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Resilience through Restructuring: Swedish Policy-Making Style and the Consensus on Liberalizations 1980–2000

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Abstract

In 1980, Sweden was a highly regulated economy with several state monopolies and low levels of economic freedom. Less than 20 years later, liberal reforms have turned Sweden into one of the worlds most open economies with a remarkable increase in economic freedom. While taxes and expenditure shares of GDP remain high, there has been a profound restructuring of Sweden's economy in the 1980s and 1990s. Furthermore, the degree of political consensus is striking, both regarding the policies that characterized Sweden up to 1980, as well as the subsequent liberalizations. Since established theories have difficulties explaining institutional change in heavily institutionalized settings, we seek to understand how the Swedish style of policy-making produced this surprising political consensus on liberal reforms. Building on previous research, we underscore the importance of three complementary factors: (i) Policy-making in Sweden has always been influenced by, and intimately connected to, *social science*. (ii) *Government commissions* have functioned as 'early warning systems', pointing out future challenges and creating a common way to perceive problems. (iii) As a consequence from social science influence and the role of public investigations, *political consensus* has evolved as a specific feature of Swedish style of policy-making. The approach to policy-making has been rationalistic, technocratic and pragmatic. Thus, the political consensus in Sweden on substantial liberalizations is no more surprising than the political consensus on the development of the welfare state.

Key Words

Sweden, Welfare state, institutional change, globalization, policy-making, policy-style

JEL-codes

H1, H11, H83

1. Introduction*

Governments in mature welfare states face a something of a catch 22. On the one hand, they are under immense pressure. The shift in employment structures from manufacturing towards services, the permanently high unemployment rates, and the ageing populations, are pervasive facts that place great demands on public budgets. On the other hand, there is still strong popular support for the welfare state. Therefore retrenchment initiatives are highly unpopular among voters. To put it bluntly, governments must either alter institutions that the electorate supports and risk electoral defeat, or stick with the status quo and face financial crisis. There are at least two good theoretical reasons why this choice situation should be highlighted in empirical research.

Firstly, research on the effects of different institutional arrangements tells us approximately which economic institutions perform well and which do not (cf. Doucouliagos & Ulubasoglu 2006; Acemoglu et al. 2004; Rodrik et al. 2004; Kurrild-Klitgaard & Berggren 2004). Empirical evidence is surprisingly robust. In a recent publication, Doucouliagos & Ulubasoglu (2006: 68) conducted a meta-study of 52 studies dealing with the impact of economic freedom on economic growth, and concluded that 'economic freedom has a robust positive effect on economic growth regardless of how it is measured'.

Despite these insights into what reforms might be needed to enhance economic performance, we rarely see political elites pro-actively adapting these wisdoms *before* entering periods of financial crisis.[1] To paraphrase Olson (1996), there are still lots of 'big bills left on the

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[1] The word 'pro-actively' is important. It is less puzzling that welfare states once they have run into financial problems adapt certain reforms more or less as a result of economic necessity. Therefore, 'reforming as a response to crisis'-hypotheses are frequently cited in the literature on the political economy of political reforms (c.f. Acemoglu & Robinson 2001; Haggard & Kaufmann 1995; Drazen & Grilli 1993).

sidewalk'. That is, countries seem to miss out on economic growth that could be gained by pro-active institutional adjustments.

Secondly, research on economic and political institutions has provided several explanations of why institutions are characterized by persistence and inertia. This literature, however, is still in its infancy when it comes to providing a comprehensive and deeper understanding concerning when and why institutions undergo changes. Many scholars emphasize that the failure to account for institutional change is the major drawback in current institutional research (cf. Streck & Thelen 2005; Acemoglu & Robinson 2001; Pierson 2000; Knight & Sened 1998; Elston et al. 1996; Rothstein 1996).

This should come as no surprise. Although need for adjustments is becoming urgent in most mature democracies, institutional rearrangements are still infrequent. Koromzay (2004: 31) explains this very simply. Broad-ranging economic and political reforms are quite rare because they are very difficult to carry through. These difficulties stem from a variety of sources, but some of the most common explanations to institutional inertia are (i) welfare states have many 'vested interests' which are privileged by status quo and hence oppose reforms (Fernandez & Rodrik 1991); (ii) they have many 'veto players' that have power to block reforms (Tsebelis 2002); and (iii), reforms in welfare states is problematic because changes in one aspect of a highly interactive system are likely to alter the efficiency of other parts (Freeman 1995: 17), hence their institutions tend to be 'path dependent' and hard to alter (Pierson 2004).

There are not only theoretical, but also practical and constructive reasons to further enhance our understanding about why governments from time to manage to substantially alter old and inefficient institutions. Studying critical cases of institutional change in mature welfare states can generate knowledge about what needs to be done in order to bring efficiency enhancing reforms about so that Olsons (1996) 'big bills' indeed can be picked up. In this paper, we embark on an explorative, theory-development venture by focusing on a single case: liberal reforms in the Swedish welfare state.

