

# Ny Tid

Rapport 19



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## The Swedish Model – conflict or consensus?

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# 1. The Swedish Model in a state of change

## From an exemplary model to rioting in the suburbs

Rioting in the Stockholm suburb of Husby and a number of other suburban areas in other Swedish cities in the spring of 2013 was reported in several international media. Deutsche Welle, for example, considered that riots in "one of Europe's richest capital cities have scuppered Sweden's reputation for social justice".

These riots have now led to a critical public debate in Sweden. Most people are aware that rifts in Swedish society (as in most other countries) have increased in recent years. But nevertheless, such riots may be seen in terms of an awakening, particularly in view of developments in the major cities and the growing marginalisation and poverty in many suburbs and housing areas.

These rifts have been exacerbated by the new work-incentive policy ("arbetslinjen"), with reduced levels of compensation in the social insurance system pushed through by the non-socialist government after the 2006 election. At the same time, major groups have benefited in purely economic terms, especially as a result of lower taxation for those in work. One might refer to an increased polarisation between insiders and outsiders, between those who have a strong position in the labour market and those who do not. People who have jobs have more money in their pockets, for the most part, while the situation has deteriorated for people outside the system.

Prior to about 1980, income differences were declining in Sweden. But according to a recent OECD report, Sweden is the country in which income gaps have increased most since 1995, even if Sweden initially had a very narrow range of income distribution. But the trend is clearly pointing in one direction. As Michael Forster, a senior OECD analyst, puts it: "If this trend continues for another five or ten years, Sweden will no longer be a showcase for equality in the OECD area."

The Swedish Model is still very much associated with Social Democracy and the labour movement, which set its stamp on Swedish society for much of the 20th century. In recent years, the non-socialist coalition ("allians") headed by the "New Moderate" Party, has also started to lay claim to the Swedish Model concept. In other words there is a conflict about the meaning of this concept, about specific policies and about the way in which the public welfare institutions should be constructed.

## **The Swedish Model's background**

The historic Saltsjöbaden Agreement of 1938 between the Swedish Trade Union Confederation (LO) and the Swedish Employer's Confederation (SAF) has come to symbolise the compromise between labour and capital – a spirit of cooperation between two well-organised parties, and peaceful relations in the labour market. But one of the prerequisites for the Saltsjöbaden Agreement was that the Social Democrats had been in office at government level since 1932.

The Swedish collective-bargaining model gave the trade union organisations a strong position in the labour market that benefited union members, strengthened and legitimised union organisations and promoted economic development.

This meant that trade union organisations could pursue an active income distribution policy via a "solidaric" wage policy of equal pay for equal work, irrespective of the profitability of company/ employer concerned. This favoured a narrower range of pay, gradual structural transformation and the elimination of inefficient firms. The state and the political system, for their part, developed a welfare policy which, step by step, built up social security systems, while simultaneously encouraging greater mobility in the labour market by means of an active labour-market policy that made it possible for people to move to new jobs in the major cities in growth regions.

This was an economic policy that promoted both rationalisation and greater social justice. Central government fiscal policy was designed to keep inflation at a low level. Overall, this meant that the Swedish trade union movement accepted profits in the private sector to a greater extent than in many other countries. This model delivered higher standards of living and higher pay. As a result, the Swedish trade union movement has accepted technological development and the continuing restructuring of industry. However, parenthetically, it should be pointed out that "excess" profits have posed a dilemma for the labour movement and this was one reason why the LO launched its proposals for Employee Funds in the mid- 1970s.

Anna Hedborg's and Rudolf Meidner's "Folkhemsmodellen" book, which was published in 1984 [literally "the People's Home Model", but might also be translated as "a national home fit for the people" or "the welfare state model"], focused to a great extent

on the role of labour-market relationships in the Swedish Model. Rudolf Meidner, together with Gösta Rehn, personally participated in creating the Swedish Model in the form of the "Rehn-Meidner Model". Both authors also prepared and presented proposals for Employee Funds in 1975. They linked the Swedish Model with the "folkhemmet" concept, formulated in Per Albin Hansson's classic speech in Parliament in 1928, in which he proclaimed that:

"There is equality, consideration, cooperation and helpfulness in the good home. Applied to the greater home of people and citizens, this would mean breaking down all the social and economic barriers that now separate citizens into privileged and neglected [categories], ruling and dependent, rich and poor, propertied and impoverished, plunderers and exploited".

According to Hedborg and Meidner, however, the Swedish Model had several components.

Firstly, it meant a golden mean, in which a reformist labour movement achieved far-reaching compromises with other groups to achieve welfare-policy objectives.

Secondly, it meant a mixed economy. The production sphere has continued to be largely private-owned, but the trade union movement has had considerable ambitions in terms of income distribution, while crucial welfare services have been provided by the public sector. Social welfare policies were based on systems that applied to everyone, with universal entitlements.

Thirdly, economic policy (the Rehn-Meidner model) meant full employment and stable prices, restrictive fiscal policies, a solidaric pay policy and an active labour-market policy.

But Sweden and the rest of the world were facing a far-reaching transformation process in the mid-1980s, resulting in a "war of the roses" in the labour movement in this decade. This was basically a conflict between LO and the Social Democratic Party, between left and right or, if you prefer, between "renewers" and "traditionalists".

