

# Sweden's welfare state; myths and realities: a Marxist analysis of the 'Nordic Model'

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In the midst of the global economic crisis and the age of austerity, you sometimes hear comments about how the 'Nordic Model' is different and Sweden is staving off a crisis that seems to be spreading fast throughout the rest of Europe. In October 2011, the Irish progressive economic think-tank, TASC, organised a seminar entitled 'The Nordic Models: Resilience in Changing Times' where prominent speakers discussed the Scandinavian way and how it could be implemented in Ireland. This 'Nordic model' conjures up a vision of a harmonious capitalist state, where the market madness can be tamed and a welfare state can foster a more equal society. Many of those advocating this model are genuinely looking for reforms and a better society. But the terminology and rhetoric can also be used, especially by Labour Party Government Ministers, in an attempt to delude people that their cut-backs are in reality progressive reforms.

The reality of the Nordic model in a country like Sweden is far from the utopian vision often presented. In fact, inequality is rising, unemployment is high (especially amongst young people), and poverty is increasing. The richest 1% controls 40% of the wealth, while a quarter of the population have no financial assets whatsoever<sup>1</sup>. Astonishingly this figure is higher than in Ireland, and also even than in the US. In 2004 Sweden had the highest CEO salaries in the EU<sup>2</sup>. In spite of these inequalities, there is some truth to the claim that the welfare state there is better, in so far as there are free school meals, free third level

education with universal grants and free health care for under 20 year olds. These things should not be dismissed for they make a difference to the living standards and expectations of working class people. The main aim of this article, however, is not to give a description of the present attempt by a right-wing coalition to roll back the welfare state. Rather, it is to give a Marxist perspective on the welfare state as it came into existence in Sweden and put the Nordic model in a historical context.

## Origins of the Welfare State

Mainstream bourgeois commentators have a tendency to refer to the Nordic model as owing its existence to the genetic make-up of Nordic people. The Scandinavian psyche, apparently, prefers equality, harmony and partnership to class conflict and capitalist greed. There are also those who point to the period of industrialisation in the late 1800's as the beginning of the welfare state, with free trade liberals such as Johan August Gripenstedt who supported general suffrage<sup>3</sup>. But the most common perception is that at some point in the 1930's, with the arrival of partnership and Social Democracy, there was a massive change in Swedish society and the welfare state was born. In reality, prior to the Second World War, only minor reforms were granted to working class people. It was in the 1960's and 70's that the welfare state became part and parcel of public policy.

To understand the emergence of the Nordic model, it is necessary to give a

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<sup>1</sup>B.Ericson, *Den nya överklassen* (Fischer & Co, 2010), p.11-12, p.313

<sup>2</sup>Ibid., p.288

<sup>3</sup>D. Ankarloo, *Välfärdsmyter* (ETC Frlag, Stockholm, 2010), p.55

brief description of the Swedish economy and its history. Sweden experienced very late industrialisation. In the early to mid-19th century, it was an extremely backward country with mass poverty and emigration. After the years of famine in 1848, it is estimated that between the 1860's and 1920, a million people emigrated from Sweden to America in search of a better life. These were mostly poor peasants from the Southern countryside, along with religious refugees and vagrants.

Towards the late 1800's, the export industry started to flourish, with the main exports being iron ore and forestry. The raw materials mainly went to the more industrially advanced countries like Britain and Germany, who needed good quality iron and wood for thousands of miles of railroads and for factory machinery. Another use for iron ore was for the new military weaponry in the expanding armaments industry. The growth of the export market helped to speed up industrial development in Sweden.

During the First World War Sweden officially stayed neutral, but it continued to export raw materials for arms manufacturing abroad. Whilst millions of working class men died in the trenches in the horrific war, Swedish capitalists profited from the sales of iron ore and other materials.

The Wall Street crash of 1929 had a devastating effect on Swedish capital. The vast empire of businessman and financier, Ivar Kreuger, collapsed, and he committed suicide in Paris. This added to the crisis in the Swedish and the US economies and class conflict escalated. In 1938, partnership between the employers, the state and the unions was first established, and some small reforms were granted during this period. Sweden stayed 'neutral' dur-

ing the Second World War, but continued once again to trade with both the Allies and the Nazis. It is also well known that the Swedish government allowed goods to travel across the railroads in Sweden, during the Nazi occupation of Norway and Denmark.

Before he died, in 1940, the Russian revolutionary, Leon Trotsky, described the economic crisis of the 1930's and the war as the 'death agony of capitalism', from which the system would not be able to recover. But the economic boom that followed the war, which lasted for almost 30 years, disproved Trotsky's diagnosis. Capitalism grew enormously and it is in this period of growth that we must place the emergence of the welfare state.