We focus on this case since we view Sweden as a 'least likely' case for institutional change. It is almost an ideal-typical 'mature welfare state': Popular support for its institutions and policies is strong (Svallfors 2004), and the expansion of the welfare state has produced its own constituency in the form of numerous strong interest groups. Since 1980 the share of voters who depend on the public sector as their main source of income has been stable around 60 percent.[2] Change is not expected to come about easily in environments of this kind. But as will be shown, in Sweden it actually did. We demonstrate that political actors in Sweden have been able to pro-actively restructure the welfare state without substantially upsetting the electorate or meet fierce resistance from vested interests.

Looking back at the catch 22 we posed initially, Sweden seems to have performed something that resembles the act of eating the cake, yet keeping it, i.e. liberalized important economic and political institutions without facing strong opposition. This calls for an explorative case study of these changes to generate ideas about what mechanisms contribute to liberalizations in mature welfare states. Our argument is that well-known characteristics of policy-making in Sweden, that traditionally have been used to explain the development of the big welfare state, are also very useful in explaining the liberalizations.

[2] Own calculations based on Statistics Sweden. For example, in the year 2000 there were 6.5 million voters, 1.6 million aged 65 or above, 1.2 million were publicly employed, and 1 million received various social transfers. In all, 58 percent had their income from the public sector.

The article proceeds as follows. In the next section we use indexes of economic freedom to illustrate the scope of the changes that have taken place in Sweden in comparison to other countries. We also describe some of the most important reforms undertaken in Sweden. Section three contains an analysis of how and why these reforms gained political support. We primarily focus on presenting factors that we argue have been underrated an under-elaborated in previous research. Section four summarizes our main conclusions.

2. The liberalization of Sweden: Resilience through restructuring

For at least three decades there has been a debate about the alleged crisis of the welfare state. Since the post-war boom ended in the early 1970s, welfare states have faced mounting challenges. Firstly, there have been internal transformations such as changes in household and class structures, post-industrial shifts in employment structures, population ageing accompanied by declining birth rates, and increasing international immigration. This puts governmental budgets under pressure (cf. Pierson 2001). Secondly, the coming into office by Thatcher in 1979 and Reagan in 1981, some argue, gave ideological fuel to forces that demanded cutbacks in welfare policies (cf. Bourdieu 1998; Beck 1999). In line with this way of reasoning, Boréus (1997) found that a neo-liberal shift in the Swedish public debate took place in the 1980s and 90s. Thirdly and intimately related to the previous points, some scholars claim that welfare state pressures have been exacerbated when countries were exposed to international economic forces, i.e. the forces of ‘globalization’. They argue that economic globalization constrains national economic and social policy-making severely; hence forcing cutbacks in welfare state spending (cf. Ohmae 1991; Reich 1991; Bauman 1998).

At first glance, these challenges do not seem to have affected the Swedish welfare state. This is true when studying quantitative aggregates such as tax or expenditure shares of GDP, as recently shown for example by Castles (2004). The generally held is in fact that welfare states are remarkably resilient (cf. Starke 2006; van Kersbergen 2002; Kuhnle 2000). Also, research relating to different welfare state categories has shown that Sweden still remains a 'social democratic' or 'universal' welfare state (cf. Bergh 2004; Lindbom 2001; Kvist 1999).

However, despite aggregate measures indicating a resilience of the high tax welfare state, the Swedish economy has undergone a major restructuring. To fully capture the extent of these changes, one must study several aspects of the economic system. One way of doing this is to use an index that summarizes several aspects in one quantitative measure. The economic freedom index (EFI) by Gwartney & Lawson (2003) summarizes measures of government size (EFI_1), legal structure and property rights (EFI_2), access to sound money (EFI_3), freedom to exchange with foreigners (EFI_4), and regulation of credit, labor, and business (EFI_5). The index is available for a large number of countries since 1970. Using several indicators in each dimension, the five dimensions are weighed together in a composite index where 0 indicates the lowest and 10 the highest degree of economic freedom.[3]

Since we know that relatively little has happened with aggregate government size, we exclude this component from the index, and compare the development in the other four areas for the most studied modern welfare states.[4] Because there has been an international trend towards

[3] While the Economic Freedom Index has received some critique for being ideologically biased (cf. the critical discussion in De Haan et al 2006), it has been used successfully in research as a descriptive device, as well an important explanatory factor in explaining growth, as shown by Doucouliagos & Ulubasoglu (2006). The areas and components of the index are described in the appendix.

[4] Since Esping-Andersens (1990) path-breaking study it has become standard to refer to three types of welfare states, although the labels of these systems differ. We use the labels Scandinavian, Continental and Anglo-Saxon welfare states, sometimes referred to as Social democratic, Conservative, and Liberal.

increasing economic freedom, the value for each country is related to the mean for our sample of countries each year. The results are shown in Table 1.

Clearly, there has been some convergence in the degree of economic freedom among countries. However, it is not the type one would expect as a result of convergence towards the mean. The Scandinavian countries started below the mean, and have generally increased their index value more than other countries, ending up above the mean in the 90s.
The opposite trend is the most common for continental welfare states, whereas the Anglo-Saxon countries (with the exception of UK) tend to stay at or above the mean. These trends are more easily visualized by figure 1.

