1. Introduction

In the mid-2000s, my colleague Harald Niklasson and I published an article, ‘The Swedish Model in Turbulent Times’, which retraced the main developments of the Swedish model from its inception in the early 1950s up to the early 2000s (Anxo and Niklasson 2006). Our main conclusion was that, at the turn of the century, the Swedish model appeared more in line with the core components of the original Swedish model¹ than during the decades 1970–1980, which constituted, in our views, a clear deviation. During the 1990s, the economic policy modifications towards more restrictive and anti-inflationary macroeconomic policies, the re-orientation of active labour market policies towards supply-oriented measures and the structural reforms undertaken in wage formation, tax and social protection systems suggested a revival of the Swedish model. After a period of turbulence related to the early 1990s economic crisis, the Swedish economy underwent particularly favourable economic development. Up to the current global recession, unemployment oscillated between 5 and 6 per cent, inflation was curbed and current account and public finances were restored.

¹ Namely, a macroeconomic policy combining full employment and price stability, a centralised and coordinated wage bargaining system and the application of a wage norm, the so-called ‘solidaristic’ wage policy based on fairness (same wage for the same job independent of the profitability of the firm/industry) and efficiency (that is, fostering rationalisation at the company level and promoting productivity-enhancing structural changes through closure of unproductive plants). Last but not least the implementation of an ambitious countercyclical Active Labour Market Policy (ALMP) favouring occupational and geographical mobility. Low unemployment and full employment are to be secured mainly by supply-oriented ALMP programmes favouring a reallocation of the labour force from the declining parts of the economy to the expanding ones.
Although the re-orientation of macroeconomic and employment policy during this period might explain the ‘Swedish success story’, we stressed that the modifications in Swedish industrial relations – in particular, the clear tendency to a re-coordination of wage bargaining – without doubt played a vital role in the Swedish recovery. These new developments reflected a desire on both sides of industry to again coordinate collective bargaining at industry level and restore the leading role of the traded good sectors in wage formation. The tendency towards a resumption of coordinated collective bargaining co-existed with a marked tendency to decentralise and individualise wage setting and working conditions.

We also claimed that strong trade union organisations and high union density at company level ensured the implementation of negotiated forms of individualisation and differentiation (negotiated flexibility). In our view, these tendencies should not be interpreted as a weakening of the Swedish collective bargaining tradition, but rather as a recomposition and adaptation of the Swedish model of industrial relations in the face of the major transformations of work organisation and production processes over recent decades. In our view, these developments did not call into question the basis of the Swedish model – namely a strong contractual tradition based on powerful social partners who enjoy considerable autonomy from the public authorities – but instead reflected a transition and adjustment of the Swedish model to the new challenges posed by so-called ‘post-industrial society’.

Also during this period, the various reforms of the Swedish social protection system essentially took the form of a temporary reduction of income compensation and, perhaps with the exception of the fundamental restructuring of the pension system, left the architecture of the Swedish welfare state system almost intact. The Swedish social protection system remained, by international standards, clearly universal and inclusive in nature and still enjoyed a high level of across-the-board political and public support. The structural reforms undertaken in the tax and benefit system – in particular, the reshaping of the pension system and the tax reform initiated in the early 1990s aimed at strengthening work incentives and fostering investment in education (human capital) – was also clearly in line with the general philosophy of the original Swedish model favouring the ‘work-first line’, integrative transitions across the life course instead of passive support and social exclusion.
Last but not least, the third main element of the Swedish model – the extensive use of active labour market policy (ALMP); that is, the overall policy of activation – still occupied a central role in Swedish stabilisation policy. Its re-orientation towards a supply-oriented policy (occupational and geographical mobility, active search programmes, labour market training and so on) in many respects appears to be in accordance with the strategy initiated in the 1950s.