When the Social Democrats returned to power in 1982, the "third way economic policy" was launched. This was an attempt to achieve a balance between the Keynesian tradition, which had solid support in the labour movement, and the monetarist ideas that had become increasingly fashionable. This policy meant,

among other things, that the rate of expansion in the public sector declined. The public sector's proportion of GDP, measured in terms of the number of public sector employees, had increased very rapidly from the late 1960s until the early years of the 1970s.

Around 1990, the Social Democrats lost their grip on economic developments, and were out of office in 1991, with historically poor election results. In 1992, the Swedish economy experienced a serious crisis – the greatest economic shock since the 1930s. Sweden had three years of negative growth, and unemployment rose to 12 % by 1994. The public sector was growing and appeared to be out of control. The acute financial crisis was the result of deregulation of financial markets and Swedish credit legislation. This had led to a classic financial bubble, based on the property sector. In 1994, Sweden had the largest deficit in public finances of all the OECD countries. The Social Democratic government that took office in 1994 implemented stiff cutbacks in public expenditure.

The economy recovered and unemployment in the early years of the next century was down to 4 %. Productivity in the Swedish economy improved rapidly and employees benefited from significantly higher incomes as a result of controlled pay increases. But the lessons to be learnt from the crisis of the 1990s are mixed. Unemployment has not dropped to the levels that prevailed previously, and Sweden has not yet really recovered from the social welfare cutbacks implemented by the Social Democrats, especially in the social/national insurance system and in government contributions to local authority expenditure.

### **The Swedish Model redefined**

When the Economist magazine recently praised the models applied by the Nordic countries, the emphasis was primarily on changes in a liberal direction that had shifted the Nordic models away from what had made them successful. This change in the way the Nordic model is viewed is also reflected in "The Nordic Way" report presented at the World Economic Forum in Davos in 2011. In his paper "Nordic Capitalism: What have we learnt?", the economist Klas Eklund claimed, for example, that the reason why the Nordic welfare models have managed better than in other countries was that they had previously experienced periods of crisis, economic problems and recessions, but that they subsequently had put their affairs and their models back on track. Eklund thought that their success was not based on increased

taxation, rather the reverse. The fact was that the Nordic countries had accepted less generous social insurance systems and implemented extensive "market reforms". This is probably the current "higher ideology" and the predominant story in Sweden, at least from the crisis of the 1990s until the present day.

The Swedish model has also been reinterpreted from another viewpoint, based on the relationship between the individual and the collective outlined in Henrik Berggren's and Lars Trägårdh's book "Are Swedes people? Affinities and independence in modern Sweden". The authors' fundamental thesis is that the Swedish welfare society has made individuals more independent of their families and the civil society than in other welfare models by organising major aspects of the welfare structure in collective forms, for example via student grants and social security systems. In Sweden, this has led to a special form of "state individualism".

This individual dimension of the Swedish welfare model has been embraced not only by Social Democrats but also, on the right, by the Swedish Moderate Party - or at least by some of their leading representatives. Traditional "Moderates" are hardly likely to use the term "the Swedish Model" since they regard it as a Social Democratic concept. But after all the changes of recent years and in the light of current public debate, the "New Moderates" have accepted the Swedish Model and tried to take it over. But the current government has also taken the opportunity to put its stamp on the Swedish Model by applying its own version of the work-incentive "arbetslinjen".

### **A non-socialist work-incentive policy**

The reform agenda launched by the non-socialist government after the elections of 2006 was based on the concept of "outsidership" and the need for a more demand-oriented work-incentive policy.

The outsidership rhetoric established by the non-socialist parties has redefined the "social issue" in Sweden in a manner that has become familiar in a number of other countries. The outsider designation has been combined with tougher requirements and a worsening situation for "outsiders".

Unemployment and sickness benefits have been reduced. All tax deductions (= reductions) have been aimed at people in employment. The difference between insiders and outsiders is extended when benefit levels for unemployment and sickness are



reduced. And that was the idea. For many years, economists have prescribed that "reserve pay levels" should be forced down. The unemployed should take jobs at less pay.

Furthermore, the contributions of individual employees pay into unemployment insurance funds have been differentiated, which has meant that employees with low incomes and a high rate of unemployment pay more. One of the hobby-horses of the Minister of Finance, Anders Borg, is that unemployment is due to excessive rates of pay. High unemployment benefit charges will force the unions and employees to accept more modest pay increases, or even lower pay. This is a pre-Keynesian view of the labour market as a self-regulating system, with pay as the primary regulatory factor.

We may impute the word "outsidership" to the social changes that triggered the riots in Sweden in the spring of 2013, because this word has, of course, had an impact of this nature since it reflects to some extent the spirit of the age. In fact, outsidership represents a societal dichotomy that describes, confirms and supports the concept of a "two-thirds society" and the increased polarisation that is already a reality.

Political forces on the right lay claim to the Swedish Model. This is no longer something to which Social Democrats clearly have sole rights, but it has instead become the object of a political and ideological conflict.

## **2. From welfare planning to a welfare market**

The public sector's expansion in Sweden, in terms of the share of GDP and the number of employees, mainly took place from the late 1960s to the mid-1970s. This was a time when society's responsibilities were extended in a number of key areas, such as child care and care of the elderly. It was also a period of increased intervention by the state and government control of several different sectors in society.