Table 1 Economic freedom in Sweden and other countries relative to annual mean, 1970-2003

Country	**1970**	**1975**	**1980**	**1985**	**1990**	**1995**	**2000**	**2003**	**Difference** 1970-2003	1970-2000
Sweden	83%	90%	93%	98%	99%	101%	101%	104%	21%	17%
Finland	95%	91%	96%	96%	97%	104%	102%	103%	8%	7%
Norway	90%	92%	91%	94%	100%	102%	95%	98%	8%	5%
Denmark	95%	96%	95%	93%	101%	104%	103%	103%	8%	7%
Mean, Scan.	91%	92%	94%	95%	99%	103%	100%	102%	11%	9%
Germany	106%	111%	108%	105%	102%	100%	99%	96%	-10%	-7%
France	91%	89%	91%	90%	99%	93%	97%	101%	10%	6%
Belgium	111%	114%	112%	109%	106%	97%	100%	99%	-12%	-11%
Netherlands	104%	107%	109%	108%	104%	104%	106%	104%	0%	2%
Italy	118%	75%	68%	66%	68%	76%	81%	86%	-32%	-37%
Switzerland	105%	112%	112%	110%	106%	101%	103%	94%	-11%	-2%
Mean, Cont.	106%	101%	100%	98%	98%	95%	98%	97%	-9%	-8%
Canada	111%	108%	110%	107%	106%	102%	103%	102%	-9%	-9%
Australia	101%	98%	104%	106%	102%	101%	100%	101%	0%	0%
United Kingdom	88%	100%	97%	105%	102%	106%	104%	105%	16%	16%
United States	106%	120%	115%	111%	107%	105%	104%	101%	-4%	-1%
Mean, Angl.	98%	106%	105%	107%	104%	104%	103%	102%	4%	5%
Mean Economic Freedom	7.36	6.58	7.04	7.30	7.59	8.22	8.44	8.18		

Figure 1 Convergence in economic freedom? Dispersion around the mean 1970-2003

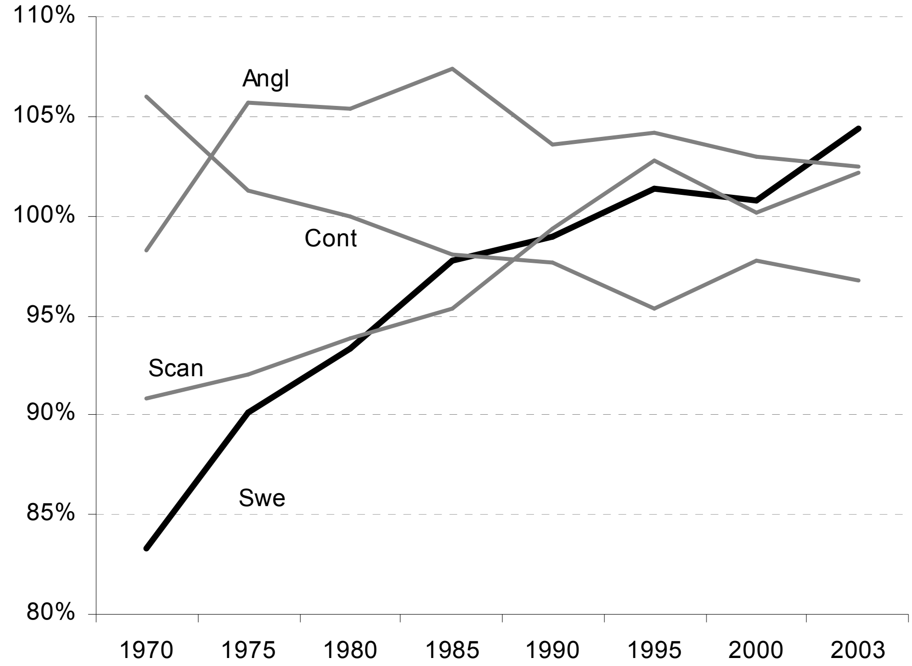

Table 1 shows that the Swedish experience is extraordinary in comparison: Sweden has gone from being far below to consistently above average in terms of economic freedom when excluding government size.[5] The result confirms our underlying premise. Although aggregate measures such as tax or expenditure shares of GDP are intact, there indeed has been a profound restructuring of Sweden's economy. Existing research does not fully capture the nature and extent of the changes that Sweden experienced throughout these years. This, of course, does not mean that existing research is flawed. Rather it seems that its focus has been too narrow to capture the full picture (as also hinted by Starke, 2006).

Why has existing research missed out on this? Taylor-Gooby (2002) points out that scholars committed to the 'resilience thesis' often apply quantitative techniques to answer their

[5] In fact, including government size does not change the conclusion that Sweden's development is extraordinary. The pattern is also the same in the new index of globalization developed by Dreher (2006). Finally it should be noted that comparing Sweden to other countries than those in table 1 does not change the picture. The economic freedom index is available at www.freetheworld.com and the globalization index at www.globalization-index.org.

research questions. He shows that these techniques, in this context, place greater emphasis on continuity and resilience. Although rare, there have been attempts to conduct fine-grained studies that look beneath the surface of aggregate stability. In our view, Blomqvist (2004) moves in the right direction when she notes that the resilience of high taxes in Sweden has been accompanied by substantial organizational reforms towards increased freedom of choice in Sweden.