## **The Golden Years of Capitalism- the post war boom**

Between 1945 and 1973 the capitalist system expanded massively. Average global growth has been calculated at 4.8% annually during this period<sup>4</sup>. There was record low unemployment in the US and Western Europe. It seemed as if Marx had been wrong and the boom-bust cycle had come to an end. So how did capitalism recover from the greatest crisis in its history?

Firstly, the destruction and widespread bombing of cities that took place during the Second World War meant that it was necessary for the countries of Western Europe to re-build again. The state and private companies invested in new infrastructure, factories, machinery and homes. Secondly, there was a significant growth in state spending everywhere, both during the war and after. In the US in 1945 to the end of the war, military spending accounted for a massive 42% of GDP<sup>5</sup>. In a

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<sup>4</sup>Stephen A. Marglin, Juliet B. Schor. *The Golden Age of Capitalism*. (Google Books. Retrieved 2009-03-12)

<sup>5</sup>[http://www.usgovernmentsspending.com/past\\_spending](http://www.usgovernmentsspending.com/past_spending), (Retrieved 2012-08-22)

war economy, the state drives investment even though profit rates are very low, while normally investment would slow down during a depression or recession. After the war, in order to carry out the necessary reconstruction, the high level of state spending continued.

Thirdly, military spending continued to be high even in the post war era. In 1953, eight years after the end of the war, US arms spending amounted to 15% of GDP<sup>6</sup>. As part of the arms race, huge amounts of money continued to be spent on military purposes throughout the Cold war period. Chris Harman explains how military spending can counteract the tendency of the rate of profit to fall, by diverting investment from fixed capital to destructive investment. The combination of the destruction of fixed capital in the war and afterwards, the growth in state spending and the permanent arms economy created a boom that lasted until 1973.

The question is how countries like Sweden, which was not directly involved in the war in terms of the destructive element or the permanent arms economy, could benefit from this. To answer this, we need to look at the system as a whole. Capitalism is a global system which can benefit some capitalists and destroy others. Some are able to benefit from the new markets created by other capitalists. But the presence of intense competition also means that, at the same time, some capitalists find their profit rates falling and they go to the wall. In the case of Sweden, in the post war period it was actually in a better position than countries directly involved in the war. Precisely because there was no destruction and no re-building there was an even larger amount of extra surplus value available.

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<sup>6</sup>Ibid.

<sup>7</sup>H. Blomqvist, <http://www.marxists.org/history/international/social-democracy/sweden/red-thread.htm>

<sup>8</sup>ibid.

The next section will examine why the ruling class didn't just keep these extra profits to themselves but supported the creation of the welfare state.

## The Working Class

There is one element of society that I have not yet discussed, and that is the class struggle. There would never have been a welfare state were it not for the strength of the Swedish working class. Rather than being a peaceful place, Sweden has always been a hothouse for class struggle. With the massive expansion of industry in the late 1800's there was a movement of poor, landless farmhands from the countryside to the industrial towns and cities. During the 19th century, Sweden experienced many revolts and riots. In the 1860's, groups of workers broke into upper class parties and demanded bread, justice, a republic and freedom in response to famine and oppression<sup>7</sup>. In the early 1900's, the working class movement and the trade unions grew in strength and staged two general strikes, one in 1902 demanding the right to vote and the second in 1909.

With Russia so close, the revolutions of 1905, and later in 1917, were a source of inspiration to Swedish workers, but extremely worrying for the ruling class. In 1905, Norway declared itself independent from Sweden and the Swedish authorities prepared a military attack against the Norwegians. However, the young socialists spread anti-war propaganda amongst working class soldiers and forced the ruling class, who were wary of a Russian situation spreading, to accept Norwegian independence<sup>8</sup>. During the Great Depression of the 1930s, as capitalists tried to keep their

profit levels, working class struggles broke out again, primarily over defending wages and organising themselves into unions. In 1931, there was a wave of strikes in the shipyards and on the rivers. In the village of Ådalen, strike breakers were brought in and there was a mass mobilisation of workers and the local community. The army blocked the road to the scabs' camp and, when the workers' march continued towards its destination, the soldiers opened fire on the protesters. They shot dead five people and injured dozens of others. The incident caused uproar amongst the working class all across the country despite the mainstream media's attempt to blame 'communist radicals' for the violence.