The pendulum in the political debate swung over rather quickly, and criticism of centralisation gathered force. And this criticism came from both the left and the right. The right thought that the public sector had become too large and that taxes were too high. Criticism from the left often focused on centralisation and the dilution of participation on the part of citizens.

One starting point for criticism voiced in the labour movement was that assignments that had previously been taken care of by the "popular movements" had now been transferred to the municipalities. Several participants in the debate considered that the commitment of the popular movements was being weakened. The municipal mergers implemented in the post-war period meant that the number of local voluntary politicians was drastically reduced. Subsequently, demands were made for a greater degree of empowerment for tenants and public sector employees in order to increase participation and democratic support.

And when the Social Democrats returned to power in 1982 after six years in opposition, a special Minister of Public Administration was appointed to work for the vitalisation of democracy and reforms in the public sector. The municipalities were, for example, given the opportunity to institute organisational experiments and decentralise decision-making within the municipal framework so as to involve more citizens in decision processes.

The swing of the pendulum had now moved from centralisation to decentralisation. Government control of municipal activities has been reduced and more responsibilities transferred to the local level.

There was also discussion amongst Social Democrats about the need to renew the public sector. The starting point was primarily the need to make it easier for citizens to exert an influence and a desire to intensify the democratic element within the public sector framework.

In parallel with this, the political philosophy of the "new right" had, in point of fact, established itself in the non-socialist block. The political right in Sweden embraced the new-liberal ideas and intensified its criticism of the public sector, which it regarded as an economic problem that restricted Sweden's growth. A number of private initiatives acquired considerable symbolic importance at this time. The private "Pysslingen" movement, which set up child care and medical services, challenged the public monopoly in this area.

During the term of office of the non-socialist government of 1991-1994, both free competition and the customer-choice models were introduced in the welfare area. When the Social Democrats

returned to power in 1994, this new-fangled legislation was not repealed. The Social Democrats were fully occupied with a clean-up of the Swedish economy and when in office they enacted legislation ("stopplagen") to prevent county councils from selling off hospitals. But the idea of exposure to competition proved to have an inherent force that not even its advocates in non-socialist circles could predict or imagine. Changes of this nature were initially marketed as a way of paving the way for cooperative enterprises and greater diversity - for example Waldorf teaching methods in schools. But, in the event, this has mainly been a question of welfare sector operations conducted by private companies and venture capital conglomerates. To a large extent, this involved capitalistic corporations rather than non-profit companies.

The exposure to competition concept also went hand-in-glove with the "buy and sell system" and various models that emulated the private sector. Overall, this meant that market models were subsequently introduced in public sector welfare operations to a greater extent. The political pendulum has now swung over from a strong central government focus in the 1970s, via demands for decentralisation and participation, to the current passion for market solutions.

In 2006, the non-socialist parties returned to office after 12 years in opposition. The new government immediately abolished the Social Democratic "stopplagen" and enacted new legislation that accelerated the privatisation process. The Swedish Model has fundamentally changed its control orientation from a planned focus to a market structure. Even if the welfare system is still financed jointly via taxes, it is increasingly private in the operational sphere.

However, in recent years, market models, under the magnifying glass, have been subject to increasingly critical discussion. There has been growing criticism of the quality of care services and schools, and the focus of such criticism has been on low levels of personnel intensity, which is of course linked to the desire of private contractors to cut costs in order to increase profits. Furthermore, the profit issue has become a crucial symbol in the public debate about the motives that apply for private contractors in public welfare services. The profit issue has been the main feature of disputes with the labour movement for several years.

The question of private alternatives and profits in the welfare sector has become a major battlefield in the labour movement and among Social Democrats, where the view that private profit should be stopped has gained increasing ground. For some time, the Social Democratic Party's line has been that it is more important to make stringent demands on quality, thus restricting profits, and that the key factor is not who carries out welfare operations but what welfare services can be offered. This approach was confirmed by the Party Congress in 2009.

The LO Congress in 2012 decided to work for the non-profit principle in the welfare sector, and this view was expressed in concrete form in a report entitled "Measures to Restrict Profits in the Welfare Sector". The main feature of the LO proposal is that alternatives to public operation in the tax-financed sector are to be conducted in the form of public sector companies, in accordance with a special provision in the Companies' Act, and that they should be restricted to dividends of 1 % above the treasury bill rate. Furthermore, such companies are to "promote public welfare". The National Union of General and Municipal Workers insists on greater resources for public sector operations as a crucial factor in managing the quality of public sector activities. They also demand improved manning, which is now so low that it threatens the quality of care services.

In the spring of 2013, the Social Democratic Congress adopted guidelines that are considerably more far-reaching. In its programme, the Party proposes stiffer requirements to prevent a private owner from selling out operations to a third party, clearer requirements as regards personnel intensity and personnel costs, more frequent checks and greater openness. Furthermore, the Party demands that the right to confidential treatment of information should also apply to employees of private companies in the welfare sector, that such companies should pay tax in Sweden and that "interest-rate chicanery" should be stopped. After considerable discussion, the Congress also agreed that municipalities should be allowed to reject private contractors in procurement processes and insist on non-profit alternatives. The Congress determined that municipalities are to have a decisive role in the establishment of independent schools. Although this was a more critical approach than at the Congress of 2009, the Party did not reject profits or private alternatives.