We agree with Blomqvist, but extend her argument. The full picture includes more than *just* taking into account organizational reforms towards greater freedom of choice. To capture the range of the Swedish liberalization we need also to include important macroeconomic policy changes and reforms of the political process, as well as reforms of public expenditure, deregulation of product markets and the abandonment of state monopolies. Table 2 provides an extensive summary of the important liberalizations undertaken in Sweden.

Table 2 Summary of deregulatory reforms 1985–2000

Reform	Related commission and propositions	Comment
Deregulation of the credit market	Commission initiated 1980. Presented as SOU 1982:52 *En effektivare kreditpolitik* [*A more efficient credit policy*]. Government proposition in 1984 (1984/85:40)	In the government proposition, motives for deregulation were pragmatic (regulations had become less effective) but also based on efficiency (regulations had created a grey market of work-arounds).
Deregulation of the currency market	Commission initiated in 1977. Presented as SOU 1985:52 *Översyn av valutaregleringen* [*Rethinking currency regulations*]. The decisions were gradually made by the central bank and deregulation was completed 1989.	Parts of the commission were published in 1980 and concluded that the regulation was not effective.
Deregulation of telecommunications	First steps taken in government proposition 1987/88:118 *Beslut om telepolitiken* [*Decision on telepolicy*]. Deregulation in 1993	In 1987, policy goals were set to access, efficiency and affordability. There was social democratic opposition in 1993, but subsequent decisions have further increased competition (e.g. portability of phone numbers in 1998, the selling of Telia in 2000).
Deregulation of taxi	Deregulation initiated in government proposition 1986/87:5 *Om vissa yrkestrafikfrågor* [*On certain issues in professional traffic*]. Deregulation from 1990.	Stated reason for deregulation was that taxi is a central part in traffic policy and would benefit from less regulation and increased competition.
Deregulation of electricity market	Government proposition 1990/91:87 *Om näringspolitik för tillväxt* [*On business policy for growth*]. Commission initiated 1992. Government proposition 1993/94:162 and Prop.1994/95:84. Deregulation from 1996.	After winning the 1994 election, the social democrats delayed the deregulation one year. However, they made only minor changes compared to the centre-right proposal.
Deregulation of railroads	Government proposition 1987/88:50, Commision presented in SOU 1993:013 *Ökad konkurrens på järnvägen* [*Increased railroad competition*]. First competitive transport in 1993. Some further deregulations and commissions during the 90s.	The centre-right government rushed the process by not awaiting the 1993 commission. Social democrats partially halted the deregulation process.
Deregulation of domestic airways.	Commission SOU 1990:58 *Konkurrens i inrikesflyget* [*Competition in domestic air travel*] and deregulations in 1992 and 1993.	Reasons for deregulation stated in government proposition 1990/91:87 were increased efficiency and EC-harmonization.
Tax reform	Three commissions (for income tax, sales tax and corporation tax) initiated in 1987.and presented in 1989: (SOU 1989:33, SOU 1989:32 and SOU 1989:35). Reform implemented in 1990 and 1991.	The reform lowered top marginal tax rate from 73 to 51 percent. The goal of the reform was to lower tax rates, decrease progressivity, broaden the tax base and encourage household savings. Furthermore, the aim was that the net effect on public revenue and income distribution be 0. The reform was supported by the social democrats and the liberal party.
School vouchers	No public commission preceded this 1992 reform. Still, a commission presented in 1995 stated that the free schools have a long standing place in the Swedish education system.	This reform seems not to fit the pattern of policy-making Swedish style. A possible explanation was that voucher systems had been used in some municipalities before, for example Nacka introduced a foot care voucher in 1985.
Central bank independence and new macro economic policy.	Commission initiated 1990, presented as SOU 1993:20 *Riksbanken och prisstabiliteten* [*The Riksbank and price stability*]. Also treated in the so-called Lindbeck-commission SOU 1993:16. Government proposition 1997/98:40 *Riksbanken ställning* [*The status of Riksbank*]. Formal independence from 1999.	In practice, anti-inflationary policy dates back to 1993 and independence even further.
New budgetary process	The Lindbeck commission (SOU 1993:013) as well as Ds 1992:126 *Statsskulden och budgetprocessen* [*National dept and the budget process*]. Used for the first time in 1997.	The new system introduces upper expenditure limits and states that new expenditure must be financed within these limits.
Sweden applies for EC membership and joins the European Union.	Application to EC in 1990. Several commissions initiated, for example SOU 1993:14 *EG och våra grundlagar* [*EC and the constitution*], SOU 1993:117 *EG, kvinnorna och välfärden* [*EC, women and welfare*], SOU 1994:2 *Kommunerna, landstingen och Europa* [*Swedish municipalities, regions and Europe*], SOU 1994:12 *Suveränitet och demokrati* [*Sovereignty and democracy*]. In 1994, a referendum was held and Sweden joined the EU in 1995.	Sweden also joins the first steps of the European monetary union, and qualifies for adopting the Euro. After a referendum, however, Sweden chooses to keep the krona.
Pension reform	Commissions initiated 1984, presented as SOU 1990:76 and SOU 1990:78. New commission initiated and presented as SOU 1994:20 *Reformerat pensionssystem* [*Reformed pension system*]. Government propositions in 1994 and 1998. Phasing in the new system started 1999.	Most likely the biggest social insurance reform in any mature welfare state ever. Supported by the social democrats and the four centre-rightparties.

