

**THE CURRENT STATUS OF THE  
SWEDISH WELFARE STATE**

Paper Presented at the  
**Social Policy as if People Mattered:  
A Cross-National Dialogue**

Adelphi University, Garden City, NY

November 11, 2004\*

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Once one of Europe's poorest countries, in the post World War II decades, Sweden evolved into a slum-free, affluent, egalitarian full employment state, with a strong commitment to work for all and women's equality. Income differences narrowed dramatically and poverty was nearly eliminated. Labor-management cooperation, high union density, high taxes and (except for a few years), Social Democratic political dominance, were the norms (Ginsburg, 1983; Ginsburg and Rosenthal, 2002).

A strong commitment to the welfare state and jobs for all eventually cut across political party lines. Full employment was a national ethos and the top priority of economic policy. Swedes considered jobs the key to a normal life and the economic

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foundation of the welfare state. Social provision of high quality services for the elderly, children, the ill and disabled greatly expanded the public sector and paid jobs for women. Going against the trend on a continent plagued by high unemployment, until the 1990s, unemployment averaged barely 2 percent; 3 percent, an extreme rarity, was political suicide and could and did help topple a government.

### **THE UNRAVELLING**

That's the Sweden that was. But in the early 1990s Sweden was hit by the worst economic slump since the 1930s, with 3 years of falling output, the rebirth of mass unemployment, a ballooning budget deficit, and draconian cuts and rule changes in income benefits and services that started under a Conservative-led coalition and continued under the Social Democrats (Ginsburg and Rosenthal, 2002)..

What went wrong? Critics claim that the welfare state had simply become unsustainable and its cost had sent the budget deficit soaring. Yet shortly before the slump, Sweden still had full employment, a strong welfare state and a hefty budget surplus. To understand what happened, consider the background. There was the growing power of Swedish business, pressures from globalization and the race to join the European Union, with its economic requirements for low budget deficits and inflation but none for low unemployment. Neoliberal ideas and policies, with their emphasis on free markets, deregulation and smaller governments had penetrated even the Social Democratic Party. Consider, too, a sweeping tax reform that favored the rich and cut deeply into government revenues. Financial deregulation had sparked a wildly speculative real estate boom and a related near collapse of the banking system that required an expensive government bailout, a stubborn, futile and costly defense of an

overvalued krona that pushed interest rates briefly to 500 percent and helped to turn a recession into a depression that coincided with an international slump. Above all was the abandonment of the full employment priority (Ginsburg and Rosenthal, 2002, pp. 109-113).

In our chapter, we asked, “ is Sweden embarking on a temporary detour or going in a new direction?” We now try to shed some light on that question by briefly examining just a few recent trends.

## **UNEMPLOYMENT**

After a half century of full employment, the most striking change in Sweden's welfare state was the resurgence of mass unemployment in the 1990s (Ginsburg and Rosenthal, 2002). It was worsened and prolonged by an austerity program that depressed demand and cut deeply into public sector jobs. The Social Democratic government,-- which returned in 1994 after a 3-year hiatus during which Sweden was ruled by a Conservative-led coalition--was strongly driven by its desire to meet strict criteria for admission to the EU's monetary union. (In 2003, in a referendum, the Swedish voters rejected by a wide margin joining the monetary union.) Official unemployment hovered around 8 percent for five straight years--12 to 13 percent if people in government labor market programs for the jobless are included. Participation in the labor force, the proportion of people employed, and the number of jobs in the economy fell, and had not returned to their prior levels by 2004.

Unemployment declined to a low of 4 percent in 2001; but now it is 5.6 percent--nearly 8 percent counting jobless people in labor market programs. Some groups, especially non-Nordic nationals, have unemployment many times higher; the proportion

of people holding jobs is falling and there is an upward trend in temporary employment, yet this is a time when the Swedish economy is growing briskly and exports are booming, it is a jobless recovery!

Unemployment is a major issue but 3 percent unemployment doesn't topple governments anymore. The government aims to reduce unemployment to 4 percent and increase the proportion of people aged 20 to 64 working to 80 percent-- from about 77 percent. But both figures are going in the wrong direction (Ministry of Finance, 2004a, pp. 6-7).

