Economics and Values

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Almqvist & Wiksell International
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Foreword

The issues addressed in this book are central to the guiding principles behind both The Secretariat for Futures Studies—a committe within Swedish Council for Planning and Coordination of Research (FRN) and SNS—Center for Business and Policy Studies. It is natural, therefore, to report the results of the project in a joint publication.

The project originated within the Secretariat in the framework of its major project "Shifting values in modern society". Funding has been provided by the Secretariat. Måns Lönnroth of the Secretariat and Lennart Arvedson of SNS, two of the editors, formulated a position paper which served as a basis for invited papers discussed at a symposium with participants from research, government, interest groups and major newspapers in June 1984. The papers collected here were discussed in draft form at that symposium, entitled *economics and values*.

It is our hope that the thoughts and ideas presented here will contribute to a continued constructive public debate on how legitimacy and rationality can be combined in the political and economic processes of the industrialized democracies. Such a discussion may help these countries to find their way out of the current economic and social malaise.

As is always the case with publications from our respective institutions, the views and opinions presented in this book are those of the authors and do not necessarily reflect the positions taken by the sponsoring organisations.

Stockholm in November, 1985

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Economics and Values—An Introduction

Lennart Arvedson, Ingemund Hägg,
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Full employment, economic growth, a low rate of inflation and balance in external accounts are the main targets of economic policy in modern societies. Social stability and political success or survival depend on the fulfillment of these objectives. The relative weight assigned to each of these measures of economic performance is in itself an expression of the dominant values in a particular country. Economic policy is implicitly or explicitly evaluated in terms of two different sets of criteria. One is theoretical: Is it *rational,* does it coincide with economic theory?—The other is practical: Is it *legitimate,* in the sense that it is politically feasible to implement?

The theoretical criteria limits defined by our incomplete understanding and interpretation of economic systems. This is illustrated by the existence of competing schools of economic thought, which issue contradictory recommendations to politicians.

The practical set refers to issues of political legitimacy. Economists' recommendations, which may appear "rational" from a theoretical point of view, are nevertheless not implemented because their social costs are considered too high in terms of human hardship or because they may be blocked by powerful interests.

While there is no lack of suggestions for rational action, countries appear to be facing increasingly severe economic and social problems. Economic policy seems blocked by a lack of legitimacy—what is legitimate does not appear rational from a textbook point of view. This—in brief—is the background for the deliberations presented in this book. History, as always, illustrates the predicament.

During the period of rapid economic growth between 1950–75, a climate of optimism prevailed in the industrialized countries of Europe, Eastern Asia and North America. Anything seemed possible. The political and economic instability that succeeded the 30-year period between the outbreak of World War I and the end of World War II belonged to the past; democracy finally appeared to be firmly entrenched, full employment seemed attainable and development of the welfare state promised a rosy future.

Production-oriented rationality became a widely accepted political paradigm. Societies should, and could, be guided towards goals articulated through democratic processes. Democracy was viewed as a legitimate and rational process through which elected representatives worked for the benefit of the entire population, promoted economic growth and supported fair distribution of the results. Nations became masters of their own destiny. The "good society" appeared within reach.

Elaborate economic and social policies became increasingly important. The process of governing began to imply intervention when things did not turn out as expected; undesirable side-effects had to be neutralized. Politics gradually became "social engineering". But social and economic development did not follow the course which had been charted so boldly. The world economy has been in disarray since the mid-1970s. Production has stagnated, while unemployment in Europe and government deficits have reached levels only recently regarded as unimaginable. The fate of individuals, villages, cities and nations seem to be governed by forces beyond democratic control. The slightly favourable development in some countries during the past few years does not contradict this overall impression.

There is widespread dissatisfaction regarding recent trends. Not only the practical aspects but also the guiding principles of the welfare states are no longer taken for granted. The democratic process as a means of collective problem-solving is also being questioned.

Many doubt whether the "golden era" can be reconstructed. Some believe that the models which worked then are still valid. The strategy of "reformism" is still feasible and current stagnation is a consequence of bad luck, unforeseen circumstances and unskilled implementation. But others claim that reformism is a deadend strategy. The emerging organization of our societies—strong interest groups, a large public sector, institutions, rules and regulations, political overload—has contributed significantly to these problems and prevents us from solving them. Fundamental changes are necessary; the issue is whether sluggishness can be eliminated from the system. Fundamentalists with such views can be found throughout the political spectrum.

This question of "reformism" versus "fundamentalism" is not new, but current uneasiness and dissatisfaction is in sharp contrast to the earlier sense of common purpose. It should be noted, however, that the mentality of the "golden era" was in itself a break with the past, having been established by nations which were victorious in the World War II. It evolved from full mobilization of the democratic, Anglo-Saxon nations in the struggle against fascism in continental Europe and Japan.

Democracy itself was new; it did not succeed authoritarian regimes until

Democracy itself was new; it did not succeed authoritarian regimes until they had collapsed after World War I. The turbulence of the 1920s and 1930s was a continuation of the struggle to establish the right of democratically elected governments to interfere in the economy. Many regarded the events which led up to World War II in terms of the lack of economic underpinnings for social stability. Thus, the legitimacy of democratic governments could not be firmly established until the Second World War had broken out. They had prepared the Western nations for war; mobilization took place through systems of national planning. It was only natural to use a similar approach for the common good of all those who had actually fought in the war. The goals of full employment and the welfare state should be considered in this perspective. This process integrated the broad masses of the European working class into modern society. Using election turnout as an indicator of political integration, the difference between the US and Western Europe is striking in this respect. The sense of disappointment today has to be set in relation to yesterday's expectations and, indeed, fulfillment.

A basic question now is whether social change can be brought about in a climate of overall political consensus or whether social and political confrontation is unavoidable. Could conflict somehow be combined with concensus? The purpose of this book is to address these questions. Experts who represent different countries, disciplines, professions and values express their views on the tension between rationality and legitimacy as well as on the dynamic relationship between the necessary and the possible.

One fundamental issue to be addressed concerns concepts of how society functions and the kind of incentives that motivate individuals in households and organizations to act in agreement with common goals. Conventional economic policies are based on the assumption that economic rationality (i.e. the self-interest of individuals or groups of individuals) is the ultimate driving force. Of course, economic forces are important determinants of individual behaviour in any society. But a more comprehensive view is required, where society is perceived not only as an atomistic collection of individuals, each acting according to his own self-interest, but also as an entity where shared values and experience, traditions and culture are important determinants of individual and collective action. In classical sociology, economic rationality coincides with the concept of "Gesellschaft", based on division of labor etc, while the need for democratic legitimacy of economic policymaking also has to include other bonds that define a nation, i.e."Gemeinschaft".

The term "Gemeinschaft" emphasizes the bonds that unite individuals in a society. It tells us something about the role of solidarity and compassion, the capacity of individuals to undergo hardship for the common good, and the sense of togetherness. A well-functioning society, small or large, is character-

ized by such bonds—cultural and social values, mutual experience that motivates people to work and move towards common goals, to cooperate and not to seek conflict in matters of national interest. "Gemeinschaft" does not preclude conflict. Its democratic essence might be called citizenship; an element that has infused cohesive energy into some nations during certain periods thereby enabling them to achieve extraordinary results. Great Britain during World War II, Finland after the war and Israel in the 1950s and 1960s are some of the more dramatic examples. "Gemeinschaft" also has its darker aspects, i.e. the rise of the Nazis reflected the need for a sense of order and togetherness in Germany after the fall of an authoritarian regime. Japan before and after defeat in the war, but then in other forms, also exhibits a strong element of "Gemeinschaft".

Thus rational economic policy does not suffice to explain how communities and nations have worked their way out of social and economic crises. A spirit of citizenship, which mobilizes individual action beyond self-interest, has been an essential feature.

Sweden has been fortunate in that social change has occurred over several centuries with little bloodshed or bitter confrontation between classes and groups. The priviliged may not have shed their prerogatives lightly, but they did so in the end without entrenching themselves to the point of bloodshed. Thus the Swedish model of the 1950s, often hailed as exemplary to the rest of the world, may not be the relatively recent phenomenon it is sometimes made out to be. Its roots, a broad sense of the intrinsic values of rationality and accommodation, reach far back into Swedish history.

Issues regarding confrontation and consensus as they have surfaced in Sweden are described and analyzed in three of the chapters in this book. The long-run perspective can best be illustrated by some important national crises in Swedish history. *Bo Gutafsson* gives a rich picture of this element in Swedish history. The development of the Swedish economy over the last hundred years, which has been more rapid than in almost any other nation, should be viewed in terms of the transformation of Swedish society from not only absolute, but also relative backwardness of the late 19th century. As Gustafsson and *Arne Ruth* elaborate, many elements contribute to explaining this development. These include the gradual democratization of Swedish society as the old authoritarian order was gradually dismantled; how literature, architecture and culture presaged the "social engineering" of the modern Swedish state; how Sweden became a model or symbol for the post-war period. Ruth uses these elements to explain the social aspects of Swedish economic and political development. In the future, elements that have served Sweden in the past might well be mobilized again. The Swedish socio-econom-

ic elite adhere to a set of values which is quite distinct from that of other countries. If the Swedish model is regarded as a mentality or a continuous stimulus for accommodation and avoidance of glaring conflicts, rather than as fixed ideas as to how society should be organized, then the model still exists. The new challenges posed by technological and market developments are by no means inconsistent with the dominant Swedish tradition, at least as explained by *Michael Maccoby* in his chapter.