Notes: SOU = Statens offentliga utredningar [The public commission of the state].
Unless otherwise stated, all reforms have ex post support from both the social democrats and the four centre-right parties.

Reforms such as those in Table 2 explain a great deal of Sweden's rapidly increasing economic freedom. It bears noting that all of the reforms included in the table enjoyed political support from both the social democrats and the centre-right parties, either through explicit agreements, or through subsequent acceptance of reforms undertaken by the other side. The reforms undertaken by social democrats in the late 80s were not reversed by the centre-right government 1991–94, and the reforms undertaken by this government were – with some important exceptions, not included in the table – not reversed by social democratic governments from 1994 and onwards.[6]

As noted and analyzed by Carsten (1997) Sweden also deregulated its agricultural sector. While this reform also fits the pattern of consensus, we have omitted it since it was never fully implemented because of Sweden's 1995 membership in the European Union.

The descriptions in Table 1 and 2 above provoke a deeper, thought-provoking question: Since dominating theories on political institutions stress path dependence and inertia, how and why did these reforms gain political support without facing fierce public criticism, upsetting the electorate and/or meeting strong interest-group resistance? Furthermore, one becomes curious about the extent to which this intense reform period is consistent with the traditional style of policy-making in Sweden described in previous research. We turn to these questions in the following section.

[6] The biggest exception from liberalizations is probably labour market regulations, which remain high in Sweden: Some minor reforms undertaken by the centre-right government 1991–1994 were immediately reversed by the social democrats, and since then only very minor reforms have been made.

3. Explaining political support for the liberalizations

The Swedish style of policy-making was documented repeatedly around 30 years ago, by for example Anton (1969), Elvander (1974) and Castles (1976). Compared to most other countries, policy-making in Sweden is known to be particularly rational, pragmatic and consensual. Furthermore, government commissions and interest groups play an important role, and in general, decisions are not made hastily.

One might suspect that the rapid liberalizations in the 1980s and the 1990s indicate that this Swedish style of policy-making was abandoned shortly after the aforementioned documentations of Anton, Elvander and Castles. With some exceptions, such interpretations would simply be wrong. Table 2 shows that most of the reforms follow the pattern neatly. There were government commissions, there were rational reasons and there was a great deal of political consensus.

In the following, we show how three components of the Swedish style of policy-making make the rapid liberalizations in the 1980s and 90s more comprehensible. Taken together, the influence of social science on policy-making and the commission system have helped to produce a culture of political consensus.

Firstly, Swedish politics has traditionally been intimately connected with social science research, especially concerning economic and social policy. There have always been social scientists ready to offer solutions to new economic and political problems, and politicians have always been ready to lend their ears to them. Secondly, Sweden has had an extensive system of government commissions that has functioned as an ‘early warning system’. This early warning system has had the advantage of creating common problem definitions for key political actors, hence making it easier for political opponents to agree upon a set of solutions. Thirdly, and in large part as a consequence of the two other factors, it has to be noted that the Swedish welfare state, as well as the 'Swedish model' broadly interpreted, is not an exclusively social democratic project. On the contrary, both social democrats and centre-right parties have shaped and influenced policy since the 19th century until present day. Together, these three factors have created mechanisms that can contribute to our understanding as to why successful pro-active reforms have taken place. We now describe these three components more thoroughly.

The scientific approach to policy

In the 1930s, a group of young Stockholm economists[7] developed theories of business cycles and how to avoid depressions, very similar to those of J. M. Keynes. As noted by Lundberg (1985), there was nothing special about this, except for the fact that the social democrats in power at the time endorsed these new theories, and turned them into one of the major components of the Swedish model: the active fiscal policy.

In the 1970s, the Keynesian macro economic school of thought ran into problems as the increasing oil prices caused stagflation, i.e. a combination of slower growth and inflation. In academic economics, problems with active fiscal policy were identified and focus shifted from Keynesian macro economics with national management of aggregate demand, to macro-economics based on institutions, central bank independence and supply-side factors.

[7] Erik Lindal, Gunnar Myrdal and Bertil Ohlin. The connection between social science and policy in Sweden is illustrated also by the fact that Bertil Ohlin already is mentioned above – as the leader of the liberal party.