The 2005 budget signals a more expansionary fiscal policy; modest increases with an emphasis on more jobs and increased social welfare spending (Ministry of Finance, 2004a and 2004b). The Social Democrats have a parliamentary minority and must rely on support from the Left and Green parties. So the Budget reflects that-, and with elections coming up in 2006, may also reflect pressure from more traditional Social Democrats.

But the government still operates under neoliberal norms: It has a self imposed 2 percent of GDP budget surplus (over the business cycle)—even higher than the EU budget requirement! And it has had self-imposed expenditure caps on the whole budget since 1997--and these have been declining as a proportion of GDP (Rapp, 2004).

It is ironic that after decades when unemployment averaged 2 percent, 4 percent now seems to be the goal. The government says it is an interim goal but never gives another figure. The real test of economic policy will come if there's another fairly deep recession--with these norms in place, there is no evidence that they will not act similarly again, as in the 1990s, and impose extensive austerity measures and deep program cuts.

Further, the non-socialists would like to regain office and they are critical of even this degree of stimulation.

### **INCOME DISTRIBUTION**

Sweden has had a very egalitarian distribution of income, though less so than in the past. Looking at disposable income, inequality dropped sharply in the 1970s, but has been rising since the beginning of the 1980s. The long run trend towards more inequality has continued, with some slight ups and downs until 2002 (Nelander, 2004). The highest gini-coefficient-- a measure of inequality—for disposable income was in 2000, and was mainly the result of capital gains that occurred as a result of the peaking of the stock market (Jansson, 2004, personal communication; Statistics Sweden, 2004). That Sweden had the least income inequality of any industrialized country in 1980 and still does is because other countries have also have also increased their income inequality (Nelander and Goding, 2004, pp. 82-84).

### **POVERTY AND SOCIAL EXCLUSION**

Employment is the surest guarantee in Sweden to avoid poverty, but tax and transfer policies continue to play a big role in lifting as many out of poverty. Nonetheless, there is poverty in Sweden, especially among the persistently unemployed and underemployed.

Poverty in Sweden is low by international standards, especially among children. A recent UNICEF report (2005) found that poverty among children—a relative measure defined as those living in households with less than half of the national median income—had risen from 3 to 4.2 percent in the 1990s. But Sweden still ranked fourth

lowest among 26 OECD nations with a rate just under one-fifth of the comparable US rate of 21.9 percent.

However, within Sweden, poverty is now commonly measured by the social assistance standard overstates the extent of poverty compared both to the UNICEF measure and the official US poverty measure. In 1996, the poverty rate reached its peak at 11% and was composed disproportionately of young unemployed adults, single mothers and their children and immigrant households. It has since declined but only for young adults who have gotten jobs (Bäckman, 2002, p.52).

Nearly 15% of children were poor in 1997, declining to about 9.5% in 2000 (Salonen, 2002, p. 11). The situation for children with foreign-born parents, however, is dire: 38% of them were poor in 2000 and their appears to be persistent (lasting at least 10 years for half of them) (Salonen, 2002). Many of these families rely on social assistance, a rigidly means-tested, poverty-level grant provided by municipal governments at varying levels of adequacy, rather than by social insurance. Many who are eligible for social assistance don't apply, leaving them in a precarious financial situation (Bäckman 2002). In 2003, 6% of all Swedish households but 22% of all single women with children received social assistance at some point during the year, and most received benefits in at least 2 consecutive years (Socialstyrelsen, 2004).

Mass unemployment and cutbacks in social benefits in the 1990s led to a dramatic expansion in the social assistance rolls, and the government's goal was to halve the need for social assistance between 1999 and 2004. The reduction reached the half-way mark by 2003, partly because of a better employment trend for immigrants. But the government, in its 2004 Budget Statement (Ministry of Finance, 2004a, p.18),

acknowledged that, in part due to current high unemployment, the target remains but would not be met in 2004.