Hence, it appears that the public debate on the intersection between state control and private and public sector operations has taken a new turn in recent years.

### **3. A new policy for industry and commerce?**

Sweden's economic successes have been largely based on Swedish industry, partly linked to national raw-material assets, but also to the development of a number of major companies on the basis of technological innovations, often in cooperation with the state. Sweden became industrialised at a relatively late stage. The number of employees in industry did not exceed the number working in agriculture and forestry until the 1930s. But after the Second World War, Sweden had a period of high and sustained growth, with a peak during the "record years" of the early 1960s. The industrial sector also achieved its high point in this decade.

In the 1970s, a number of industries experienced a structural transformation process. Both Social Democratic and non-socialist governments provided massive state support to bridge a decline in demand, in an attempt to keep a number of companies on their feet. In retrospect, this policy was subject to severe criticism. What was predicted as a business-cycle downturn was in fact a structural crisis for some sectors of basic Swedish industry. The textile and shipbuilding industries, in particular, proved unable to cope with international competition. On the other hand, Sweden continues to have a strong position in the steel and paper industries, for example. The conclusion drawn by many economists, and subsequently also by politicians, was that it was wrong for the state to become involved in government intervention, or to pursue any kind of industrial or commercial policy. It would have been better to let the market handle this kind of transition on its own.

Moreover, the role of industry is being downplayed in the public economic and political debate. In a panel discussion at the World Economic Forum in Davos in 2013, Fredrik Reinfeldt, the Swedish Prime Minister, said that:

"Sweden once had employees in industry, but they have now virtually disappeared."

Obviously, this is hardly the case. The number of employees has dropped since the 1960s, but in point of fact this is not the whole picture. Swedish industry has undergone a structural change in which companies are focusing on their core operations. In addition, industrial production calls for an increasing range of services, and the knowledge-intensive services sector often provides high-technology services linked to industrial requirements. Furthermore, there is the globalisation factor, which often means that production is spread over the whole world and that parts can be manufactured in several countries, with other countries supplying components in an efficient manner. This also means a focus on product development, where R&D, design, sales, marketing and customer care are key factors in keeping up on the industrial front.

If we take this into account, the downturn in industry is not quite so drastic. In a paper prepared for Arena Idé, Daniel Lind has shown that the total number of employees in industry has not changed radically since the 1990s. In 2008, there were 1,050,000 employees in the private sector who depended, directly or indirectly, on the demand for industrial products. This corresponds to 36 % of the total number of employees in the private sector.

After the major economic crash in 2008, the non-socialist government's main response was not to do the same thing as in the 1970s, that is to say pump in tax revenues to save companies. This meant that Sweden did not conduct any kind of active policy to cushion the crisis which, on this occasion, proved to be temporary. Sweden did not, for example, introduce the type of bridging employment launched in Germany, or any other active measures to help companies in crisis.

At the same time, many people would like to see a more active policy for industry and commerce, and insist that this should also include the service sector. The division into a service sector and an industry sector is irrelevant, since they are linked in practice and mutually dependent on one another. At the autumn conference of the Arena Economic Council in 2012, Charles Edqvist advocated an active policy to encourage future innovations. He recommended an innovation council under the auspices of the prime minister, a more active public procurement policy to encourage new ideas at the company level and ecological

adaptation. Other participants in the discussion have pointed to the importance of research and education/training policies, better basic education and higher quality at the university level as a means of promoting innovations. This involves developing knowledge environments and establishing links with companies that can translate research into new products and new companies, and developing mechanisms to disseminate know-how and convert it into benefits for society.

Stefan Löfven, the Social Democratic leader, has made job-creation issues his main platform. At the Social Democratic Party Congress in 2013, he proclaimed that Sweden's goal should be to have the lowest rate of unemployment in the EU by 2020. This is an ambitious target in view of Sweden's current high unemployment figures. He has also emphasised that industrial and commercial policy, in a broad sense, is an important factor in combating unemployment. Löfven has a background as chairman of the IF Metall engineering union and his experience is solidly based in this type of development question. He has also stressed innovation policy as a special profile issue.

The Party adopted a new research and innovation policy in connection with the Social Democratic Party Congress, under which the Party wants to have a 10-year perspective for research policy, establish strategic cooperation programmes, an innovation council headed by the prime minister and improved access to sources of venture capital.

The Social Democrats have also set up a working group led by Märten Palme, Olof Palme's son, which is assigned to present an economic policy designed to achieve the employment target.

#### **4. A revised economic policy?**

In parallel with this, there is also renewed discussion of economic policy, and one aspect of this is the policies pursued by the Swedish Central Bank (Riksbanken). In 1999, the Riksbank was given a far-reaching degree of independence. While politicians retained responsibility for fiscal policy, a "politically independent Riksbank" was given control over monetary policy.

This was a change that was in line with the times. A number of nations that had not already taken this step implemented this power-shift during this period. In particular, this was due to the need to prepare for future membership of the euro zone – one of the cornerstones of euro membership was an independent central bank. This change was part of the spirit of the age. And, from the Swedish point of view, the turbulent and painful financial crisis of the 1990s also played its part.

For a time, all was well, and the Swedish economy recovered. But the idea that the economy is independent of ideological and political factors is not borne out by experience.