This period of class struggle eventually led to the partnership agreement between employers and unions which was signed in Saltsjöbaden in 1938. In order to buy off the trade unions, some reforms were given in return for industrial peace. With the Social Democrats in power, restrictions on strike action were conceded by LO (Landsorganisationen- Congress of trade unions) in return for the promise of industrial growth. The following period was marked by the decline of the class struggle while the Social Democrats were in Government continuously from 1932 until 1976.

Following the Second World War, the economic boom led to full employment which, in turn, strengthened the working class. With the extra surplus value accumulated throughout the war and in the post-war boom, the ruling class was content to give major reforms for the working class in return for continued partnership. Industrial peace, paid for by a share of their profits and reforms were crucial in order to wed the working class to capitalism, and too deter them from following the communism in the neighbouring Soviet Union. Folkhemmet (literally 'the peoples

home' but the term used for the welfare state) was developed during the 60's and 70's with the introduction of public health care, education and the construction of one million homes for the working class. Living standards for working class people rose rapidly, and there was some social mobility due to the increased educational opportunities.



Workers in the mining district on strike in 1971

As the golden years came to an end in the early 1970s, the class struggle returned. In 1971 alone wild strikes involved more than 16 000 workers out of more than 90 000 taking strike action that year. There were over 800 000 strike days in 1971. Industrial peace had allowed a massive increase in productivity while wages had been kept down by the collaboration of the trade union bureaucracy with the bosses. Following the global radicalisation of 1968, workers began rebelling against partnership and the trade union bureaucrats, most of whom were also members of the ruling Social Democratic Party. The radical left grew in the 1970's, but consisted mostly of Stalinists and Maoists, with a small minority of Trotskyist sects. The industrial unrest of the early to mid-1970s forced new legislation. The laws on employment protection and inclusive decision making were designed to quieten down

the movement. Once again, the capitalists were forced to back down to the workers but the laws impacted much less on their profits than the demands of the workers for higher pay and less pressure on productivity would have done. For the working class to win all of their demands and develop the struggle from a purely economic to a political one, independent revolutionary organisation would have been necessary. Unfortunately the far left was too small, while the Stalinist Left Party and the ruling Social Democrats had enough influence to sell out strikes and ensure struggles didn't link up with the growing political movements (demonstrations against the Vietnam War, student occupations and women's movement drew large numbers of young people onto the streets and into struggle, at the same time that there was working class struggles in the factories).

## **The Attack on the welfare state: 1991 to the present**

As the struggles of the 1970s came to an end in the 1980s, neoliberalism became a global ideology and policy led by Margaret Thatcher in Britain and Ronald Reagan in the US. However, the Swedish public sector continued to grow during the 1980s and the tax take increased to 51% of GDP, its highest ever in history<sup>9</sup>. During the 1970s, with the expansion of the public sector, Sweden became a high tax economy. Many new taxes fell on the working class, such as increased VAT and income taxes, but there was also a squeeze on capital, with increases in corporation tax and the introduction of an employers' tax of 35% of the employee's wage (similar to Employers' PRSI). This tax still makes up a third of all tax income.

<sup>9</sup>OECD and SCB (Statistiska Centralbyrån), [www.ekonomifakta.se/printDiagram.aspx?pid=16031&epslanguage=sv&from16031=&to16031=](http://www.ekonomifakta.se/printDiagram.aspx?pid=16031&epslanguage=sv&from16031=&to16031=)

<sup>10</sup>D. Ankarloo, *Välfärdsmyter* (ETC Frlag, Stockholm, 2010), p. 120

While the public sector in Sweden avoided cuts in the 1980s, some neoliberal policies were introduced and the financial and banking sectors were deregulated, with devastating consequences. With the changes to the law on loans, financial and property firms seized the opportunity to make millions on commercial and residential property. A property bubble developed throughout the 1980's which led to a massive collapse and crisis in the early 1990's. Much like the banking crisis in Ireland in 2008-09 the Swedish banks crumbled and were bailed out by the taxpayers, to the tune of 67 billion kronor (€6.7 billion). The massive banking debts incurred by speculators and developers were transformed into national debt. The problems continued with massive speculation on the Swedish currency. The crisis led to mass unemployment and large scale attacks on the public sector and the welfare state. The ruling class used the economic crisis, caused by private financial speculation, to cut back on schools, hospitals and welfare, blaming the crisis on a 'bloated' public sector. The Swedish ruling class had long wanted to reduce the public sector and privatise the many state-owned sectors such as energy and telecommunications. The crisis gave them a good excuse to do this while also disarming the working class through fear of unemployment. 90 000 jobs were cut in the public sector in the early 1990s<sup>10</sup>. The collapse of the Soviet Union in 1991 also played its part in the new attack on the public sector. As communism fell, the 'There Is No Alternative' dogma of Margaret Thatcher was the refrain. The fear of revolution or working class revolt had become history and neoliberalism had a free reign.