Those with the least disposable income are today often referred to as economically and socially marginalized. Again, immigrants—especially non-Europeans—are particularly vulnerable. They tend to live in isolated neighborhoods in Sweden's largest cities (Gullberg, 2002; Salonen, 2002). Second-generation immigrants from non-European countries continue to be disproportionately dependent on unemployment insurance and social assistance funds (Hammerstedt and Ekberg, 2004). The national government has begun to pay attention to the persisting problems of integrating the foreign born into Swedish society, but segregation in housing and employment discrimination remain troubling patterns.

### **WELFARE STATE PROGRAMS**

In the 1990s, significant changes were made in the Swedish welfare state to various programs to maintain income and provide services. These include, but are not limited to, more stringent qualifications, requirements, reductions in benefit levels, regulatory changes and higher user fees. After the economic upturn in the late 1990s, benefit levels for many income security programs were adjusted upward, but seldom to those prevailing at the beginning of the 1990s, and rule changes tended to remain (Palme, 2003, pp. 72-73). For example, a waiting day was introduced for sickness insurance, and the wage replacement rate was lowered from 90 to 75 percent in the mid-1990s. Then it was upped to 80 percent at the end of the decade, where it remains. Thus, today it is more than it was when cuts were deepest, but less than it had been originally, and the waiting day remains.

And in the case of pensions, to be discussed further below, the entire system was revamped.

While the general trend has been to restore some cuts made in the 1990s, restorations have been uneven; some programs (such as for children) are gaining, while others (services for the elderly) have lost ground.

Below we focus on just a handful of income support and service programs.

### Health and Health Care

The health care system has been changing. Fewer resources in fixed prices were spent on health care during the late 1990s, a consequence of policies implemented during the economic downturn, but they have been rising and now exceed what was spent in 1993. Health care is provided at the county level, and there are variations in its delivery. Both primary care and hospital specialization have increased. Physicians in private practice are now a noticeable proportion of health care providers. Nearly all are paid with public funds, however. User fees have risen. And total expenditures on dental care insurance, in constant prices, decreased dramatically from 1992 to 1999 and have risen only marginally since, so that patients have had to pay an increasing share of dental costs. Dental care remains free for children under 20 (National Social Insurance Board, 2003, p. 116). Nearly 25% of the public complain that they must wait too long to be seen by a physician.

Based on comparative life expectancy rates, Swedes are doing very well in the health domain (National Board of Health and Welfare, 2003). For example, between 1992 and 2002, Sweden nearly halved its infant mortality rate and in 2002 had the second

lowest rate among 30 OECD nations. Second only to Iceland, its rate was about 2/5 of the US rate (OECD 20004, pp. 10-11).

### Pensions

Sweden has been a world leader in providing economic security for its elderly, due in no small part to the pension system.

Amazingly, and with virtually no public debate, the whole system is being replaced with one far more complicated and market oriented that strips people of economic security (Ginsburg and Rosenthal, 2002, pp. 124-127; Scherman, 2003).

Two of its many key features<sup>1</sup> are:

1) The main pension is now a defined contribution (the contribution amount is known); formerly, it was a defined benefit (the pensioner knew what s/he would be getting).

2) Part of the system is privatized, with mandatory private accounts and no guarantees of income from them.

We regard these changes as great threats to Sweden's welfare state—and by example, to welfare states and social security systems everywhere.

### Sick Benefits and Disability Insurance

During the mid-1990s, in order to save funds and in response to the demands of Conservatives, there was tightening of eligibility qualifications and compensation rates for sickness and disability benefits, and the numbers of recipients dropped precipitously. Since 1998, there have been restorations and increases in the numbers of workers receiving temporary and permanent disability pensions (National Social Insurance Board, 2003).