The tensions within the Riksbank between those who advocate high or low rates of interest is a long story, but these conflicts have only become visible to outsiders in recent years, when a number of "doves" have gone public. Some sections of the Riksbank's Directorate have demonstrated, convincingly, that if the Bank had had a lower interest rate this might have raised employment and kept inflation at bay. For many years, economists believed that the "Phillips curve" (indicating that there is a choice between employment and inflation) had been consigned to the dustbin of history. But there is a choice when inflation is under control. This is demonstrated by empirical developments in Sweden in the past decade that have been studied and presented publicly in the Riksbank's internal discussions.

Nonetheless, the majority in the Riksbank's Directorate have voted against lower interest rates. The main argument has been repeated warnings of growing debt problems incurred by private households. This view is highly controversial. The Swedish banks have applied a restrictive credit policy since the crises of the 1990s and it is not easy to get a loan or a mortgage. The capital adequacy requirement has been raised and the mortgage borrowing ceiling has been reduced. Historically speaking, property bubbles have occurred after extensive new construction, but this is hardly the case in Sweden today. On the contrary, the low level of housing construction is a crucial factor that is pushing up house prices in the major urban centres. But the Lehman Brothers bankruptcy and the housing debacles in the United States and Spain have resulted in a fear that there are "black sheep" in many quarters. And this



has contributed to unnecessarily restrictive and cautious economic policies in many countries. This also applies to Sweden.

Stefan Ingves, the head of the Riksbank, has a background in the International Monetary Fund (IMF), with responsibility for financial systems. And before that he was Director General of the Swedish Bank Support Authority ("Bankakuten"). In his analyses, he focuses strongly on the high level of household borrowing, but has less support from the Financial Policy Council, an independent body that evaluates economic policy, and which considers that "the risk of a major and abrupt adjustment of prices is considered to be limited in the present situation" and that housing prices are too high and involve a certain degree of over-valuation. On the other hand, the European Commission's report of May 2013 (The Council's Recommendations concerning Sweden's National Reform Programme for 2013), refers to macroeconomic imbalances in Sweden, with a special focus on private debt. The Commission recommends credit restrictions.

But this discussion also involves fiscal policy. Sweden changed its policy in the context of the economic crisis of the 1990s, and became more conservative in fiscal terms during the enormous turbulence of those years. The term of governmental office was extended from three to four years, and a fiscal policy framework with a surplus target was established. The Swedish Parliament could not vote for measures that increased costs that were not covered by the government's predetermined budget framework.

There was renewed discussion after 2008. Several people, particularly economists, now advocated that the framework should not be totally abandoned, but revised in certain crucial respects. Furthermore, the Swedish economy is stable, with no major deficits in government finances and a low level of national debt in comparison with other European countries. Many people consider that it must be possible to lower the official target of a 2 % surplus over a business cycle. Above all, in the current economic climate, there is growing support for scope for public investment.

The LO's economic experts have criticised the Riksbank's stance, but have also argued for fiscal incentives with increasing persistence. In the spring of 2013, the LO presented proposals that

were more comprehensive than anything proposed during the previous 25 years. This involved unfinanced measures amounting to SEK 70 billion, including additional funds for municipalities, increased levels of benefits in the social insurance system, government investments and incentives for housing start-ups. The aim is to increase demand and employment. These proposals would also mean modifying the current budget framework.

Perhaps the fact that the LO was not severely castigated for these proposals is a sign of the times and an indication of an economic/political shift. This would probably not have been the case just a few years ago. On the contrary, there were several signs of agreement on the part of economists. It is considered, for example, that no other country has a better starting point for classic incentive policies via increased investment after almost a decade of low utilisation of resources, low inflation, strong government finances, low interest rates and a healthy surplus in the balance of payments.

The Social Democrats are currently in a mid-way position between the fiscal conservatism inherited from the crisis of the 1990s and new trends in the public economic debate. And even if neither the Social Democrats nor the Moderates are prepared to abandon the finance policy framework in the current circumstances, an increasing number of politicians on both sides are talking about the need for increased investment, for example in the infrastructure and the housing sector.

## **5. The future of the social insurance system – basic security or loss of income?**

The Swedish social insurance system was developed as a result of successive reforms between 1901 and 1991. This involved everything from maternity grants for mothers who were not covered by sickness benefits, mandatory health insurance, supplementary pension benefits, work-related disability insurance to parental insurance – and so on.

In 1991, in his book "Security on the Run", Håkan Svärdman declared that "the social security system's golden age is over". The economic crisis of the 1990s led to a number of cutbacks in the social insurance system. The maintenance of medical, education

and care services as opposed to transfer systems was one of the cornerstones of Social Democratic policy during this time of crisis. A new pension system was introduced, levels of social insurance payments were reduced and a number of other cutbacks in the welfare system were implemented. Some of these cuts were restored when the economy recovered, but not all of them. On the whole, it may be said that after the economic crisis of the 1990s, the social insurance system tended to focus on offering basic security. Previously, the underlying idea was to compensate for loss of income in the event of unemployment or sickness up to a certain level. This was the "loss of income principle" that guided social insurance policy. But this principle is now applied to a decreasing extent – particularly in the case of unemployment benefits, for example, which have not increased in line with inflation and higher incomes. Sweden has experienced a gradual change of system in this respect.

