending programs. Critics argued that the tax burden became so high that ordinary Swedes faced tremendous odds in attempting to accumulate wealth, while proponents of the system contended that the economic security provided by the state would eliminate the need to acquire personal wealth. Economic security was no longer an individual but a collective concern.

Undeniably, Social Democratic ideology focused on security through government collective action rather than through individual achievement, such as personal savings or investments. Through the SAP's social initiatives, poverty and human suffering were largely eliminated by the late 1960s, but this was done at the cost of leaving little income after taxes for consumer spending on luxuries or private investments.[28] Frugality became increasingly common. Finally, to afford a trip abroad or a night on the town, many Swedes resorted to earning "black money" or undeclared income. The taxation reached such a high level that, for many Swedes, circumventing the tax system's rules became the only way to afford vacations abroad. Even then, such trips were filled with shopping excursions to buy household products, taking advantage of the much lower VAT rates in other countries. Such sprees in foreign markets softened demand in Sweden's already small, weakened domestic market. This flow of funds out of the country accounted for part of the lackluster growth of private sector jobs in retail. Furthermore, employers are discouraged because of the high employer

[27] Mitchell, *What Can the United States Learn*.
[28] "Luxury" items often include cigarettes, alcohol, restaurant meals, vacation expenses, and clothing.

taxes and regulations intended to protect and benefit workers. As stated previously, these additional costs and the continual outflow of capital partially explain the peculiar fact that there were more private sector jobs in 1950 in Sweden than in 2010. According to the *Wall Street Journal*, the phenomenon of very few private sector jobs is sometimes referred to as the "IKEA syndrome," a situation in which large retail outlets have a skeleton crew of employees who are hardly seen by the casual shopper.

There are two reasons taxes were so high. First, since the SAP required more revenue to fund its increasingly extensive welfare programs, the mathematics alone compelled the state to raise taxes. Second, aside from the SAP's ideological commitment to *jämlikhet*, Swedish voters consistently voted and still vote to support higher taxes to pay for government services. The SAP's traditional *jämlikhet* mentality, with only slight exaggeration, amounted to a strong desire for everybody to have the same amount of money left every month after taxes. After the 1930s, this ideology evolved to mean that everybody should have the same amount of disposable income regardless of position or, in some cases, whether the person was working at all. In other words, it became as personally financially profitable to be unemployed or to call in sick as it was to work.[29]

Since the 1960s, the MOMS tax, Sweden's VAT, has increased from a few percent to 25 percent.[30] Employer fees for employees tripled from 12.5 percent to 36.7% percent.[31] To fund full-employment policies and maintain the general public's standard of living, Sweden's taxes became the highest in the developed world; direct taxes rose from 12 percent of GDP in

---

[29] *Aftonbladet*, "Lågavlönade kvinnor förlorar pengar på att arbeta" [Lower-Paid Women Lose Money by Working], February 10, 2005.

[30] Swedish Tax Payers Association, *Tax Rate Histories* (2004-2006).

[31] Ibid.

1950 to 15 percent in 1960 to 20 percent in 1970. In 1910, the Swedish government revised its 1571 wealth tax to include almost all of the population, effectively penalizing those with declared property ownership.[32] Despite such tax increases, the price of social programs continued to climb. High taxation encouraged taxpayers to avoid earning revenue, to avoid having their revenue detected or reported, and to withdraw their earnings from the Swedish economy altogether and invest them somewhere else. This phenomenon is known as capital flight.

The tax system after 1970 consisted of five major parts: (1) income tax, (2) employer fees, (3) VAT on products and services, (4) excise and utility taxes, and (5) property tax and corporate taxes. Of all Sweden's taxes, property taxes on the ownership of moderately priced homes were generally the least significant in comparison to consumption, income and wealth taxes. In Sweden, the privilege to own land dates from feudal times for the peasants. The SAP retained this principle, making it easy for people to own small tracts of land or their own homes. The importance of home in Swedish culture cannot be overstated. For example, authentic Swedish restaurants are rare because of the custom of eating at home. Home ownership was viewed by the SAP as symbolic of responsibility and an equalizing factor[33] in society. In fact, property rights by the 1950s were liberalized so that even foreigners were permitted to buy and sell Swedish land, especially since these transactions represented a form of foreign direct investment.

---

[32] The origin of the Swedish wealth tax traces back to the Estates era in 1571, when large landowners were taxed on the basis of value, whether income was earned or not, for simplicity's sake. This tax code was modified in the 20th century to include almost everyone. It was used by Social Democrats as a means to transfer wealth from rich to poor. http://susning.nu/F%F6rm%F6genhetsskatt. Förmögenhetsskatt.

[33] As long as the house was modest or "lagom".

Within the five categories mentioned on the previous page, a variety of taxes were created and vastly expanded within a generation (1960 to 1975) to meet the demands of growing state-funded programs and the increasing numbers of public sector positions. The consumption tax, or MOMS, is commonly heralded as the most effective. Since its creation in 1960, Sweden's VAT, has increased from a few percent to 25 percent.[34] Employer fees for employees tripled from 12.5 percent to 36.7 percent.[35] To boost overall income tax revenue, the Swedish government revised its tax system to treat everyone as individuals rather than households, which effectively penalized those who did not work.[36] Despite such tax increases, the price of social programs continued to climb.

High taxation encouraged taxpayers to avoid earning revenue, to avoid having their revenue detected or reported, and to withdraw their earnings from the Swedish economy altogether and to invest them somewhere else (capital flight). Sweden's wealth tax was not unique in Europe but damaged the country's capital stock due to capital flight and the departure of many talented people (brain drain). Wealthy Swedes such as Bjorn Borg, Christian Olsson, Kajsa Bergqvist, and Anja Paerson were compelled to relocate to Monaco (a tax-haven). Ingvar Kampard, the founder of IKEA also left Sweden in the 1970s to avoid the wealth tax and had to establish overseas foundations to manage his wealth.

---

[34] Swedish Tax Payers Association, *Tax Rate Histories* (2004-2006).

[35] Ibid.

[36] The origin of the Swedish wealth tax traces back to the Estates era in 1571, when large landowners were taxed on the basis of value, whether income was earned or not, for simplicity's sake. This tax code was modified in the 20th century to include almost everyone. It was used by Social Democrats as a means to transfer wealth from rich to poor. http://susning.nu/F%F6rm%F6genhetsskatt. Förmögenhetsskatt. (accessed June 29, 2009).

Ohlsson and others concede that there is hardly any empirical evidence to justify the wealth tax. In part, wealth taxes affect goods with high price elasticity, meaning that these are luxury goods whose taxability can easily be avoided. Many economists also claim that wealth taxes burden productive behavior such as human capital creation which is essential to long-term economic growth. The presence of a wealth tax reduces the incentives to initiate entrepreneurial ideas because the taxation for success is punitive. Last, wealth taxes negatively affect stock index values. Often individual listed companies are discouraged from increasing capital gains and dividends to shareholders. In 2007, Sweden repealed the wealth tax. Finance Minister, Anders Borg, explained the decision: "*little money stays in the country. This (the repeal) will have a real impact on the willingness to invest.*"[37]

The Laffer Curve

Swedish tax authorities and many SAP politicians falsely assumed that tax rate increases would perpetually lead to increasing overall revenue for the state. However, changes in tax revenue are influenced by changes in tax rates. This correlation is illustrated in the Laffer Curve developed by Economist Arthur Laffer which shows how changes in tax income are influenced by the tax rate. Laffer argued that people's willingness to pay or declare income for taxes affects tax revenue. People must in the long run consent to taxation and abide by it. The willingness to pay tax and to perform taxable activities is a function of the liability that people face. Second, if tax rates decline, the proportional costs of creating

---

[37] The Local. "Sweden to abolish wealth tax." Mar 28, 2007. **http://www.thelocal.se/6822/20070328/** Accessed: Oct. 3, 2009.

tax shelters and hiding money increase. Capital flight or the outward flow of money from an economy to another market is a consequence. Third, lower tax rates encourage people to increase productivity, which will also increase their revenue. Fourth, if taxes are reduced to a "reasonable" level, more taxes will be collected.

Another method that helps explain how high taxes can harm a country's GDP is shown in this equation:

FIGURE 1:

GDP =

Consumption + Investment + Government Spending

+ (Exports Revenue – Value of Imports)

Using this definition of the GDP, the "crowding out" principle implies that when government spending increases, then one of the other variables in the equation will decrease, which means less money available for individuals to invest or to consume themselves. From a macroeconomic perspective, the crowding out effect occurs when increases in government spending generally force higher interest rates in order to attract or retain lenders to hold the government debt. When interest rates increase, it discourages investment, because the cost of investing increases. Thus, often when governmental programs attempt to provide more for society by spending more, they in effect reduce the ability of individuals to provide for themselves. Because most peaceful economies are a zero-sum game over the short term, the overall effect is that monies that could be spent on consumption or investment within the private sector are crowded out by public expenditures.

Sweden's tax policies after 1970 became more indirect, in the sense that they shifted substantially towards consumption. By the time Palme's SAP lost the 1976 election, the VAT had increased to nearly 20 percent, the highest in Europe. Payroll taxes introduced to fund *kommun*- and *län*-level government expenses also exceeded 20 percent by the mid-1970s. By 1974, tax revenue made up over 50 percent of Sweden's GDP.

The next table shows the expansion of the MOMS tax, Sweden's VAT, and how it rose very quickly after Palme became prime minister in 1969. The standard rate was applied to nearly every consumable product, with "lowered rate 1" pertaining to food and "lowered rate 2" applying to domestic passenger transportation and newspapers.

Table 24: Value Added Tax Rates in Sweden, by Percentage of Product Value, 1969-1983[38]

Effective Date	Standard Rate	Lowered Rate 1	Lowered Rate 2
1969-01-01	11.11	6.38	2.04
1971-01-01	17.65	9.89	3.09
1977-06-01	20.63	11.43	3.54
1980-09-08	23.46	12.87	3.95
1981-11-16	21.51	11.88	3.67
1983-01-01	23.46	12.87	3.95

Source:

After the 1973-1974 oil shock, the rates of the regressive VAT continued to rise throughout the 1970s. Due to the economic principle of the marginal propensity to consume (MPC), the VAT acts as a regressive tax because lower-income workers spend a much

[38] http://www.skattebetalarna.se/Main.aspx?ObjectID=2696&Template=Printable_News1.ascx
Källa: http://www.konj.se/

greater percentage of their net income on daily consumption needs. Since the VAT treats all people the same regardless of income level, those with lower incomes effectively pay a higher percentage of tax. Due to the related economic principle of marginal propensity to save (MPS), the VAT system would tend to favor those relatively few higher-income earners who invest money rather than spending any more of it than necessary on consumption.

Palme's greatest legacy in the realm of economic policy may have been imposing one of the world's most regressive tax systems for lower-income working people. The SAP presented itself as a champion of the poor and the average man or woman. However, as a political party, it was far more effective at collecting taxes from the working poor and the middle class than from the well-to-do. In fact, this became a necessity, because the working poor and middle class represented the largest tax base in the nation. As the tax rates rose for this segment and state benefits increased for non-working people, the financial gap between the rewards for working versus the rewards for living on state welfare shrunk. Work, not businesses, became unprofitable. The worker, not the extremely wealthy, was fiscally punished.

The economy designed allegedly for the common worker effectively punished lower-income people for working.[39] The regressive taxes on consumption of everyday products, such as groceries, and the very high payroll taxes, starting at the lowest levels of income, were needed to raise revenue for state programs. The people did revolt, but in subtle, passive-aggressive ways. The very high value added (VAT) taxes on the sale of retail goods and

[39] In the 1970s, Sweden had hardly any "ghettos." Such places did not emerge until significant numbers of immigrants arrived. Traditionally, because of the Swedish cultural values of responsibility and self-reliance, Swedes maintained their homes and communities in a very orderly and clean manner. Social pressures to keep the community in order resonated throughout the nation into the 1970s.

services gradually encouraged more street-level goods and service-related (i.e., home and car repair work) transactions to become “black,” or be sold unofficially. Ever-increasing amounts of “black money” began to circulate through the economy. Aside from investment-related funds leaving the domestic economy, some consumption-related money also left when many Swedes traveled to nearby countries to purchase goods either while in international waters (such as in the Baltic Sea), in other duty-free zones, or after arriving in other countries. In these ways, average Swedes exercised a classic, rational, expectationist approach by following an elevated sense of tax conscientiousness and shifting their spending patterns accordingly.

By the middle 1970s, 58.4 percent of all taxes went to the Swedish central government, with about 30 percent of total tax revenue coming from local income taxes. Labor income taxes became the highest in the OECD, an enduring incongruity in a system supposedly designed to benefit the worker. The income tax, at 55 percent of GNP, is the highest income tax in the world, and it is combined with sales taxes, property taxes, and other excise taxes and tariffs. The Swedish sales tax, a value-added tax, is up to 25 percent on items sold, including most foods. The total ownership of public goods by the Swedish government is roughly 64 percent, but it reaches nearly 70 percent once all other forms of taxation are included. However, this estimate does not factor in government-owned means of production, which control about a quarter of Swedish productivity. Since the 1970s, Sweden has witnessed a steady decline in per capita GDP and now ranks twentieth in the world, according to OECD statistics.

The Myth of Extremely Low Unemployment

Sweden's unemployment rate in the 1950s helped perpetuate the myth that it had extraordinarily low unemployment figures. But by the late 1960s, Sweden's private sector was no longer producing new jobs, when the number of private sector jobs that were being eliminated or phased out is taken into consideration. The government, in its efforts to incorporate women into the workforce, added tens of thousands of new jobs in the public sector. In addition, with the help of trade union leaders and clever statisticians, the Swedish government applied various manipulative methods to reduce the apparent number of non-productive working-age people.[40] Since the SAP had the long-term goal of maximizing employment levels, one of its top priorities as a political party for the workers was to keep to a minimum the official unemployment statistics.

For many SAP leaders, unemployment figures reflected the strength of the economy. Therefore, great efforts were made to keep the official numbers as low as possible. For example, many people were employed or subsidized by the Swedish government with the objective of keeping them off the unemployment rolls. Also, non-working Swedes are often considered "on paid leave"; while enrolled in remedial classes that in theory involve training for employment, they are considered "students." Others are simply conscripted into public works programs funded by the government and given menial labor tasks of questionable productivity. Such methods help lower overall official unemployment numbers by at least 2 percent (and often by twice that amount).[41]

---

[40] Anderson, *Sweden: Poorer than You Think.*
[41] *Ibid.*

The productivity of a particular job is often ignored in the pursuit of maximizing the quantity of jobs. This difficulty was especially compounded when newer jobs evolved, service-oriented positions rather than industrial ones. Such jobs were inherently more qualitative in their overall output, making it difficult to calculate their average productivity per hour. Post-industrial public sector positions funded by tax revenues exemplify the problem of measuring the health of an economy based on raw employment numbers. In the 1930s, such a challenge did not exist, but by the 1970s, it had created a growing and very real complication in perpetuating the myth of Sweden's prosperity.

Corruption

Corruption is supposedly absent in Scandinavia, according to the Berlin-based Transparency International.[42] However, the spoils system, a system of special privileges and access to resources for the well-connected, is quite dearly protected by those who possess political power. For example, Riksdag members who come from outside Stockholm receive allowances for free housing, so they are able to personally avoid the housing shortage and black market aspects of the Stockholm real estate market. Many people with connections in government use state money to cover their personal expenses, whether it is for travel, dining, or lodging.[43]

By the 1970s, the delicate balance between trade unions and the employers' union had dramatically shifted in favor of labor, because of how deeply entrenched the rule of the

[42] Finland and other Scandinavian countries consistently rank near the top in Transparency's well-known corruption surveys.
[43] Åsa Linderborg, "Detta borde vara vårt arv." *Aftonbladet*. February 28, 2006.

SAP had become. This was especially true following the 1974 revision of the Basic Agreement. By then, the courts were packed with judges who owed their allegiance to the SAP and were widely sympathetic to labor interests.

The popular mentality that Sweden should have no rich and no poor accompanied the social prevalence of *Jantelagen*. However, over time, these unofficial rules that had originally sustained social stability and equality in small rural towns made the system into an anti-meritocracy. Through various programs that sought financial "equality," the system rewarded those who sought not to obtain higher education, those who decided not to work longer hours for extra pay, and, in some cases, even those who chose not to work at all. As the scope and scale of social programs expanded, so did the prevalence of these moral hazards. Lindbeck believed that unintended negative consequences happened because politicians stopped applying what he called "interdependent thinking" to economic policymaking beginning in the 1960s.[44] Also, although certain aspects of *Jantelagen* still remained due to years of focusing on achieving equality, the feudal work ethnic had vanished within a generation. The moral views of the agrarian era became as impoverished of devotees as the State Churches.

Gradually, *Folkhemmet* created a *bidragskultur*, or a culture of handouts, where people, especially the youth, become less motivated to work. Some argue that the youth would work if it were not so difficult for them to find jobs. However, many young Swedes will deliberately attend university and prolong their time there as students because they would rather live on government subsidies than attempt to find or perform work. According

[44] Assar Lindbeck, "The Economic Problems of Housing," in *The Welfare State* (Brookfield, VT: Edward Elgar Publishing, 1993), 201.

to government figures, the average Swede is not completely self-supporting through full-time work until age 27.[45]

Regarding educational achievement, the academic organization SACO published studies that indicate a clear disincentive for many Swedes to bother attending college. According to SACO, the financial return for obtaining a higher education is so small that it is questionable whether it is worth pursuing. According to SACO's study, in most cases it does not pay for young Swedes to educate themselves, because of the additional tax expenses they incur. The loss of income while obtaining the education (otherwise known as opportunity cost) and the much higher marginal tax rate incurred due to obtaining a higher-paying job create negative long-term incentives for young Swedes to pursue an education.[46] Many educated Swedes would have to work until they are 75 years old to catch up financially to those who started working immediately after high school and never attended college. Educated Swedes face better financial prospects outside of Sweden, causing a "brain drain" in Sweden. In this way, with the exception of the patriotic, many educated Swedes end up attending college as a way to remain unemployed or to earn degrees to use in other countries.