Three complementary perspectives are offered on the effect of values and social cohesion on the economic and social development of a country. The case studied happens to be Sweden, but the argument is much more far-reaching. What happens, then, if consensus breaks down and gives way to a confrontation so severe that the foundations of a society is threatened?

A basic tenet of economic policies in all Western European countries in the last few decades has been a strong emphasis on full employment policies, although the degree of commitment to this objective has varied. Some countries have placed such a high priority on controlling inflation that unemployment has been accepted. Full employment as a major objective of economic policy has been based not only on economic but also on social and political premises. The depressions of the 1920s and 1930s were still fresh in the public mind; unemployment was not considered economically inefficient and disadvantageous for the unemployed, it was also seen as a threat to the democratic system. That was thought to be the lesson of the 1930s. But experience during the past five years has made this assumption questionable.

Unemployment has risen to levels not even conceivable a few decades ago. Social confrontation has been predicted—but only limited such conflicts have occurred. Democracy does not seem to be in immediate danger in the Western hemisphere (although the recent re-emergence of fascism in France should be noted). This rather subtle development may well mean that conditions for the legitimacy of economic policy change over time. Although the number of unemployed may rise, the number of those employed is still far greater. Economic policies once considered outside the realm of the politically feasible may suddenly seem possible to pursue.

We might well see the end of the view that full employment policies are more or less prerequisites for social stability. This also means that the problem as originally stated in this chapter has to be reformulated. We began by assuming that successful economic policy has to be based on a broad consensus, i.e. be perceived as legitimate. But policies may emerge which are supported by interest groups and their representatives, although such policies leave large groups in society "outside" the system. Economic policy which does not lead to full employment or which does not articulate the importance of full employ-

ment can still be regarded as legitimate. The boundaries of society, as it were, would be redefined and exclude the poorly educated, immigrants and other marginal groups. The primacy of full employment as a political goal could then be reassessed. This theme is discussed in some detail in the contribution by *Fritz Scharpf,* who draws on experience in Sweden, the Federal Republic of Germany and Austria.

In the shadow of traditional concerns with full employment, some policy options remain strangely underarticulated.

Productivity growth and a continued decrease of the total number of hours worked in the economy may be distributed among many so that each person in the labor force works a lower average number of hours. But it may also be concentrated to fewer people, thus leaving many outside the labor force or unemployed. Another aspect of this issue is the degree to which labor markets and labor market institutions are flexible and able to adjust to variations in the supply of and demand for hours of work. It can be argued that balance in the labor market is important, not only in a static sense, but also in terms of its ability to adjust to variations over time in the labor supply of a particular individual and the labor demand of a particular firm. This flexibility affects the subjective welfare of the individual as well as the overall capability of the social system and the economy to adjust to changes in the environment.

Some of these far-reaching issues about the role of work in modern society are raised by *Jacques Lesourne.* He suggests that the general "Weltanschauung" and institutional setup, e.g. regulated and rigid labor markets, prevent us from perceiving important phenomena in our societies. He makes a number of recommendations for government action, but points out that a prerequisite is changes in social values.

The question of legitimacy, of cource, belongs to the fabric of values widely held in a society. What differences do values make? We argued earlier that a democratic society needs a set of shared values. Such sets differ across countries, which means—if in fact policy flows from value structures—that policies considered legitimate will vary between countries.

This issue is overlooked in economic theory and analysis, which tend to be regarded as "value free" and work from general assumptions about the behaviour of individuals, organizations and economic systems.

Geert Hofstede discusses consequences of specific cultural values in different countries and recognizes both weak and strong points which will affect the economic development in Sweden.

The contributions in this book emphasize the necessity of viewing our current preoccupations in a long-run historical perspective. A serious attempt should be made to understand the social and cultural context in which econom-

ic policy is suggested. Conversely, the rationality assumed in economic policy-making has to be defined in a social and cultural context, as well as in terms of maintaining and even strengthening social cohesion. A sense of common purpose, of shared stake, may not be easy to define in economic terms, but it is a basic element in a nation.

Conflict, Confrontation and Consensus in Modern Swedish History

Bo Gustafsson

> "The strange god settles himself humbly on the altar beside the idol of the country. Little by little he establishes himself more firmly. Then one fine morning he gives his neighbour a shove with the elbow, and—crash!—the idol lies upon the ground."
> Denis Diderot, Le neveu de Rameau (1774)

> "A lean settlement is preferable to a fat litigation."
> Swedish proverb

I

Ever since Marquis Childs gave world wide currency to the now somewhat worn phrase, "Sweden—the middle way" in the 1930's, Swedish society has gained and—at least until recently—retained the reputation as a model of reformed capitalism, democratic socialism or both. Admittedly this characterization may be too flattering to Sweden, since it is more or less applicable to countries like Norway and Denmark as well, which indicates that the common denominator may he Scandinavian rather than Swedish experience. "The middle way" may even be a misleading word, since some observers look upon Sweden as primarily a case of very advanced capitalism with some socialist garnish (or as a case of very advanced socialism with capitalist garnish)!

What seems to be involved in the Swedish model is a specific contradiction and specific conflict behaviour, respectively. The contradiction is that Sweden has preserved the market economy and bolstered the institutions of private property rights in business far more than many other countries. On the other hand Sweden has advanced very far in certain areas of collectivism, in strivings for equality and in social security: a strong emphasis on socialized production and distribution of services, an equalized wage structure, a very high rate of taxation, a far-reaching distribution of income, a high level of employment, a fair amount of job security and extended possibilities of education. These sweeping generalizations are disputed and need qualifications. But on the whole I believe them to be more true than false. Secondly, this contradiction

has not resulted in fierce social conflicts and confrontations but has rather been solved or suppressed by means of a mixture of airing views, pressure, compromise and social reconciliation. The end result seems to be a society of consensus, at least to the innocent observer.

At this point one qualification and one interpretation are called for. While compromise and social reconciliation are characteristic for social development in Sweden also before the ascendancy of the labour movement, I think that these methods of conflict resolution have been especially prominent since the 1930's. Secondly we should take a closer view on the word consensus. In fact, consensus presupposes the possibility of conflict, at least when consensus implies agreement between conflicting parties. If there were no possibilities of conflict it would be meaningless to strive for an agreement. Further, consensus is always relative to those issues on which agreement has been reached. Employers and employees may very well reach an agreement on a specific wage increase but they may disagree on a proposed improvement of work environment, on participation in management or on the introduction of, e. g., wage earners' funds.

Consensus can also be more or less comlete. If employees want a 10 per cent wage increase and employers will allow only a 5 per cent increase and an agreement is reached on a 6 per cent increase neither employees nor employers are wholly satisfied but the employers are probably less dissatisfied than the employees. Hence consensus is often nothing but constrained conflict. Still, the fact that agreements are reached indicates some area of common ground. Everything seems to depend upon the issues involved. If two parties in a conflict hold that a continued or extended conflict might endanger a state or a value shared in common —or preferred because no other realistic alternative seems feasible—they will probably stop fighting and will reach an agreement "in consensus", if only temporarily. But if one of the parties has decided to start or continue a conflict on a value, which represents an optimum optimorum in his prefence scale and he is prepared to incur the necessary costs to realize this value, there may be no possibility to reach an agreement. One of the two parties rather has to be *subdued* on that issue. To use the concepts of game theory a cooperative and non-zero zum game is transformed into a game of non-cooperation and zero-zum, although in real life most games contain elements of both.

II

The main thesis of this paper will be that actors of social development in Swedish modern history have succeeded eminently well in solving social conflicts peacefully thanks to a series of historically determined structural

conditions favouring peaceful solutions. These conditions will be investigated more closely below but we will start out by indicating our model of interpretation:

1. By actors we refer to classes and strata and the two main actors are, of course, Monsieur Le Capital and Monsieur Le Travail, respectively, and their economic and political organizations. There are no clearcut relationships between classes and strata on the one hand and organizations on the other and the lack of simple correlations is often important for political practice in the short run. Still, there are fundamental links between these entities, which are crucial for long-run social development. Of special importance for the understanding of the working of the Swedish model are the following circumstances. In the first place, Labour has over time strategically speaking been on the offensive and Capital on the defensive, primarily because of the growth of the wage earners' strata and their successful organization and mobilization. Secondly, there have always existed socially and politically important middle-strata, which have advocated conciliation rather than confrontation and some segments of these strata have now and then been prepared to cooperate with Labour.