After 2006, as already mentioned, the non-socialist government also paved the way for a new work-incentive policy (arbetslinjen). Reduced unemployment insurance benefits made it more difficult to qualify for compensation and resulted in increased charges for participation which now depended on the level of unemployment in the industry concerned. According to the government, the aim was that employees would have to pay for "irresponsible pay increases".

The charge for unemployment insurance tripled, and almost 400,000 employees opted out. Only 43% of those who are currently unemployed have unemployment insurance. Sweden's unemployment insurance system is now one of the least satisfactory in Europe. And the benefits also cover a declining proportion of normal pay since the ceiling has not been raised, either by former Social Democratic governments or by the current non-socialist regime. Håkan Svärman noted that "the net benefit after one year of unemployment was 56% for average monthly pay of SEK 25,000". This also applies to health insurance, where benefits have dropped and insurance entitlement is terminated in accordance with new, stiffer rules. The costs have been shifted over from the state to the municipalities, which then have to pay out public assistance benefits instead – which are at a very low level.

As a result, sales of private insurance policies to individuals have increased rapidly over the past 20 years. There are also supplementary top-up policies that the relevant union may offer its members, and collective-agreement policies negotiated by the union concerned. The trouble is that these models are much less fair and effective from an income distribution viewpoint since the risk-spread is not as wide as in major collective insurance arrangements. They are also more expensive for the individual concerned.

All the three central trade union organisations – LO (manual workers), TCO (office/professional workers) and SACO (graduate employees) – want to improve the public sector systems, raise ceilings and benefits in the social insurance systems and establish higher benefits in public collective insurance. These demands are also supported by the opposition parties – the Social Democrats, the Greens and the Left Party. Incidentally, during this summer's "Almedalsveckan" – a week-long round of keynote speeches, meetings and lobbying on the island of Gotland in the Baltic Sea – the Prime Minister, Fredrik Reinfeldt promised to reduce contributions to union-linked unemployment insurance funds. This must be regarded as a concession to the unions' criticism of the reorganisation of labour-market policy since the election of 2006.

## **6. The labour market – polarisation or upskilling?**

As already mentioned, the focus in the new work-incentive policy introduced by the non-socialist coalition in 2006 was to put pressure on the unions to accept lower pay and establish, in the long run, a low-pay sector in order to reduce unemployment. This issue also corresponds to a division between right and left in Swedish politics. The right considers that this is the way back to full employment, while the left and the union organisations oppose developments of this nature.

This pressure for reduced pay and lower starting rates for those entering the labour market challenges the Swedish Model, with its relatively limited range of wages and salaries. Sweden does not have a minimum rate of pay, and pay settlements are determined by collective-bargaining agreements. As a result, a high degree of union membership is required to uphold this kind of labour-

market model. And on this score too, developments on the Swedish labour-market in recent years represent a challenge for the trade union movement.

On the whole, the unions have so far managed to resist proposals for lower pay with some success, and they have succeeded in holding up the lowest rates of pay in the collective-bargaining process. LO has also concentrated on raising pay for the lowest wage groups, with a particular focus on pay for women. As a result, the non-socialist government's strategy has failed – and unemployment has not dropped. Quite the reverse, in fact.

But the trade union organisations have lost many of their members as a consequence of the political change of course, the weakening of the unemployment insurance fund structure and the dramatic increase in contribution levels. In Sweden, recognised unemployment insurance funds are linked to trade union organisations, but are nonetheless independent of the unions. They depend on political decisions, however. In this respect, Sweden is still complying with the "Ghent System". Since 2006, the union membership has declined by about 10 % – from 80 % to 70 % – although this is still a high figure compared with many other European countries. But obviously, this is a serious blow for the union organisations.

Several unions have, however, bucked the trend and increased their membership. In the light of the key role played by strong parties in the labour market in the Swedish Model, this is a strategic question which is of crucial importance for survival of this Model. In terms of degree of organisational membership, the employers are now stronger than the unions. The unique feature of the Swedish labour market is the division of the union movement into three central organisations – LO, TCO and SACO. This model has proved to be an effective way of maximising union membership. The current trend, however, is that LO, which has a politically-oriented cooperation with the Social Democrats, is losing more ground than the other central organisations, even though LO is still the largest. But in combination, SACO and TCO have more members than LO, and have been increasing their membership figures in recent years. Obviously, this is due to fundamental structural changes as a result of the third industrial revolution. Membership levels in some sections of the area

covered by LO are low, for example in distribution, hotel, restaurant and other service sectors.

The Swedish labour-market model is also challenged by the EU's freedom of movement principle, as a result of the European Court of Justice's "Laval" judgment which has made it more difficult to uphold collective agreements in Sweden, and has reduced the unions' freedom of manoeuvre and their conflict options. Basically, this means that freedom of movement for companies is supposed to take precedence over the union's right to take conflict measures. Many foreign companies stationed in Sweden pay considerably less than the Swedish collective agreement rate, and offer inferior working conditions.

At the same time, there are indications that many jobs in the service sector pay less than the rates prescribed in collective-bargaining agreements. In particular, employers exploit labour from other countries and illegal immigrants. This is a major challenge to the Swedish unions in a disguised form, below the surface. In addition, the Swedish labour market has become increasingly flexible, on the employer's terms. There has been a dramatic increase in the number of jobs with no security of tenure, and attention has been drawn, in particular, to the plight of young people in the labour market.