Since the publication of the article in question, two major events have occurred in Sweden that could cast doubt on our optimistic view of a renaissance of the Swedish model. First, the Social Democratic Party lost power and a conservative-liberal coalition government took office in September 2006. The same political coalition was re-elected at the parliamentary election in September 2010. During its first term of office, the new government conducted several neoliberal policy reforms, concerning among other things the tax and social protection systems, as well as reforms aimed at opening up public welfare services (health care, elderly care, social services and education) to ‘competition’. Second, in early autumn 2008, the global economic recession hit Sweden severely and some aspects of the macroeconomic policy implemented might also be interpreted as a departure from the original model, in particular regarding its ability to maintain full employment in the long term.

The chapter is structured as follows: after a description of the major policy developments since 2006 and their potential impacts during the 2008 crisis we analyse the policy strategy adopted, and identify the groups particularly affected by the recession. Finally, Section 4 reflects not only on the potential impact of the Great Recession on the Swedish model but also on the role of the social model in the country’s economic recovery.

2. Development of the Swedish model prior to the crisis

The several structural reforms undertaken by the conservative-liberal government during its first term of office (2006–2010) were aimed principally at increasing labour utilisation in the long run, through essentially supply-oriented measures, such as tax cuts and reforms of the social

2. In October 2014 a minority Social Democrats and Greens government was installed.
protection system (unemployment benefit and sickness insurance). Several tax reforms were conducted aimed at reducing the tax wedge and increasing labour supply at both the extensive and intensive margins. The inheritance and wealth taxes were abolished in 2004 and 2007, respectively. The corporate tax rate was reduced, as was the total levy of social security contributions. Reforms of income tax have also been implemented gradually over the past five years. The most important tax reform in this context was the introduction of a system of in-work tax credits aimed at strengthening work incentives for low-income earners and a reduction of marginal tax for high income earners; the two reforms entailed a reduction of marginal tax of around 2–3 percentage points.

Other important structural reforms concern the social protection system, namely unemployment insurance (stricter eligibility rules and lowering of benefits) and sickness insurance (more stringent rules, increased supervision and monitoring of a person’s capacity to work). A new unemployment insurance system took effect in 2007. Eligibility for unemployment benefits after the reform was based on the past 12 months’ earnings instead of the past six months’. The reform also implied a significant diminution in the generosity of the Swedish unemployment insurance system, as the income replacement rate was reduced from 80 per cent to 70 per cent after 200 days of unemployment. Furthermore, the maximum duration for receiving unemployment benefit was reduced to 300 days (450 days for unemployed people with children). The maximum daily benefit was lowered from SEK 730 to SEK 680. Altogether, this means that the benefit level was decreased by around 3 percentage points.

Furthermore, the right of job seekers to restrict their search during the first 100 days to jobs in line with their formal qualifications and vicinity was abolished. While these structural reforms might have increased ‘work incentives’ and job search intensity and might have reduced...
unemployment duration it should be stressed that this reform in itself does not improve the employability of vulnerable groups in the labour market and is also critically dependent on the development of labour demand for these groups. We may also contest that such a reform – in particular the abolition of the right of job seekers to restrict their search to jobs in accordance with their formal qualifications and vicinity – may lead to more efficient resource allocation in the economy, in particular in a period of reduced labour demand.

The second major reform concerns modifications in the financing of the unemployment insurance system: the contributions of the various Unemployment Funds administered by the trade unions were, after this reform, differentiated according to the unemployment level in the sector/industry concerned. In other words, a system of experience rating was introduced, individual unemployment insurance contributions being raised or lowered depending on whether unemployment increases or decreases in an industry. This reform entailed a large increase in individual contributions: in some cases, individual unemployment insurance fees tripled. The consequence was both a large decrease in union membership and a dramatic decline in the number of dependent employees covered by the unemployment insurance system: around 500,000 employees left the unemployment insurance system between 2007 and 2008. The most frequent reason for leaving the unemployment insurance funds was financial strain due to the rise in individual fees. The drop in membership was particularly severe in the hotels and restaurants, retail and transport sectors, as well as among municipal workers (see Eliasson 2008). Between 2006 and 2013, union density declined by 11 percentage points for blue-collar workers and by 4 percentage points for white-collar workers (see Swedish Mediation Office 2012 and Kjellberg 2014).