Olof Palme

By the late 1960s, radicalism within the Swedish left reached its zenith with the installment of Olof Palme. Having come from the wealthiest part of Stockholm and having

---

[45] Barry Boswell, "The Nordic Model," (Brookings Institute presentation, Swedish Embassy, Washington, DC, October 2008).

[46] Opportunity cost in economics is the cost of the opportunity, or, in financial terms, "What money could have been made while pursuing one activity instead of another. The longer one is in college, the greater the opportunity cost. If taxes are much higher on highly educated people, it makes sense for them to drop out.

lived in the most cosmopolitan part of Sweden, Olof Palme married a Swedish baroness and was a lifelong city-dweller who had no personal or deeply meaningful connections to rural life or traditional Swedish values. Palme possessed very little appreciation for any policies that supported or incorporated the feudal elements latent in the system nurtured by Branting, Hansson, and Erlander, who had understood and maintained a connection between rural and urban life.

Growing up in an elite Stockholm neighborhood littered with aristocrats, diplomats, and the very wealthy, Palme was anything but agrarian or proletarian, or even typical, in his interests. For its time, Palme's personal background was particularly detached from Sweden's progressive movements that had highlighted the earlier era's conflict between emerging social classes and which initially delineated the differences between the political left and the right. Because of his background, Palme's polemics and vision of Sweden offended and inflamed not just conservatives, but anyone who had a sense of tradition or an understanding of the cooperative relationship in Swedish society derived from small-town, semi-rural living.[47]

Despite having studied in the United States at Kenyon College, in Ohio, in 1947-1948, Palme was remarkably critical of U.S. policies and sought to correct many of the moral wrongs he saw in U.S. politics on the international scene. According to the Kenyon College web site, after graduating with straight A's, Palme toured the United States for three months on a mere $300 in 1948.[48] This experience gave him an in-depth view of many sociological

---

[47] Ulf Nilson, interview by the author, Stockholm, July 2008.

[48] Kenyon College Department of Anthropology, "Olof Palme," Kenyon College, http://www.kenyon.edu/x11211.xml (accessed July 28, 2009).

problems that Americans faced at the time. Like the Myrdals earlier in the 1930s, Palme was stunned when he witnessed the problems of poverty and racism in the post-World War II United States; such situations were alien to his experiences growing up in a sheltered, upper-class, conservative family in a culturally homogeneous part of upper-crust Stockholm.

During the late 1960s and early 1970s, when Swedes still saw themselves as "successful, healthy, rational, and right-minded," they displayed an increase of interest in foreign affairs. "The Swedes take evident pride in Sweden's uniqueness, its vanguard role on the international scene," observed American author Susan Sontag after her 1968 visit to make a film. However, moderate and conservative Americans did not respond so favorably to neutral Sweden, especially because Palme's ideological rhetoric, before and while he was prime minister, grew increasingly more critical of American politics. On December 8, 1966, Gunnar Myrdal gave a speech at the Madison Square Garden Rally against U.S. involvement in Vietnam.[49] He pointed out that all Americans should ponder the moral isolation and negative world opinion they would incur if troops were not withdrawn from Vietnam immediately.

Like Gunnar Myrdal, Palme was an outspoken critic of U.S. policy in Vietnam and made it no secret that he took pride in Sweden giving asylum to several hundred American deserters. Prime Minister Olof Palme, supported by a large portion of Swedish public opinion, voiced strong criticism of the war in Vietnam. In 1968, he participated in a protest march with North Vietnamese diplomats. In 1970, he gave an anti-war Vietnam speech at the Hotel Waldorf Astoria in New York. Diplomatic relations became deep-frozen when Palme,

[49] Numerous sources confirm this date, especially because it predated Palme's inflammatory anti-Vietnam speeches.

in December 1972, compared the American bombing raids over North Vietnam with Nazi atrocities during World War II, including the death camp Treblinka.

A day later, feeling a bit remorseful, Palme sent Nixon a telegram that stated his admiration of the United States and noted that American democratic ideals had inspired him as a college student in Ohio. Palme privately admired the United States, like most Swedes did, but he publicly sought to separate Sweden from the American image in the belief that this would boost Sweden's power among the non-aligned countries during the Cold War.

Nonetheless, Palme's words continued to outrage President Nixon. Both President Nixon and Henry Kissinger, the U.S. national security advisor at the time, were so offended by Palme's statements and demonstrations against U.S. foreign policy that they withdrew the U.S. ambassador to Sweden, and Sweden's newly appointed ambassador to the United States was rejected by Washington. When the old ambassador left, Nixon refused to say goodbye to him. Diplomatic relations between the United States and Sweden were not fully restored until after Palme's assassination in 1986.

Despite the negative fallout, Palme continued his involvement in world affairs. After the Vietnam War ended, Palme readjusted his rhetoric to argue against Western colonialism and the U.S.-Soviet arms race, although he conveniently ignored the fact that Sweden was a major manufacturer of armaments.

During Palme's administration, economic policies began to evolve dramatically towards greater government control. For example, the Meidner Plan was developed in the early 1970s to extract capital from private ownership with the intention of effectively making trade unions and the government the owners of industry. Even within the SAP, this initiative

was controversial, because many trade union leaders preferred to keep their traditional cooperative approach with the employers' union rather than playing a dominating role. Most Swedes who valued the Swedish way of negotiation and cooperation were simply unwilling to go along with such schemes as the Meidner Plan.

Social Democratic economist Assar Lindbeck, who served as a close advisor to the Swedish government throughout the 1950s and 1960s, was among those who could not support such a radical plan. Despite having been good friends with Palme in the 1950s and the one who initially recommended that Palme work as Tage Erlander's personal assistant (which facilitated Palme's rise to political power), Lindbeck clashed with Palme over his increasingly government-dominated economic policies. [50]

However, Palme's administration and policies were not completely responsible for the difficulties of keeping *Folkhemmet* viable. The "people's home" experienced difficulties in sustaining itself for many reasons, but chiefly because the global economic climate and Swedish economic policies had already begun to change during the later years of Erlander's tenure. Assar Lindbeck, as well as Einhorn, Childs, and Logue, pointed out that the non-socialist parties in power between 1976 and 1982 actually invoked more direct governmental control of the economy than the SAP had done in their previous forty years.[51] Thus, regardless of who was in charge, such policies were largely seen as the next logical step in controlling Sweden's economic climate, and it was really only the details and nuances of the

---

[50] Assar Lindbeck, "Macroeconomics and Economic Policy," in *The Selected Essays of Assar Lindbeck*, Vol. 1. (Brookfield, VT: Edward Elgar Publishing, 1993).

[51] Assar Lindbeck, "Work Disincentives in the Welfare State," in *The Welfare State: The Selected Essays of Assar Lindbeck*, Vol. 2. (Brookfield, VT: Edward Elgar Publishing, 1993); Einhorn and Logue, *Modern Welfare States*, 204-205.

policies that varied and were up for debate. Such cultural developments and many other factors contributed to *Folkhemmet*'s long-term unsustainability.

In 1981, while the Liberals and the Center Party still controlled the government, Assar Lindbeck officially resigned from the SAP. Although Lindbeck had studied at Yale University with a Rockefeller Foundation grant in 1959, he was strongly connected to mainstream Swedish academic culture.[52] His departure from the SAP due to Palme's initiatives signaled a deep division between the right- and left-wing elements of the Social Democrats. Although some of this was eventually repaired after Palme was assassinated in 1986 and the more conservative governments of Carlsson and Persson resumed control, the endurance of this schism within the SAP shows how Palme's political and ideological ambitions took economic policymaking beyond even what supporters of *Folkhemmet* wanted.

However, Palme's administration proved to be a catalyst for change within the SAP and for much of Sweden, so much so that many Swedes on the left and the right felt that he was damaging the political integrity and social solidarity of the country. This reasoning contributes to the general opinion as to why Palme was assassinated: He had pushed the country too far in a single direction and had done it in ways that did not adequately include other political interests.

Global Transformations

Beginning in the early 1970s, post-industrial economic activities throughout the modern world became more dominant, influential, and especially more profitable. These

[52] Einhorn and Logue, *Modern Welfare States*, x-xi.

global transformations were driven by technological advances and diverse services that contained more qualitative production variables. The more radical dynamics of a post-industrial global economy substantially displaced many more predictable economic variables. Eventually, global competition revealed the inefficiency of the rigid planning mechanisms often dictated by the trade union agreements in Swedish industries. Slowed innovation and even slower adaptability to market forces were hallmark problems resulting from a coddled labor force overprotected by inflexible unions and an overly generous government.[53]

As a result of Palme's extremely left-wing politics and the economy's decline, in combination with the harsh tax rates (highlighted by Astrid Lundgren's protest for paying a 102 percent income tax), Swedish voters in 1976 finally turned the Social Democrats out of office. [54] Some political scientists referred to this condition as *skattetrott*, or "tax fatigue."[55] After more than four decades of SAP power, a coalition of Liberals, Moderates, and Center Party members gained enough seats to displace Hansson's broad political tent of Social Democrats, as seen in the chart below.

---

[53] Based on the interviews the author conducted with staunch members of the Vänster and Social Democratic parties in Stockholm in March 2004, it seems that no one really believed that *Folkhemmet* still existed or could exist anymore.

[54] Astrid Lundgren, a famous children's book author, was very much loved by the Swedish people. Her unique and humorous letter to *Expressen* in 1976 famously protested her having to pay a 102 percent income tax. At this point, almost everyone realized that the tax system had gone too far. Reforms, including the 85 percent rule, began to take effect afterwards.

[55] Roskin, *Other Governments*, 11-41.

Table 25: Sweden's National Election Results, by Numbers of Votes and Seats, 1970-1976

	1970		1973		1976	
	Votes	Seats	Votes	Seats	Votes	Seats
Social Democrats	**45.3**	**163**	**43.6**	**156**	**42.7**	**152**
Communist Left	**4.8**	**17**	**5.3**	**19**	**4.7**	**17**
Center Party	**19.9**	**71**	**25.1**	**90**	**24.1**	**86**
Liberals (Folk)	**16.2**	**58**	**9.4**	**34**	**11.1**	**39**
Moderates	**11.5**	**41**	**13.9**	**51**	**15.6**	**55**

Source: Nordisk Kontakt[56]

Just as the Basic Agreement was dissolved in 1974 by overly ambitious trade union leaders and their political allies, soon after, the SAP political union splintered. Critics of Palme's leftist politics attribute the SAP's breakdown to his ideological approach to government. Such arguments came not only from non-socialist parties but also from many conservative Social Democrats (e.g., Assar Lindbeck) who felt politically alienated. Apologists for Palme's ideological rhetoric claim that the prime minister successfully retained the swell of young leftist radicals for the SAP by giving them lip service and some concessions as a means to avoid strengthening the communists or creating a left-wing faction within the SAP.

A permanent political realignment did not immediately occur, but many small fractures within the SAP's political hegemony began to develop. From that point onward, SAP leaders had to cooperate more with the left-wing elements of their party to hold onto power, rather than with centrists such as the Farmer's Party. This new coalition faced difficulties. However, after Palme and especially after the Cold War ended, the SAP

[56] Elder, Thomas, and Arter, *Consensual Democracies*, 88.

leadership drifted towards the political center despite having the Left Party (communists) within its coalition government.

To foster the continuation of rapid economic growth, Sweden needed to continually develop new "comparative advantages" through investment in human capital, research and development, product development, and organizational changes. Overall flexibility in the system was required to enable it to adapt. But according to Henrekson and his colleagues, after the international oil crisis "shock" of the early 1970s, accompanied by later economic blows, Swedish industry instead became less competitive in the international economy. However, the such serious weaknesses only gradually became apparent to those running the government, so increases in fiscal spending continued through the 1970s and into 1980s to the detriment of the country's overall macroeconomic health.

In retrospect, Sweden's "Golden Age" of the 1950s and 1960s was a most extraordinary period in its history. Swedish architecture, culture, and art, as well as its filmmaking and music industries, had all flourished. Emphasis on external trade and the continual seeking of opportunities outside Sweden to support the country's export-driven economy motivated Swedish concern with and involvement in international matters. The nation's perpetual peace allowed it to become rich, and such success offered it unique avenues of influence on the rest of the world through its involvement in foreign affairs and the showcasing of its "Middle Way." Particularly by the time of Palme, much of the world community did take notice of what Sweden offered: social democracy, humanitarian values, equality, rationality, and the Swedish model or "Middle Way." For such a small country, Sweden's ability to maximize its influence on the world scene after World War II was

remarkable.

English as a Tool for Success

As residents of a small country, Swedes have long recognized the importance of learning another language, especially as they assumed that virtually nobody would attempt to learn Swedish. For this reason, the merchants and the aristocracy learned French and German for centuries. For members of senior management and entrepreneurs who sought business opportunities abroad, English proved advantageous as a means to increase revenue and profit margins, especially as the British Empire established English as a global language by the late 19th century. For those Swedes interested in diplomacy or foreign affairs, it was far easier to learn English, which shared so many common words with Swedish, than to study Russian.

In the following decades, American influence on world affairs increased. Understanding the need to communicate, Swedes learned English rapidly and were able to capitalize on this skill by exerting political influence in the United Nations and other organizations, as well as by increasing their income potential by improving their ability to communicate in the world business community. American culture, especially American entertainment became more and more influential. In addition, the emigration of so many Swedes to English-speaking countries supported the popular demand to learn English. As a bonus, English and Swedish are linguistically very close, in the sense that they both belong to the Germanic language family and share a similar syntax, allowing Swedes to learn English with relative ease.

The post-World War II era brought unprecedented foreign influences to Swedish

culture and politics. Widespread recognition of the disastrous America's Smoot-Hawley Tariff Act of 1930 prompted the United States to lead a global initiative to promote free trade through the Bretton Woods Agreement (1944-1945). Swedish raw materials and manufactured goods were much needed in the American-led post-World War II reconstruction effort designed to promote peace and thwart communist ambitions to expand territorial influence across the continent. Swedish economic policies quickly adjusted to America's New World Order, or Pax Americana. Surging export sales and consequent revenue from war-torn Europe, as well as increasing interconnectivity with the United States, resulted in a plethora of global consumer products that gradually eroded Sweden's domestic culture, replacing it with a growing new transnational culture.

The post-World War II world market dictated by the institutions of the Bretton Woods Agreement required Swedes to learn English. British and American popular culture also began to seep into Swedish urban life, cultivating a new era of cosmopolitan living. Outside of the Soviet sphere of influence, America dominated global commerce. Swedish businessmen changed their focus from the United Kingdom and Germany to the United States. New influences developed on Sweden's transforming capitalist culture. Prior to 1945, Swedes often learned German as their second language. The aristocracy and many influential people had maintained connections with their large southern neighbor. However, with the war lost and Germany divided, a new era of English dominance began. For example, cultural products such as books, magazines, newspapers, films, music, and television and radio programs witnessed a substantial increase in the use of English in their daily content. The American-British victory meant that Sweden's public educational system instituted English

as its primary chief foreign language of study, instead of German. As a consequence, nearly every educated Swede born after 1945 had a functional command of the English language.

Since both are Germanic languages, linguists say that becoming fluent in both Swedish and English is not difficult. Though the two languages are not mutually intelligible, their similarities enabled Swedish businessmen and politicians to easily learn English and could thereby influence their British and American counterparts. By speaking a related language, Swedes had a great advantage over most other non-English-speakers, exerting greater commercial and political influence within British and American spheres of dominance.

Most Swedish leaders could speak English, and some had been partly educated in the United States. This trend, combined with the large number of Swedes who had emigrated to the United States, created an informal cultural bond. This bond was a stark contrast to the relationship between Sweden and the USSR: Few Swedish leaders could communicate in Russian. Fewer had been educated in the Soviet Union or had relatives living there. Even among Swedish communists who shared an ideology with the Soviets, there still was not a cultural bond. Soviet Foreign Minister Molotov once asked Per Albin Hansson why he would eagerly visit the United States but not the Soviet Union. Hansson explained that he had many cousins living in the United States, but none in the USSR.

Soviet leaders were well aware of the cultural gap. As a consequence, they never seriously believed Sweden's claims to neutrality. Instead, they categorized Sweden as merely less hostile and less threatening to Soviet interests. Although the Soviets appreciated Palme's foreign policies and his criticisms of U.S. involvement in the Vietnam War, as well as the

incorporation of more socialist policies into Sweden's economic system, this did not convince them that Sweden was neutral.

Sweden, like the United Kingdom and the United States, was a variation on a Protestant Germanic culture, with few links to the East other than the Swedish minority that agreed with some aspects of Soviet ideology. Also, the Soviet leadership did not forget how, despite its "neutrality," Sweden had not only sent official aid in the form of goods to Finland, but also allowed many tens of thousands of Swedish volunteers to unofficially assist Finland in the Soviet-Finn War (1939-1940). Unlike many Americans, who viewed European countries as either part of NATO, neutral, or part of the Warsaw Pact, the Soviets perceived a more detailed, if unofficial, spectrum of allegiances in which Sweden was placed closer to the American end. Soviets were very aware that, although the two were not officially allied in any way, Sweden was nevertheless considered protected by the United States, both in strategies and in principle. The fact that by 1950 there were more people living in America with Swedish ancestry than there were people living in Sweden only added to this perception.

Chapter 9: A Model in Crisis

In the decades after World War II, Sweden rode a general economic upswing that swept over the whole of the Western world. The industrial sector expanded, and the rise in productivity led to a rapid improvement in the standard of living for Sweden's citizens. At the same time, the low level of unemployment, supported by the wage solidarity policy and an increasingly ambitious social policy, ensured a more equitable distribution of this prosperity. Further, even though inflation did become a problem, it remained comparatively low by Western European standards at the time.[1] Such economic stability was an important feature of the 1950s and 1960s, since it was both a reason for and a consequence of Sweden's enduring industrial peace. Seen from an international perspective, the number of days lost to strikes in Sweden was very low and, year after year, national wage settlements were negotiated between the LO and the employers' union. Such settlements were usually made with alacrity because the LO and employers' union shared the common objective of combining low unemployment and economic growth with low inflation and balance in both domestic and foreign trade.

The Swedish model at this time functioned quite differently from its later image as an economic system that mixed high taxes with big government benefits. In the early 1950s, Sweden was one of the freest economies in the world, and its government spending relative to GDP was below the U.S. level. Even until the early 1960s, Sweden's economic system still was freer than in most European countries.