The sociologist, Rune Oberg demonstrates in his book "The 21st Century's Labour Market – continued upskilling or job polarisation?" that the Swedish labour market has developed in a polarising direction which means that both low-pay and high-pay jobs have expanded relatively more than jobs in the intermediate segments. Previously, job categories requiring higher skills and qualifications and offering higher pay were expanding more rapidly than other categories, especially low-paid jobs. In other words, we can refer to a trend shift. The labour market was characterised by upskilling prior to 2001. But now we can see a new trend, and the labour market has become more polarised. For many years, it was believed that there would be a growing demand for more highly skilled/qualified jobs in the service sector. But increased demand for nursing and care services indicates the reverse. In addition, increasing inequality of incomes has meant increased demand for certain types of services, particularly after the introduction of tax deductions for household services.

Historically, Social Democratic policy has involved working for more education, thus improving the skills and qualifications of citizens for the requirements of a new age, and also building bridges for a transition from old to new types of work. This idea was already embodied in the Rehn-Meidner model in which labour-market training and "learning for life" was a crucial component. During the period prior to 2006, an extensive "knowledge boost" programme was implemented, and senior secondary education was extended to a mandatory four years. This continues to be Social Democracy's main political response to meeting the needs of the new age.

The challenges facing the trade union movement and the Swedish labour-market model must be seen in the light of this complex background. There is an ongoing political and trade union struggle about the role of low-paid jobs in the Swedish economy and about whether the unions are to continue to be a major factor in the labour market, thus safeguarding the future of the Swedish collective-bargaining model.

## **7. The future of the Swedish Model**

The Swedish Model is a broad societal phenomenon that includes, above all, the functioning of the labour market and economic, labour-market and welfare policies. As already indicated, it has also changed over time. And, even today, the future contents and focus of the Swedish Model are in dispute.

In the 1970s, the Swedish Model produced excellent results at the social level. But, at the same time, it was subject to increased criticism from the right, which wanted to see cuts in the public sector. New-liberal opposition to the public sector also gained ground in Sweden. And nationalistic right-wing populist parties have emerged in the other Nordic countries. Initially they focused on high levels of taxation, but they have subsequently developed in a xenophobic direction.

Overall, criticism of taxation gained ground. A mild tax revolt against the Social Democratic high-tax society was now a reality. The Nordic countries, including Sweden were still dominated by strong Social Democratic parties in the 1970s and, through an

alliance with the central trade union organisation, they constituted the focal point in politics to a considerable extent. This was the sun around which the other planets revolved. But gradually this has changed.

In the 1980s, the Swedish Model was characterised by considerable tensions and, in particular, by conflicts within the labour movement in a Swedish "war of the roses". Expansion of the public sector slowed down. In the 1990s, Sweden's serious economic crisis put the Model to the test. The Social Democrats instituted severe economies, reduced the public sector's share of GDP and introduced cutbacks in the social insurance system. After 2006, the non-socialist government implemented major changes in the welfare system.

In the early years of the present century, the Swedish Model (and similar variants in the other Nordic countries) recovered and achieved a relatively satisfactory performance in terms of productivity, increased real wages and employment. International listings gave the Nordic models a top ranking, and their inhabitants were considered to be more satisfied with life and "happier than in other countries". There is a high degree of interpersonal confidence at the horizontal level in the Nordic countries, and also vertically vis-à-vis politicians and public institutions. This results in an economy that works more smoothly and a more stable democratic structure.

In other words, the foundations in the Nordic welfare models have survived. And high birth rates give them a less alarming demographic structure than in the EU 27 countries. Furthermore, the Nordic countries managed the economic crisis of 2008 relatively well, and recovered more rapidly than many other European countries. In many respects, the Swedish labour-market model is in good health. Although the level of trade union membership has declined since 2006, it is still very high by international standards. But the EU's interpretation of freedom of movement in the context of union rights is tending to create difficulties for the trade union organisations and is restricting their freedom of action. This presents a problem for the Swedish collective-bargaining model.



The Swedish Model is exposed to considerable pressures and is subject to a political battle of wills. I have attempted to describe the historical background for the emergence and development of the Model in the last few decades. I have also touched on the areas for major challenges and conflicts today:

Firstly, how is the welfare sector to be organised and what should be the role of private contractors in publicly-financed services? Welfare services in Sweden have moved from a form of planned public activity to become an increasingly market-oriented welfare operation. This has resulted in an identity crisis for the labour movement. Social Democracy is intrinsically pragmatic, but still identifies itself to a considerable extent with the public sector. And there is also tension within the labour movement as regards private alternatives in the welfare field. Most people are critical of the current arrangements, but they disagree as to the alternatives, and how quickly and comprehensively changes in the current system can be implemented.

This provides an important lesson for other welfare models, particularly as the Swedish model is used in this area as an example to be followed by other countries, as exemplified by Conservative supporters in the debate on the future of the British National Health Service.