Obviously, the government’s main objective with this reform was to indirectly influence the outcome of wage bargaining by weakening the bar-

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7. The Swedish public unemployment insurance system (UI) is voluntary, regulated and subsidised by the state, but is administered by the trade unions’ unemployment insurance funds (Ghent system). Formerly the UI membership fee was 10 per cent of the total benefit paid, while 90 per cent was assured by taxes. In the wake of the reform the membership fees cover 40–45 per cent of the UI, entailing an increase in individual fees.

8. The share of the workforce covered by unemployment insurance decreased from 80 per cent to 67 per cent between 2007 and 2009.

9. From 77 to 66 per cent for blue-collar workers and from 77 to 73 per cent for white-collars. For wage earners as a whole union density declined by 7 percentage points between 2006 and 2013 (see Kjellberg 2014).
gaining power of trade unions and therefore to induce wage moderation. The modification of the financing of unemployment insurance and the corresponding diminution of the number of persons covered by it meant that a large number of wage-earners – in particular low-paid/low-skilled employees with unstable employment conditions – lacked sufficient protection in case of unemployment, potentially a major problem during the 2008 recession. In other words, there are strong reasons to believe that the recession increased the number of social benefit recipients among individuals not covered by or entitled to unemployment insurance, increased income inequalities (see next section) and amplified the risk of social exclusion for vulnerable groups. On the other hand, the increase of unemployment risk in connection with the global crisis has partly reversed the negative trends in unemployment insurance fund membership and also in union density. It should also be stressed that, despite the decline of union membership, Swedish union density remains high by international standards (70 per cent) and the coverage rate of collective bargaining is still around 90 per cent.\textsuperscript{10} In this sense it can be said that the Swedish model of industrial relations to date has been only marginally affected by these reforms, implying that the bulk of labour market regulations, working conditions and wage setting in Sweden will continue to be determined and regulated by collective agreements.

The Swedish model has been based on a strong political commitment to the goal of full employment. Despite the current political rhetoric, we argue that the policy developments testify to a weakening of this commitment with a clear reorientation of macroeconomic policy towards price stability and budget balance. Employment rates are still clearly below their early 1990s level and unemployment rates are also significantly above the rates prevailing during the 1970s–1980s. True, the decline of employment rates since the early 1990s also reflects major investments in education and a general trend toward a postponement of entry into the labour market. However, compared with other EU member states, such as Austria and Germany, the transition from school to work remains to some extent problematic in Sweden, with comparatively high youth unemployment. If Sweden might be classified as ‘no country for young men/women’ (to invert Yeats), on the other hand it is a relatively good country for old men (women), with the highest employment rates among senior workers in the EU.

\textsuperscript{10} The coverage rate of collective agreements is around 85 per cent in the private sector and 100 per cent in the public sector.
3. Impact of the crisis on the Swedish economy and model

In the wake of the global financial crisis, the Swedish economy started to deteriorate rapidly in the second half of 2008. In 2009, Sweden’s GDP decreased by 5.1 per cent, the worst deterioration since the Second World War. With the severe drop in output and aggregate demand, employment declined sharply. Between 2007 and 2009, employment decreased by more than 100,000, while the unemployment rate increased from 6.2 per cent to 8.4 per cent. The fall in output and employment was particularly marked in manufacturing, with decreases of 25 and 20 per cent, respectively, while employment increased by almost 10 per cent in the private service sector and in construction. With regard to Swedish manufacturing, the fall in employment was particularly marked in export-oriented industries. Due to the sharp increase in unemployment, local plant closures and the overall reduction of economic growth, the recession led to a reduction in tax revenues for local authorities, which are responsible for the provision of social services, health care and education. In a first phase, this situation led to severe budget cuts at the local level and a decline in public employment, mainly among public employees on short-term contracts.

