



# Sweden under Reinfeldt:

What's been delivered, and what is to come?

**Maria Rankka**

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### About the Speaker

Maria Rankka is President of Timbro, the Swedish think tank, and CEO of the Swedish Free Enterprise Foundation.

Ms Rankka has been with Timbro since 2005, first as Deputy President and since October 2006 as President. Prior to Timbro, Ms Rankka was a partner in the fast growing Swedish public relations firm Prime PR. Ms Rankka is also a member of the board of directors of a Swedish start-up company called John Look.

Before joining Prime PR, Ms Rankka was a speechwriter for the then Chairman of the Moderate Party, Mr Carl Bildt (currently Foreign Minister of Sweden, and former Prime Minister of Sweden).

Ms Rankka has written books concerning the emerging European tigers Estonia and Ireland, and the social dimensions and impacts of high taxation on individuals.

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Quite paradoxically, Sweden has at the moment one of the most reform-oriented governments in Europe. "Paradoxically" because this centre-right government under Prime Minister Fredrik Reinfeldt has declared that it wants to keep both the Swedish welfare model and the Swedish system with a highly regulated labour market and influential trade unions.

Yet the new government is advancing an agenda of reform. From my point of view, the problem with the government is not what it is doing, but what it is not doing.

It has now been nine months since the election and the shift of government. To some foreign commentators that I have come across, the election results came as a shock. I will do my best to explain how and why the change of government came to happen.

The expression that “the air suddenly became easier to breathe” was a thing you often heard in Stockholm the days following the election last September. In Stockholm, the vast majority voted for the new four-party government and we also got a centre-right coalition in the city council and in the region. The conservative party, the Moderates, are by a large margin the dominating political force.

The four-party coalition that formed the new majority government took power after 12 years of social democratic governance. Or, more correctly, the social democrats had been in charge for 65 of the last 74 years. Often in minority, they have acted as if they were the majority, the owners and custodians of the country.

There is, for sure, a democratic paradox with long term one-party dominance in a democratic system. We have studied the negative effects of that in a project at Timbro called “the one-party state”. The social democrats have really managed to get under people’s skin and it will take a long time, more than this term, to change the mentality, which generally tends to be very social democratic.

The new government won – and this is the bitter truth – partly because they sounded like modern social democrats, which also might be seen as paradoxical. Especially the conservative party, called the moderates – who now label themselves “new moderates” (New Labour, in comparison, was definitely more right-wing in most ways than the New Moderates). The moderates have changed both their policies and image in this direction.

As I pointed out earlier, the election result didn’t make sense to all foreigners or to people who believed in the image of Sweden as a welfare paradise. The *Guardian’s* Polly Toynbee, who had earlier called Sweden the best country in the world, wrote the following two days after the election:

*“How can a good government lose power when the country is flourishing? With a rising growth rate of 5.6%, low interest rates, thriving manufacturing and exports...Sweden’s welfare system is the envy of the world.”*

Polly Toynbee has caused me, and others, a lot of problems. A couple of weeks ago I was interviewed about Sweden today by the BBC World. The reporter asked me about the school choice reform, introduced in 1992 by the last centre-right government. He called it a failure. I stared at him and asked him who had told him that. It was Toynbee! In fact that reform was one of that government’s greatest successes. Today almost all Swedes – no matter if they are social democrats or conservatives - are in favour of school choice. The debate today is only about issues like religious schools or whether it should be possible to run schools as companies running a profit, but there is no serious resistance except from the left – that is communist – party.

Why did the social democratic government lose then, in this time of economic growth and prosperity that Toynbee gives witness to?

The answer is pretty clear:

1. People were fed up with the social democrats – it was the same old faces and the same old stories. People were especially bored with our former PM, Goran Persson. This is probably the main explanation: it wasn’t that somebody else *won* the election, but that the social democrats *lost* the election.
2. The former government underestimated people’s ability to see through their creative accounting, especially regarding unemployment. 1 million adults (the working age population is about 5 million) are not working in Sweden,

even though just a few of them are officially unemployed. The rest are either a) in various state-run, often ridiculous job training programs, or b) on long term sick leave, or c) receiving early retirement or disability pensions from the state.

The unemployment figure the social democrats used during the campaign was 4.7%. The centre-right alliance talked about 17% real unemployment. They were both closer to the truth and to people's perceptions. Sweden is a perfect example of jobless growth. Step by step, slowly, that might be changing now.

3. The Alliance for Sweden, as the four-party coalition is called, was part of the answer itself. The alliance was formed two years before the election and the parties cooperated much more closely than they had done before. To the voters, they came across as a viable alternative.

Another misunderstanding about Sweden – both amongst Swedes and others – is how we became rich and developed. Believe it or not, Sweden has a tradition of free market institutions. It is not the welfare state or the high taxes that built Sweden and made us rich – quite the contrary, it was liberal market reforms: both in the late 19<sup>th</sup> century and in the last reform period in the early 1990s. But hardly anyone talks about this correlation – definitely not Polly Toynbee.