## Family benefits

*Parental leave*, a hallmark of Swedish family policy, compensates new parents for time away from work again at 80% of their previous earnings up to a maximum (which is slated to rise in 2006) for 13 months. An additional 3 months can be taken at a flat rate of 60 SEK (or about \$8.50)/day, and this benefit is scheduled to triple in 2006 (Ministry of Finance 2004b, p. 5). The parental leave benefit continues to be structured so as to encourage fathers to spend time with their newborns (84% of the leaves are taken by women, but the proportion for men has risen slightly since the early 1990s (National Social Insurance Board, 2003, p. 88). A new benefit provides income for equal lengths of time but at fixed rates to new parents who were unemployed at the time of birth or adoption. Parents can also take up to 60 days/year to *care for sick children* with similar compensation. The expanded parental and sick leave benefits may be linked to a policy to encourage a higher birth rate that has declined rather steeply since a peak in 1992. The universally provided *child allowance*, which had been reduced, and the supplement that had been eliminated for large families have been restored. Families receive 950 SEK/month (or about \$135 US) for each of their first two children and progressively more for each additional child. In 2006, the monthly child allowance will rise, and the supplementary allowance will be paid for the second as well as subsequent children (Ministry of Finance, 2004b, p. 5). The child allowance is an important anti-poverty measure.

Families with an absent parent continue to enjoy the *advanced maintenance payment*—a public grant to the custodial parent that is even more generous than the child allowance. The grant amounts are collected from the absent parents by the authorities

whenever possible. The amount per child per month is 1,173 SEK (about \$170). Fifteen percent of children ages newborn to age 20 receives this grant. Improvements in maintenance support have been announced in the Budget, but no details have been given.

One welfare benefit that has been greatly reduced is the *means-tested housing allowance*. Once available to as many as 200,000 two-parent families (recipients in 1994), now only about 50,000 such families qualify. Single parent families have not been as drastically cut, but there have been reductions here too, from about 225,000 families in 1997 to 150,000 in 2002 (National Social Insurance Board, 2003, p. 100). Here, too, commitment for additional funds was announced in the 2004 Budget, with details to be given at a later date (Ministry of Finance, 2004b, p. 16). Because a VAT was added to rents as part of a tax “reform” in 1990-1, housing costs have become increasingly burdensome, especially for renters (Bäckman, 2002 ).

Without a housing allowance, a single mother with two children can count on 4246 SEK (about \$607) in child allowances and advanced maintenance payments. If she gets the average housing allowance of 1,582 SEK, her benefits are 5,828 SEK or almost \$835/month. Clearly, this generous public benefit structure is largely responsible for preventing mass poverty among this vulnerable part of the Swedish population.

#### The Service Sector: Child Care and (versus) Elder Care

Two service sectors that have in the past freed women to work and have, at the same time, provided work for women are child care and elder care, both of which are organized and subsidized on the municipal level. In the past decade, these programs have gone in opposite directions, childcare becoming more comprehensive and available and elder care becoming more restricted.

Universally available child care became a social goal in Sweden in the 1970s and although capacity expanded continuously, but shortages persisted and, to save spaces and money, children of the unemployed were excluded and there were reductions in the staffing patterns in the child care centers. These problems have been corrected, and all localities are required to provide childcare—now termed “preschool”—for all children ages 1-5 for at least 3 hours/day. Children of the unemployed, previously excludable, are now part of the mandate, and 75% of pre-school children are in congregate settings. There has been a small increase in the use of publicly funded but privately run facilities that now accommodate about 17% of children. About half of these are in parent cooperatives, and only a very few in commercially run centers. Most young school-aged children also attend public after-school programs. Staffing ratios have improved. Further, a maximum fee for the amount parents were required to pay for public child care at a pre-school, a family day care facility or a leisure-time (after school) center was introduced. The fees had been rising but now cannot be more than 1 to 3 percent of the families’ income, depending on the number of children enrolled (Swedish Institute, 2004). Thus, universal child care has essentially been achieved.

Elder care, however, presents a very different situation. Rationing of home-help services to the elderly has been apparent for some time. Now, that trend seems clearly established. Trydegård (n.d.) reports that while 16 percent of those 65 and over and 38% of those over 80 were receiving home care at the beginning of the 1980s, by 2000, those percentages had been halved. Since the early 1990s, Swedish municipalities have been responsible for providing these services, and one result has been enormous variation in the coverage of even the oldest in the population, from 5% to 50%. One thing is clear:

public commitment to the care of the elderly—even the oldest of the old-- has diminished, while the care burden for relatives and especially women has increased. A core component of social solidarity has been eroded, and this pattern will apparently continue as the population ages.