3.1 Policy responses: macroeconomic and labour market policy

In the face of the drastic worsening of the economic situation, as well as the growing awareness that Sweden will experience a much more dramatic drop in output and employment, the government implemented financial and fiscal stimuli measures at the end of 2008. In particular, extensive investments in the maintenance and operation of the road and rail networks were decided on. In response to the crisis of the financial system the government launched a guarantee programme, aimed at securing the medium-term borrowing of banks and mortgage institutions and lowering the cost of borrowing for households and companies. In order to stimulate activity and maintain labour demand in the construction sector, work in the form of repairs, maintenance and improvement of one-family houses and tenant housing were made tax deductible. During 2009–2010, the government announced further counter-cyclical expansionary fiscal measures to combat the crisis. These new fiscal measures were focused on two areas in particular: increased government grants to municipalities and county councils and more resources for active labour
market policy. In September 2009, the government decided on a further increase of SEK 10 billion in the central government grant to municipalities and county councils in 2010, as well as further investment in infrastructure (SEK 1 billion) in order to maintain and secure employment in the public sector.

As far as tax policy is concerned, the government introduced a fourth step in the abovementioned in-work tax credit (SEK 10 billion), a reduction in social security contributions for the self-employed, a further reduction in income taxes for low income pensioners and an increase in housing benefit for the long-term sick and the long-term unemployed. In order to limit the negative impact on poverty and social exclusion of the 2007 unemployment insurance reform in July 2009 the government decided on a reduction in individual unemployment contributions. The government also amended membership requirements temporarily so that members of an unemployment insurance fund in 2009 would be able to count one month extra for each month of membership in 2009.

Since the late 1950s, active labour market policy (ALMP) has played a vital role in Swedish stabilisation policies. The preference for the principle of employment promotion (work-first principle) has always predominated over benefit options for the unemployed. In contrast to the 1990s crisis, when the bulk of counter-cyclical measures essentially took the form of an increase in the number of participants in various active labour market policy programmes, the Swedish government relied to a greater extent on expansionary fiscal and monetary policy to counteract the current economic recession. It is also clear that, in comparison with the 1990s crisis, the room for manoeuvre in which to conduct a more expansive macroeconomic policy was greater than previously, due to healthier public finances at the start of the economic downturn. Regarding active labour market policy measures, the volume of participants in the various ALMP programmes was gradually increased, but never attained the number of participants enrolled during the last severe recession in the early 1990s. The difference concerns not only the number of participants, but also the composition of ALMP measures. Compared with the previous crisis, the current government focused more on labour supply-oriented and matching measures (job search assistance, coaching) and/or work experience and trainee schemes. The number of participants in traditional labour market training has also slightly increased, but much less than in the previous recession. All in all, the number of participants in labour market policy programmes has increased but,
as already mentioned, less than during the previous economic crisis. It should also be noted that public sector job creation has not been used in connection with the crisis, but the increase of central government grants to local governments has certainly had an effect in limiting the fall of employment in the female-dominated public sector.

3.2 Changes in employment

Traditionally and in line with the core elements of the Swedish model, economic downturns and structural changes have seldom been accompanied by measures aimed at maintaining the level of employment. In contrast to other European member states, such as France or Germany, public policies aimed at reducing working time (work sharing) or facilitating temporary layoffs have not been favoured in Sweden. In the early phase of the recession, employment adjustments therefore essentially took the form of external numerical flexibility, in particular a large reduction in the number of agency workers and temporary contracts. The employment decline was also particularly dramatic among low educated and low skilled workers, while employment among employees with a high level of education was only slightly affected (employment even increased between 2007 and 2009 among high skilled employees).

As far as gender is concerned, the relatively stronger impact of the crisis on male unemployment is related to the abovementioned decline of employment in the male-dominated export-oriented manufacturing sector, but compared with the previous crisis (1993), the gender gap in unemployment has remained much lower. There are strong reasons to believe that this is related to the more rapid decline in employment in the public sector at the local and regional levels in the initial phase of the crisis. However, in a second phase, the additional appropriations to local government by the Swedish government helped to limit the decline of public employment and in 2011 public employment was at the same level as in the mid-2000s. The bulk of the adjustment in the public sector took the form of wage moderation and not a permanent decline of public employment. Regarding older workers, Swedish companies seem to have used early retirement to accommodate the recession much less than in previous economic downturns. The employment rate of senior workers (55–64 years of age) has, to date, remained almost unchanged, while the unemployment rate increased only slightly, from 3.2 per cent in 2008 to 5.2 per cent in 2009.
Youth unemployment, however, as well as unemployment among non-natives, has been more sensitive to fluctuations in the business cycle and the employment prospects of young people and foreign-born people have worsened significantly since the end of 2008. In the second quarter of 2009, youth unemployment rates reached 29 per cent and those of foreign-born people 16.3 per cent (compared with 7.9 per cent for natives). Despite a decline after 2009, youth and foreign-born unemployment rates remain clearly above their pre-crisis level.\textsuperscript{11}