2. Actors do act under specific social conditions and constraints, which are both external and internal, providing resources for action but also setting limits to action. On the whole those conditions and constraints have favoured peaceful methods of conflict resolution.

3. Actors' behaviour are also determined by the goals they adhere to. While Capital has been pragmatic and has professed "business as usual", Labour has consistently advocated as its ultimate goal to "reconstruct society so that the authority over production and its distribution is laid in the hands of the people, the citizens are liberated from the dependence on all power groups outside its control and a class society makes room for a community of cooperating men on the basis of freedom and equality" (Program of the Social Democratic Party ratified at its congress in 1981). Still, Labour has accepted the importance of market economy, structural change, technological progress, free trade and the blessings of scale economy. The positive attitude of Labour towards economic efficiency is of central importance in understanding the balance between conflict and consensus in modern Swedish history.

4. In order to realize their goals actors of social development devise means of action and these means may be summarized under three headings: strategies,

conditions of strategies and means of strategies. A strategy is a plan for realizing a long-run goal (and tactics are the short-run moves to effect the strategy). Since Labour strategically speaking has been the offensive party it has largely determined the choice of strategy for the social game. The outspokenly socialist goal of Labour *would seem* to have favoured a maximax rather than a maximin strategy. According to the maximax strategy (the Hurwics criterion) the most rational behaviour is to select the best possible choice. According to the maximin strategy the most rational behaviour is to guard onself against the worst possible contingency (the Wald criterion). The first is the revolutionary's bold and the second the reformist's cautionus strategy. To elucidate the thought, assume that you are presented with two urns. In one there is an unspecified assortment of platina and lead balls; in the other of gold and silver balls. Assume further that you want to maximise your "utility" and that a platina ball is assigned a utility index of 1,000, a gold ball 100, a silver ball 10 and a lead ball 1. If you have to choose, from which urn should you select a ball? If you follow the maximax criterion, it is rational to draw a ball from the urn with platina and lead balls, because you *might* gain 1,000. The problems is that you also *might* gain only 1. If you follow the maximin criterion, it is rational to draw a ball from the urn with gold and silver balls. In that case you are *assured* of gaining *at least* 10 and if you are luck 100.

These considerations are highly relevant for the understanding of a reformist versus a revolutionary strategy. By a swift move Labour might win something very valuable (realization of the ultimate goal). But if the attempt fails, the gain might be negligable and the atempt may even result in a set-back because of the counter-moves of the adversaries. To vote for revolution is hence like preferring a choice from the urn of platina and lead balls. By a reform, on the other hand, Labour is *assured* of gaining something valuable, even if reform implies only minor progress compared to revolution. Reforms are instituted by bargaining and therefore they usually have a more binding character than directly enforced decisions leaving the adversary no or few possibilities of positive adaptation. Hence reforms do not give rise to an immediate desire for revenge. That is why social reforms seldom are revoked by a new party in government, even if the party fought the reform before it was enacted. A social reform may be revoked, diluted or transformed by the march of events but seldom by purpose. As Sorel shrewdly pointed out, a reform is brought into existence because new social conditions create "a region of indeterminate right" (une région douteuse du droit) and it is precisly the existence of this indeterminate region which makes progress possible for the reformists. "The reform is invulnerable, because it is surrounded by the prevailing notion of progress."[1]

But successful reforms have paradoxical consequences both for social structure and for strategy. On the one hand they seem to increase the possibilities of Labour for an ultimate take-over of social power as a whole and, hence, bring Labour closer to its goal. But on the other hand reforms transform the system to be changed and give Labour a certain stake in its survival. On the one hand "the grave digger of capitalism" becomes more and more fit for its ultimte task. On the other hand the more successful "the grave digger" is, the more the ultimate task seems to recede into an indeterminate future or to appear less necessary. As Jörgen Westerståhl has aptly said: "Ever since the beginning of the century socialism has been like a big red balloon above the workers' movement offering each new generation to inscribe its objectives for the future."[2] Still the demands for hauling down the red balloon do not vanish and probably never will, if or as long as the fundamental structure, behaviour and consequences of capitalism blocks the way for continued reform. The successfull reformist strategy thus represents a continous arrival at saddle points, which are both stable and unacceptable. Stable because silver balls are better than lead balls and unacceptable because there is within reach an urn believed to contain platina balls.

The choice between a maximax and a maximin strategy is not only related to attitudes towards risk but also to conditions underlying the choice, which in their turn are related to the choice of forms of conflict. In a country with insignificant social progress (*vide* Russia before 1917) it might be rational to choose a maximax strategy in order to change the fundamental rules of the game in favour of the underprivileged party. But in a country where people experience that today proved to be better than yesterday and there are thus hope for a still better tomorrow a maximin strategy is more likely to be chosen. Of particular importance favouring a maximin strategy is the possibility of playing non-zero-sum games. By a non-zero-sum game we refer to conditions which make it possible for both parties to make a positive gain (games with a variable sum, in contradistinction to zero-sum games with a constant sum and one party looses exactly what the other party gains). The most interesting case of non-zero-sum games are those when an increase of the sum to be shared is induced by a successfull attempt of one party to increase its share or by a premeditated offer of another party to reduce its share. The economy of high wages and profit-sharing schemes are cases in point. If non-zero sum games are possible, two conflicting parties will probably prefer cooperative games to non-cooperative ones. By a cooperative game we refer to the case when the parties exchange information and coordinate their strategies in order to increase the pay-off for the parties involved, while a non-cooperative game has the opposite characteristics. In real life social games are both cooperative and

non-cooperative with varying emphasis in different cases. In non-cooperative games the probability, intensity and extent of conflict is usually higher and the costs of conflict are therefore greater than in cooperative games. The prevailing notion that non-cooperative games make stable solutions more probable is based on an primitive notion of self-interest excluding the aspect of altruism in egoism. In real life we always pays attention to the interests of other people in order to further our own interests. Of course cooperative games are more successful the more organizations practice discipline or self-enforced solidarity/loyalty.

With conditions and forms of strategy given the choice of means of strategy is also often determined beforehand. If you want to win over a conflicting party you may choose between persuasion, pay-off and suppression. By persuading the other party you may win him as an ally and hence increase your own strength. By paying him off you will probably neutralize him, while suppression is a short-cut that makes for trouble in the long run. Persuasion and pay-off is time-consuming or costly in the short run but increases the possibility of stable solutions in the long run. While persuasion and pay-off correspond to the use of voice on the level of politics, suppression has revolt as its counterpart. In a modern and highly organized society like Sweden exit has been relegated to a conflict behaviour for minorities, although it played an important role in our history. The large-scale emigration between 1860 and 1914, when one million people voted with their feet, is the last instance of large scale exit. A new case of social exit has been prognosticated in connection with a future large scale introduction of wage-earners' funds.

5. There are, of course, also other conditions and mechanisms not captured by considerations of rational choice that shape a specific behaviour towards conflict and consensus in social development. There are probably more elements and possibilities of conflict in a large and cultural heterogenous country than in a small and culturally homogenous one. Smallness makes for short distances in social relations and communication and also for lack of diversity in opinions and attitudes. This introduces an element of certainty and stability in social intercourse. If you share the same cultural and religious background as your opponent and also share at least some fundamental values, cooperation is made easier. Historical traditions and common social origins are also of importance. While the countries of Central Europe grew into the modern era on the basis of serfdom and deeply entrenched feudal social relations, which left a heritage of ruthless exploitation and sharpt lines of division between social classes, Sweden and other Scandinavian countries always retained a large, free and independent class of farmers with extensive political and so-

cial rights, comparatively speaking, making a certain degree of participation in social and political life possible. It was from this independent peasant class that the working classes were recruited in the second half of the 19th century. Even when one compares England with Sweden there is a pronounced difference in the social psychology of Labour as to attitudes towards participation and integration in society. While in both cases class consciousness is deeply entrenched among the workers, Swedish workers have always taken a responsibility also for social development as a whole not met with among British workers. Degrees of centralization of state power may also influence conflict behaviour. Civil courage is a distinct trait of Anglo-Saxon cultural traditions, while obedience towards the state and social discipline is characteristic for Swedish traditions.

6. On the basis of external and internal social conditions and constraints actors—classes, groups, organizations, political parties—with differing positions in the social hierarchy and equipped with specific sets of interests and ideologies map out their goals for social development, take specific decisions on this basis and utilize their strategies and specific means and forms of conflict in order to improve their positions. The result is a specific trajectory of social development, which in its turn reacts back on social conditions and constraints, as well as on the social positions of the actors, their goals, strategies and choice of forms and means of conflict. The outcome of all this in respect of conflict resolution may be elucidated by means of a graphical version of a Richardson process model (Fig 1 and 2). The basic assumption is that social actors, because of their positions in the process of production and reproduction and in the social hierarchy and because of the conflicting interests, different life chances and different aspirations flowing from this, are connected in a hostility-friendliness space. In figure 1 and 2 we measure the mutual hostility-friendliness of two parties, A and B. In the origin, O, both parties are neutral towards each other but we assume for each party and initial level of hostility, Oa for A and Ob for B. The meaning of this is that even when each party is neutral towards the other party, there is a certain amount of mutual hostility.