Sweden's economy recovered in the late

1990s but continued to have relatively high unemployment. One of the reasons for the recovery following the severe crisis was that the global economy remained fairly stable with the growth of the dotcom bubble. In addition, exports of raw materials and means of production to Germany and other countries continued, and in some cases, even increased. The cutbacks in the public sector, the lowering of working class living standards and the opening up of new markets led the capitalists to invest again. Important also to the recovery was the fact that many firms were allowed to go bankrupt and capitalists took major losses on finance and property. Almost 60 000 small and medium businesses went bust in a couple of years, leading to a higher concentration of capital<sup>11</sup>. In terms of the welfare state, the cutbacks and privatisations continued despite the economic recovery.

With EU membership, secured in 1994 by a narrow vote in a referendum, the Swedish ruling class and Social Democratic government had yet another alibi for continuing down the neoliberal path. New EU regulations on the public sector and privatisation gave them the excuse to implement their agenda without having to take responsibility for it. In 2006, the first right-wing coalition government was elected since the early 1990s. Since the beginning of their administration they have continued the work that the Social Democrats started but now they implement it more brutally. The state-owned pharmacies have been sold off and opened to the market, education and health has been opened to privatisation and changes to social insurance and welfare schemes are inflicting huge suffering on the poorest in society. Corporation tax has been lowered continuously and taxes on wealth and property have decreased while VAT has in-

creased, and charges for waste collection, school meals and hospital visits etc. have been introduced. Inequality is quickly rising and poverty is on the increase<sup>12</sup>. These measures are not supported by the working class but the lack of a radical left wing alternative has left workers demoralised. On the ground, however, resistance to the cutbacks has slowly begun. Student nurses are campaigning for higher pay, and big protests against changes to the welfare system have taken place across the country but political issues like anti-fascism and Palestine remain the largest organising points, especially for young people.



10,000 people protest in Stockholm in 2010 against the far-right, racist Swedish Democrats taking seats in parliament

## Conclusion

In these times of economic crisis and austerity, left reformism and Keynesianism are back on the agenda. The rise of Syriza in Greece and Mélenchon of the Front De Gauche in France opens up a new arena of left reformist politics. The analysis of Social Democracy in action in the Scandinavian countries in the post-war period is becoming increasingly important for revolutionaries in the argument against the possibility of a Keynesian solution to the economic crisis. This involves placing the

<sup>11</sup>M. Nyberg, *Kapitalet.se* (Ordfront, Stockholm, 2001), p.207

<sup>12</sup>D. Ankarloo, *Välfärdsmyter* (ETC Frilag, Stockholm, 2010), p. 61

Nordic Model of the welfare state in its historical context, and understanding that it occurred during a period of capitalist boom which was in turn a product of the mass destruction of the Second World War. The welfare state cannot simply be recreated, when the same circumstances do not prevail. This is why those who genuinely seek to reform the state according to the ideals of the 'old' Social Democracy or Left reformism end up implementing austerity in order to return to a 'healthy' capitalism. It is also forgotten that the wealth of the Swedish state in the 1960s and 70s relied on exports to a global capitalist market which oppressed workers all across the world (and still does). Increasingly, the Swedish economy depends on arms exports to countries like Saudi Arabia, who use Swedish arms to butcher protesters in Bahrain and oppress their own people<sup>13</sup>. One of the myths of the welfare state is that it is seen as a kind of peaceful partnership between bosses and workers. In reality, it was workers' struggles that forced the capitalists to forfeit some of their prof-

its for the creation of the welfare state, but only for as long as they had enough profits to sustain it. In the current crisis of profitability, the ruling class will continue to attack workers' wages, rights and the welfare state, unless there is a fight-back against the capitalist system.

Sweden and the other Nordic countries will not stay immune to the economic meltdown. As the economy slows down globally, exports will decline and when the Euro periphery defaults the Nordic countries will be hit as banks in the core will take the losses on money lent to these countries. Revolutionaries must fight against all attacks on the working class including the attacks on the welfare state which previous generations struggled hard to win. In addition, the necessity of moving beyond this system and to socialism must not be forgotten. Sweden is a good example of the fact that reforms won by workers under this system can always be taken away and that a revolutionary overthrow by the working class is the only solution to crisis and oppression.

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<sup>13</sup><http://www.ofog.org/node/1196>, (Retrieved 2012-08-22)