The dramatic increase in youth unemployment during the crisis might be ascribed to several factors: first, a significant increase in the youth labour supply, in other words, a relatively larger cohort of young people entering the labour market when the recession started; second, the incidence of temporary contracts is higher among young people; and third, the Swedish Employment Protection Act, more specifically, the application of the seniority principle (last in, first out) favours workers with long seniority in the redundancy process.\textsuperscript{12} While the labour supply of people with an immigrant background was unchanged, the increase of unemployment among non-natives is also related to their weaker attachment in the Swedish labour market (higher incidence of temporary contracts, lower work experience and concentration in the low skilled segment of manufacturing industry and the service sector).

The causes of the riots that took place in some Stockholm suburbs with large immigrant populations in May 2013 cannot be reduced to economic factors, policy failure or the growing difficulties that some groups immigrants face in trying to enter the Swedish labour market. The riots were the outcome of a broad set of complex and interrelated social, cultural and structural factors. During the past three decades several elements might explain the growing difficulties of some groups of immigrants in trying to obtain a foothold in the Swedish labour market, not least the change in the composition of the immigrant population (entailing

\textsuperscript{11} Youth unemployment was 23.6 per cent in 2013 compared with 19.0 per cent in 2007; for non-natives the unemployment rate was 16.3 per cent in 2013 compared with 12.1 per cent in 2007 (Statistics Sweden 2014).

\textsuperscript{12} It should be noted, however, that the order of priority may be modified by collective agreement but case law indicates that there are limits to bargaining freedom in this respect: a collectively agreed redundancy list may not be contrary to good practice or otherwise improper. Under an amendment in the Employment Protection Act introduced in 2001, in the interests of retaining necessary skills in small businesses, employers (maximum 10 employees) may exempt from the procedure of selection for redundancy a maximum of two employees who are particularly important to the company.
a greater number of political refugees and family reunifications) and in the distribution of employment and skills structure related to the development of a knowledge service economy. Alongside these factors, which in my view are determinant, the rise of income inequalities, the increasing housing segregation (ethnic enclaves) and the persistence of discrimination during the past two decades also might explain growing perceptions and feelings of social exclusion in some urban areas, leading to anti-social behaviour. But the difficulties experienced by Swedish society in trying to integrate some ethnic groups into the labour market and the recent unrest in some Swedish suburbs cannot be used, as some commentators have tried to do in the media, to call into question the effectiveness of Sweden’s generous and long-standing integration policy and the targeted measures directed towards vulnerable groups. On the contrary, the unrest shows that additional educational and active labour market policy measures have to be implemented in order to further limit early drop-out from the education system, improve the educational and skill level of recently arrived immigrants and to further fight against discrimination in the labour and housing market.

3.3 Collective bargaining, wage setting and income inequalities

Most labour market regulations, working conditions and wage setting in Sweden are determined and regulated by collective agreements, and an analysis of measures initiated to combat the impact of the economic crisis on employment cannot be limited to government action.

As previously mentioned, no government measures for maintaining employment by means of short-time working were implemented in Sweden. The initiatives came instead from the two sides of industry. If the employment adjustments in Sweden main took the form of external numerical flexibility, the severity of the recession, the fear that the number of dismissals will further increase and the fact that the crisis was principally demand-driven led the trade union federation IF Metall and the Association of Swedish Engineering Industries to conclude a framework agreement on temporary layoffs and wage adjustments in March 2009. Under the agreement, an employee temporarily laid off from work received at least 80 per cent of their usual monthly wage. Some 400

On average, these short-time working agreements entailed a 18 per cent reduction in working hours and a 13 per cent reduction in wages.
companies affiliated to the Association of Swedish Engineering Industries concluded such agreements and according to IF Metall these agreements helped to safeguard between 12,000 and 15,000 jobs.