Assuming that hostility is negative friendliness, we measure A's hostility-friendliness towards B along $H_A - F_A$ and B's hostility-friendliness towards A along $H_B - F_B$. The solid curves A and B show what will be the level of hostility/friendliness of A and B, respectively, for each level of hostility/friendliness of the other party.

The slopes of the reaction curves A and B measure the "touchiness" of the respective parties. This may also be termed the reaction coefficient. It

measures the amount by which the level of hostility of one party increases per unit increase in the hostility of the other party. A party bent on strong hostility has a high reaction coefficient (as A and B in fig. 1 compared to A' and B' in fig. 2). He reacts to an increase in the perceived hostility of the other party by a sharp increase in his own hostility. A placid party, on the other hand, has a low reaction coefficient.[3]

Let us suppose that two parties with contradictory interests have the reaction curves of A and B in figure 1. Let us further suppose that B is a party in power and A an attacking party putting forth certain demands that B may comply with or turn down. Assuming that B has turned down a demand important for A, this reaction on the part of B has increased the level of hostility of A to a point corresponding to (1) on A's reaction curve. At this level of hostility of A the level of B's hostility towards A is (2). But this level of B's hostility corresponds to (3) on A's reaction curve. A process of escalated conflict is started. But—and this is important—because of the relatively low reaction coefficents of the two parties, reflecting their placidity, the conflict does not end in an social explosion but ends up in an equilibrium at P.

But suppose that the reaction coefficients (the "touchiness" of the parties) were higher, as in A' and B' in figure 2. In this case we are confronted with an explosive conflict process, which may end up in a social cataclysm. Normally however there are "diminishing returns" to hostility, since the costs of conflict increase with increased hostility levels. Or, one of the parties may give in and hence the straight lines may bend off as in figure 2 reflected in the course of the dashed line from (2') to P'. In the latter case B' has resolved to change his reactions and his level of hostility flattens out. This makes an equilibrium possible. Confronted by the level of hostility on the part of A' at (3') B' now reacts not with (4') but with (4''). This placates A' and the process ends up at P'. As will be shown below conflicting parties in Swedish social development either have low reaction coefficients; or the reaction coefficients are initially high but are lowered at higher levels of hostility during the course of conflict. On any interpretation the result is that conflicts are capable of solutions, only if temporary.

III

I will now make an attempt to present an *histoire raisonnée* of the conflict history of modern Sweden and apply the model of interpretation indicated above. To begin with a few words on some basic internal and external conditions and constraints not to be overlooked. Sweden belongs to those happy few with a record of not only a high but also an accelerating rate of growth over time (at least up to the 1970's) and is in this respect surpassed only by Norway.

The rate of growth of output (GDP at constant prices) per head of population increased from 2.1 per cent 1870–1913, to 2.2 per cent 1913–1950 and to 3.1 per cent 1950–1973, while the corresponding average for Western countries are 1.4, 1.2 and 3.8 per cent respectively.[4] Especially noteworthy is the growth record 1913–1950, when Sweden escaped the two world wars. Swedish economic growth has also profited from abundant resources of timber and iron-ore and some observers think that the high rate of growth up to now has been made possible precisely by tapping rents from these recources. External demand has been very important for the vagaries of growth and this is to some extent also reflected in the history of conflicts. The general strike of 1909 took place in the midst of an international depression that hit Swedish industrial production, employment and exports severely. Similarly the conflict-ridden 1920's were conditioned by the rationalizations and structural reorganizations made necessary by the depressed external demand of that period. On the other hand conflicts were few and restricted during the 1930's, when Swedish industry profited from the devaluation of the crown in 1931 and an expanding home market. After World War II Swedish industry was in a very favourable situation because of the strong external demand from the countries that had

Figure 1. *The behaviour of conflicting parties: two parties with low reaction coefficients—converging conflict pattern.*

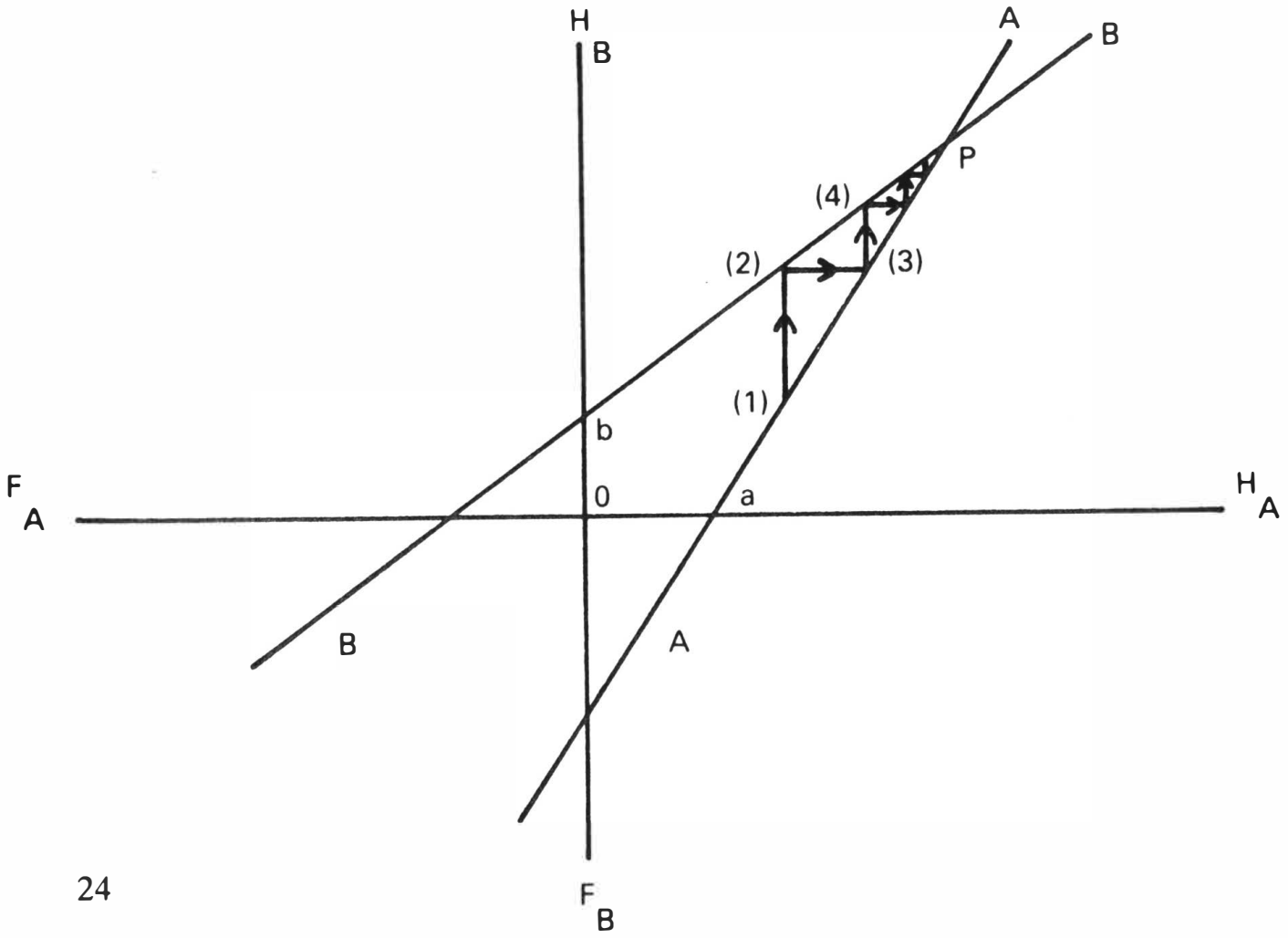
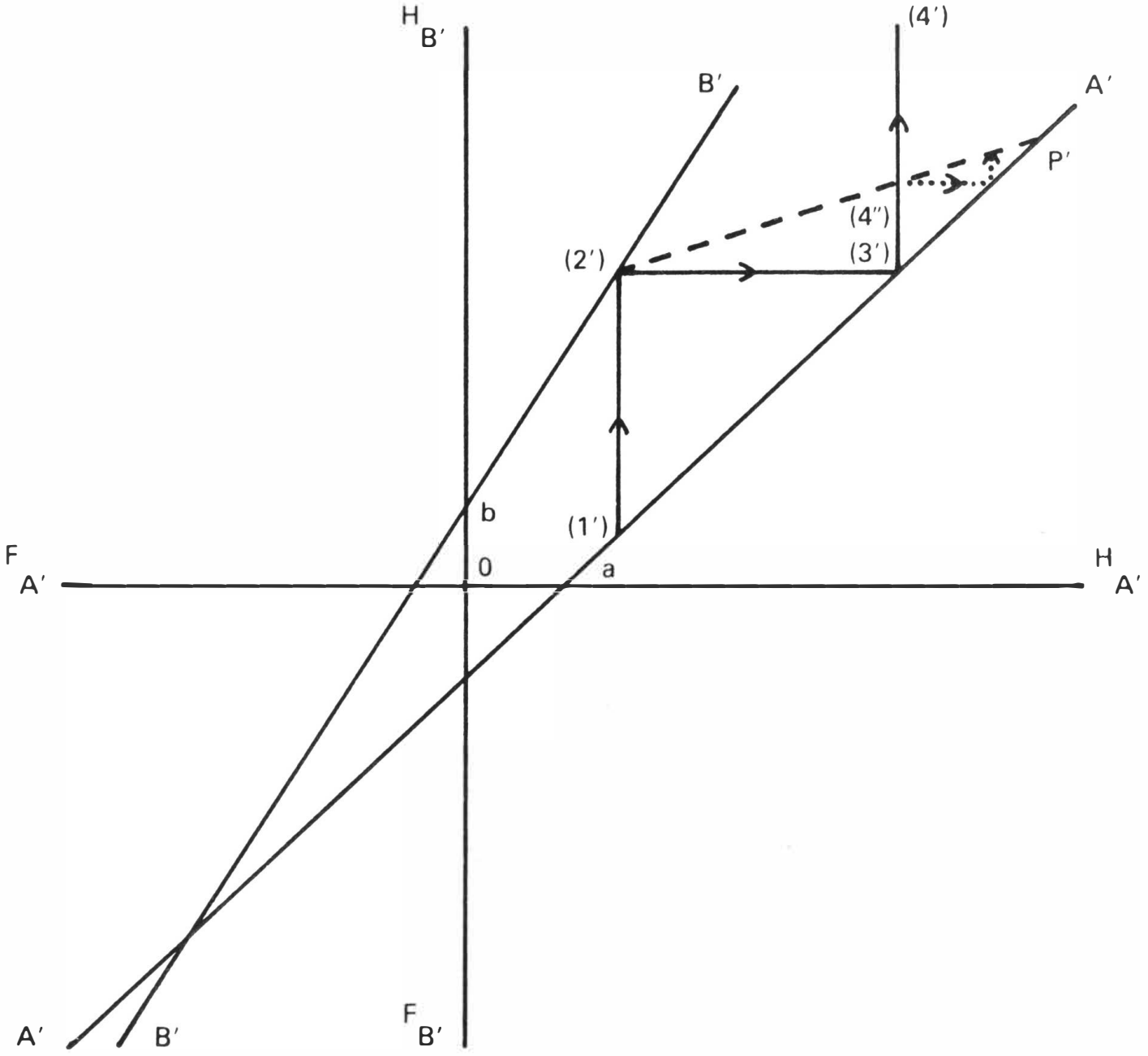