There is reason in this connection to issue a warning to other European countries. The Swedish experience has shown that deregulation has not resulted in a considerable number of non-profit alternatives, as many people believed and which they used as an argument for change. Instead, it has meant the emergence of private companies, large corporate groups and venture capitalists in the Swedish welfare system. This was hardly envisaged when these "reforms" were discussed and implemented. Swedish experience in this context shows, however, that the welfare sector is also part of the global economy, with a financial market looking for profitable investments. There is every reason for other countries to study developments in Sweden and keep an eye on the way in which the welfare system is developed and organised in the future. There are several indications of a continuing deregulation of schools and medical and care services. This is, at any rate, what the labour movement is currently discussing and proposing.

Secondly, the form that economic policy will take in the future is also a matter for discussion. After the Swedish economic crisis of the 1990s, Swedish economic policy was revised, with a greater emphasis on fiscal conservatism and a more stringent regulatory framework. This has subsequently served Sweden well and government finances and the Swedish economy are strong by European standards. But, at the same time, there is a high level of unemployment, which is considerably higher than it should be in view of the strength of the Swedish economy. Discussion of a more expansive economic policy suggests a renaissance for economic policy in a Keynesian perspective. In parallel with this, there is an ongoing discussion of the Riksbank's interest-rate policy. So far, the labour movement has been somewhat divided on this question. But there are signs that a growing number of people are questioning Sweden's previous conservatism in fiscal matters.

Thirdly, this involves the role played by the state and politics in industrial and commercial policy. During the economic crisis of the 1970s, the state was highly involved in managing the crisis in Swedish industry. But during the crisis after the financial debacle in 2008, the government was conspicuously passive. There is much to suggest today that industrial policy and the state's task of promoting long-term entrepreneurship in both the industrial and service sectors may become a political issue in the future. After 1989, Social Democracy adopted a positive approach to globalisation, with a focus on building bridges between new jobs and old, rather than becoming involved in the way the economy functions. This strategy now appears to be inadequate, and a more active approach at the national and EU levels is probably required to safeguard future employment in Europe. The Nordic welfare models also assume a high level of employment, if they are to be sustainable in the long term. This is also a crucial challenge for the whole of Europe.

Fourthly, this involves the way the labour market works and, in particular, whether the trade union organisations can uphold their positions, which are strong by European standards. Despite difficult challenges, the unions have maintained a high level of membership and succeeded in countering the development of a low-wage market. But they are facing major underlying threats. The level of membership is low in several sectors and the EU

posting directive has also paved the way for lower pay in Sweden, and the European Court of Justice's ruling in the "Laval" case has hindered countermeasures by the unions. It is strategically important that the Swedish Model prevents the emergence of a low-pay, "working poor" sector in the labour market, particularly in view of the need to present alternatives to deregulated labour markets that put employees at a disadvantage. But it is also important for the EU to discuss the primacy of freedom of movement over social concerns, and the unions' opportunities to uphold the interests of employees.

Fifthly, attention should be drawn to the construction of the Swedish social insurance system. Insurance provisions in the universal welfare model were previously extensive and provided compensation for loss of income. But, as previously mentioned, the public collective insurance systems have been weakened since the 1990s and become a form of basic safety net. Supplementary policies in a collective or individual format have instead come to fill the vacuum left by the former collective insurance system. This has meant that groups and individuals with sufficient economic resources have been able to take out their own insurance policies, while groups with a weaker economic status cannot do this. This has led to a greater gap between different groups which, in the long run, risks undermining the universal welfare model and replacing it by more individual, unjust and irrational insurance models.

Basically all these factors involve the role of politics in society and the balance between the public sector and the market.

The rate of taxation represents another challenge for the Swedish Model. There is a long-standing discussion of the future financing of the welfare state in Sweden. The Swedish rate of taxation is still very high, but has been pushed down so that the public sector's share of GDP in the form of revenue from taxes and social charges has now fallen to about 49 %. No major political party is currently advocating a higher rate of taxation, although many people consider that this will be necessary in the future. The Swedish welfare model covers a broad spectrum of society, and there is much to indicate that tax reductions have undermined the overall quality of public care services and the scope of the social insurance systems. In his book "A Critical View – the victory and crisis of

Social Democracy”, Kjell-Olof Feldt, a former Minister of Finance, considers that Social Democrats must discuss increased public revenues in the form of higher taxes in the future.

In this context, it is important to look for innovative approaches in the public debate and in policy proposals. Raising taxes is not an obvious election winner, either in Sweden or in most other countries, despite considerable support for the public sector and even for higher rates of taxation in the future. But there are, of course, several sources of tax revenue. Social insurance charges are not necessarily regarded as a tax, and Swedes pay special licence fees for public-service TV and radio rather loyally. We must think creatively in this area to ensure long-term financing for our common aims.

The future of the welfare state touches on, by implication, how much of our consumption should be handled by individual citizens in their private capacity, and how much should be paid for jointly in the public sector and in collective forms. The question of the rate of taxation will have to be discussed. The Swedish welfare model covers many areas and relies on financing via taxation to a considerable extent. As early as the late 1950s, John Kenneth Galbraith was arguing that a greater proportion of our consumption should be channelled through the public sector rather than disbursed in the private sphere – otherwise the private sector would become rich and the public sector poor. This risk is just as obvious today.

The future of the Swedish Model will be determined to a considerable extent by the manner in which the public debate is conducted as regards the crucial challenges that have been briefly touched on here, by economic developments at the national level and in the EU area and also, of course, by the political situation and by the balance of power in the labour market.

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