Between 1962 and 1976, Sweden experienced an expansion in government spending that was unprecedented during a period of peace. Government spending relative to GDP rose

[1] OECD statistics, 1960-1980.

from about 20 percent in 1950 to more than 50 percent in 1975. Taxes were increased virtually every year while the welfare state expanded relentlessly, both in the form of a sharp rise in the number of government employees and in escalating transfer payment benefits.[2]

Employment, as measured by the gross number of jobs, has not increased since 1975. However, even though Sweden has roughly the same number of ethnic Swedes (about eight million), its total population has increased by nearly an additional million immigrants and refugees. Sweden's overall employment levels became masked by the high proportion of public sector jobs. If only private sector jobs are counted, total employment is currently at a level lower than it was in 1950. Still, Social Democrats often claim that Sweden has a comparatively high employment rate, though this claim is based on deceptive or padded employment statistics that either count people who are on long-term sick leave as employed or exclude others from being considered part of the labor force due to early retirement or disability.[3]

Tax Reform and Family

A critical event in the modern history of taxation and employment in Sweden was the 1970 policy change that required Swedes to file income taxes on an individual rather than a household basis. In effect, this change eliminated the Swedish equivalent of "joint income returns" and made nearly everyone a "single income return" filer. The SAP, urged on by Alva Myrdal and under the guidance of the longest-serving minister of finance, Gunnar Sträng, presented the abolishment of joint-income taxation for spouses as a way of "making

[2] Stefan Karlsson, *The Sweden Myth*, July 8, 2006.
[3] Ibid.

it more economically attractive for women to seek employment."[4] The pragmatic reasoning behind this was the desire to increase tax revenue by moving more people, specifically women, into the workforce. However, from a fiscal perspective this backfired in that, to work, women had to use government-subsidized services, like daycare, and were most often employed in government-paid public sector jobs. In addition to this miscalculation, although the ideological reason for the tax reform was the equal treatment of men and women, the policy change had consequences that went beyond these original intentions.

By taxing married couples as if they were not married, SAP policies effectively altered the social institution of marriage. By the early 1970s, since there were few financial incentives to marry and since religion's influence was becoming increasingly defunct, many "liberated" couples chose to cohabit rather than marry. Beginning a few years later, rights were expanded for cohabitating couples. The marriage rate accordingly dropped. Marriage rates continued to decrease to the point that, by 1993, a total of 59,500 children, nearly two-thirds of Swedish children, were born out of wedlock. However, the two-parent cohabiting family was stronger than marriage statistics (or the country's exaggerated reputation for sexual permissiveness) led some observers to believe. In an earlier generation, during the 1970s and 1980s, Sweden had one of the highest rates of cohabitation. The practice of men and women living together without the institution of marriage persisted.

As for increasing the workforce, the change in tax-filing status did successfully push many women into seeking employment. The next table shows how, while other Scandinavian countries also usually saw increasing numbers of women joining the workforce over the

---

4

years, the percentage of women working in Sweden increased the most, particularly after the 1970 tax reform. Within 15 years, women made up nearly half of the total workforce, and therefore, in its particular goal of seeking equality, the tax reform was successful.

Table 26: Percentage of Swedish Labor Force Made up of Women, 1950-1980

	1950	1960	1970	1980
Denmark	**32**	**30**	**36**	**43**
Norway	**24**	**23**	**28**	**41**
Sweden	**26**	**29**	**35**	**46**

Source: *Statistical Yearbook*, 1985.[5]

However, since the majority of women found jobs in the public sector, they earned less than what many of the wage-negotiated private sector jobs paid. In fact, a 2006 study conducted by the Karolinska Institute in Stockholm indicated that 90 percent of all working Swedish women essentially lost net income by working, when compared to the net income that they would receive if they did not work and received full long-term disability pensions.

The Karolinska study accounted for the taxes that these working women paid from their wages, as well as occupational-related expenses, such as commuting costs and lunch costs at work, which would not occur when receiving disability pay. The results of the study showed that the net gain for working versus receiving long-term disability pay for relatively well-paid women was only about 777 SEK, or roughly $111 more per month.[6] The average difference in net income for working was actually a loss, roughly 1000 SEK, or $143 per month, and the loss was even higher for women who worked at the lowest wage levels, who

[5] Sjögren, "Scandinavia." 123.
[6] Assuming an exchange rate of 7 *kronor* per U.S. dollar.

often also had the least education.[7]

These comparisons indicate that Sweden's socialist system does not particularly reward work, but rather, more often than not, it indirectly punishes those who work or at least discourages people from having legitimate, taxable jobs. The minimal financial incentive to perform labor creates a moral hazard by essentially encouraging people, especially low-paid workers on whom taxes would have the most real impact, to find medical reasons not to work or to seek "black" jobs.[8] The boom of the black market in Sweden in the 1970s and the high number of Swedes on long-term sick leave or receiving disability pensions reflect this moral hazard.[9]

Even though it was endorsed by others for mostly other reasons, the 1970 tax revision was largely the product of the social engineering efforts of Alva Myrdal. After becoming the cabinet minister for disarmament in Erlander's government in 1966, Myrdal grew to be a substantial force in domestic politics, and this allowed her to promote her *jämlikhet* policies and make them a practical reality. Carlson, Nilson, and other critics point to Alva Myrdal, more than any other single person, as the strongest force in financially coercing Swedish women to work, resulting in a permanent change in the fabric of Swedish family life.[10]

As early as the 1930s, when she co-authored *Crisis in the Population Question* with her husband, Alva Myrdal had expected a dramatic drop in birthrates to accompany the

---

[7] *Aftonbladet*, "Lågavlönade."
[8] Ibid.
[9] Ulf Nilson, *What Happened to Sweden? - While America Became the Only Superpower* (New York: Lightning Source, 2007).
[10] Myrdal's policies accelerated the transition of women from the household to the workplace. The shift in tax policy was accompanied by an all-too-willing state to provide public sector jobs for this sudden influx of workers. The SAP began to view public sector jobs as almost equally important to private sector jobs. This perspective violates the principle of crowding and ignores the importance of private sector revenue.

exodus of Swedish women into the workforce, but she had hoped that providing financial support and services would encourage enough women to bear a third child to keep the population level stable.[11] The results were disappointing, and not until nearly forty years later, when the Riksdag dramatically increased the benefits for bearing a third child, did any substantial positive change occur in the birthrate.

Nilson and other critics believe that the persistently low birthrates since the mid-1960s are a problem that can be partially attributed to how Myrdal's tax program focused on individual rather than household liability. However, Carlson blames the dissolution of the traditional Swedish family for the failure of birthrates to reach the replacement level. As these causes are linked, it appears that both reasons are valid.

Assar Lindbeck observed in his essay "The Disincentives of Work" that virtually no Swedish woman of the middle class could afford to have three or more children without relying on state subsidies (such as the child support system and daycare facilities) because the system had increased taxes so much to pay for these very services. Lindbeck noted that even those who would have preferred not to use these services were effectively forced to do so due to their diminished net income. The tax reform, in forcing women to work for sufficient income, led to the loss of traditional domestic home life, partly by making it impossible for women to devote enough time and energy to family and children.

Global statistics consistently indicate that, if they are married, women in any country are more likely to have children or even more children than if they are unmarried. Having a husband instead of a live-in boyfriend appears to provide a greater sense of security to a

[11] Not since all children reproduce about one third of all women in Sweden must have a third child to keep a population stable.

woman, increasing her willingness to make her personal situation more vulnerable by having more children.[12]

Although highly-taxed average Swedes would have most likely responded to financial incentives to marry, incorporating the Swedish woman into taxable work by removing her from the non-taxable work of the home proved to be a greater priority for Alva Myrdal and her colleagues. As a result of the tax reform, fertility rates naturally plummeted as women, as a group, moved from unpaid, traditional housework to paid, taxable public sector work (see Appendix C). Due to the loss of traditional domestic home life and the decline of the institution of marriage, women became generally unwilling to have more than two children. Since women's work was integrated into Sweden's formal marketplace, fertility rates have failed to return to above the necessary minimum replacement rate of 2.1 children per woman. Today, many Swedes believe that immigration will fill the gap.[13] In the largest cities, such as Stockholm or Malmo, a European rather than a Swedish identity is prevalent among the youth. Globalization, in combination with immigration, may eventually eliminate or marginalize the remaining Swedish cultural institutions, much as the welfare state supplanted the State Church.[14]

Recession

Despite Palme's overwhelmingly positive proclamations about the Swedish system, by 1969, Sweden's well-oiled machinery began to falter when the country incurred a large deficit in its balance of current payments. Initially, SAP leaders failed to acknowledge how

---

[12] Carlson, *Conjugal America*, 57.
[13] Josiah R. Baker, "Immigration Strains Sweden's Welfare State," *Washington Times*, August 19, 2007.
[14] Ibid.

detrimental this deficit could become. They believed that incorporating a greater proportion of the population into the taxable, formal economy through public service jobs would fill the employment and revenue gap. However, nearly everyone miscalculated how quickly Swedish industry would lose its comparative and competitive advantages. Soon after, the recession of 1971-1972 struck and a sharp rise in unemployment occurred.

This economic contraction, caused by expanding employment during recessionary conditions, was exacerbated by the introduction of severe credit restrictions that were intended to improve the balance of current payments. Simultaneously, private industries quit expanding. Unlike during the depression in the 1930s, when Swedish industries were responding to increases in demand for raw materials from Hitler's Germany, in the 1970s, Germany and almost every other industrialized nation demanded fewer goods from Sweden due to their own recessionary conditions.[15] These international economic troubles further hindered private sector growth and helped bring about stagnant economic growth for years to come.

Despite these events which may have discouraged other politicians, Olof Palme's overwhelmingly ideologically driven policies continued to transform Sweden into his vision of the ideal socialist society, which included the rapid introduction of regulations that harmed profit taking for investors and sharply increased payroll taxes.[16] Sweden's "solidaristic wage policy" aimed to reduce wage differentials between those that worked under the collective

[15] Swedish macroeconomic planners within the ministry of finance either disregarded or did not appreciate the magnitude of the positive effects that trade with Hitler's Germany had had on Sweden in the 1930s. This is a bit surprising, because Wigforss, though retired, was still politically connected and in contact with those running the ministry of finance. He should have recognized that the situation in the 1970s differed from the situation in the 1930s and alerted those who replaced him. Perhaps Swedish leaders wanted to conveniently forget how much they had benefitted from a strong Germany during the global depression of the 1930s?

[16] Childs. *The Middle Way On Trial*.

bargaining agreements led by the LO which directly or indirectly accounted for nearly 90 percent of those employed by 1980. Most controversial was the LO's chief economists promoted Meidner's plan to gradually transfer ownership of private enterprise shares to the trade unions. The relatively disorganized non-socialist parties managed to unite against Meidner's plan. The rejection helped contribute to the SAP's defeat in 1976. Despite that lose, the LO continued to push for the plan while also continuing their perennial efforts to increase wages while elevating oil prices drove up costs which discouraged private domestic production.[17] By 1982, the Meidner plan eventually died after years of discussion in committees, but it demonstrated that union dominance and its quest for control of production not cooperation with private industries was their true objective. The efforts behind the Meidner plan and its consequences effectively killed what was left of the spirit of Saltsjöbaden.

Since the middle 1960s the creation of additional manufacturing jobs had become stagnant. At this same time, the LO's demands grew just as regulatory compliance and taxes requirements also increased. Cooperation became strained as employers no longer sought to expand employment due to financial and regulatory constraints. By 1974, not just the spirit but the agreement of Saltsjöbaden had dissolved when the SAP-dominated Riksdag altered the Saltsjöbaden Agreement to include employee protection as a matter of law and outlined sets of official regulations that dictated the process of terminating workers.[18] This meant that

---

[17] Elder, Thomas, and Arter. *The Consensual Democracies? The Government and Politics of Scandinavian States*, 190.

[18] European Foundation for the Improvement of Living and Working Conditions, *Saltsjöbaden Agreement*, http://www.eurofound.europa.eu/emire/SWEDEN/ANCHOR-SALTSJ-Ouml-BADSAVTALET-SE.htm (accessed October 31, 2007).

employees were protected from frictional[19] in addition to structural, cyclical, and seasonal unemployment, meaning that poor performance and even absenteeism would no longer be sufficient for cause termination. The balance of power had shifted to the unions. The LO along with help with the SAP-dominated Riksdag severed the ongoing negotiation process that had kept employers and trade unions separate from official government intervention. The "Middle Way," in terms of labor policy, perished with this 1974 legislation. Unfortunately for the LO, this act happened at the same time that the oil embargo and its shocks struck the economy, placing greater stresses on an economic system that no longer seemed to correspond with global market conditions.

Palme's economic policies were a continuation of what Erlander's regime had begun in the mid-1960s. The perceived "cure" to the employment crisis was to fill the void with more public sector jobs and through numerous efforts to depreciate the currency. Furthermore, the Swedish "stay-at-home mom" nearly became extinct because of the welfare incentives created by Alva Myrdal and her colleagues in the middle to late 1960s and the filing status tax reform in 1970. Most mothers left their children at government daycare centers, and this shift of child care from the home to the public sector exaggerated Swedish employment figures.[20] Solutions like these only caused further government deficit spending, sharp increases in inflation, and a much higher tax burden on private citizens and businesses, which discouraged investment and the creation of private sector employment; multiple

[19] This is unemployment caused by quitting a job or from getting fired for poor performance. In this case, the new restrictions greatly increased the difficulty of firing a poorly performing employee. From this point onward, termination of employment not only became costly and time consuming but also discouraged employers to hire people that they could not terminate.
[20] Karlsson, *Sweden Myth*.

devaluations of the Swedish *krona* particularly stoked the flames of price inflation.[21]

Although Gunnar Myrdal and Bertil Ohlin both received Nobel prizes in the 1970s, by then most of the SSE economists had retired or were no longer directly influencing Swedish economic policies. These awards served more as "lifetime achievement" honors than as acknowledgements of contributions to current Swedish policymaking. As the SAP became increasingly commanded by idealists such as Palme in the 1960s, the SSE's influence waned. The few economists who were still involved in governance erroneously believed that what had worked in the early 1930s would also work in the 1970s. But in the 1970s, unlike in the Great Depression, the world markets were experiencing massive inflationary instead of deflationary pressures. Germany was not in a position to help Sweden financially by buying ever-increasing loads of iron ore, timber, paper, or copper as it had in the 1930s. These critical differences help explain why the old tactic, which had seemingly worked for a few short years, would not work again. Esping-Andersen concluded that the "badly orchestrated fiscal policy during the early 1970s placed the Swedish economy in a very unfavorable position."[22]

Popular dissatisfaction finally led to an electoral defeat for the SAP in 1976. Also in that same year, monetary economist Milton Friedman won the Nobel Prize in economics, which some Swedes viewed as indicative of a real shift in economic policy orientation.[23] However, reform did not happen under the first non-socialist government in over forty years. Instead, the non-socialist period of 1976-1982 witnessed a continuation of government

---

[21] Ibid.
[22] Esping-Andersen, *Three Worlds*, 183.
[23] Allan Mattsson, the trade union leader of Metall, certainly viewed Friedman's award as a defining moment of change for Sweden's economic policies.

expansion and reflected a general state of confusion within the alliance. The non-socialists, being inexperienced, demonstrated a marked inability to make the necessary adjustments to Sweden's macroeconomic policies.

When Palme's SAP returned to power in 1982, his economic platform had not changed, but, as time had passed, it had become increasingly clear that Sweden's economy was in a serious long-term crisis. Inflationary surges starting with the 1974 oil embargo continued through the 1970s. The macroeconomic tactics of the 1930s which were designed to counter deflationary pressures were not so successful in managing inflationary problems. Sweden was not alone in this struggle. Most of Western European governments struggled to adjust to problems associated with abnormally high inflation levels.

The general public began to see that *Folkhemmet* was experiencing severe problems. In his final years, Palme focused more on foreign affairs, and, in spite of growing economic hardships, he attempted to maintain what he believed to be Sweden's special role in contributing to a peaceful global community and to improving social justice and living conditions in developing nations. Blinded by his own ideological biases, he still perceived the Cold War's ideological struggle between the United States and the Soviet Union, not economics, as the primary concern for Sweden. Consequently, Palme chose not to make any substantial changes in economic policies. He ignored the nation's deteriorating economic conditions, which may have led to increased dissatisfaction with his administration, especially from those on the political right, and possibly contributed to his assassination in 1986.[24]

[24] The author was living in Norway at the time of Palme's murder (February 1986). The Norwegians, though

The long-term impact of the SAP's political monopoly was to entrench a Social Democratic mentality in modern Swedish politics. Eventually even the opposition parties accepted most of the main tenets of the welfare state. The changing of the Conservative Party's name to that of the Moderate Party is an example of the SAP's ideological success. The differences being mainly their degree of commitment to SAP ideology. Historical Swedish cultural values sharply contrasted with the incentives and directives of Social Democratic economic policy. Traditional Swedes, for example, had a strong sense of self-reliance and self-sufficiency and felt a moral and social obligation to contribute to and work for the community and their families.[25] However, these tendencies have in the present day given way to dependency upon the state and a persistent and profound disintegration of the Swedish family as many people lose their sense of personal responsibility.

Sweden has an extensive child-care system that guarantees a place for all young children ages two to six in a public daycare facility. From ages seven to sixteen, children attend compulsory comprehensive school. After completing the ninth grade, 90 percent of students attend upper secondary school to obtain either an academic or technical education, which is paid for by the state.

Swedes also benefit from an extensive social welfare system that provides child care, maternity and paternity leave, a ceiling on health care costs, old-age pensions, and sick leave, among other benefits. Parents are entitled to a total of twelve months of paid leave from birth

---

sympathetic to his views, believed that Palme was an idealist. Though shocked and appalled by his death, by this time many Norwegians had recognized that Sweden was in decline, possibly because of Palme's idealism. Norway's fortunes were vastly improving at the time and there were fears that Sweden's economic problems could spill into Norway, if Swedes began looking for jobs there because of the EFTA agreement. To a mild extent, this did occur, particularly in the 1990s, when tens of thousands of Swedes moved to Norway for employment.

[25] Bylund, *How the Welfare State*.

to the child's eighth birthday, with one of these months reserved specifically for the father. A ceiling on health care costs and paid sick leave makes it easier for Swedish workers to take time off for medical reasons.