Figure 2. *The behaviour of conflicting parties: two parties with high reaction coefficients—explosive conflict pattern with submission.*



been devastated by the war. But the depression of the 1970's once again increased the conflict potential of society. These correlations should not, however, lead us to underestimate the observation that rapid economic growth has provided classes and groups with favourable conditions for peaceful conflict resolution. But since rapid economic growth is only a necessary but not a sufficient condition for peaceful conflict resolution other factors have operated as well.

1. *The fall of the estates in 1866*

Industrialization took place rather late in Sweden. The first impetus came after 1850 and concerned mainly wood industry. A broad-scale industrialization started only in the 1890's and created rapidly a successful export sector and a growing working class. In a sense the modernization of Swedish society took place in those turbulent decades before the outbreak of World War I, when a diversified industry, modern classes, strong interest organizations, poitical parties based on the electorate and the first sprouts of the welfare state arose. Up to then Sweden was primarily an agrarian society and the dominant theme in Swedish history from the middle of the 18th century up to the end of the 19th is the story of the increasing economic, social and political strenght of the farmers, especially after the fall of the estates in 1866.

In that year the Four Estates—Nobility, Clergy, Burghers and Farmers—were replaced by a parliament with two chambers. The nobility relinquished its political privileges. A valid decision required a majority of votes in *all* four Estates. Hence the decision of the Estate of the Nobility was crucial, since the Estate of the Clergy made its decision dependent upon the standpoint of the Estate of the Nobility. Only the Estates of the Burghers and of the Farmers were decidely in favour of a reform.

When the reform was enacted, the social basis of the Estates had been transformed. The farmers made up the largest class in society and were progressing fast. They would no longer accept only ¼ of the representation. The industrial and commercial classes were also growing but lacked political powers. The issue of a reform had been on the agenda ever since the 1830's but the Nobility and the Clergy would not give in. In a series of partial reforms—1828/30, 1834, 1844, 1858 and 1862—the new social groups were allowed an increased representation and thereby the political strength of especially the rich farmers increased. In the beginning of the 1860's the agitation for a fundamental reform was intensified and the Prime Minister De Geer devised a reform bill replacing the Four Estates with a parliament. The bill was rather conservative, since few were eligable to the First Chamber and only property owners and high income earners were eligable to the Second Chamber. The expressed purpose of De Geer was to place political power "in the hands of the middle classes" and it turned out, indeed, that the new parliament became the political instrument of landed proprietors. But these were great landowners rather than middle class representatives.

The conflict over the reform bill took place mainly on the level of ideological struggle and agitation in papers and pamphlets. Also petition movements played an important role. The conservatives fought a reform by referring to the traditional prerogatives of the Nobility and the risks in handing over

political power to farmers and money-men. The Liberals would have preferred a more democratic parliament but they were prepared to accept also a minor reform. Only the Radicals—and they were not too many—threatened with a revolution.

The decisive debate took place in the Estate of the Nobility in December 1865. At last a vote was taken and it resulted in 361 votes for and 294 votes against the reform. Generally the big landed proprietors votes against it, while middle class representatives and civil servants among the Nobility were in favour. It is interesting to study the motives of the conflicting parties among the Nobility in the debate, since the pattern returns later on, viz. the conflict among ruling strata between the "hawks" and the "doves". While the hawks have argued that you had better dam the brook than the torrent, the doves have feared that if you dam the brook, it will probably break out into a torrent.

One of the doves, Count Ludvig Fredrik af Ugglas, pointed out the consequences of rejecting the bill: If the reform should be rejected by the Nobility, the possibilities of influencing the terms of its own abdication would disappear. The reason was that the supporters of the reform in case of rejection would be forced to close their ranks and defend every single letter in the reform in order not to split their own forces. Evidently af Ugglas perceived that the Nobility was playing a losing game and that their only choice was to placate the adversaries and thereby gain some influence on the terms of the contract. Similarly Samuel Gustaf von Troil pointed out the probable consequences of a rejection of the bill. If the Nobility did not accept it, the conflict would continue to escalate and the strength of the reformists would increase still more. This perspective implied a new future reform bill and this would probably be still less favourable to the Nobility. Hence the Nobility should give in "in its own real interest".

In the terms of our model of interpretation the doves among the Nobility evidently perceived a reaction curve with high coefficients of reaction, like A' – B' in figure 2, and they preferred to change their own reaction curve in conformity to the dotted curve in figure 2, thereby making an equilibrium possible. The doves also thought that cooperation increased their own benefits.

On the other hand, a diehard like Oscar von Knorring went against the bill preciesly because it would increase the power of the democratic forces: "it is evident that if the bill gives extensive powers to the democratic interests, those powers will undoubtly also be used", he said. According to him too much was at stake, the game was so to speak a zero-sum one: what the victorious party lost was exactly matched by the loss of the defeated party. Hence it was preferable to dam the brook rather than the torrent. But this point of view did

not prevail and the most eloqent spokesman of the doves, Lord J. A. Gripenstedt, pointed out that revolution could be averted, if the resistance was not too stiff and unfair. He even ridiculed the hawks by exposing their propensity to identify thier own narrow interests with the interests of society.[5]

Although a lot of prestige was involved in the event, the reform extended the suffrage to only 5 per cent of the people and about 20 per cent of all men above 21 years of age. The reform had been preceded by continuous modifications since the 1830's and the reform by itself signified small progress, although it instituted a new principle. Swedish society progressed according to the formula of Hans Hierta, one of the founding fathers of the constitution of 1809, when he summed up the essence of the constitution: "Wisely inert in action but swift and prompt in resistance."

2. *The general strike of 1909*

The most prominent issues of conflict during the latter part of the 19th century were, on the one hand, over free trade versus protection, and, on the other hand, over incidence of taxation versus defense. On the whole protectionists prevailed over free traders, primarily because of the strong position of the landed interests. The workers were the losing party, since they had to pay the price. The farmers were also successful in shifting the incidence of taxation from their shoulders and gradually a modernized system of taxation evolved to finance a reorganization of the defense system and incipient social reforms. When social reforms started from the 1880's on, the motive was primarily to avert the danger that the growing labour movement represented. In 1879 Labour had entered the scene with a big strike taking place among saw-mill workers in the midst of depression. This strike ("Sundsvallstrejken") was primarily a defensive action and it had been led by pious strike leaders opening strike meetings with singing of hymns. But the establishment was shocked and resolved to divert the brook into calm waters.