As far as wage setting and wage development are concerned, experience from the deep economic crisis of the early 1990s shows that wage moderation characterised wage developments during the second half of the 1990s and early 2000s. There were therefore strong reasons to expect that, in the wake of the current severe economic and financial crisis, wage agreements would also be concluded to preserve employment stability and limit further increases in unemployment. The outcome of the 2009–2011 bargaining round indicates that wage moderation has prevailed in Sweden. The resulting slowdown in the rate of increase in labour costs, combined with the depreciation of the Swedish currency related to the expansionary monetary policy conducted by the Swedish Central Bank, helped to alleviate the negative effects of the recession on output and employment and partly explain the increase in exports during the 2010 recovery.

Looking now at the development of the earnings distribution, the dispersion of disposable income has also increased in Sweden in the long run. Although Sweden belongs to the set of countries with the lowest earnings inequalities, the Gini coefficient increased by 26 per cent between 1991 and 2008, although it fell slightly between 2007 and 2009. During the current recession the reduction in disposable income has been particularly marked at the two ends of the income distribution. Low and high earners both experienced a significant decline in disposable income between 2007 and 2009. Among high earners, the decline of income might be ascribed principally to the fall in capital income related to the global financial crisis. There are good reasons to believe that the deterioration among low earners might be ascribed to the conjunction of several factors: rising unemployment, particularly among low skilled and low paid workers; the dramatic increase in youth unemployment (new entrants into the labour market not covered by the unemployment insurance system); and the abovementioned unemployment insurance reform initiated in 2007. Although the government, as already mentioned, changed the qualification rules in 2009 and introduced a ceiling on individual contributions, there is reason to believe that a significant part of the decline in average disposable income in the first decile was a consequence of this reform.
4. Lessons and prospects five years after the Great Recession

In an international perspective, Sweden seems to have managed to overcome the current economic crisis better than many other member states. In spite of a long-term tendency to reduce the de-commodification of its welfare state, Sweden, with its large, encompassing and generous social protection system still possesses relatively robust automatic stabilizers. There are strong reasons to believe that a dramatic fall in GDP might have quite different implications for household living standards in countries with weak automatic stabilisers and/or constrained public finances, in other words, with limited room to manoeuvre to conduct a counter-cyclical macroeconomic policy. Without doubt, the generous and encompassing Swedish social protection system has helped to ameliorate the consequences of the crisis for individuals (limited impact on income and inequality), while the benefit and transfer systems played their role of shock absorber and economic automatic stabiliser. The recent improvement in the Swedish economy might also be ascribed to the strong expansionary fiscal and monetary policies.\(^{14}\) Compared with previous economic downturns, Swedish economic growth over recent years has been driven less by increases in exports than by an increase in public and private consumption, due both to increases in disposable household income\(^{15}\) and the additional appropriations to local government decided on in 2009 and 2010.

As stressed previously, due to healthier public finances at the start of the economic downturn the room for manoeuvre for conducting a more expansionary macroeconomic policy was greater than during the previous recession (1993). Overall, the Swedish experience shows that strong public finances are essential for handling the challenges confronting fiscal policy, especially in a deep recession. While Swedish public finances have been somewhat weakened, deficits have also been limited. Against this background and in light of the recent economic recovery the needs of fiscal consolidation and excessive deficit procedure will remain limited,

\(^{14}\) Already in 2010, the Swedish economy was in strong recovery with rapid growth (6.6 per cent in 2010, 3.7 per cent in 2011), increasing employment and declining unemployment.

\(^{15}\) The increase in disposable income can be ascribed to the cuts in income tax and also the increase in some transfers, such as housing benefit for low earners or child allowance. Comparing the trends in real GDP and real gross household disposable income (HDI), it appears clear that Sweden, during the period 2007–2009, experienced an increase of HDI (+5.1 per cent) despite the dramatic fall in output (–5.1 per cent in 2009).
which implies that the negative impact of restrictive fiscal policy on employment in the public sector will also be limited in Sweden compared with other EU member states.