Due to these and other comprehensive personal benefits, considerable social pressure is placed on Swedes not to complain or express dissatisfaction with policies that directly affect their lives. The lucrative system of benefits encourages many of its recipients to resist any reduction. Such fear is sustained because any cut at all will, indeed, affect a special interest group. Over the decades, the system was delicately designed, through traditional Scandinavian compromise and inclusiveness, so that all groups receive specific benefits in the pact.[26] As a result, any change in the pact would create at least a temporary imbalance. There is also the perceived threat that, if the right thread were pulled, a significant change could unravel most of the system. Most people want adjustments, but not a complete abandonment of the system; they especially want to keep long-term benefits such as retirement and health care.[27]

Cooperation Means Less Risk and More Equality

The introverted nature of many Swedes often fosters insecurity. Swedish attorney and best-selling author Ulf Sandstrom explains that "the additional desire to be correct, accurate, or nearly perfect also hinders Swedes from wanting to take risks that could demonstrate a

---

[26] Assar Lindbeck, "The Advanced Welfare State," *The Welfare State* (Brookfield, VT: Edward Elgar Publishing, 1993), 111.

[27] One great irony is that Swedes are hugely concerned about making any changes to the benefits package, and yet the Swedish health care system is continually being adjusted because of problems in funding. Also, the retirement system has already been radically revised, especially by American standards. Many non-socialist changes have happened without nearly as much media or scholarly attention as one would expect.

weakness or a lack of knowledge. Being bold about particular issues is to place oneself in a position of vulnerability."[28] Swedish societal pressure is intense, but extremely subtle. A mistake or faux paus that may not be obvious to the outsider is conspicuous to those who are truly Swedish. Swedes are constrained by Swedish mores and Swedish silence, but they become liberated from these when in a culture where such constraints do not exist. Many Swedes readily testify that the difference in behavior between Swedes outside of Sweden and those inside Sweden is remarkable.

Gunnar Myrdal predicted and planned for an innovative, cooperative society that would demand a highly educated workforce. The belief was that intense human resource development would yield jobs in high-tech fields, eventually supplanting demand for blue-collar manufacturing work. However, the tax regime and labor regulations introduced by SAP policy in the 1960s and 1970s deterred such initiatives, especially foreign direct investment (FDI) as seen in Table 28.[29]

As social engineering efforts became a matter of SAP policy in the 1960s, the process and purpose of educating Swedes changed. The emphasis on *jämlikhet* in Swedish socialism was felt nowhere more than in the classroom. For many years, the traditional grading system was abandoned in favor of non-competitive evaluations. Grades were considered to promote inequality and separate students into social groups. Instead, in Swedish schools, students who were more advanced were to help those who were behind. The best students were discouraged from working as hard as they could, while the worst students were encouraged

[28] Ulf Sandstrom, interview by the author, Sarasota, FL, November 2007.
[29] Assar Lindbeck, "Work Disincentives in the Welfare State," *The Welfare State* (Brookfield, VT: Edward Elgar Publishing, 1993), 29-33.

to listen to and learn from the better ones. There were no grades until the eighth grade, because educators did not want to encourage competition, pressure students into trying to be better than others, or make some students feel like they were worse or less competent than their peers.[30]

Social engineering efforts negatively affected the Swedish work ethic. In the 1970s, private schools were hated by the government. However, in the state-funded schools, Swedish students began to lack discipline, and the teachers and administration lost the ability to impose any disciplinary measures upon the students.[31] It remained difficult to motivate students who could be offered no incentives. This environment, devoid of competition and discipline, altered the behavior of students and their approach to school, which would later affect their ability to perform at the workplace. Free universities and general lack of discipline meant that young adult Swedes could spend as much as a decade living as a student and not working.[32]

The end result was that differences between individual performances were minimized, which further justified the practice of paying everyone roughly the same salary regardless of occupation or position in society. If everyone was roughly equal in capability, then different wages were not just unnecessary but even actively discriminatory. Moreover, equality in salaries furthered the ultimate socialist ideological goal of income equalization.

---

[30] Josiah R. Baker, "Sweden's Suffering Socialism," *Orlando Sentinel*, April 18, 2004.
[31] Ibid.
[32] Boswell, "Nordic Model."

Economic Policies and Issues

The Heritage Foundation[33] uses the following criteria to measure an economy's freedom: (1) trade policy, (2) fiscal burden of government, (3) government intervention in the economy, (4) monetary policy, (5) capital flows and foreign investment, (6) banking and finance, (7) wages and prices, (8) property rights, (9) regulation, and (10) informal market activity. Surprisingly, Sweden ranks very high in most of the criteria used, because in most of these categories, the Swedish government is very tolerant of free market activities.

As a staunch supporter of free trade, Sweden in its economic policies still emphasizes the significance of export markets. As long as personal income tax levels are kept high, liberal corporate incentives are provided. During the last hundred years, large multinational enterprises developed that thrive in external markets. The wide disparity between individual tax rates and corporate statutory structures encourages reinvestment, which is a considerable obstacle to small-scale entrepreneurial activity in Sweden.

For most unions, there is a counterpart employer's organization for businesses. The unions and employer organizations are technically independent of both the government and of political parties, although the largest federation of unions, the LO, has always been linked to the largest political party, the Social Democrats. There is no legislated fixed minimum wage in Sweden. Instead, wages are set by collective bargaining between unions and employers. As a result, there is a low wage differential in that unskilled employees are relatively well paid while well-educated employees are low paid compared to those in competing countries.

---

[33] Heritage Foundation and *Wall Street Journal*. "2004 Index of Economic Freedom." Heritage Foundation. http://cf.heritage.org/index2004test/country2.cfm?ID=Sweden (accessed July 20, 2007).

Sweden possessed and still possesses numerous commercial advantages. For example, Sweden's favorable geographic position offers access to three important markets: Scandinavia, the Baltic Sea Region, and the European Union (EU). Businesses with a corporate base in Sweden can take advantage of its geographic proximity to these areas by establishing air and sea links. As a consequence of decades of heavy public spending on infrastructure, Swedish airports and seaports are the largest in Scandinavia. Its legal system provides protection for corporate interests; the political system is considered stable and the quality of the workforce is technically skilled, efficient, and well-educated. Intellectual property is protected, and corruption is not tolerated.

Swedish courts offer bankruptcy protection similar to the United States' Chapter 11 proceedings, which allow companies to reorganize without state interference and to restructure their business operations. Swedish law allows delays for companies in processing their bankruptcy as a means of giving them more time to organize their finances. This policy is to ensure that large companies survive.[34] Companies like Saab attract particular support from the Swedish government because of their importance to the economy; Saab alone employs more than 15,000 people.

Sharp deteriorations in Sweden's export-driven economy caused rapid currency depreciations. A disadvantage in the 1970s, as the fixed exchange rate system was abandoned, was the inability of the Riksbank, or Central Bank, to appropriately manage the Swedish *krona*. Finally, under Moderate Prime Minister Bildt in 1992, the *krona* was allowed to float on the open market. Prior to Bildt's initiative, the Riksbank endured roughly twenty

[34] John D. Stoll, "Saab Speeds Up Talks with Suitors," *Wall Street Journal*, March 3, 2009.

years of disappointing monetary management. However, Sweden eventually experienced a vastly weakened *krona* that inevitably led to inflationary pressures in the small economy.[35]

Equity turmoil, falling exports, and, eventually, deflation (at the wrong time) weighed heavily on Sweden's currency. Unlike larger domestic economies such as the United States, Sweden's currency was not well insulated from global trends. Typically, the Swedish *krona* reacted very strongly to sudden changes in global stock markets. Antje Praefcke at Commerzbank explained the reason for such sudden swings in the influx and out flow of capital. "We are talking about a relatively small illiquid market, which investors leave quickly in case of rising risk or deteriorating sentiment."[36]

Swedish industrial production was very sensitive to new orders, which mainly came from world market demand. Domestic sales alone could not substantially positively influence demand for manufactured goods. Declines in auto sales, such as Saab, profoundly and negatively affected Sweden's export-driven economy. Being heavily dependent on exports, the system always had had to respond to global market impulses.[37] "Sweden's Riksbank carries out a competitive devaluation – the only central bank in the world that is complicit in doing so," stated Robert Stenram, a former senior Swedish banker.[38]

Svante Oberg, the Riksbank's first deputy governor, observed some of the risks associated with prolonging the *krona*'s weakness: "This would lead to exports strengthening and imports slowing down, but at the same time provide an inflationary impulse.…This may be an advantage in the short term, as economic activity is now weak and inflation is low."

---

[35] Peter Garnham, "Inflation Warning Hurts Swedish Krona," *Financial Times*, March 6, 2009.
[36] Peter Garnham, "No Help in Sight for Sinking Krona," *Financial Times*, March 10, 2009.
[37] Ibid.
[38] Ibid.

Currency fluctuations increased uncertainty, which increased the perception of long-term risks, thereby discouraging investors.[39] Sweden's fiscal policy problems in the 1970s and 1980s are most often attributed to the inability of the government to balance the variables of taxation, inflation, and currency fluctuation while continually attracting domestic and foreign investors.

[39] Ibid.

Chapter 10: *Folkhemmet* Crumbles

Gordon Sander of the *Wilson Quarterly* wrote, "Nowhere in the world has the dream of reason been pursued quite so vigorously as in the Kingdom of Sweden." According to Sander, it was "reason" that served as the basis for the SAP's political-economic model, a massive welfare state characterized by a near-null unemployment rate and lofty egalitarianism.[1]

Models simplify and define complicated circumstances. In Sweden's case, the common interpretation of its vaunted model often disregards its unique cultural foundation. Academic and media writers tend to focus on bold ideals, such as the struggle between capitalism and communism, while often neglecting to appropriately examine the Swedish mindset. Even Sweden's government leaders went through the daily political process without being fully aware of how their customs and traditions, which had developed over centuries, ultimately dictated the attributes and direction of *Folkhemmet*.

Gradually, as small-town, agrarian generations of people became replaced with the upcoming urban, industrialized ones, Sweden lost the original pre-industrial structure that had passed with its culture from one generation to the next. By failing to replace the arrangement with an adequately domestic-based substitute, Sweden's leaders ensured that its traditional culture was no longer self-perpetuating, which made its system and institutions increasingly vulnerable as the cultural premises that they were built upon disintegrated.

From the mid-1960s, while still acting as education minister, Olof Palme began promoting Sweden's "Third Way" to the world as a model for future governments.[2] When

[1] Ibid.
[2] Per Bylund, *Keynesian Heaven?* (2006).

critics confronted Palme with the fact that Sweden had a significant advantage in having stayed out of both world wars, he would quickly point to neutrality and peace-seeking as the precise reason the country had avoided these wars and therefore the origin of Sweden's success.

Successfully staying neutral through both world wars did spare Sweden's industrial capacity from damage, each time placing it in a good position to rapidly expand production to meet the growing demands of those who had been embroiled in the conflict. When World War II ended, Sweden was fully prepared to supply the necessary raw materials and industrial goods for reconstruction on the continent during the 1950s and 1960s. Swedish economic growth continued until the early 1970s, when the world economy finally caught up. With that development, Sweden lost its competitive advantage and could no longer provide generous social programs and sustain a growing economy.

Despite centuries of international trade, Swedish political culture remained "strikingly myopic" and, to some, naïve. However, the SAP's assumption that all human beings mean well and will try to do well were remnants of the feudal cultural foundation that had helped small farming communities survive the harsh and semi-isolated climate. Hansson and his political successors built *Folkhemmet* because they believed in this cooperative spirit as a political reality.

Those who enjoyed Sweden's Golden Age and supported its policies acknowledged that it was a special time for a special country. Georg Klein, a Hungarian refugee and cancer specialist, explained the Swedish mentality during that time: "In Sweden there is a fantastic, erroneous belief in rationality. People here live with the assumption that if only the laws are

just, then society will also be perfect — that everything can be planned. There is a basic ignorance of the fact that good and evil exist within every human being."[3]

Agrarian cultural values did not vanish from those in power until the time of Olof Palme, but by the late 1960s, Sweden's political psyche had emerged as cosmopolitan, individualistic, and self-serving. The final and dramatic disruption of the traditional Swedish household archetype, via fundamental changes in the tax code in 1970, hastened the deterioration of traditional Swedish culture. As marriage rates and birthrates plummeted, a rise in immigration brought into Sweden entirely new groups of people who felt no social obligation or cultural connection to anything like Hansson's *Folkhemmet*.

By that time the ruling politicians, especially Palme, disregarded the origins of Sweden's economic industrialization, which had occurred as a combination of pure luck in international politics and a minimalistic state system in the 19th century.[4] Likewise, the memories of an earlier capitalist, free-market era leading to further industrialization and modernization in Sweden were overwhelmed by decades of socialist rhetoric in the media, the schools, and the workplace (via unions). Capitalist origins were forgotten as Swedes focused on their present and future, which had promises of ever-increasing prosperity. Meanwhile, cosmopolitan leaders, such as Olof Palme's successor, Ingvar Carlsson, led Sweden in a direction that ultimately linked it to the EU while welcoming floods of immigrants. Such moves intensified foreign influence, which had the potential to destroy the remaining elements of traditional cultural institutions.

---

[3] Sander, *Sweden*, 62.
[4] Bylund, *Keynesian Heaven?* 3.

During the golden decades, people were given the impression that the system not only worked – it worked well! "From 1945 to 1975, Sweden was the best society that had ever existed in the world," recalls Harry Schein, an Austrian Jew who, like Georg Klein, had sought refuge from Hitler in Sweden. He helped found the Swedish Film Institute and was also president of the Swedish Investment Bank. Many Swedes who remember this period remember it as an ideal society. Schein, who wrote for the newspaper *Dagens Nyheter*, said, "Upon reflection, it is easy to see that the 'Swedish Model' evolved even more through luck than skill. It isn't so remarkable that conditions now are declining and that times have gotten tougher. What is remarkable is that this golden epoch from 1945 to 1975 happened at all."[5]

Swedish economic policies experienced a deluge of transformations due to technology advances, external competition, and demographic changes resulting from an aging and increasingly foreign-born populace. The end of Sweden's "Golden Age" and the circumstances leading to its current situation are results of the following severe macroeconomic imbalances: (1) the design of tax and benefit systems, which created incentive problems and lock-in effects, (2) a weak competition policy and neglect of the need for renewal in the business sector, (3) an uncertain environment for investments, and (4) political fragmentation and weak institutions (i.e. fiscal and monetary policy).

The Corporate Welfare State

Since its beginnings in the 1920s, Social Democratic economic policy has depended upon the export revenues of big business to increase national income. In this way the

---

[5] Sander, *Sweden*. 66.

Swedish state was transformed into a corporate democracy. Backed by the workers' unions, the Social Democrats built a welfare state by attaining big promises from big business; in return, big business was not really taxed or regulated. Instead, small or medium-sized enterprises and Swedes of all income levels were heavily taxed.

Two of the SAP's key objectives were to reduce (or even abolish) unemployment and to increase economic growth. In its approach to these objectives, Sweden was not, nor had it ever been, a truly socialist nation, even after putting the Social Democrats "in control" for many decades. Even within the SAP, trade unions did not seek or desire immediate state intervention in their dealings with the employers' unions. This was partly due to the Swedish tradition of self-reliance, but it was also because it seemed unnecessary to consult the government to obtain the best results. Cooperation, according to the Basic Agreement, meant making a reasonable compromise that did not include state coercion.[6]

Despite the ideological conflict during the Cold War, the world became increasingly globalized. Manufacturing and the private sector continued to fulfill many of the macroeconomic goals of the welfare state until the mid-1960s. At this point, the SAP readjusted its macroeconomic strategy to increase employment by creating permanent public sector positions. By the mid-1970s, however, the Swedish economy had endured significant stresses and had clearly begun to decline, especially in relation to the rest of the developed world. With big businesses no longer capable of delivering enough jobs, the state had to fund hundreds of thousands of relatively new, permanent public sector jobs with tax increases. Unfortunately, these tax increases began to choke the overall level of private and public

[6] Sander, *Sweden*. 52.

capital investments and further aggravated the problem of insufficient economic growth. Despite these apparent hardships, Palme's economic policies demanded the further development of the already-bloated welfare state as the public sector continued to grow in proportion to other key components of its GDP.

Palme continued to pursue his vision of Folkhemmet as a matter of Swedish national pride and in what he believed to be part of Sweden's destiny in world affairs.[7] Palme correctly observed that many Swedes remained resolutely patriotic. Swedish flags and the nation's official colors were (and still are) commonly displayed throughout the country. Despite decades of lackluster economic performance, the SAP had convinced the majority of Swedes that they lived in a modern paradise, even though taxes were about 65 percent of earnings on modest wages, with the percentage increasing rapidly and possibly exceeding 100 percent for larger salaries.

Over the decades, Vänster Party members and elements of the SAP's left wing quietly realized that the system's political elite had betrayed Branting's vision. Some rationalized that *Folkhemmet* meant successfully enabling considerable social mobility. Despite the feeling of many people, particularly among the former peasantry, that they were capable of transcending their class roots, Swedish discrimination persisted in the arena of personal financial growth. Since "wealth" in SAP ideology is something shared by the group or experienced through access to resources, rather than by individual or family ownership of property or financial resources, only the few who had obtained a large measure of wealth prior to the 1938 Basic Agreement were able to hold onto their elite status. Those who

---

[7] Ulf Nilson, interview by the author, Fort Lauderdale, Florida, November 2003.

attempted to become wealthy after 1938 increasingly endured harsh financial penalties that often made it impossible to become independently wealthy by legal means. Since the SAP's political success relied on individuals becoming dependent upon the state for services, individual financial independence intrinsically served as a rival model to the SAP's plan and its ideology.

Still, in many cases, the participating captains of industry benefitted from their many agreements with the ruling Social Democrats. Favoritism prevailed in the corporate world, with small businesses being heavily taxed while large corporations paid little or no tax. Under this system, few new private firms successfully developed. This harsh climate for new private sector growth caused Sweden to lose many of its most daring entrepreneurs through capital flight and brain drain. The table below shows how employment was substantially more concentrated among large employers in Sweden than in any other country on the list. This reflects the relative absence of successful smaller and mid-size enterprises in Sweden.