However, a new era had been opened. The Social Democratic Party (SAP) had been established in 1889 and the top organization of Labour, the Federation of Labour (LO) was established in 1898. In 1902 the Federation of Employers (SAF) was founded. The issue of socialism came to the forefront in public debate. But in political practice democratic demands were the most important: universal suffrage, right of association and the 8-hour day. Economics and politics were closely interwoven because of the overwhelming importance of the quest for universal suffrage and not even trade unions as an instrument for Labour could not be utilized effectively until workers' rights of association were acknowledged. In a sense Sweden was a rather backward

country from a democratic point of view, e.g. compared to Norway, where the strong liberal forces had introduced a fair amount of democratic rights very early. This had two important consequences. Firstly, that Labour had to shoulder the responsibility of marching in the forefront for the democratization of Swedish society. Secondly, that there existed a basis for common actions between Socialism and Liberalism.

The two decades before World War I were a period of economic, political and ideological turmoil. The industrialization advanced very rapidly, old paternalistic traditions broke down and new means of conflict were invented, tested and more widely applied: strikes, lock-outs and demonstrations. The legislative powers of the state were mobilized by the ruling classes to stop the advance of Labour. The crucial issue on the labour market was the trade unions demand for rights of association. After fierece conflicts SAF and LO met in negotiations, which ended in the so-called December-compromise in 1906. According to this employers were granted the right to employ and dismiss workers and direct work in firms. On the other hand employees were explicitly granted the right of association, i.e. to found trade unions. However, there was no consensus on the issue of non-organized workers. The employers were explicitly acknowledged the right to hire workers, no matter wether they were organized or not. But the representatives of LO stated in a personal declaration that workers who refused to work side by side with strike-breakers should not be regarded as offenders of an collective agreement.

In view of the importance of the issue of right of association, the December-compromise was mainly a victory for Labour. In any case a group of "hawks" in SAF disliked the agreement and forced a decision on a general lock-out in SAF directed against trade-unions affiliated with the LO. But at this time the Conservative government in power was preparing to move a bill on extended suffrage in parliament. This bill was carefully calculated to increase suffrage without risking a major conservative set-back. Hence, the Conservative government would not allow a lock-out and supported the "doves" in SAF. They prevailed and an agreement was reached without lock-out.

During the next years conditions worsened, because of the rapid advance of organized Labour from 100,000 members in 1905 to 230,000 in 1907. Parallel to this, the extreme Left of Labour also became more active and on one occasion even explosives were used against strike-breakers imported from England. This desperate action as well as other sharp confrontations furnished SAF with a pretext of once again proclaiming a general lock-out. The Conservative government, too, once again acted swiftly and vigorously, since it would not endanger its bill on suffrage and forced the SAF to redraw its threat. It had the support of Labour, which took a conciliatory standpoint in fear of aliena-

ting the support of the Liberals in the impending election. The "hawks" in SAF were bitterly disappointed. The manager of the Separator Co., John Bernström, wrote in a letter to the chairman of his board (who also happened to be a conservative MP): "Once again the socialist have been strongly supported by the government and the damage is in my view irreparable ... Such a favourable opportunity to srike a blow in order to establish an enduring peace and instil a wholesom fear in the subversive elements will never return!"

But the truce was only temporary. SAF kept on testing its new weapon: lock-out. Now the economic conditions worked in the favour of the employers, because of the international depression which deepened from 1908. Wages were cut and workers retaliated with strikes. LO consistently avoided conflict, which aroused the resistance of militant trade unions. The situation confronted the leadership of LO with a choice between bad and evil. On the one hand LO could not persuade the trade unions to accept the demands of the employers, which were presented with arrogant threats of lock-out. On the other hand LO was unable to fight a conflict, since its funds for a strike were too small. While SAF could support its members for two months, LO could not support its members for more than 10 days.

Caught in this dilemma LO proclaimed a general strike from the 4th of August 1909 not in order to fight it out but to provoke the Conservative government to intervene once again. The LO was very careful not to affront the middle classes and the Liberals and exempted from the strike those workers who worked in firms "of social importance" or were bound by agreements forbidding strike. But the ranks of Labour were very much radicalized because of the arrogant attitude of the SAF. As many historical events prove, nothing is more mobilizing than a common feeling of being under attack. Strikes occured also outside the centers of conflict. When the typographers, who at this time not yet belonged to LO, went on strike and newspapers were closed down, the Liberals were pushed into the ranks of the Conservatives. A common front of the bourgeoisie was established. Since Labour was isolated, the Conservative government remained inactive.

On the 6th of September LO called off the strike. Almost 300 000 workers had been affected and the strike had given an echo all over Western Europe. Labour was defeated for years to come. SAF proposed a Principal Agreement covering the whole labour market. But it proved impossible to reach an agreement with an adversary recently forced on his knees. In fact LO and SAF never met until 1938, when political power had passed to Labour.

The general strike was a demonstration of protest and despair provoked by the employers testing their newly won strength and to some extent unintentionally supported by the left of Labour. It was doomed to fail because Labour

was isolated from the sympathy of the middle strata of society. The intransigent attitude of the employers remained, although attenuated. The disputed "freedom of labour" was abolished in fact when in due time most workers had become members in trade unions. As to the prerogatives of the employers in the work place, a change did not occur until the advent of the new labour legislation of the 1970's.

In the terms of our model of interpretation we may maintain that the general strike of 1909 was the outcome of three contributing factors which worked in the same direction. In the first place, the onset of the international depression hardened the attitude of the employers, weakened the ranks of Labour and left both parties with a very restricted set of choice. Secondly, the radicalization of Labour—to a great extent caused by the stiff attitude of the employers—shove the middle strata and the Liberals into the camp of the Conservatives and isolated Labour. Thirdly, the employers' central organization, SAF, was unexperienced. Most of its members were used to treat workers paternalistically and would not easily accept trade unions, still less trade unions as equal partners. They were precisely bent on damming the brook before it broke out into a torrent; they simply could not imagine a state of things on the new conditions requested by Labour. In a historical perspective, the general strike was rather a unique event in a learning process winding its way between confrontation and conciliation.[6]

3. *The accomplishment of universal suffrage in 1918*

From the 1890's liberals and socialists demanded universal suffrage. But conservatives and farmers (often identical) resisted change. Only thanks to inflation and increasing wages people climbed over the income qualification for suffrage (800 crowns per year), which favoured the Left. As indicated above the Conservatives perceived that a reform sooner or later would be carried through and they preferred to be its architects rather than its victims. The Left and the Extreme Right voted against the reform bill, but the moderate conservatives led by Prime Minister Lindman carried the day. Nobody was wholly satisfied and nobody wholly dissatisfied. The electorate increased to about 20 per cent of the population.

At the end of World War I the demand for universal suffrage once again came to the forefront. The war conditions—lack of food in particular—and the revolutions in Russia, Finland and Germany radicalized the working classes. The left opposition in the Social Democratic Party split off and founded a new party in May 1917. Revolutionary opinions became relatively widespread, especially after the outbreak of the German revolution in Novem-

ber 1918. After the elections to the Second Chamber of the parliament, Liberals and Social Democrats formed a Left Government. This was the first truly democratic government in Sweden's history and it turned its energies towards introducing universal suffrage.

But this presupposed a split among the Conservatives. The right-wing of the Conservatives were not prepared to give in. "If there are people", one of their spokesman, Ernst Trygger, said, "who want to push through their demands by revolution, there may be other people who are prepared to prevent revolution." At last a majority for the reform was made possible, partly because of fear of revolution, partly because of concessions to the Conservatives and partly because of the attitude of Big Business but mainly because of the strong Lib-Lab alliance. In a way the Lib-Lab government succeeded in making a rehearsel of the Conservative tactics a decade before, when Lindman split the Liberals by uniting with a faction of the Liberals and carrying the Conservative bill on suffrage through parliament.

A quite new element in the social conflict pattern was the behaviour of Big Business. The extensive development of industry and banking since the turn of the century had increased the economic and political influence of industrialists and bankers and they were now prepared to use their power behind and even on the scene. Of special importance was the Wallenberg group centered around the Private Bank of Stockholm. A leading article in the influential conservative journal, "Svensk Tidskrift", in January 1918 pointed out that the new Lib-Lab government "even to the most uninitiated person is the most obvious illustration of that combination of Big Business and Democracy, which seems to be one of the permanent results of the War". This new industrial and financial bourgeoisie owned and led big enterprises dependent upon stable social and political conditions and permanent rules of the game. Their watch-word was "business as usual" and even if they were not indifferent to the political colour of the government, they first and foremost demanded that a government should not meddle with their business strategy. A Left government was from their point of view hardly a top priority but if it was a necessity it could solve the problem of legitimacy and provide social and hence economic stability. Big Business wanted to avoid strikes and keep the channels of trade open. In the post-war situation they wanted to avoid a conflict over the proposed reform of suffrage, since a conflict might endanger the important wage agreements that were imminent: a defeat of the reform bill would increase the resistance of the workers. The support of Big Business was in fact of some importance for the success of the reform bill, since it contributed to the split in the Establishment.