All in all, previous developments tend to show that political change and economic and structural reforms have to date only marginally modified the core components of the Swedish model. The structural reforms of the tax and benefit systems aimed at strengthening work incentives are still clearly in line with the general philosophy of the original Swedish model favouring the ‘work-first line’ instead of passive support. Even if the volume of participants in ALMP programmes was lower during the current recession overall the policy of activation still plays a major role in Swedish stabilisation policy. Last but not least and despite the above-described decline of union density, the two sides of industry remain the two main actors regarding both labour market regulations and wage setting: the bargaining system remains centralised and coordinated. In contrast to countries with weaker industrial relations systems and unbalanced bargaining power between the two sides of industry, the nature of the Swedish industrial relations system has also entailed a more balanced sharing of the cost of the crisis. The Swedish institutional set-up also explains why Sweden still has one of the highest levels of job quality and why the current recession has not adversely affected working conditions by means of wage cuts, longer working hours, higher workloads and increased work intensity, as it has in other EU member states (see Anxo 2011).

The Swedish experience is therefore a good illustration of the positive role played by both healthy public finances and a strong social safety net in mitigating and absorbing the negative impact of external macroeconomic shocks. More broadly, the Swedish experience during the last recession illustrates the resilience and long-term viability of a societal model based on a universal and generous social protection system, egalitarianism, pro-active policies for promoting gender equality and fighting against discrimination and social exclusion, a developed social dialogue as a mechanism for regulating the labour market and social policies, and strong public and political involvement in the provision of

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16. It should be stressed that, besides a high level of employment, a prerequisite for securing the long-term sustainability of such a generous social protection system is a tax system that guarantees adequate public revenue. In this regard it should be recalled that the Swedish tax burden remains among the highest in Europe, despite falling somewhat during the past decade.
a wide range of public services. The ‘Swedish success story’ during the last recession cannot therefore be reduced to early fiscal consolidation measures. It is clear that both the automatic stabilisers embedded in the Swedish societal model, the additional government support (Keynesian counter-cyclical measures) and the social dialogue have had an important effect in mitigating the negative effect of the crisis on employment, welfare and social exclusion.

Although the reforms undertaken by the previous government have only marginally affected the Swedish model and its macroeconomic policy has helped to absorb and limit the negative impacts of the crisis on employment and income inequalities in the short run, we cannot rule out that the long-term consequences of the crisis might be significant. Despite the abovementioned signs of recovery and a rising employment trend, the overall unemployment rate remains high, at 8.1 per cent (average 2013), a level much higher than in previous periods (1960–1991), when unemployment rates oscillated between 2 and 3 per cent. The long-term consequences of high youth unemployment and the deterioration of the labour market for people with an immigrant background also remain worrying. As shown by previous empirical evidence (see Nordstöm-Skans 2004) the potential scarring effects of an early period of unemployment may have a long-lasting negative influence on subsequent employment performance and income development across the life course. Furthermore, an early period of unemployment may affect the timing of other critical transitions and events, such as the transition from school to work and the constitution of an independent household, as well as access to housing, parenthood and fertility patterns, career opportunities and wage development (see Anxo et al. 2010). Some recent empirical evidence (see Anxo 2011 and 2013) tends also to show that we may not rule out either that the current crisis, like the deep recession of the early 1990s, will mean that, in future, a growing share of Swedish companies will rely increasingly on external numerical flexibility, with a rise in the use of short-term contracts and agency workers. If this is the case, this development may worsen the duality in the labour market between insiders and outsiders, alter the conditions of entry into the labour market and delay the acquisition of a permanent and stable job. It is also clear that if Sweden fails to re-establish the conditions for a return to full employment, in particular to reduce unemployment and increase employment rates for some of the abovementioned vulnerable groups, we cannot exclude a progressive decline of the Swedish model, its coherence and the robustness of its social cohesion.
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