However, there was still consensus, and there were still important influences from Swedish economists, who had not yet been influenced by the new supply side economics:
Jonung (1999) notes that all political parties in Sweden, as well as economists in the influential academic think-tank SNS (*Studieförbundet Näringsliv och Samhälle*), advocated an active macro economic policy according to which it was possible to 'leap frog' economic downturns through expansive public policy measures.[8]

Things eventually changed, and in the early 80s, supply side economics became increasingly popular also among influential Swedish economists. From the mid-80s and onward, SNS were intensively advocating a macroeconomic policy focused on low inflation and a fixed exchange-rate. Economists also had substantial influence on the economic program of the right-wing coalition 1991-94, 'New start for Sweden' (*Ny start för Sverige*), according to Jonung (1999). Jonung himself is a professor economics and a special full-time advisor to the Prime Minister during these years. A third example is the so-called Lindbeck-commission in 1993, a public commission led by economist Assar Lindbeck, presenting various economic policy advice after Sweden was forced to adopt a floating exchange rate in 1992.[9]

Thus, by the scientific approach to policy-making we mean that Swedish politicians and bureaucrats have had a long history of being tied up with, and sensitive to the views of, social scientists. Hence, it is beyond doubt that social science always has had an important influence over policy-making.

[8] For example, Assar Lindbeck, Erik Lundberg and Bertil Ohlin contacted the centre-right government in august 1978, which led to a more expansive fiscal policy. Today, there is remarkable agreement among scholars that failed macro economic policy is a major factor explaining why Sweden was lagging behind other countries in terms of economic growth between 1970 and 1995. For example, Lindbeck has apparently changed his mind – see Lindbeck (1997). US scholars, such as Lindert (2004), draw similar conclusions regarding Swedish macro-economic policy during this period. Interestingly, Lindert is positive towards the Swedish model in most other aspects.
[9] SOU 1993:16. Nya villkor för ekonomi och politik. ("New conditions for economics and politics").

Why is this interconnectedness between academia and politics important for understanding political reforms in general? Blyth (2002) has developed a good explanation to why it is important for politicians to have *ideas* about the workings of the policies and economy to fall back on, especially in times of crisis. Blyth's argument is that economic ideas have the effect of *reducing uncertainty* in periods of economic crisis. Economic ideas – here interpreted as the economists and their models that have influenced policy-making in Sweden – make it possible for politicians to reduce the uncertainty about what to do when they face new strains. Ideas do this by functioning as 'interpretive frameworks' that describe the workings of the economy, and they therefore provide a general understanding of the interrelations between the important parts in the economy. By developing and deploying such ideas, agents reduce uncertainty by narrowing possible interpretations of the crisis. As shown, in Sweden economic ideas have traditionally been used to reduce uncertainty by influencing political parties both to the left and to the right.

The role of government commissions

Sweden's extensive commission system is important for several reasons. Firstly, the commissions serve the role of an *early warning system*. The investigations identify problems on the rise and focus the public debate on issues that are likely to become important in the future.[10] Secondly, they set the political agenda by *creating a common problem definition* for the important political players. Common problem-definitions, of course, are essential prerequisites for agreement on common solutions later on in the policy process. Thirdly, *discussions within public investigations during the work-in-progress period are not public*. Thus prestige and symbolic policy gestures become less important. Instead, the participants

[10] Anton (1969: 93) adds to this the fact that since Swedish public statistics are one of the worlds most comprehensive and best kept, official experts employed by the government and interest groups have a great tool for discovering which policies work in which policies might be needed to implement, hence being able to identify new problems on the rise early on.

from each party are eager to show that the investigation is making progress and by bringing back victories for their own party. Fourthly, *interest groups* often approach members of the investigations, providing them with information and arguments for their particular views.

Historically, government commissions have always played an important role for the Swedish welfare state. As pointed out by Esping-Andersen (1994), the 1913 pension reform originated from an public investigation that started already 1884. This investigation was in turn the origin of the universality principle, because the investigation suggested that pensions should cover all workers and people equivalent to workers – in practice the entire population. When viewed in this perspective, the pension reform in the 1990s is no exceptional event, but rather a reform that fits the pattern nicely – see Andersson (2001) and further below.

The Swedish consensus

The role social science has played in Swedish policy-making, and the functions of public commission, are critical for understanding the Swedish consensus tradition and why changes in Sweden's institutional framework occur smoothly, often characterized by technocracy and pragmatism.

The relationship between public investigations and the Swedish consensus can be illustrated by what happened when the centre-right government came to power in 1991. Seemingly, the new government was very fast and efficient in carrying out an economic policy based on deregulations. But in fact, many of these reforms (such as the deregulation of air traffic and the markets for electricity and postal services) had already been quite thoroughly investigated, and the policies were already outlined in government proposition *1990/91:87 Om näringspolitik för tillväxt [On business policy for growth]*.

Two of the most important reforms in the early 90s were the results of several investigations, which had been working for years. Firstly, the big tax reform benefited from three investigations started in 1987, regarding personal income taxation, corporate taxation and consumption taxation.[11] Secondly, the pension commission that was initiated in 1984 worked for six years and concluded in 1990 that the old system would run into big problems unless a profound reform was undertaken.[12,13]

When we speak about the importance of consensus in Swedish politics for understanding the smooth, pragmatic and gradual adaptation of the welfare state to changing circumstances, it is important to note that the underlying principles behind the welfare-state, i.e. the idea of the 'peoples home', were agreed upon by the central players in Swedish politics, that is *both* the centre-right parties and the Social Democrats (cf. Uddhammar 1993). This was particularly true during the welfare states 'golden age' in the 1950s and 60s, when the 'end of ideology'-interpretation of Swedish politics was pronounced among both social democratic scholars (Myrdal 1960) and liberal ditto (Tingsten 1966), and historically there has always been a tendency in Swedish politics to let pragmatism and incrementalism defeat ideology (Berman 1998: 380–387).