Table 27: Percentage Distribution of Business Sector Employment by Enterprise Size, 1991

	Enterprise Size (Number of Employees)			
	1-19	**20-199**	**200-499**	**500+**
Denmark	**40**	**23**	**17**	**20**
Norway	**41**	**30**	**10**	**19**
Sweden	**18**	**17**	**7**	**58**
France	**29**	**21**	**16**	**34**
Germany	**26**	**19**	**18**	**37**
UK	**33**	**16**	**17**	**34**

Source: OECD Economic Survey, 1994.[8]

Strong worker rights and the generous welfare benefits of postwar Europe restricted

[8] Sjögren, "Scandinavia," 160.

the power of individual firms to provide for workers in general. Even when it was technically possible to do so, high employment taxes and excessively lucrative employee benefits discouraged smaller firms from expanding and hiring additional people. Swedish economic historian Anders Edwardsson said, "In Sweden, an employer has more legal obligations to an employee than … a parent [to] an adopted child."[9] However, large-scale private industries were more equipped to handle these obligations both politically and financially as long the economy thrived overall.

There are numerous reasons for the bias towards large-scale private industry. First, the Basic Agreement functioned best with fewer larger players than with many smaller ones; negotiations between labor and management were simpler because of the reduced number of necessary agreements. Second, the SAP's ultimate goal of managing capital would become simplified by consolidating production. Third, planning of both the employment issue and wage increases was easier to control with fewer firms to consider. Last, the large-scale industrial firms were much more quantitative in their own operational calculations. The decline in industry and subsequent rise in services, which relied on more qualitative analysis, had brought substantial chaos to the planned approach. It was much more difficult to manage smaller, qualitatively based firms, especially those that were service-oriented, than those that relied on a steady flow of hard numbers. Thus, the Swedish model of strong workers' rights had to be managed in a market with fewer, and mathematically predictable, firms.[10]

In some ways, a market-based economy had always been alive and well in Sweden, at

---

[9] Anders Edwardsson, interview by the author, Uppsala, Sweden, August 2009.

[10] Sven Steinmo, *Taxation and Democracy: Swedish, British, and American Approaches to Financing the Modern State* (New Haven, CT: Yale University, 1993), 44.

least in certain areas. Despite nearly a half-century of SAP political hegemony, the means of production remained almost entirely in private hands. Also, over the years and almost without exception, Swedish corporate income taxes were substantially lower than even those in the United States. Much as the country had striven for egalitarianism, Sweden's corporate world retained an oligarchic elitist structure that was still dominated by about a dozen wealthy families, including the Wallenbergs, the Bonniers, and the Stenbacks. The Wallenbergs, the most powerful of them, alone owned 40 percent of Stockholm's securities stock market.[11]

In big business, *jämlikhet* remained more of a belief in *Folkhemmet* than a goal actually attained. Key industries and political leaders received privileges for their controlling and managerial roles, including special individual tax exemptions.[12] Regardless, the wealthiest and many of the most talented Swedes left the country or managed to avoid playing the game of equality. Over the decades of SAP dominance, the wealthy Swedes who remained in Sweden became incorporated into the power structure.

The Wallenbergs and other elite families persisted as a representation of massive inequalities without sustaining any significant public outrage or receiving direct threats from the government. Even during the most zealous years, neither Palme's leftist regime nor the equality-obsessed Myrdals ever seriously attempted to eliminate the power and influence of the Wallenbergs and the dozen or so other elite families who maintained and expanded their wealth. The rational Swedish political mindset virtually guaranteed that these wealthy

---

[11] Ibid.

[12] According to Swedish journalist Ulf Nilson, some wealthy individuals were given personal tax exemptions from the Swedish Riksdag.

established families continued in their position and station in society precisely because they had such power and influence on the Swedish economy. Also, although most Swedes fully accepted the SAP's indoctrination about widespread *jämlikhet*, they could overlook the wealthy families, despite the exemptions from the bulk of the tax burdens, as long as the families maintained a relatively low profile.

The Swedish tax system encouraged the concentration of economic power while discouraging the conspicuous display of wealth. Sweden, in effect, redistributed consumption rather than production. The numerous tax and legal mechanisms available to corporate investors in Sweden created a bias in favor of expanding profitable firms with large inventories, depreciable assets, or both. For example, the Wallenbergs helped pioneer the use of different classes of stock: one class included ownership or control with profit-sharing, and the other included only profit-sharing. Thus, wealth could be distributed without giving up ownership or control of capital.[13]

In general, Sweden's Keynesian system was designed to encourage the investment of capital to produce economic growth and jobs while very heavily taxing stagnant or nonproductive wealth (e.g., large estates). Due to this design, the wealthy were able to shield their wealth and income from the tax authorities by refraining from consuming or hoarding that wealth and, instead, placing it in the economy's active working capital stock.[14]

However, as can be seen in the next table, the much higher, steady growth in outward foreign direct investments (FDI) indicates that Swedish wealth was no longer loyal to domestic firms. Still, with the liberalization of foreign exchange controls, the volume of FDI

[13] *Financial Times*, March 18, 2009, 7.
[14] Ibid.

generally increased both inside and outside of Sweden.

Table 28: Swedish Outward and Inward Foreign Direct Investment, in Billions of U.S. Dollars, 1961-1990

	Outward	Inward
1961-65	**342**	**87**
1966-70	**703**	**662**
1971-75	**1,556**	**368**
1976-80	**2,864**	**507**
1981-85	**5,115**	**848**
1986-90	**21,332**	**5,107**

Source: Olsson (1993)[15]

State services have largely replaced Swedish preindustrial culture, which has disintegrated, leaving individuals to fend for themselves. More Swedes than ever now live alone. Many old Swedes die alone, and their deaths may go unnoticed for weeks — an unthinkable situation in Hansson's time. Human interaction may occur only because of an obligation or physical necessity: showing up for work, making a trip to the supermarket, or having to submit information to the government. The tight-knit, small-town communities are vanishing. To some, this trend suggests a bleak future. Disengagement is more than a Swedish trend because it is happening throughout the post-industrial world. Much as Robert Putnam observed in his seminal work *Bowling Alone,* civil engagements in Sweden are becoming less common. Many Swedes, when participating in a group activity, will leave as soon as they can in order to pursue private interests. Though the SAP may have initially benefited or capitalized on the disintegration of the tight-knit community of Sweden, the

[15] Sjögren, "Scandinavia," 158.

consequential rise of individualism has overwhelmed the power of the state. The recent decline of the SAP is a symptom of a society that is less concern with collective action and more focused on individual satisfaction and opportunity.

By the 1970s, the younger generations displayed stronger individualistic tendencies which were a by-product of the SAP's *folkhem* which intended to quash Sweden's pre-industrial institutions and traditional life. This externality or unintended result of increased individualism eventually began to undermine the authority and mission of Swedish socialism. Individuals became less like citizens of Sweden and more like citizens of the world. Many young people in Sweden, born after the completion of *Folkhemmet*, perceive themselves this way, as citizens of the world. Socialism presumes that the population can be contained in one economy and that people's behavior will not change. Rational expectationists in the field of economics have explained that this is a fallacy in higher-tax societies. However, the SAP conveniently overlooked Sweden's historical links to the rest of the world. If Swedes were historically always dependent upon foreign trade for their sustainability, it would seem quite logical for many to leave the domestic market if their own financial circumstances became adverse. Only those who were less ambitious and did not desire a more financially rewarding (void of punitively high taxes) life stayed. Palme did observe these departures, but could easily have believed that those Swedes that left represented the opposition which would only further strengthen the SAP's grip on the electorate (especially Palme's grip).

World market forces generate a much more fluid society, meaning that people and resources are geographically and dynamically more mobile and subject to change. Technological advances enable the mobility of capital and commerce on a global scale,

which forces governments to adopt what Susan Strange called "new diplomacy."[16] For example, if Sven has a regular job during the day but works online as a commodities trader at night, the government may only see the day job as his taxable income. Sven, no longer a loyal subject to the crown or to the government, likes this arrangement because it financially benefits himself which is what he is primarily concerned about. With the belief that the government is already taken more than a fair amount of his legal income, Sven can justify (as an individual and with a mentality devoid of much of the traditional collective mindset) keeping his unreported income deposited into a bank overseas. At a later date, he may make withdrawals from that overseas bank when he goes on vacations.

Governments are aware of their limitations in the global economy and have embarked on "new diplomacy." Strange observed that many governments must increasingly seek the involvement and cooperation of multinational firms to ensure the success of their policies. For Sweden, this becomes increasingly important as, through technological advances, individuals gain the capacity to easily act outside of the nation's system, circumventing socialist policies and thereby diluting the potency of even the best-planned programs.[17] Thus, just as changing global market conditions paved the way for the SAP to undermine the pre-industrial order, individuals liberated by an ever-fluid global economy are now pulling the props out from under socialism when they engage in external commercial transactions — and often without physically leaving home.

---

[16] Susan Strange, *In Retreat of the State: The Diffusion of Power in the World Economy* (Cambridge, UK: Cambridge Studies of International Relations, Cambridge University Press, 1996).
[17] Ibid.

How *Folkhemmet* "Worked"

Economists and political scientists who believe that minimal government interference in the economy yields the best results may wonder how such an intricate system managed to perform so well for so many years. The Swedish Way began its climb to eminence in the 1930s, when the SAP's public works program began building a world-class infrastructure which included excellent highway and railway systems, modern ports for containerized shipping, and well-connected telecommunications. The Swedish Way integrated freedom of trade (a non-interference strategy) and a consistent and rational rule of law.[18]

Avoiding both world wars and the Cold War, along with possessing an abundance of raw materials and manufactured goods, allowed Sweden to remain economically competitive for decades. This was a support for, not a consequence of, *Folkhemmet*. Initially, Swedish labor was cheap because it included a generation or two of previously small-town, agrarian workers who were grateful to have jobs and believed in providing honest, hard work. The Basic Agreement kept many workers' wages technically free from governmental regulations. Taxes were also initially somewhat lower than in other industrialized countries, including the United States. Labor-management conflicts were rare, which helped maximize overall productivity for the country, from which everyone benefitted. Labor was subsidized by public expenditures (e.g., basic education, infrastructure, access to child care, and individualized taxation,) and encouraged by individualized taxation.

Defenders of *Folkhemmet* always point to the fact that the system appeared to work up to a certain point. However, Childs's glowing report in 1936 served as a source of

[18] The Swedish government adhered to the tradition of encouraging home ownership. The legal system generally was fair and consistent on the issue of property rights.

inspiration for a system that had still many years to go before its full development as it was planned. Therefore, the deceptive appearance of success is in *Folkhemmet*'s gradual implementation; Hansson's *Folkhemmet* never functioned for any substantial period of time without experiencing severe economic problems. Within a decade after *Folkhemmet* reached completion, as declared by Erlander in 1967, Swedish economic growth faltered and so did the maintenance of *Folkhemmet*. By the end of the 1970s, the system clearly was not working.

"Feudal capitalism" is a useful term that describes the cultural characteristics that prevailed during the construction of *Folkhemmet*. Feudal capitalism incorporated pre-industrial traditional social values and practices with a modern, market-driven industrialized environment which was connected to and was dependent upon world markets. Sweden's subtle, yet solid moral and social values helped allow cooperation between labor and management while maintaining economic progress. Growth was promoted with the understanding that the proceeds would be shared and would be viewed as fair by all those who participated. Gradually and largely inadvertently, Social Democrats eliminated many of these preindustrial elements and attempted to substitute them (sometimes unintentionally) with either mercantilist or market-oriented policies. However, the high costs production-related elements of *Folkhemmet* that helped undermine Swedish competitiveness also prevented a successful mercantilist system to emerge. By the 1990s, financial realities due to global and continental economic pressures shifted Swedish economic policy making towards a much more capitalistic and market-oriented model than what most traditional Swedish Social Democrats could have imagined.

Regarding employment, which was the heart of the Basic Agreement and a key objective of socialist policies, a real turning point was the use of state money to create public sector jobs that had questionable productivity as measured by any meaningful economic standard. The hiring of women for many of these marginally productive public sector jobs, especially at the *kommun*-level, is probably the best example of a misguided overextension on Sweden's part. Technically, such incorporation of women did increase the tax base, but it also had a cannibalization effect, in that the state was supporting these positions directly rather than using money generated outside of the state. Had the Social Democrats created tax credits for private sector employment, or had they pursued incentives for private firms to offer women jobs, the outcome might have been financially sound. At the very least, as long as its financing had originated from private sector employment and especially from export revenues, *Folkhemmet* appeared sustainable. When the public sector began to contribute significant proportions of new employment, the system's sustainability became questionable at best.

The harsh tax climate created to fund *Folkhemmet* eventually altered the behavior of millions of Swedes, who learned how to manipulate the system to their favor, taking advantage of the generous welfare system. Between the high taxes and generous sick-leave and disability benefits, in most cases the financial incentive for working instead of being "sick" was negligible. With no substantial financial incentive to work, a moral hazard developed: such policies encouraged workers to find ways to circumvent the tax system or even to not work at all.[19] Clearly, such public policies were destructive to long-term national

[19] *Aftonbladet*, "Lågavlönade."

productivity as well as traditional preindustrial values.

The downside of the fact that Sweden has one of the world's longest-living populations is that they spend many years living on the generous welfare system. Longer life expectancies means that people live on the pension system longer and incur greater elderly-care costs. Einhorn and Logue cite the decline of the extended family in favor of the nuclear family structure as a further cause of increasing elderly-care costs.[20] Such increased and long-term demands for government services and subsidies have necessitated ever-higher taxes.[21]

Another critical problem that confronted *Folkhemmet* involved the changing dynamics of the world markets. By the mid-1960s, as Sweden became less competitive to the world export market, revenues from export manufacturers slowed their growth pace which resulted in the creation of fewer private sector jobs. Over the following decade, very few new private sector employers of any size developed due to heavy tax burdens, particularly targeted against small entrepreneurs. Although still enjoying portions of their protected status, despite significant erosions such as the dissolution of the Basic Agreement in 1974, the established large firms could not expand employment because of their inability to meet new production costs, including ever-increasing labor costs.

Choosing to believe that higher taxes and increased labor costs would not cause declines in overall economic performance, the government continued to manufacture tax-funded, service-oriented jobs to offset rising unemployment. As Swedish exports continued

---

[20] Einhorn and Logue, *Modern Welfare States*, 179.
[21] Lindblad, interview. According to Lindblad, a ministry of finance official, all of the parties in the Riksdag acknowledge this result.

to lose their competitiveness, Sweden suffered from lost market shares along with a declining current account balance. To boost the sagging export revenue and reduce short-term government debt, the *krona* was devalued twice in the fall of 1976 and a third time in the spring of 1977. While, these devaluations did little to change the emerging systemic problems, they did have the unintended consequence of increased inflation. Therefore, in effect, all of Swedish society subsidized their export industries with lower overall purchasing power for themselves.

Sweden's economic growth as measured in annual GDP slowed and then stopped. Meanwhile, the public sector's rapid expansion continued. By 1990, the total value of all forms of state-dispensed insurance, pensions, and subsidies had mushroomed from 31 billion SEK in 1970 to 573 billion SEK, and the proportion of public service workers increased from less than 30 percent to almost 40 percent of the Swedish workforce.[22]

Economic growth was supposed to fund social program expenses, but, unable to avoid the inhibiting limitations of a small domestic market, Sweden remained largely dependent on international trade. For those decades and continuing into the late 1990s, external trade (exports) still contributed at least 43.7 percent of Sweden's GDP growth, according to official government statistics from 1997 and 1999.[23] In the past, as in the present and in its future, Sweden's viability as a modern society was crucially linked to its international competitiveness in the global economy.

---

[22] Sander, *Sweden*. 61.
[23] Swedish Tax Payers Association, http://www.skattebetalarna.se (accessed July 10, 2008).

American Influence

By the end of the 20th century, much of what was unique about the Swedish system had gradually disappeared by converging with global and regional trends. Had Sweden remained semi-isolated while also clinging to its cultural heritage, it could have persisted longer with its distinct variety of capitalism. However, many of its political leaders, who were educated in the United States (whether pro-American or critical of America, or both), ended up pursuing policies that creatively destroyed traditional Sweden in favor of either an internationalist or global economy agenda.[24]

It is ironic that America, with its reputation as a "capitalist country," had the greatest influence, direct and indirect, on deconstructing Sweden's preindustrial capitalist system. In the 20th century many highly influential Swedes were educated in the United States and during that process embraced socialist ideas as a means to solve their home country's problems. For example, Palme, Raoul Wallenberg, and the Myrdals acknowledged that their experiences in the United States markedly influenced their political views. In both cases, they returned to Sweden with reinforced socialist beliefs and fewer entrepreneurial ones.[25] American political theories strongly pushed many SAP leaders to dissolve their traditional cultural institutions. American commercial and academic influences generated a stronger emphasis in Sweden on world commerce and publications in the English language.

In cultural matters, because of American dominance, Sweden ceased to be seen as

---

[24] Ingvar Carlson, Palme's successor, who pushed to integrate Sweden into the EU, studied at Northwestern University just outside Chicago, Illinois, finishing in 1965 just prior to the start of his political career. Olof Palme earned a bachelor's degree at Kenyon College in Ohio in 1947-1948.

[25] Both Palme and the Myrdals joined the SAP after spending a substantial period of time in the United States for the first time.

truly neutral by the Russians decades ago. The English language, usually the American variety, is widely spoken and almost universally understood by nearly every well-educated Swede under sixty years old. The Americanization of Swedish politics went beyond the academic influence on impressionable young Swedes. Even a superficial examination of the current impact of Americanization, as measured in the percentage of mainstream television, film, and pop music in Sweden that originates in the United States, refutes any significant argument that Swedish society is truly a compromise between East and West or between capitalism and communism. Instead much of Swedish liberalism is more closely related to American liberalism.

Childs and Tingsten repeatedly point to the connections (relatives, friends, and colleagues) that many Swedish political leaders have in the United States and the precious few links they have to Moscow and the Eastern European (i.e., Warsaw Pact) satellite nations.[26] Any Swedish travel agency can easily confirm that a much larger number of Swedes visit the United States for "semester" (or vacation), or at least want to visit, than travel or want to travel to nearby Russia. Partly due to such links, trade relations throughout much of the Cold War period were consistently aimed towards the Western world, despite Sweden's sharing a long coastline along the Baltic Sea and hundreds of miles of the Soviet Union's western border.