Summarizing the course of the conflict over universal suffrage it seems as if

the intense struggle to a large extent was conditioned by the internal and external conditions: the sufferings of the war time and the radicalization of the working classes in the wake of important revolutions in other countries. These conditions also contributed strongly to the success of the reform, since the opponents of reform preferred concessions to revolt. At the same time it seems as if the fears of the die-hards were exaggerated, since serious revolutionary feelings were litmited, social conditions were improving somewhat and state power firmly wielded by a loyal civil and military bureacracy. The course of the struggle rather confirmed that the propensity for conflict was limited—now as before. The fact that the conflict was a zero-sum rather than a non-zero sum game in so far as the loss of the Conservatives was irrevocable and final, was somewhat mitigated by other factors. In the first place, the Left did some concessions to soften and split the resistance. Secondly, the majority of the Socialists never gambled upon a maximax strategy and this was probably perceived not only by Liberals but also by moderate Conservatives. This fact was graphically illustrated by the response met by main-stream Socialists among workers, when they first and foremost appealed to the quest for bread rather than to revolution, while the cravings of the radical Socialists for the dictatorship of the proletariat mobilized only a minority following. The Federation of Labour declared that it did not intend to use the strike weapon and maintained that "ideas are good, bread is better". Thirdly, the reform was secured and a conflagration avoided because of the successful cooperation between the Socialists and the Liberals backed by Big Business. By this strong alliance it was possible to win over or neutralize the moderate Conservatives and isolate the extreme Right.The lesson was that successful reforms could be secured and conflict controlled, the larger the backing of the reform movement.[7]

4. *The introduction of the 8-hour day*

The 8-hours day was one of the most important demands in the program of the Social Democrats and it was also carried through by the new Left government. Trade union activity had earlier succeeded in reducing working hours since the 1890's, but progress was slow and unevenly distributed among trades. Under the impact of the general political radicalization in the wake of the War Labour pressed for legislation.

A government committee with representatives both of LO and SAF presented a proposal in January 1919 and its majority suggested a 48-hours week. The Conservatives flatly rejected legislation and maintained that employers and employees should freely agree on the length of the working-day. The SAF

was divided on the issue. Some wanted to reject the law, while others accepted legislation, although not the 48-hours week. They took the same stand as the representatives of SAF in the government committee, who found legislation inevitable but accepted only a 54-hours week, i.e. status quo. (A government investigation had found in 1917 that the most frequent working-week was 54 hours and that it sometimes had been lowered to 52 hours.) To SAF the issue was mainly a matter of costs, not of principles. They had found that the proposal of the committee would imply an addition of 75,000 workers in industry at the existing level of production and they did not believe in the assurances of LO that the increased costs would be balanced by an increased intensity of work. Since it was tacitly asumed that the weekly pay should not be lowered, the expected 15 per cent reduction of the work week implied higher hourly earnings.

When the bill was presented to parliament, the government dismissed the standpoint of the Conservatives—no legislation—arguing that legislation in fact would imply lower transaction costs, since the workers without legislation were assumed to use strikes to reach agreements. The representatives of SAF in Parliament, e.g. its chairman Hjalmar von Sydow, stuck to its standpoint in the government committee and suggested only those modifications which he had proposed in the committee. When the Conservatives in 1920 moved a motion on the bill, it was not supported by von Sydow. He referred to the fact that Sweden was a member of the League of Nations and therefore bound to stick to the 8-hours day. Furthermore "nothing is more dangerous in legislation on economic matters than changes back and forth". Evidently he regarded the reform as an established fact and was prepared to accomodate. Later (in 1926) he confessed that he had feared that a repeal of the legislation would endanger labour peace.

It is not possible to estimate the net effects of the introduction of the 8-hours day, since Swedish industry at the same time went through a turbulent period characterized by wild swings in prices, custom duties and employment as well as far-reaching mechanization. The legislation was to begin with only temporary and during the transition period it was easy for firms to be exempted from its regulations. When in 1930 legislation became permanent, also the Conservatives accepted it as a fact. von Sydow acknowledged at the same time, that he agreed with the Social Democrats that "industry on the whole has overcome the difficulties caused by the 8-hours day" because of rationalizations. The conservative minister of Social Affairs took the same standpoint. The irony of the case is that he even used the same argument that the Left government had put forth originally, viz., that a repeal of the legislation would only move conflict from parliament to the labour market!

The conflict over the 8-hours day to some extent reflects the pattern discerned above in connection with the reform on universal suffrage: a willingness of the reformers to proceed gradually and a refusal of the adversaries to escalate conflict, which prepares the way for splits among the adversaries and an increased strength on the side of the reformers. Most important, the conflict over the 8-hours day showed that Big Business did not automatically accept the standpoint of the Conservatives. "Business as usual" was to business more important than lofty principles and long-term considerations. This was to be of crucial importance, when political power in the 1930's passed to Labour.[8]

5. *The importance of the 1930's*

The alliance between Labour and Liberals lost its basis, when the common goal of achieving universal suffrage had been achieved. For Labour democracy was both a goal and a means—to achieve social and economic equality. Thereby they were isolated from the bourgeois Left, which even drifted to the right. The social and political radicalization in the wake of the War and the reforms carried through stiffened the resistance and the attitude of the bourgeoisie. While Labour had to turn to a defensive strategy, Liberals split in two factions, one more and one less radical. A period of social equilibrium followed, blocking further progress. All main actors seemed sufficient strong to achieve political power but they were not sufficient strong to rule. Government had to rely on minorities or temporarily constructed majorities in parliament. Labour appointed three governments during the 1920's but they were shortlived as were those of the Liberals and the Conservatives. Since unemployment was rampant and labour conflicts were widespread, the attitude of the state towards unemployed workers and labour conflicts became the focus of confrontation. The political parties fought bitterly over the issue on the directives that should guide the governmental Unemployment Board ("Arbetslöshetskommissionen"), viz., wether or not the Board should be allowed to assign unemployed workers to firms affected by conflict. No solution was ever devised but, as often in history, a solution developed by itself, because the Board simply changed its practice after a violent conflict which caused the demission of the third Labour government.

In 1928 parliament enacted a Law on a Court of Labour and a Law on Collective Agreements against the votes of Labour. All judicial disputes (in contradistinction to interest disputes) should be handled by the new Court of Labour. Labour protested strongly and hundreds of thousands workers stroke for three hours. But no sooner had the laws been passed were they accepted by Labour. The strike was seemingly intended more to placate the left wing of the

trade unions than to wreck the law. In fact it turned out that the practice of the Court of Labour (the judges being appointed both by government, LO and SAF) showed to be more favourable in its verdicts to workers than to employers and that the judges more often than not concurred. It is part of this muddled story on conflict and consensus that even if the legislation was proposed by a Liberal government, the commission to devise a proposal had been appointed by a Labour government and the fundamental ideas behind the legislation were once worked out by a Conservative government in 1910–11!

If the 1920's signified a social and political stalemate between the main actors because of unfavourable structural conditions, the rapid progress of the preceding period and the temporary power balance reached, the 1930's brought a fundamental change.

It is important to note that "the new economic policy" and the welfare state were mainly devised for future realization,[9] even if plans and purposes were important for changing the social atmosphere, hopes and perspectives. In the first place a secular economic upswing started after the short depression and it continued right into the second half of the 1960's. The investment rate, production, productivety and employment rose vigorously (although the rate of unemployment fell slowly before the onset of World War II).[10] The depression of the 1930's in Sweden was rather mild, comparatively speaking, and the upswing promoted by the deflation of the crown and reinforced by internal factors left export and home industries in a favourable position, while easing the pressure on wage rates. Thus economic conditions and constraints favoured cooperation and the playing of non-zero sum games between social actors. Secondly, the strength of Labour increased and this had important repercussions on the conflict pattern. The changing political power balance as mirrored in parliamentary elections is shown in table 1:

Table 1. *Percentage distribution of votes in parliamentary elections in Sweden 1928–1940.*

	1928	1932	1936	1940
Social Democrats	37	42	46	54
Conservatives	29	24	18	18
Peasants	11	14	14	12
Liberals	16	12	13	12
Communists	6	8	8	4

The continuing industrialization of the country and the organization and mobilization of the workers had increased the ranks of Labour and made it

possible to form a strong government after the election of 1932. In fact, the Swedish Social Democratic Party now had become the strongest socialist political party in Western Europe. The new and stronger Labour government signified a legitimate government to workers and other popular strata and this had tremendous effects on consciousness, perspectives, motivation and also on feelings of being integrated in society. At the same time political power was decisively separated from economic power for decades to come. Potentially this certainly laid the basis for severe social conflicts in so far as the conquest of political power increased the appetites of Labour also for social and economic power, while the very same fact should have stiffend the resistance of Capital and the bourgeois parties. But possibility is one thing, actuality is quite another. If a party of a conflict is defeated he may react with adaption as well as with increased hostility as we have argued and the pattern of reaction is determined by his perspective of the probable future power balance, his "reaction coefficient", his views on the intentions of the adversary as well as by the conditions of conflict. As to the last factor economic conditions and constraints definitely worked in the favour of peaceful conflict resolution. As to the other factors the adversaries of Labour choosed mainly to adapt.