It was in the late 19<sup>th</sup> century that successive liberal governments introduced free establishment in different trades, abolished guilds and stripped the upper classes of economic privileges that bled the economy dry. It was during this time that free trade was a badge of honour, immigration and emigration was free for all, and self-employed workers were everyday heroes. From these times we have our most proficient companies – SKF, Electrolux and Assa (later Assa Abloy), and the proud stone-clad buildings of Sweden's main cities.

Moving forward nearly a century, it was during the centre-right-government of 1991-94 that we saw the deregulation of Sweden's national telephone and electricity monopolies (paving the way for, among other things, the Swedish telecom industry of today), establishment of choice in healthcare and schools (leading to considerable improvements in efficiency and standards), and an end to a number of state-owned companies.

The social democrats didn't do something completely different back in 1994. Their view on the economy, competition, deregulation etc has been quite reasonable.

If you look at the Heritage Foundation's *Index of Economic Freedom*, Sweden comes across well in 7 or 8 out of 10 categories. The two main problem areas from a perspective of economic freedom are the categories "freedom from government" and "fiscal freedom". We are not doing especially well on labour freedom, either.

Does then the new government focus on increasing economic freedom? The answer is not clear. They are definitely not motivating what they do in terms of economic freedom. They have a rather non-ideological approach. The finance minister believes in pragmatism and politics based on science. He doesn't believe in principles.

On the other hand they are clearly reformist and quite executive in delivering their election manifesto. That is basically to strengthen the incentives to work, to shift the labour supply curve outwards and to uphold the welfare state.

So far, the new government has undertaken several tax reforms. Among other things, it has abolished both the wealth tax and the property tax. The main focus, though, has been on labour market reforms: limited and reduced unemployment benefits and "new start jobs" – that is, lower taxes and social security fees for employers who hire long-term unemployed. They have also presented a bill on tax deduction for

household-related services, similar to the Finnish reform a few years ago. A privatization program has also been undertaken. State-owned companies worth 5 billion EUR will be sold this year. The handling of the privatisation has led to a lot of criticisms though. The government has also opened up even more for entrepreneurship in the regulated health care sector. So far, so good. The question is, what they are not doing?

Sweden is a rich country but the Swedes are not rich every sense. The average Italian has 6 times more private savings and assets that he controls himself compared to the average Swede. One major result of big government and high taxes is that Swedes live hand to mouth. The standard of living is rather high, but people in general, even those with good incomes, have no margins in their economies, which has led to a dependency on political decisions.

There is a need to change both the mentality to and give people a chance to build up savings and wealth. There is a need for a strategy on how to create a shift from collective wealth-building to private wealth creation. That would be a freedom revolution in country like Sweden. A Timbro Fellow, Dick Kling, an economist, recently published a book in which he suggests that the state-owned companies should be transferred from the state to the citizens – either as stocks or cash – when the state now starts to sell them. The debate in Sweden has partly because of this proposition slowly moved from the pros and cons of privatization, to a discussion of how the money shall be used after privatization.

All is however not rosy. The centre-right government of Prime Minister Reinfeldt is unable to deal with central issues of core labour-market reform and the free movement of labour in a globalized world. The moderates were elected largely, among other things, due to their support of collective bargaining agreements on the labour market and for promising no changes to the laws concerning hiring and firing.

Looking at the debate generally, the hottest issues since the new centre-right coalition took power have been labour market reform and the power wielded by the trade unions.

Two key cases have put the power of the trade unions under a magnifying glass. One involves a small salad bar called Wild 'n Fresh, which was blockaded by the unions when it was discovered that it hadn't signed collective bargaining agreements – it had only one or two part time employees; this was a tiny employer the union had chosen to blockade. In fact, the employees received better terms than those offered by the unions, but that mattered little to the unions. The restaurant owner later sold her company because she was tired of fighting against the unions. She just wanted to run a salad bar.

And then there is the well-known Vaxholm conflict, where a Latvian construction company, Laval un partneri, filed for bankruptcy due to a blockade by the Swedish construction workers' union. In that case the company had signed a Latvian collective bargaining agreement – not a Swedish one.

The Advocate General's Opinion on Laval and Partneri case (Case C-341/05 *Laval and Partneri Ltd v Svenska Byggnadsarbetareförbundet and Others*), as it was presented in May this year, makes it clear that the collective sanctions imposed by the Swedish Construction Trade Union against Laval can be only justified under Community law if they were proportional and promote considerably better terms and conditions. It is not at all obvious that that was the case. The new Swedish government has so far taken almost the same position as the former Swedish government. They are claiming that Swedish collective bargaining agreement should be used in Sweden. The case is, however, not closed. I am looking forward to the final ruling in the ECJ and the upcoming ruling in the Swedish labour court.

Alongside the government's lack of interest in vital reforms of rigid and outdated labour-laws, the soft-handed approach to tackling aggressive tendencies within the labour unions has to be the most disappointing aspect of our new government.

What's new in Swedish politics, however, is this strong focus on jobs and labour supply. Instead of taking away people from the labour market, the government is determined to increase the labour supply. It is far too early to make any predictions about the next election. There are too many unknowns. What will happen with the social democrats, who have a new leader? What is the next step for the government? What is the Alliance for Sweden's vision about the future? And the answers to all of those questions are still: I don't know.