The Americanization of Swedish political culture in the realm of economic policymaking is clearly traceable to three primary factors: (1) the Stockholm School, (2) the large migration to America, and (3) the re-migration back. Fifty years ago, during the peak

[26] Childs, *The Middle Way.* Per Albin Hansson wanted to visit the United States in part to see his eight first cousins who lived there. He told Molotov, the Soviet foreign minister, that he had no cousins in Russia to visit.

years of the transformation away from feudal capitalism, virtually every Swede either had a relative in the United States, knew of someone who had a family connection there, or knew someone who had re-migrated back to Sweden from there. Such pervasive connections to American culture over several decades and across the spectrum of Sweden's social classes culminated in the transfer of ideals that contributed to the dissolution of Sweden's feudal capitalism system into a socialistic state. Today, most educated Swedes are cognizant of the influence of American ideals and generally understand their overall influence, for better or for worse.[27]

Independence and Security

Sweden engaged in many international initiatives involving peace, disarmament, and alternatives to confrontation during which, critics argued, it took a self-righteous, almost pompous tone.[28] However, by and large, Sweden's "neutralist role" in world affairs ended with the collapse of the Soviet Union. In combination with changing world politics, the Swedish pursuit of democracy and *jämlikhet* resulted in a transformation culminating in the loss of Swedish neutrality and autonomy as the country struggled to grasp the vestiges of *Folkhemmet* by joining the EU.

In the end, economic security prevailed over political independence as the highest priority for the majority of Swedes. The feudal custom of self-reliance diminished under what David Magnusson called "learned dependence" over several generations, as the state provided a sheltered economic environment. The element of self-reliance had helped make

[27] Ohlsson, "Close Friends."
[28] Ibid.

the Swedish welfare system initially work, because people, out of habit, did not take advantage of the generous system. However, that feudal custom perished with the passing generations, and later generations, raised without such strong values or work ethic, were more than willing to exploit the system for their own benefit.[29]

The government that had so carefully attempted to reflect the will of the people eventually followed the people's own impulses and desires, giving up its sovereignty in favor of the security promised by the EU. Many Swedes were aware of this loss of autonomy and, as a consequence, followed a predictable course of moderation best manifested in Sweden's clinging to its independent currency.[30]

With one foot in the EU and another foot outside, Sweden is again displaying classic Swedish compromise. Even the retaining of a king while neutralizing his political power, making him merely a symbol, is an example of compromise. Although Sweden's peninsula is geographically connected to Europe (to the far north), it is separated from Europe by the Baltic Sea: a physical manifestation of Sweden's attitude toward Europe. Thus, its political practices and culture reflect its geography. Like Great Britain, Sweden is part of the European continent but not completely European in its outlook and policymaking.

Conclusion

Despite Social Democratic rhetoric, capitalism survived in Sweden at the expense of traditional Appendices Swedish culture. The culture of preindustrial capitalism, which had

[29] Magnusson, "Learned Helplessness," 67-74.
[30] Sweden is one of three EU countries that exercised the option of retaining their own currency rather than adopting the Euro, the European Central Bank's currency.

survived throughout much of the 20th century, finally collapsed into a variation of crony corporate capitalism that favored large, established corporations over small business interests and, ultimately, harmed the working class. In this regard, the need to finance *Folkhemmet* betrayed the socialist ideal of eliminating powerful business interests, if any such dream truly existed after Branting realized as a result of the 1920 election that the majority of Swedes really would not approve the party's platform. Swedish society, one of the most literate and educated in the world even at that time, possessed very few people who could be easily riled up to an angry revolution. Their informed, moderate approach soothed the harsh and often brutal transition from a feudal rural existence to a capitalist urban life.

However, the SAP's attempt to flush traditional ways out of society, with the intention of diluting the power of the market, essentially backfired. To fund their mandated programs, Social Democrats resorted to making more economic activities part of the formal economy to create additional employment and tax revenue. This gradualist approach turned Sweden into a corporate welfare state that favored select private industries while discouraging small-scale endeavors. Financial conditions at the macro level quickly declined once so many jobs were funded by direct state funds. The understanding that a strong private sector was needed to fund and support the public sector was lost. (The United States in the early 21st century seems to have followed this pattern of forgetting that public sector positions are financially dependent upon private sector jobs.)

Until 1964 for the United States and 1966 for the United Kingdom government spending as a proportion of the GDP and the marginal income tax rates were lower in Sweden than in these other two countries. Once the country became perceived as "rich," SAP

leaders focused on redistributing the wealth generated from the private sector. Pre-industrial values began to fade in the 1960s. An indication of this decline was the abandonment of the Basic Agreement in 1974. What had emerged by then was the classic Swedish socialist system with a fully functional *Folkhemmet*. Swedish traditional values did persist in rural areas and to a lesser extent in urban areas, but they had declined to the point of having a minimal affect on future policy making.

Folkhemmet almost immediately faced constant adjustments to ensure its survival of the harsh realties of a lackluster economy and growing external competitive pressures. Since its heyday as a leading economy in the middle 1970s, the Swedish economy as measured by OECD's comparative macroeconomic statistics has fallen behind the economies of Norway, Denmark, and even Finland.[31] Palme and his SAP returned to power in 1982 after their 1976 loss, but his second regime dared not expand government much more than it had already done.

In the 1980s, further attempts to socialize the economy were arguably marginal and superficial. All sustained efforts to increase government spending as a proportion of GDP were largely abandoned after Palme's 1986 assassination. His successor, Ingvar Carlsson, adopted a much more pragmatic program, arguably similar to Erlander's approach prior to the 1957 break with the Farmer's Party. Quietly and slowly the Swedish government readjusted its principles to the financial realities it faced.

Assar Lindbeck supervised a 1993 report issued to the Riksdag that blamed "several

[31] OECD statistical reports from 1970 to 2008 confirm Sweden's decline relative to its neighbors.

decades of mistakes and reckless policies for Sweden's plight."[32] Lindbeck declared that Sweden should lower welfare payments, including sickness and unemployment benefits, and that beneficiaries needed to make higher contributions to stabilize the country's finances. SAP Prime Minister Ingvar Carlsson had already arrived at a similar conclusion in 1990: "There is a difference between what we have to do for economic reasons and long-term ideological goals."[33]

In the 1990s and beyond, Carlsson and later Göran Persson used the requirements of participation in the EU (or of preparation to participate, prior to 1995) as a convenient scapegoat for much of the necessary reform, including partially privatizing the national pension system in 2000. Despite all the rhetoric about the United States being more capitalist than Sweden, the current U.S. Social Security Administration has neglected to make any adjustment towards privatization. In this regard, the United States is still abiding by the rules of the 1930s, while Sweden's flexible political process has yielded another round of innovative public policy. In the area of pension reform, Sweden has once again shown itself to be innovative and "ahead" of America in economic policymaking. However, unlike in the 1930s, when FDR applauded Swedish reforms, in this most recent decade very few Americans are aware of Sweden's pension reforms. Sweden is no longer receiving the attention or the credit for being innovative. Perhaps it is because American economy policymaking and opinion molding has shifted towards the political left in recent years. Swedish pension reforms do not match well with recent American trends, so they are conveniently ignored by virtually all of the American press.

---

[32] Assar Lindbeck, *The Welfare State* (Brookfield, VT: Edward Elgar Publishing, 1993).
[33] Sander, *Sweden*, 46.

Though some market-oriented reforms have been made in Sweden since 1976, many venerable *Folkhemmet* institutions, such as high unemployment compensation and strong worker protection from employers, remain and continue to have popular support. According to the CIA World Fact Book and the OECD, Sweden still maintains one of the highest tax rates in the world.[34] However, unlike in the United States and other developed countries, the tax burden in Sweden became regressive in that it comparatively more heavily burdened lower-income earners. For example, payroll taxes in Sweden for the lowest earners exceeded 30 percent. In contrast, many low-income American taxpayers receive a negative income tax rate, and many more pay virtually no federal income tax.[35] Sweden's standardization of local tax rates also has eliminated incentives for many Swedes to relocate to more favorable areas, such as many Americans have done within the United States. When total revenue is considered, the United States possesses a more progressive tax system than Sweden, in that it is dependent upon the top 5 percent of all taxpayers to contribute more than 50 percent of total income tax revenue.

Having a much smaller economy, Sweden lacked an adequate number of wealthy people to tax, and many who could have been highly taxed left the country to legally or illegally evade such taxation. Since 1970, perhaps up to one million Swedes managed to avoid excessive taxation through emigration or by finding ways to evade the system. Had tax policies remained more palatable to high-income earners, it is possible that more jobs would have been created within the private sector and far fewer Swedes would have left the country.

---

[34] OECD published economics statistics, 2008.

[35] This does not include payroll taxes of Social Security (6.2 percent of the gross) and Medicare (1.2 percent of the gross).

Sweden's need for immigrants could have been reduced in these circumstances.

Socialist ideologues are proud that the top 5 percent of Sweden's tax base is not significantly more wealthy than the bottom 5 percent, unlike in the United States. However, they overlook the tax burden on the working class. Although the effective marginal tax rate today begins at about a third of a worker's salary, Sweden's system did not arrive at this arrangement overnight; the Swedish electorate would have immediately rejected such high rates in the 1920s and 1930s. Branting correctly understood that the government could gradually grow if it brought greater security to individuals. Higher taxes would be accepted if they were viewed as a requirement to fund the socialist paradise that offered the individual complete economic security. Step by step, individual security began to depend increasingly upon the state, rather than upon the individual or the traditional, informal support of the *kommun*. Tax hikes and the creation of new types of taxes were consistently presented to Swedish voters as a necessary means of building *Folkhemmet*. A frequent sentiment in the mind of an average taxpayer can be summarized thus: "We have these generous programs, but we need taxes to pay for it."[36]

In conclusion, the majority of Swedish electorate in the mid-20th century were small town semi-rural people whom within a single generation often became factory workers in larger towns. The transition replaced the home and the local church with the government as their source of security. For a period of another generation, Swedes managed to make their manufacturing export-based economy function well as the size and scope of governmental services and programs expanded. Unlike in the United States, when Sweden's service sector

[36] Bengt Ebbesson, interview by the author, Halmstad, Sweden, August 2005.

began to emerge as the dominant creator of employment in the 1960s, a greater portion of service-related jobs were developed within the public rather than the private sector. The Swedish cultural value of respecting the specialist contributed to a desire for the government to create more "expert" positions to serve the community. Its modern history of centralized governance, according to Edwardsson contributed to the lack of substantial resistance to expanding the government.

J.A. Lauwerys in 1958 summarized the "Middle Way" as "not an end to itself but the outcome of the interplay of national character, history and environment."[37] The pragmatism that had dominated the concerns of earlier generations began to wither among the second generation of Swedes living in an urbanized setting. The leftist idealism that sprouted among the Swedish youth in the 1960s was a reflection of the new urban generation's detachment from the traditional values that had tempered previous political movements. The state was no longer intended to support the community or the family, but instead to serve the individual by providing security. In return, Swedes forfeited their economic freedom and their ability to gain personal wealth in exchange for having most of life's needs covered by government services. However, the government could not adequately replace the cultural or moral capital that drove so many Swedes to maintain a strong work ethic or to eagerly exhibit self-reliance. Honesty, integrity, and a sense of morality eventually faded out due to the numerous disincentives to their use that unintentionally emerged as *Folkhemmet* was constructed. Swedish economist Assar Lindbeck observed that there was a "tax on honesty," in the sense

[37] J.A. Lauwerys, "Lands and Peoples," in *Scandinavian Democracy: Development of Democratic Thought & Institutions in Denmark, Norway, and Sweden*, ed. J.A. Lauwerys (Copenhagen: The American-Scandinavian Foundation, 1958), 30.

that, as taxes increased, so did the cost of honestly declaring your tax liability.[38]

Thus, Sweden's pre-industrial values which reflected a variation of capitalism known as "feudal capitalism" gradually perished by the passing of generations rather than dramatic shifts in policy. The social transformations due to urbanization eroded Swedish feudal capitalism's deeply rooted cultural institutions. The welfare state, or as Assar Lindbeck called it, "the transfer state," eventually dominated Sweden's political processes, but within a generation of the new system manifesting itself, further efforts to expand the model of *Folkhemmet* became unsustainable.[39]

Since the 1970s, some reforms have nudged the Swedish economy away from *Folkhemmet*. But despite some deregulation and tax reductions in the last twenty years, *Folkhemmet*'s legacy remains profound, in the sense that no major party has within its program the goal of disassembling the social welfare state. Though Swedes today, regardless of their political orientation, admit *Folkhemmet* as an ideal, not a real system, their ideas about governance in the realm of economic policymaking continue to revolve around its assumptions and values.[40] Harsh economic realities, not a shift in ideals have caused reforms oriented to address practical necessities such as Sweden's dramatic pension reforms in the early 21st century. While Palme and Myrdal's efforts to expand the state further have experienced a retrenchment and in some cases considerable reform, *Folkhemmet* as originally envisioned by Hansson and "completed" by Erlander remains largely intact and is imbued in contemporary Swedish political culture.

---

[38] Lindbeck, "Work Disincentives," 215.
[39] Ibid., 111.
[40] Numerous interviews in Sweden between 2004 and 2009 confirmed that Sweden is now generally perceived to be in the post-*Folkhemmet* era.

Appendix A

Each item on the program is rated as "**ACCOMPLISHED," "PARTIALLY ACCOMPLISHED," or "NOT ACCOMPLISHED"** based on the efforts of the Social Democrats and others over the next hundred years.

Social Democrat Political Program of 1897 (translated by Daniel Brandell)

I. General, equal and direct suffrage at political and municipal elections for all citizens of lawful age, without any differences between the sexes. **ACCOMPLISHED**

(1) The election day a Sunday or a work-free day. **ACCOMPLISHED**

(2) Abolishment of the first chamber [in parliament]. **ACCOMPLISHED**

II. Public armament instead of a standing army. **NOT ACCOMPLISHED**

(1) Arbitration courts for international conflicts. **PARTIALLY ACCOMPLISHED**

(2) The parliament decides upon war and peace. **ACCOMPLISHED**

III. The religion is declared a private thing. **PARTIALLY ACCOMPLISHED**

(1) Abolishment of state church and church budget. **ACCOMPLISHED**

IV. Separation of school from church. **ACCOMPLISHED**

(1) Development of the public school for a collective and for a cultural fulfilling school. **ACCOMPLISHED**

V. Jury trials in criminal cases. **ACCOMPLISHED**

(1) Legal defenders applied by local municipalities or the state. **ACCOMPLISHED**

(2) Legal help free of charge. **ACCOMPLISHED**

VI. Proportional (progressive) income, wealth, and inheritance taxes. **ACCOMPLISHED/PARTIALLY REPEALED**

(1) Abolishment of all indirect taxes, which principally pressure the productive classes. To the fulfillment of general needs of budgets, strong development of the activities of states and local municipalities as producers and leaders of transportation and distribution. **NOT ACCOMPLISHED**

(2) Self-declaration with legal responsibility at taxation. **ACCOMPLISHED**

VII. The common credit organized through the state. **PARTIALLY ACCOMPLISHED**

(1) The direct regulation of agricultural credit through the state. Laws which, under guarantees for rational agriculture, stop the expropriation of the smaller farmer without compensation or usage right. **ACCOMPLISHED**

VIII. An effective industrial welfare law, first:

(1) Normal workday of, at maximum, eight hours; **ACCOMPLISHED**

(2) Prohibition of using children under fourteen in industry; **ACCOMPLISHED**

(3) Prohibition of night work in every other case, when it is not necessary for the best of the production process or society; **ACCOMPLISHED**

(4) Prohibition of the truck system **PARTIALLY ACCOMPLISHED**

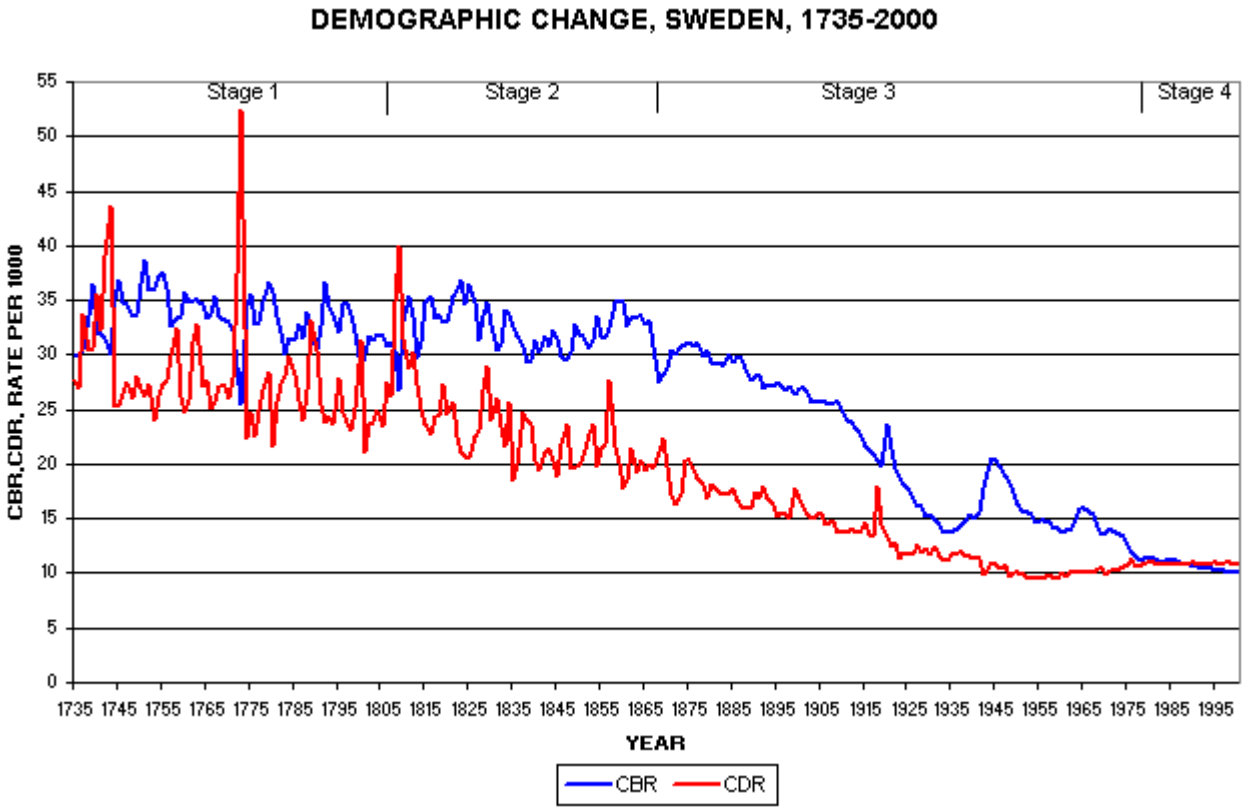
IX. Supervision of professional and industrial work in all branches through a modern industrial inspection. **ACCOMPLISHED**

X. Obligation for society to, in a humane way, care for all its members in case of sickness or accidents and in age. **ACCOMPLISHED**

XI. Legal equality for industrial workers, farm workers, seamen and servants, e.g., through the abolishment of the subcontract regulation and the revision of the sea law. **ACCOMPLISHED**

Constitutionally securing complete rights to organize, assemble, print and speak. **ACCOMPLISHED**

Appendix B



CBR = birth rates

CDR = death rates

Source: Keith Montgomery, *The Demographic Transition* (Madison, Wisconsin, University of Wisconsin, 2000).