So consensus and corporative arrangement, not conflict and confrontation, has been the rule. In some areas, consensus can even be traced back to the 19th century. Schön (2000) describes how the liberal ministry of finance, Johan August Gripenstedt in the 1850s not only fought

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[11] SOU 1989:33, SOU 1989:32 and SOU 1989:35.
[12] SOU 1990:76 and SOU 1990:78.
[13] The role of civil servants in explaining the, compared to other European countries, successful Swedish pension reform is also emphasized by Marier (2005).

successfully for lower tariffs and free trade in agricultural products, but also expanded railroads and infra structure.

Esping-Andersen (1994) identifies something important when he notes that early Swedish social democrats did not oppose reforms for the mere reason that right-wing governments introduced them. According to him, the principle (attributed to social democrat Hjalmar Branting) was that reforms introduced by political opponents were better than no reforms at all. Branting's main point was: after all, reforms can always be improved upon later.

In the 1910s, centre-right or liberal governments introduced Sweden's first social insurance systems, including a flat rate universal-pension system in 1913. Esping-Andersen (1994) notes that social democrats accepted universality because they were in need of votes from the rural workers.

In 1932, social democrats took power in Sweden, and left it only for a few months in 1936. 44 years later, in 1976, the Swedes elected a centre-right government. One might think that after such a long period of social democratic hegemony, the centre-right government would start a huge restoration of the welfare state and implement huge changes. Surprisingly, such changes were absent. Why? Again, our explanation is the Swedish consensus tradition. Let us look at some examples.

Firstly, Swedish social democrats were actually easy going as far as actual socialism was concerned (see also Berman 1998). The one time they attempted to implement policies that resembled 'hard core' socialism, they almost lost their power. What happened was this: After the Second World War, they presented a programme for socialization. The electorate punished these attempts by rewarding the liberal party led by economist Bertil Ohlin in the 1948 election. Social democrats stayed in power, but the electoral success for the liberals is generally thought to have had a negative impact on the social democrats' willingness to push socialist ideas further on the political agenda.

Secondly, the centre-right parties have never been fierce opponents of the welfare state. Once again, the pension system illustrates our point. The fight in the 1950s over the public pension's scheme called ATP is arguably the biggest and most important classic struggle between the political left and right in Sweden between 1932 and 1976. But the fight did not concern whether there should be a big, universal and mandatory system or not. The choice was between public pension funds and private mandatory saving accounts. Curiously, and supporting our consensus thesis, when it stood clear that the ATP system would run into problems because of demographic imbalances, centre-right parties and social democrats agreed on a new solution, which in many ways is a compromise between the two main alternatives in the 50s fight over pension's schemes.

Eventually, after 44 years in opposition, a centre-right government took power in 1976. But Garme (2001) shows that it was rational for the newcomers in government to keep building the Swedish model. The new government was eager to show the electorate that social democrats were not the only ones able to pull through grand social reforms. If anything changed after the takeover, it was the fact that the amount of expansive social reforms increased, and that public spending actually grew.

The combined effect of social science, public investigations and consensus

Curiously enough, the theoretical tools that once were developed to explain the development of the large Swedish welfare state are also useful to make the liberalizations that have been made more intelligible. Anton's (1969: 94) analysis of the Swedish policy style fits remarkably well into the framework with which we understand the fast restructuring of Swedish economy throughout 1985–2000, and it is worth quoting in length:

> Swedish policy making is extraordinarily *deliberative*, involving long periods of time during which more or less constant attention is given to some problem by well trained specialists. It is *rationalistic*, in that great efforts are made to develop the fullest possible information about any given issue, including a thorough review of historical experiences as well as alternatives suggested by scholars in and out of Sweden. It is *open*, in the sense that all interested parties are consulted before a decision is finally made. And it is *consensual*, in that decisions are seldom made without the agreement of virtually all parties to them… The result is decision making which never seems rash, abrupt, irrational, or indeed, exciting.

To understand the mechanisms behind this style of policy-making, it is important to elucidate how the three factors we identified above – i.e. the scientific approach to politics, the role of government commissions and the Swedish consensus – are interlinked.

Once a government commission is working, the forthcoming political debate has to a large extent already been defined. Often, each party has a member in the investigation, where they intimately interact with representatives from other parties, and – importantly – with social scientists, civil servants and representatives from central interest groups. These commissions typically give prominence to expert views on the subject matters, and at the same time they provide an arena that stimulates deliberation between opposed interests. The experts define problems and propose ideas about solutions these. The commissions are arenas where opposed interests, in close dialogue with experts, can reach agreement on these proposed solutions. These are the prerequisites for reaching consensus on important issues. And even though investigations do not produce policy recommendations, they set the agenda for the debate. If there are proposals, the representatives of the opposition parties may add special comments, which mean that the debate is likely to be focused on these details. Taken together, these factors contribute to a pragmatic, technocratic and rationalistic policy style, which makes the aforementioned liberalizations more understandable.