### **SUMMARY AND CONCLUSIONS**

Although several years have elapsed since completing our initial study, our present conclusion remains remarkably similar. To us as Americans, Sweden still looks like a welfare state leader, with an impressive array of social programs and benefits, though less so than in the past.

In our eyes, its high position is partly because of the weakening of many other welfare states, including the erosion in our own nation's semi-welfare state. But partly it is because, despite extensive programmatic cutbacks and restructuring in the 1990s, Sweden's welfare state has not been dismantled, though it has been and continues to be changed--sometimes in perilous ways, as in the case of pension reform.

How does Sweden's welfare state compare with the past? Much depends on your reference point. When compared to the crisis era of the 1990s, the present looks rosier than if the reference point is the pre-crisis era, because unemployment is lower and some benefit cuts have been partly (though rarely fully) restored. For example, while mass unemployment has abated and unemployment is considerably lower than in the mid-1990s, it remains considerably higher than in the pre-1990s post-war decades, when full employment was the overriding national goal and the bedrock on which the welfare state was built. Now, 4 percent unemployment appears to be the government's goal. But during the post-war decades, except for the 1990s, unemployment consistently averaged around 2 percent or less and a percent rise could topple a government.

Self-imposed neoliberal economic policy norms remain firmly in place and limit expansion to achieve full employment and constrain expansion of welfare state expenditures.

Income inequality is still very low by international standards, but not when compared to Sweden's own historic post-war record.

We note that these various trends are uneven. For example, the commitment to public child care is rising while the commitment to dignified public care for the elderly has contracted.

We have no crystal ball with which to predict the future. Obviously, domestic politics, the strength of capital, the actions of labor, and the forces of globalization will play major roles, as will ideology. Our hope is that the Swedish people, who still have strong support for their welfare state, will act as a rest rant on future negative changes.

**Notes:**

1. A fuller description of the pension changes (see Ginsburg and Rosenthal, 2002, pp. 124-127 includes the following points.

The new system, which replaces rather than builds on the new one, is being phased in for people born before 1954. It is far more complicated and market oriented, with an underlying ideology of individualism and many features seemingly at odds with the economic and political values of the Swedish welfare state. We can only highly a few crucial points:

1) The old system was based on predictable, defined benefits.

2) The new system is based on defined contributions, financed through a payroll tax of 18-1/2 percent of wages where 16 percent goes to a pension that has no guarantee relative to pre-retirement income.

The new system links the pension amount, among other things, to life expectancy. Greater longevity in the population as a whole will result in lower pensions. Pensions are also linked to general wage growth—if that is slower, pensions will be smaller.

3) There is partial privatization; 2.5 % of contributions go into a private account. People can chose up to 5 out of 650 mutual funds, but since over 90 percent of persons entering the system now don't choose any fund, their pension credits go into a government-operated funds (Hagberg and Wohlner, 2004).

Between March 2000 and March 2003, the Swedish stock market declined by 68%. At the end of January 2004, 84 percent of accounts had lost money despite the marked upturn in the market since March 2003 (the figure is probably lower today) (Hagberg and Wohlner, 2004). The market may go down or up. But should an old age pension system provide a gambling trip to Las Vegas or security?

4) Administrative costs have quadrupled (Hagberg and Wohlner, 2004).

Changing demographics and an economic crisis paved the way for this economic shift. The pensions "reform" was agreed to by the Social Democrat and 4 non-Socialist parties. But critics, including Jan Hagberg, President of the Swedish Society of Actuaries, say it was unnecessary, and if change was needed, the old system could have been slightly modified. Observers claim there was little or no public debate and decisions were made without public debate, behind closed doors (Ginsburg and Rosenthal, 2004, pp. 124-128).

In sum, new pensions reform strays far from the ethos of the Swedish welfare state. This will become more apparent in the future.

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