Appendix C

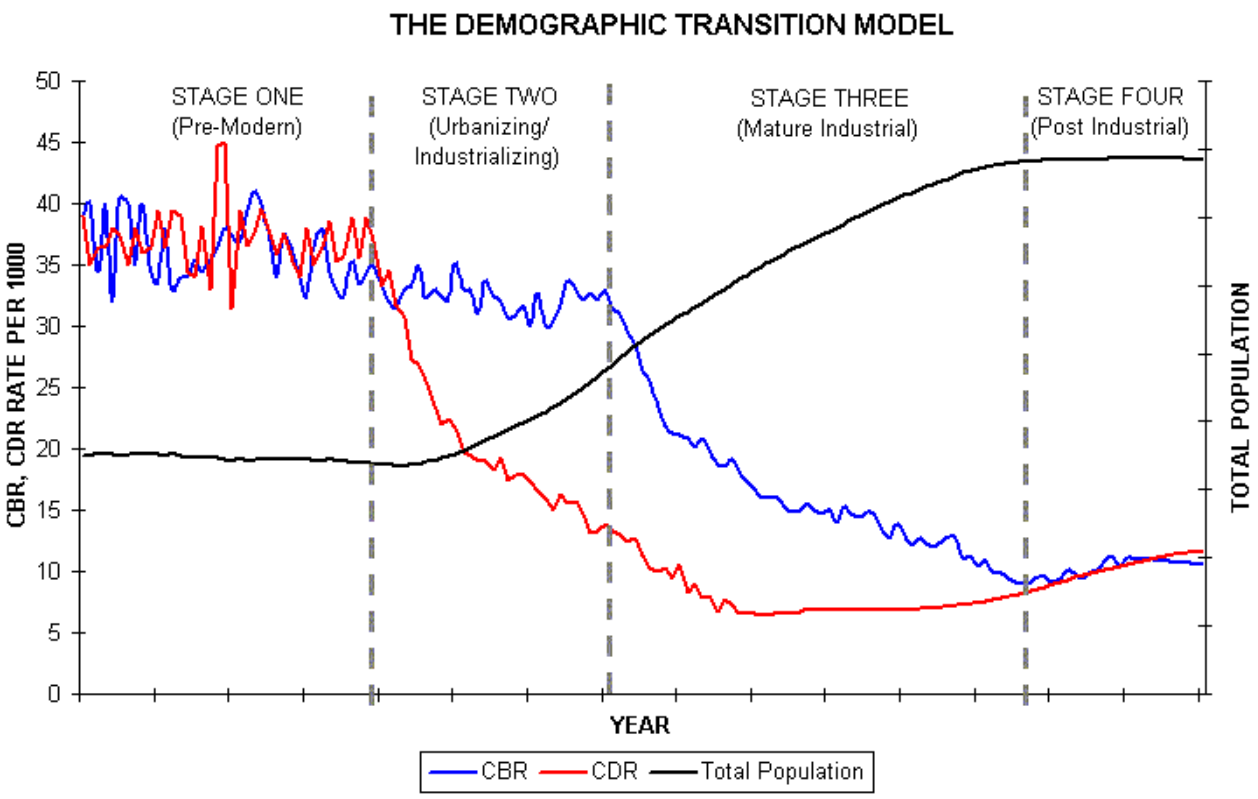
Births and deaths in Sweden, 1900-1980

	Births	Deaths	Birthrate	Death rate
1900	138,139	86,146	27.0	16.8
1910	135,625	77,212	24.7	14.0
1920	138,753	78,128	23.6	13.3
1930	94,220	71,790	15.4	11.7
1940	95,778	72,748	15.1	11.4
1950	115,414	70,296	16.5	10.0
1960	102,219	75,093	13.7	10.0
1970	110,150	80,026	13.7	9.9
1980	97,064	91,800	11.7	11.0

Source: Statistiska Centralbyranm [SCB], 2009

Appendix D

The Demographic Transition model describes population change over time. It is based on an interpretation begun in 1929 by the American demographer Warren Thompson of the observed changes, or transitions, in birth and death rates in industrialized societies over the past 200 years or so. This model presents a composite picture of population change. The model is illustrated below:



STAGE ONE is associated with pre-Modern times and is characterized by a balance between birthrates and death rates. This situation was true of all human populations up until the late 18th century, when the balance was broken in Western Europe. Note that, in this stage, birth and death rates are both very high (30-50 per thousand). Prior to this the results were only very slow population growth going over much of pre-history, at least since the Agricultural Revolution 10,000 years ago.

Appendix E

Program for the Social Democratic Worker's Party of Sweden, Fourth Party Congress in Stockholm, July 4, 1897[1]

General fundamental thesis[2]

The social democracy differs from other political parties in that it completely wants to change the bourgeoisie society's economical organization and enforce the social emancipation of the working class, to secure and develop the spiritual and material culture. The main reason for the imperfections, which clings to our day's society, is in fact the private capitalistic way of production, which have dissolved the old petty-bourgeoisie social relationships, gathered the wealth in a few hands and divided society into workers and capitalists, with intermediate layers of partly diminishing older social classes — petty-farmers, handicraftsmen and small shopkeepers — partly upcoming new.

The private property right to the means of production was in earlier times a natural condition for production, since it assured the producer his product. But in the same way large-scale operation force handicraft away, the working machine the tool, the world trade and mass production break all market boundaries, in the same way are the real producers transformed to a class of wage earners, which in itself take up the sinking remains of the old middle classes and carry as its social mark lack of property and thereby dependence and oppression.

The extraordinary technical development of the work process, the incredibly raised productivity from human labor, the always on-going opening of new production fields, all this, by which the national wealth has multiplied, only results on one hand in unnatural gathering of wealth, on the other in a colossal growth of the working class. But at the same time these relationships and this fateful tendency in the development of society force the workers to a counteractive motion. They organize as a class to obtain such a large share as possible in wage from the production of work. Thus the unions are formed and the constantly on-going, all the more larger forms taking struggle on the national and international labor market between workers and employers, a struggle, which shall never cease, until the working class has stopped being a class of wage earners. This again can only happen through abolishment of the private capitalistic monopoly on the means of production and their transformation to collective, to all society belonging property, and the replacement of the plan less production of goods with a socialistic, society's real needs and corresponding production.

---

[1] Kokk, *Swedish Social-Democracy*.

[2] Directly quoted from the source. Translated by Daniel Brendall.

The social democracy therefore wants to enforce also the political organization of the working class, take possession of the public power and gradually transform to common property all means of production — the means of transportation, the forests, the mines, the mills, the machines, the factories, the earth. The interests of the working class are the same in every country with capitalistic way of production. With the development of world trade and the production for the world market will the position of the working class in one country become dependent of the positions in all other countries. The emancipation of the working class is thus an achievement, by which every person of culture must participate. With this the Swedish Social Democratic party declare themselves being a part of the social democracy in all countries.

Appendix F

Riksdag Election Results, by Percentage, 1914-1976[3]

(v) - Left Party, former Communist Party

(s) - Social Democrat Party

(fp) - Liberal Party

(c) - Center Party, former Peasants League/Farmer's Party

(m) - Moderate Party, former Right-wing Party

(kd) - Christian Democrat Party

Year	(v)	(s)	(fp)	(c)	(m)	(kd)	Others	Participation
1976	4.8	42.7	11.1	24.1	15.6	1.4	0.4	91.76%
1973	5.3	43.6	9.4	25.1	14.3	1.8	0.6	90.84%
1970	4.8	45.3	16.2	19.9	11.5	1.8	0.4	88.3%
1968	3.0	50.1	14.3	15.7	12.9	1.5	2.6	89.3%
1964	5.2	47.3	17.0	13.2	13.7	1.8	1.8	83.3%
1960	4.5	47.8	17.5	13.6	16.5		0.1	85.9%
1958	3.4	46.2	18.2	12.7	19.5		0.0	77.4%
1956	5.0	44.6	23.8	9.4	17.1		0.1	79.8%
1952	4.3	46.1	24.4	10.7	14.4		0.1	79.1%
1948	6.3	46.1	22.8	12.4	12.3		0.1	82.7%
1944	10.3	46.7	12.9	13.6	15.9		0.4	71.9%
1940	3.5	53.8	12.0	12.0	18.0		0.0	70.3%
1936	3.3	45.9	12.9	14.3	17.6		1.6	74.5%
1932	3.0	41.7	11.7	14.1	23.5		0.7	68.6%
1928	6.4	37.0	15.9	11.2	29.4		0.1	67.4%
1924	5.1	41.1	16.9	10.8	26.1		0.0	
1921	4.6	36.2	19.1	11.1	25.8		0.0	
1920	6.4	29.7	21.8	14.2	27.9		0.0	
1917	8.1	31.1	27.6	8.5	24.7		0.0	
1914		36.4	26.9	0.2	36.5		0.0	

[3] Statistiska centralbyrån, "Historisk statistik."

Bibliography

Aalders, Gerard, and Cees Wiebes. *The Art of Cloaking: The Case of Sweden Ownership; The Secret Collaboration and Protection of the German War Industry by the Neutrals.* The Netherlands: Amsterdam University Press, 1996.

Aftonbladet. [History of the newspaper]. http://www.aftonbladet.se/ (accessed May 19, 2009).

———. "Lågavlönade kvinnor förlorar pengar på att arbeta" [Lower-Paid Women Lose Money by Working]. February 10, 2005.

Alber, Jens. "The European Social Model and the United States." *European Union Politics* 7, no. 3 (September 2006): 393-419.

Allardt, Erik, Nils Andren, Erik J. Friis, Gylfi Gislason, Sten Sparre Nilson, Henry Valen, Frantz Wendt, and Folmer Wisti, eds. *Nordic Democracy: Ideas, Issues, and Institutions in Politics, Economy, Education, Social and Cultural Affairs of Denmark, Finland, Iceland, Norway, and Sweden.* Copenhagen: Det Danske Selskab, 1981.

Anderson, William. *Sweden: Poorer than You Think.* Auburn University, AL: The Von Mises Institute, 2002.

Andersson, Ingvar. *A History of Sweden.* Translated by Carolyn Hannay. New York: Praeger, 1956.

———. "Early Democratic Traditions in Scandinavia." In *Scandinavian Democracy: Development of Democratic Thought & Institutions in Denmark, Norway, and Sweden*, ed. J.A. Lauwerys, Copenhagen: American-Scandinavian Foundation, 1958.

Arneson, Ben A. *The Democratic Monarchies of Scandinavia.* 2nd ed. New York: D. Van Nostrand Company, 1949.

Arter, David. *Democracy in Scandinavia: Consensual, Majoritarian or Mixed?* Manchester: Manchester University Press, 2006.

———. *Scandinavian Politics Today*. New York: Addison-Wesley, 2003.

Baker, Josiah R. "Friends or Foes? Europe, U.S. Must Redefine Relationship for New Challenges of 21st Century." *Orlando Sentinel.* May 30, 2004.

———. *Fundamental Macroeconomics: Issues and Policies; Basic Text for Macroeconomic-related Courses*. Boston, MA: Pearson Custom Publishing, 2004.

———. *Fundamentals of Macro Policy: General Study Guide for Principles of Economics*. Boston, MA: Pearson Custom Publishing, 2004.

———. "Immigration Strains Sweden's Welfare State." *Washington Times.* August 19, 2007.

———. "Sweden's Suffering Socialism." *Orlando Sentinel*. Apr. 18, 2004.

———. "Sweden's Turn from Socialism." *Washington Times*. June 17, 2007.

Baldwin, D. *Economic Statecraft*. Princeton, NJ: Princeton University Press, 1985.

Baskerville, Stephen. "Married to the State." *The American Conservative*, September 24, 2009. http://www.amconmag.com/blog/married-to-the-state/ (accessed September 25, 2009).

Belair, Felix, Jr. "Sweden: The Welfare State: What Price Socialist Security?" *New York Times*, September 15-16, 1956.

Berger, Stefan. "Communism, Social Democracy, and the Democracy Gap." In *Beyond Communism and Social Democracy: The Need to Rethink Democracy*, ___. A.R.A.B., 2002.

———. "Kommunism, Socialdemokrati och demokratigapet." *Arbeterhistoria* 27, no. 108 (2004): 48-57.

Berglund, Sten, and Ulf Lindström. *The Scandinavian Party System(s): A Comparative Study*. Lund: Studentlitteratur, 1978.

Bergström, Hans. "Sweden's Politics and Party System at the Crossroads." *West European Politics* 14, no. 3 (July 1991): 8-30.

Berman, Sheri. *The Social Democratic Moment: Ideas and Politics in the Making of Interwar Europe.* Cambridge, MA: Harvard University Press, 1998.

Beveridge, W.H. *Full Employment in a Free Society*. London: British Government, 1944.

Bildt, Carl. "The Myth of Swedish Superiority." *Financial Times.* August 6, 2003.

Björk, Barbro. "Sundsvall's History." Translated by Gordon Carmichael. Sundsvalls Museum, 2003. http://www.sundsvall.se/download/18.12dc30da1188f9f6efc8000921059/Histengelsk

a.pdf (accessed March 2003).

Bjorklund, Anders. *Does Family Policy Affect Fertility? Journal of Population Economics* 19, no. 1 (2006): 3-24.

Board, Joseph B. *The Government and Politics of Sweden.* Boston: Houghton Mifflin, 1970.

Boëthius B., *Svenskt biografiskt lexikon, vi*. 18. (Swedish Biographical Dictionary).

Borg, Anders. *The Swedish Model: What Went Wrong?* Stockholm: Ministry of Finance, 2006.

Boswell, Barry. "The Nordic Model." Presentation, sponsored by the Brookings Institute, at the Swedish Embassy, Washington, DC, October 2008.

Brown, Andrew. *Fishing in Utopia: Sweden and the Future that Disappeared*. London: Granta Books, 2008.

Bruun, Niklas. *The Nordic Labour Relations Model: Labour Law and Trade Unions in the Nordic Countries Today and Tomorrow*. Aldershot, U.K.: Dartmouth, 1992.

Bylund, Per. "How the Welfare State Corrupted Sweden." *Mises Daily*. The Mises Institute. May 31, 2006. www.Mises.biglist.com (accessed May 12, 2008).

Carlson, Allan C. *Conjugal America: On the Public Purposes of Marriage.* New Brunswick: Transaction Publishers, 2006.

———. *Fractured Generations: Crafting a Family Policy for 21st Century America.* New Brunswick, Canada: Transaction Publishers, 2005.

———. *The Swedish Expert in Family Politic.* New York: Transaction Publishers, 1990.

———. *Third Ways: How Bulgarian Greens, Swedish Housewives, and Beer-Swilling Englishmen Created Family-Centered Economies – and Why They Disappeared.* Wilmington, DE: Intercollegiate Studies Institute, 2007.

Carlson, Benny. "The Long Retreat: Gustav Cassel and Eli Heckscher on the 'New Economics' of the 1930s." In *Swedish Economic Thought,* edited by Lars Jonung. London: Routledge Publishing, 1993. 156-194.

Center Party. "Viviann Gerdin, Centerpartiets riksdagsledamot, and Kjell Ericsson, kommunalråd i Årjäng, och fd Centerpartiets riksdagsledamot." Center Party. http://public.centerpartiet.se/varmland/debattsmaforetagarna.htm (accessed July 21,

2009).

Central Intelligence Agency. *World Fact Book*. Central Intelligence Agency. http://www.odci.gov/cia/publications/factbook/rankorder/2004rank.html (accessed July 12, 2007).

Charlemagne [pseud.]. "Snakes and Ladders." *The Economist*, May 27, 2006.

Childs, Marquis W. *The Middle Way*. New Haven, Ct: Yale University Press, 1936.

———. *The Middle Way On Trial.* New Haven, Ct: Yale University Press, 1980.

———. *Sweden: Where Capitalism is Controlled.* New York: John Day Pamphlets, 1934.

———. *This Is Democracy: Collective Bargaining in Scandinavia*. New Haven, Ct: Yale University Press, 1938.

Cox, Andrew, and Noel O'Sullivan, eds. *The Corporate State: Corporatism and the State Tradition in Western Europe*. Aldershot, U.K.: Edward Elgar, 1988.

Crane, Robert. *European Business Culture.* Englewood Cliffs, NJ: Prentice Hall, 2000.

Damgaard, Erik. "The Strong Parliaments of Scandinavia: Continuity and Change in Scandinavian Parliaments." In *Parliaments in the Modern World: Changing Institutions*, eds, Gary Copeland and Samuel Patterson, Ann Arbor, MI: University of Michigan Press, 1994. 85-103.

De Geer, Louis. *Minnen*. Stockholm: 1892.

Dosenrode, Soren. *The Nordic Regions and the European Union.* Oxford: Ashgate, 2004.

Dulles, Allen W. *The Marshall Plan.* Ann Arbor, MI: Berg Publishers, 1993.