4. Conclusions

One of our ambitions has been to use the Swedish case to comment on the ongoing debate about the 'dismantling the welfare-state' thesis versus the 'resilience of the welfare state' thesis. It seems clear that welfare states tend to be more resilient than expected, but the prerequisite for this has been its capacity to gradually adapt to internal and external challenges. In this article we have depicted some important restructuring of the Swedish welfare state, which in large extent has been neglected in previous research. The contributions of this article are twofold:

Firstly, we made two descriptive contributions that have been poorly acknowledged in previous research. By analyzing (a) an index of economic freedom, we have showed that a substantial change in the Swedish economic structure has taken place. Sweden has experienced a dramatic increase in economic freedom, and is today one of the world's most globalized economies. We than showed (b) that the reasons for this radical transformation are a number of liberal reforms carried out in the 1980s and 1990s, most of which in *de facto* agreement between social democrats and center-right parties.

Secondly, existing theories have had a hard time explaining institutional restructuring in mature welfare states such as those described above. Our aim was therefore to enhance our understanding of how a heavily institutionalized welfare state could undergo these changes. We suggested three complementary factors: (i) the 'scientific approach to politics' thesis. Traditionally, politicians have been ready to rely on academic professionals before reaching political decisions; (ii) the 'role of public investigations' thesis. Public investigations have worked as early warning systems, hence creating a common way to perceive upcoming future problems and therefore stimulating pro-active reforms; and (iii) the 'Swedish consensus tradition' thesis. Social democrats and centre-right parties have historically agreed on most important welfare reforms. In short, we have shown that policy making Swedish style explains not only the expansion of the welfare state, state monopolies and several regulations, it also explains the substantial restructuring of the welfare state and the many liberalizations that took place in the last two decades of the 20th century.

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Appendix

The Areas and Components of the Economic Freedom Index

1: Size of Government: Expenditures, Taxes, and Enterprises
A. General government consumption spending as a percentage of total consumption.
B. Transfers and subsidies as a percentage of GDP.
C. Government enterprises and investment as a percentage of GDP.
D. Top marginal tax rate (and income threshold to which it applies).
i. Top marginal income tax rate (and income threshold at which it applies)
ii. Top marginal income and payroll tax rate (and income threshold at which it applies)

2: Legal Structure and Security of Property Rights
A. Judicial independence: the judiciary is independent and not subject to interference by the government or parties in disputes.
B. Impartial courts: A trusted legal framework exists for private businesses to challenge the legality of government actions or regulation.
C. Protection of intellectual property.
D. Military interference in rule of law and the political process.
E. Integrity of the legal system.

3: Access to Sound Money
A. Average annual growth of the money supply in the last five years minus average annual growth of real GDP in the last ten years
B. Standard inflation variability in the last five years.
C. Recent inflation rate.
D. Freedom to own foreign currency bank accounts domestically and abroad.

4: Freedom to Trade Internationally
A. Taxes on international trade.
i. Revenue from taxes on international trade as a percentage of exports plus imports.
ii. Mean tariff rate.
iii. Standard deviation of tariff rates.
B. Regulatory trade barriers.
i. Hidden import barriers: No barriers other than published tariffs and quotas.
ii. Costs of importing: the combined effect of import tariffs, licence fees, bank fees, and the time required for administrative red-tape raises costs of importing equipment by (10 = 10% or less; 0 = more than 50%).
C. Actual size of trade sector compared to expected size.
D. Difference between official exchange rate and black market rate.
E. International capital market controls
i. Access of citizens to foreign capital markets and foreign access to domestic capital markets.
ii. Restrictions on the freedom of citizens to engage in capital market exchange with foreigners—index of capital controls among 13 IMF categories.

5: Regulation of Credit, Labor, and Business
A. Credit Market Regulations
i. Ownership of banks: percentage of deposits held in privately owned banks.
ii. Competition: domestic banks face competition from foreign banks.
iii. Extension of credit: percentage of credit extended to private sector.

iv. Avoidance of interest rate controls and regulations that lead to negative real interest rates.
v. Interest rate controls: interest rate controls on bank deposits and/or loans are freely determined by the market.
B. Labor Market Regulations
i. Impact of minimum wage: the minimum wage, set by law, has little impact on wages because it is too low or not obeyed.
ii. Hiring and firing practices: hiring and firing practices of companies are determined by private contract.
iii. Share of labor force whose wages are set by centralized collective bargaining.
iv. Unemployment Benefits: the unemployment benefits system preserves the incentive to work.
v. Use of conscripts to obtain military personnel
C. Business Regulations
i. Price controls: extent to which businesses are free to set their own prices.
ii. Administrative conditions and new businesses: administrative procedures are an important obstacle to starting a new business.
iii. Time with government bureaucracy: senior management spends a substantial amount of time dealing with government bureaucracy.
iv. Starting a new business: starting a new business is generally easy.
v. Irregular payments: irregular, additional payments connected with import and export permits, business licenses, exchange controls, tax assessments, police protection, or loan applications are very rare.