“In the good home, equality, consideration, cooperation, and helpfulness prevail. Applied to the great people’s and citizen’s home, this would mean the breaking down of all social and economic barriers that now divide citizens into the privileged and the unfortunate, the rulers and the subjects.”

Per Albin Hansson (1885-1946)
Swedish Prime Minister

The Swedish Model

- one of the “failures” of a pure market system is
- Heavy use of transfer payments and provision of public goods to address this failure → welfare state
- Maintenance of a high level of employment
  - Macroeconomic tools:
  - Microeconomic tools:
- one of the best Human Poverty Indexes (HPI), one of the most equitable distributions of income, high life expectancy
Centralized Wage Bargaining

- negotiations between management (SAF) and labor (LO) with the support role for the gov’t
  - Management
  - labor:
    - The EFO model
      - competitive (exposed (x)) and domestic (protected) sector
        \[ W_x = P_x + (Q_x - I_x) \]
      - The rate of wage change in the protected sector (non-export) is fixed at the rate comparable to \( W_x \)

Wage solidarity

- the same wage for all jobs requiring comparable effort and comparable skills across all industries (and across seniority)
- \( w \) MPL
- wage spread between average wages between highest and lowest paid industries

<table>
<thead>
<tr>
<th>Year</th>
<th>1959</th>
<th>1964</th>
<th>1981</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>39</td>
<td>26</td>
<td>12</td>
</tr>
</tbody>
</table>
**Wage drift**

- wage equality discourages job shifts → wage is not a _______________
- employers offer non-monetary incentives such as special "perks" and fringe benefits
  - an increase in effective wage →

<table>
<thead>
<tr>
<th>Year</th>
<th>Negotiated Wage Drift (%)</th>
<th>Wage Drift (%)</th>
<th>Total Unemployment Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>7.8</td>
<td>1.7</td>
<td>9.5</td>
</tr>
<tr>
<td>1982</td>
<td>4.6</td>
<td>1.7</td>
<td>6.3</td>
</tr>
<tr>
<td>1984</td>
<td>5.6</td>
<td>2.3</td>
<td>7.9</td>
</tr>
<tr>
<td>1986</td>
<td>6.0</td>
<td>2.6</td>
<td>8.6</td>
</tr>
<tr>
<td>1988</td>
<td>4.2</td>
<td>2.3</td>
<td>6.5</td>
</tr>
<tr>
<td>1990</td>
<td>6.1</td>
<td>3.9</td>
<td>10.0</td>
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<tr>
<td>1992</td>
<td>2.7</td>
<td>0.8</td>
<td>3.5</td>
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<tr>
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<tr>
<td>1996</td>
<td>4.4</td>
<td>1.7</td>
<td>6.1</td>
</tr>
<tr>
<td>1998</td>
<td>2.8</td>
<td>0.8</td>
<td>3.6</td>
</tr>
</tbody>
</table>

**Active Labor Market Policy**

- a vital component of promoting full employment
- market economy:
  - micro eq’m: ________________ provide incentive for workers to change jobs (industries)
  - macro eq’m: ________________ ensures full employment
- Sweden:
  1. _______________ -oriented programs
  2. _______________ -oriented programs
  3. _______________ programs
  - generous benefits → depend on active job search
The Reformed Welfare State

- used to be overly generous: “cradle to grave security”
- Structural reforms in late 1990s and 2000s
  - Pension system
    - defined benefit → defined contribution
    - later retirement
  - Free schools (vouchers)
  - flexicurity
- Still a comprehensive welfare state, but with more market mechanisms
  - pragmatism over ideology

The Reformed Welfare State

- People pay taxes and get services
  - high marginal tax rates

<table>
<thead>
<tr>
<th>Max. Marg. Tax Rates on Ind. Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
</tr>
<tr>
<td>France</td>
</tr>
<tr>
<td>Germany</td>
</tr>
<tr>
<td>Sweden</td>
</tr>
<tr>
<td>UK</td>
</tr>
<tr>
<td>US</td>
</tr>
</tbody>
</table>

- Government transparency and trust
  - low level of corruption and influence of special interests

Conclusion

- *Folkhemmet* – “people’s community”
  - For a welfare state to exist, you need a close community → problems with immigration
  - *Equalitarianism*: welfare programs not seen as distributing income from one group to another
- public spending still large:
  - 1993: 67% → 2012: 49%
  - but debt fell: 1993 = 70% → 2010 = 37%
- innovations – willingness to experiment
- high social mobility
Lessons

1. High taxes do not necessarily discourage productive activity
2. It is not the size of the gov’t but its role
   • collective action problems
3. Proper social benefits
   • positive externalities and free rider problem
4. Maintaining competitiveness
   • Neoliberalism
5. Fiscal order