The Economist. "Admire the Best, Forget the Rest." September 7, 2006.

———. "Snakes and Ladders: Europe is economically immobile but socially mobile. Whence this strange combination?" May 25, 2006.

———. "Global Heroes: A Special Report on Entrepreneurs." March 14, 2009.

———. February 18-24, 1994, 44.

_____. "Krybbe to grav." June 12, 2003.

———. “The Wallenbergs: The Ties that Bind.” Jan. 22, 2009.

Edvardsson, Anders. *En annorlunda historia.* (A Different Story). Stockholm: Timbro Publishing, 2009.

Edvinsson, Rodney. *Growth Accumulation Crisis: with New Macroeconomic Data for Sweden, 1800-2000.* Stockholm: Almqvist & Wiksell International, 2005.

Einhorn, Eric. *National Security and Domestic Politics in Post-War Denmark*. Odense: Odense University Press, 1975.

Einhorn, Eric S., and John Logue. *Modern Welfare States: Politics and Policies in Social Democratic Scandinavia*. 1st ed. New York: Praeger, 1989.

———. *Modern Welfare States: Scandinavian Politics and Policy in the Global Age*. 2nd ed. Westport, CT: Praeger, 2003.

Elder, Neil, Alastair H. Thomas, and David Arter. *The Consensual Democracies? The Government and Politics of Scandinavian States.* Oxford: Martin Robinson, 1982.

Erixon, Lennart. “A Swedish Economic Policy – the Theory, Application, and Validity of the Rehn-Meidner Model.” Stockholm: Research Papers in Economics, Department of Economics, Stockholm University, 2000.

Esping-Andersen, Gøsta. *Social Foundations of Post Industrial Society.* Princeton, NJ: Princeton University Press, 1996.

———. *Three Worlds of Welfare Capitalism.* Princeton, NJ: Princeton University Press, 1991.

European Foundation for the Improvement of Living and Working Conditions. *Saltsjöbaden Agreement.* October 31, 2007. http://www.eurofound.europa.eu/emire/SWEDEN/ANCHOR-SALTSJ-Ouml-BADSAVTALET-SE.htm (accessed May 22, 2008).

Financial Times. “A Quest for Other Ways.” March 16, 2009.

Financial Times, March 18, 2009, 7.

Förmögenhetsskatt. *Wealth Tax*. http://susning.nu/F%F6rm%F6genhetsskatt (accessed May 18, 2009).

Fritz, Martin. *German Steel and Swedish Iron Ore, 1939-1945*. Gothenburg, Sweden: The Institute of Economic History of Gothenburg, 1974.

Galbraith, John Kenneth. *A History of Economics: The Past as the Present.* New York: Penguin, 1991.

Garnham, Peter. "Inflation Warning Hurts Swedish Krona." *Financial Times*. March 6, 2009.

———. "No Help in Sight for Sinking Krona" *Financial Times*. March 10, 2009.

Glyn, Andrew. "Social Democracy and Full Employment." *Nordic Journal of Political Economy*, vol. 22 (1995): 109-126.

Gustavsson, Bengt. "The Human Values of Swedish Management." *Journal of Human Values* 1, no. 2 (1995): 153-171.

Hall, Peter A. and David Soskice, eds. *Varieties of Capitalism: The institutional advantages of comparative advantage.* Oxford: Oxford Press, 2001.

Hayek, Friedrich August von, "Rent Control in Sweden: Lessons from a Thirty Year Old Socio-economic Experiment, Sven Rydenfelt." In *Toward Liberty: Essays in Honor of Ludwig von Mises on the Occasion of his 90th Birthday, September 29, 1971,* eds. F.A. Hayek, Henry Hazlitt, Leonrad R. Read, Gustavo Velasco, and F.A. Harper, vol. 1. Menlo Park, CA: Institute for Humane Studies, 1971. http://oll.libertyfund.org/title/301/37514 (accessed September 16, 2009).

Heckscher, Gunnar. *The Welfare State and Beyond: Success and Problems in Scandinavia*. Minneapolis: University of Minnesota Press, 1984.

Henrekson, Magnus, and Ulf Jakobsson. "Where Schumpeter was Nearly Right – the Swedish Model and Capitalism, Socialism and Democracy." *Journal of Evolutionary Economics* (2001): 331-358.

Heritage Foundation and *Wall Street Journal*. "2004 Index of Economic Freedom." Heritage Foundation. http://cf.heritage.org/index2004test/country2.cfm?ID=Sweden (accessed July 20, 2007).

Herlitz, Nils. *Sweden: A Modern Democracy on Ancient Foundations*. Minneapolis: University of Minnesota Press, 1939.

Huntford, Roland. *The New Totalitarians.* London, U.K.: Allen Lane Press, 1971.

Högfeldt, Peter. "Socialist Ideal that Tied up Swedish Riches." *Financial Times*. October 16,

2008.

Ibison, David. “Swedes Ponder Life outside the Comfort Zone.” *Financial Times*. September 14, 2006.

———. “New Swedish Government Vows to Sell Stakes in Top Companies.” *Financial Times*. September 19, 2006.

———. “We Have to Dare to Think Differently.” *Financial Times*. October 2, 2006.

———. “Vintner Fails to Milk Sweden’s Sacred Cow.” *Financial Times.* February 17, 2009.

Inglehart, Ronald. “The Silent Revolution in Europe: Intergenerational Change in Post-Industrial Societies.” *American Political Science Review* 65, no. 4 (December 1971): 991-1017.

Janoski, Thomas, and Alexander M. Hicks. *The Comparative Political Economy of the Welfare State.* New York: Cambridge University Press, 1994.

Kahler, Miles and David A. Lake, eds. *Governance in a Global Economy*, Princeton, NJ: Princeton University Press, 2003.

Kenyon College Department of Anthropology. “Olof Palme.” Kenyon College. http://www.kenyon.edu/x11211.xml (accessed July 28, 2009).

Kjellstrom, Erik T. H. *Sweden's Money Plan: Managed Money; The Experience of Sweden*. New York: Columbia University Press, 1934.

Klinghoffer, Arthur Jay, and Judith Apter Klinghoffer. *International Citizens’ Tribunals: Mobilizing Public Opinion to Advance Human Rights.* New York: Palgrave, 2002.

Knoedler, Janet, Charles Sackrey, and Geoffrey Schneider. “The Middle Way: Swedish Social Democracy.” In *Introduction to Political Economy*, 4th ed. New York: Dollars and Sense, 2008.

Koblik, Steven, ed. *Sweden’s Development from Poverty to Affluence, 1750-1970.* Translated by Joanne Johnson and Steven Koblik. Minneapolis: University of Minnesota Press, 1975.

Kokk, Enn. *Swedish Social-Democracy Party Program of 1897*. Translated by Daniel Brandell. Stockholm: Social Democratic Party, 1897.

"Lagom är bäst" [*Lagom* is best]. http://www.bgf.nu/lagom/4/soc.html Blågula Frågor (Blue and Yellow Issues) (accessed July 22, 2009).

Landauer, Carl. *European Socialism.* Berkeley: University of California Press, 1959.

Lauwerys, J. A. "The Importance of Small Nations." In *Scandinavian Democracy: Development of Democratic Thought & Institutions in Denmark, Norway, and Sweden*, ed. J.A. Lauwerys, Copenhagen: American-Scandinavian Foundation, 1958.

Lexin Swedish-English Dictionary. http://lexikon.nada.kth.se/ (accessed July 8, 2009).

Lindbeck, Assar. *Macroeconomics and Economic Policy*. Vol. 1 of *The Selected Essays of Assar Lindbeck.* Brookfield, VT: Edward Elgar, 1993.

———. *Swedish Economic Policy*. Los Angeles: University of California Press, 1974.

———. *Turning Sweden Around*. Cambridge, MA: MIT Press, 1994.

———. "Work Disincentives in the Welfare State." In *The Welfare State*, vol. 2 of *The Selected Essays of Assar Lindbeck.* New York, NY: Edward Elgar Publishing, 1993.

Linderborg, Åsa. "Detta borde vara vårt arv." *Aftonbladet*. February 28, 2006.

Lindgren, Astrid. "Pomperipossa in Monismanien." *Expressen.* March 3, 1976.

Link, Ruth. "Ambassador Holland and the Swedes." *The Crisis: A Record of the Darker Races* 78, No. 2 (March 1971): 43-48.

Logue, John. *Socialism and Abundance: Radical Socialism in the Welfare State.* Minneapolis: University of Minnesota Press, 1982.

Lott, John R., Jr. *Freedomnomics: Why the Free Market Works and Other Half-baked Theories Don't.* Washington, DC: Regnery Publishing, 2007.

Magnusson, David. "Learned Helplessness." *Skandinaviska Banken Quarterly Review* 3-4 (1980): 67-74.

Magnusson, Lars. *An Economic History of Sweden.* London: Routledge, 2000.

Milne, Richard. "Champion of Nordic Capitalism: The Monday Interview." *Financial Times*. March 23, 2009.

Milner, Henry. *Sweden: Social Democracy in Practice*. Oxford: Oxford University Press,

1989.

Mitchell, Daniel. “What Can the United States Learn from the Nordic Model?” *Policy Analysis*, no. 603 (November 5, 2007): 23-27.

Montgomery, Arthur. *How Sweden Overcame the Depression, 1930-1933*. Stockholm: A. Bonniers Boktryckeri, 1938.

Montgomery, Keith. “The Demographic Transition.” Lecture, University of Wisconsin, Madison, 2000.

Möller, Gustav. “Socialiseringsprogrammet: Tysk-Osterrike” [The National Socialization Program of Austria]. *Tiden* 11 (1919b): 230-248.

Myrdal, Alva, and Gunnar Myrdal. *Kris i befolkningsfragan* [Crisis in the Population Question]. Stockholm: Bonniers, 1936.

Nilson, Ulf. *Sweden in 2005*. Stockholm: Periskop, 1999.

———. *What Happened to Sweden? — While America Became the Only Superpower*. New York: Lightning Source, 2007.

———. “Sweden’s Politics.” Presentation, Swedish Club of Sarasota, FL, November 2004.

———. Editorial. *Nordstjernan* 12 (March 24, 2005).

———. “What Happened to Sweden.” Presentation, Swedish Club of Sarasota, FL, November 2007.

Ohlin, Bertil. “Economic Progress in Sweden.” *The Annals of the American Academy of Political and Social Science* 197 (1938): 1-7.

Ohlsson, Per T. *Close Friends and Distant: Relations Between the United States and Sweden over 200 Years*. Lecture, Columbia University, September 23, 2003.

———. *Sweden: Still The Middle Way?* Lecture, Columbia University, New York, NY, September 28, 2006.

Olsson, Sven-Olof. *German Coal and Swedish Fuel, 1939-1945*. Göteborg, Sweden 1975.

Palm, August. *Ögonblicksbilder från en tripp till Amerika* [Snapshots from a Trip to America]. 1901. http://runeberg.org/palmtrip/ (accessed March 13, 2010).

Polanyi, Karl. *The Great Transformation.* New York: Beacon Press, 2001.

Premfors, Rune. “The 'Swedish Model' and Public Sector Reform.” *West European Politics* 14, no. 3 (July 1991): 83-95.

Przeworski, Adam. *Capitalism and Social Democracy.* New York: Cambridge University Press, 1985.

Putnam, Robert. *Bowling Alone: The Collapse and Revival of American Community.* New York: Simon and Schuster, 2000.

Roskin, Michael. *Other Governments of Europe: Sweden, Spain, Italy, Yugoslavia, and East Germany.* Englewood Cliffs, NJ: Prentice-Hall, Contemporary Politics Series, 1977.

Rothstein, Bo. “Managing the Welfare State: Lessons from Gustav Möller.” *Scandinavian Political Studies* 8, no. 3 (October 1, 2007): 151-170.

Ruin, Olof. “Political Science on the Periphery: Sweden.” *Annual Review of Political Science* 6, no. 1 (2003): 41-54.

———. *Tage Erlander*. Pitt Series in Policy and Institutional Studies, University of Pittsburgh: Pittsburgh, PA: 1990.

———. “Three Swedish Prime Ministers: Tage Erlander, Olof Palme and Ingvar Carlsson.” *West European Politics* 14, no. 3 (July 1991): 58-82.

Rustow, Dankwart A. *The Politics of Compromise: A Study of Parties and Cabinet Government in Sweden.* Princeton, NJ: Princeton University Press, 1955.

Sainsbury, Diane. “Swedish Social Democracy in Transition: The Party's Record in the 1980s and the Challenge of the 1990s.” *West European Politics* 14, no. 3 (July 1991): 31-57.

Samuelsson, Kurt. *From Great Power to Welfare State: 300 Years of Swedish Social Development.* Oxford: Allen & Unwin, 1968.

Sandemose, Aksel. *A Fugitive crosses His Tracks.* Oslo, Norway: Aschehoug Tradisjon, 1933. Translated by Eugene Gay-Tifft as *En flyktning krysser sitt spor* (A. A. Knopf: New York, NY, 1936).

Sander, Gordon F. “Sweden: After the Fall.” *Wilson Quarterly*, no. 2 (1996): 46-71

Särlvik, Bo. “Scandinavia.” In *Democracy and Elections: Electoral Systems and their*

Political Consequences, edited by Vernon Bogdanor and David Butler, 122-148. Cambridge: Cambridge University Press, 1983.

Schreiber, Penny. "The Wallenberg Story." http://www.wallenberg.umich.edu/college.html (accessed on November 15, 2010).

Schumpeter, Joseph. *Capitalism, Socialism, and Democracy.* New York: HarperCollins, 1984.

Schwartz, Eli. *Trouble in Eden: A Comparison of the British and Swedish Economies.* New York: Praeger Special Studies, Praeger Scientific Publishers, 1980.

Scott, Franklin. *Sweden: The Nation's History.* Minneapolis: University of Minnesota Press, 1977.

Shirer, William. *The Challenge of Scandinavia: Norway, Sweden, Denmark, and Finland in Our Time.* Westport, CT: Greenwood Press, 1977.

Sjögren, Hans. "Scandinavia." In *European Economies Since the Second World War*, edited by Bernard J. Foley, New York: St. Martin's, 1998.

Smith, Adam. *Wealth of Nations*. 1776.

Statistiska Centralbyrån [Central Bureau of Statistics]. "Historisk statistik över valåren 1910-2006. Procentuell fördelning av giltiga valsedlar efter parti och typ av val" [Historical statistics from the years 1910-2006]. Statistiska Centralbyrån. http://www.scb.se (accessed March 3, 2010).

Steinmo, Sven. "The Evolution of Policy Ideas: Tax Policy in the 20th Century." *British Journal of Politics & International Relations* 5, no. 2 (May 2003): 206-236.

Stilwell, Frank. *Political Economy.* Oxford: Oxford University Press, 2006.

Stoll, John D. "Saab Speeds Up Talks with Suitors." *Wall Street Journal*. March 3, 2009.

Strange, Susan. *In Retreat of the State: The Diffusion of Power in the World Economy.* Cambridge: Cambridge Studies of International Relations, Cambridge University Press, 1996.

Stråth, Bo. *Folkhemmet mot Europa* [The People's Home Encounters Europe]. Stockholm: Tiden, 1993.

Sundelius, Bengt. *The Committed Neutral: Sweden's Foreign Policy*. Ann Arbor, MI:

Westview Press, 1989.

Sundstrom, Marianne. "The Swedish Economists, the Labour Movement and the 8-hour Day." In *Swedish Economic Thought: Explorations and Advances*, edited by Lars Jonung, London: Routledge, 1993.

———, ed. *The Stockholm School of Economics Revisited.* New York: Cambridge University Press, 1991.

Sweden. 1917 *Regeringsformen* [Instrument of Government].

Sweden. 1974 *Regeringsformen* [Instrument of Government].

Swedish Institute. "The Swedish System of Government: Sweden Fact Sheet." Swedish Institute: March 2007.

Swedish Tax Payers Association. *Tax Rate Histories*. (2004-2006), http://www.skattebetalarna.se (accessed July 10, 2008).

Swenson, Peter A. *Capitalists Against Markets: The Making of Labor Markets and Welfare States in the United States and Sweden*. New York: Oxford University Press, 2002.

———. *Fair Shares: Unions, Pay, and Politics in Sweden and West Germany.* London: Adamantine Press, 1989.

Tett, Gillain. "US is Ready for Swedish Lesson on How to Deal with Its Banks." *Financial Times*. March 13, 2009.

Tilton, Timothy. "A Swedish Road to Socialism, Ernst Wigforss and the Ideological Foundations of Swedish Social Democracy." *American Political Science Review* 73, (1979): 505-520.

———. *The Political Theory of Swedish Social Democracy: Through the Welfare State to Socialism.* Oxford: Clarendon Press, 1991.

Time. "Sweden's Dynasty: Seven out of Seven of Their Neighbors Have Been Raped." April 29, 1940.

Tingsten, Herbert. *The Swedish Social Democrats.* Translated by Greta Frankel and Patricia Howard-Rosen. Totowa, NJ: Bedminster Press, 1973.

Tullock, Gordon. "The Welfare Costs of Tariffs, Monopolies, and Theft." *Western Economic Journal* 5, no. 3 (1967): 224–232.

Verney, Douglas V. *Parliamentary Reform in Sweden, 1866-1921*. Oxford: Clarendon Press, 1957.

Vinde, Pierre, and Gunnar Petri. *Swedish Government Administration.* 2nd rev. ed. Stockholm: Swedish Institute, 1978.

Watkins, Thayer. *The Economic History of Sweden.* San Jose State University, 2006. www.applet-magic.com (accessed July 2, 2009).

Westerstahl, Jorgen. "Some General Observations on Scandinavian Democracy." In *Scandinavian Democracy: Development of Democratic Thought & Institutions in Denmark, Norway, and Sweden,* ed. J.A. Lauwerys. Copenhagen: American-Scandinavian Foundation, 1958.

Wigforss, Ernst. *Har vi råd att arbeta?* [Can we afford to work?]. Stockholm: Social Democratic Party, 1932.

Woodward, C. Vann. *The Comparative Approach to American History*. Oxford: Oxford University Press, 1997.

Yahoo.com. "Business Reports on Sweden." Yahoo Business. http://biz.yahoo.com/ifc/se.html (accessed March 2, 2010).