In 1930 the official organ of SAF, "Industria", published an important leading article which indicated that the employers had gone through an historical learning process and were prepared to adapt:

> "The trade union movement is a fact, conditioned by the evolution. If the LO in Sweden would fall apart—or would be 'crushed' as it was talked about a few decades ago—a new Federation would arise at once. In this respect modern business, not the least its industrial wing, feels a horror vacui. This is not acknowledged out of despair but out of insight into its usefulness and necessity. Certain of its aspects should be deplored and even fought against but not the movement as such. The collective agreements are necessary to us, partly for industry itself and for a long-term calculation of the costs of production, partly for the society because of the security they grant and the relatively systematic wage adjustments they promote."[11]

Naturally, the new situation also promoted more militant tendencies among business men as we should expect and to some extent representatives of the "hawks" organized in the so-called Club of Managers ("Direktörsklubben") or TBF (The Big Five), which was in existance between 1933 and 1953 and to begin with was recruited from the top managers of "ASEA", "Electrolux", "LM Ericsson", "Separator" and "SKF". But even if militant, this faction also behaved rather cautiously. The main tendency was a strenghtening of the "doves" led by the new acting manager of SAF from 1932, Gustaf Söderlund. He was a conservative but did not want SAF to meddle in politics. He repulsed any attempt at confrontation and did not, if necessary, even refrain from

disavowing the bourgeois parties. He was one of the main architects behind the Principal Agreement in 1938 between SAF and LO. He obviously calculated on the existence of a socialist government for the predictable future. The era of Big Labour and Big Business had been opened and he preferred cooperation to confrontation.

Changes also occured among other social actors. The increased strength of Labour in combination with a new insight into the mechanisms of organized capitalism forced the Liberals to change their attitude towards the state. Led by the young economist Bertil Ohlin, they now began to propound the social-liberal message more consistently and more radically. In his book, "Free or planned economy?" (Fri eller dirigerad ekonomi?) published in 1936, Ohlin suggested that the bourgeois parties had to attribute to the state a more active role than before in matters of social policy, social welfare, public enterprise etc. He did not see much difference between a policy advocated by social liberalism and the policy the social democratic government in fact pursued. The former was only "a reformed and rationalized variant" of the latter. He even suggested that laissez-faire liberalism unintentionally played into the hands of radical socialism. The "Industria" of the SAF critized Ohlin for his "compromising", his inclination to "represent freedom in principle, confinement in practice" and held that his mind was "infected by state interventionism". The political secretary of the Big Five, S.E. Österberg, reported back from the Meeting of Scandinavian Economists in Oslo in June 1935 that Ohlin looked upon state interventions as purely practical matters and concluded: "If this is going to be typical for the Liberal Youths, whose chairman Ohlin is, those tendencies should be closely watched."

The Liberal Party, though united from 1934, remained, however, a minor political factor during the 1930's and rose to prominence only during the aftermath of World War II, when Labour launched its program for comprehensive welfare and higher taxation. More important during the 1930's was the Farmers' Party (Bondeförbundet). Also this party underwent radicalazation. In 1929 a new farmers' organization was formed, RLF (Riksförbundet Landsbygdens Folk). It was dominated by small and middle farmers, it organized its members along cooperative lines and it behaved like a trade union. For the first time in Swedish modern history, this made possible a rapprochement between workers and farmers, who traditionally had been a pillar of Conservatism. Especially the farmers of northern Sweden were strongly anti-capitalist because of the age-long conflicts with the timber companies. Labour supported the new tendencies among the farmers and one may say that Labour and Farmer had common interests towards Capital, Labour as a seller of labour power and Farmer as a buyer of industrial inputs. At the same time they

had conflicting interests as consumers and producers, respectively, of farm products.

Thereby the stage was set for Labour's two grand cooperative moves during the 1930's. Labour was stronger than ever before, but was not prepared to carry through its socialist maximum program. It had as yet no clear majority behind itself and important sections of the working class, like the farm hands, were still largely un-organized (the drive for organization started during the 1930's). Labour was also sceptical about whole-sale nationalization and there was not even unanimaty on the nationalization of specific industries. When the Social Democratic Party Board in 1931 discussed these matters, the members of the nationalization committee (Socialiseringsnämnden), appointed by the Branting government in 1919 and finally dissolved in 1936, reported to the Board that their only suggestion was—nationalization of a shoe factory! However, the members of the Board from the shoe-producing county of Örebro did not like this at all and other members suggested paper mills or banks as objects of nationalization. Nothing emerged from these discussions.

Still the socialist goal was not given up. But it should be reached through cooperation with allied parties. This was time and again expounded by the party leader and Prime Minister Per-Albin Hansson. He referred to Hjalmar Branting, who had claimed that the transition to a new social system could "proceed via joint rule between the Socialist Labour Party and allied political factions on the basis of a positive reform program".

This "positive reform program" was found in the so-called horse-swap (kohandel) with the Farmers' Party in 1933. Labour had calculated on a deal with the left of the Liberals (the so-called "Frisinnade"). But these were somewhat compromised at this time because of their attitudes towards Labour during the 1920's and involvement in the Kreuger swindle. When Labour was approached by the Farmers' Party to make a deal it accepted. In exchange for its new economic policy for full employment, Labour accepted lavish price support and state regulation for agriculture. Even if the cooperation on the whole may have favoured agricultural producers at the expense of consumers (especially low income earners) and rich peasants at the expense of poor peasants, most parties gained something because of the higher level of economic activity made possible.[12] By this cooperative game Labour had acquired a solid popular base for the government and the cooperation was cemented in 1936, when the two parties formed a coalition government. Although Labour had gained an absolute majority in parliament after the elections of 1936, it preferred cooperation. While the Farmers' Party accepted Labour's demands for increased old-age pensions and reduced working-time for farm hands and promised not to cooperate with the bourgeois parties in elections, Labour

promised to continue its support for agriculture.

By these cooperative games Labour had created a solid basis for governmental policy. But since this was dependent also upon economic conditions in industry, it was important to reach an agreement with Big Business, too. In 1938 a Principal Agreement between LO and SAF was entered (the so-called Saltsjöbadsavtalet). Between 1914 and 1938 the level of conflict on the labour market had been rather high: approximately 40,000 workers or more were each year affected by strikes and lock-outs. This level of conflict increased transaction costs and reduced the possibility of playing non-zero sum games. After 1938 and up to 1960 only 10,000 workers per year were affected by strikes and lock-outs and largely because of one big strike (the strike of the Metal Workers' Union in 1945). At least part of this dramatic change may probably be attributed to the effects of the Principal Agreement of 1938, even if the change from widespread unemployment to full employment made the working of the labour market easier. The Principal Agreement devised an elaborate procedure for avoiding conflict by stipulations on premonition and negotiation, which made conflicts difficult if not impossible. As a consequence of the agreement LO in 1941 changed its constitution. According to the change the board of any affiliated trade union federation should decide on termination, acceptance or rejection of collective agreements and on strikes and blockades. At the same time LO declared its positive attitude towards industrial efficiency and technical change. "Rationalization must be regarded as a natural and continual effort in improving the returns of production and promoting the cultural progress of man", it was solemnly declared in an official report to the Congress of 1941.[13]

But Labour also took initiatives on the level of politics. Some fundamental principles of cooperation were outlined by Ernst Wigforss, Minister of the Treasury, in a speech for business men in Gothenburg in September 1938. He started by stating the conditions: (1) Both parties should respect each other and not try to subjugate each other, (2) Business should calculate on continuing Labour governments for the predictable future and thus admit that concessions, consent and compromises would be necessary, (3) Labour would acknowledge the necessity of maintaining favourable conditions for private enterprise in all areas where public activity were excluded. Wigforss also indicated those areas where cooperation were possible and advisable: tax policy, supply of capital, natural resource policy, technology and research, exports and business cycle policy. The heart of the matter was, according to Wigforss, to increase efficiency and promote the development of the productive powers. This message represented a marriage between reformist socialist strategy based on cooperation and non-zero sum games and a traditional

Marxist perspective on the transition from capitalism to socialism on the basis of expanding productive forces.

This program was widely discussed among leading business representatives and their organizations and they decided to accept cooperation. In 1939 discussions were started and they had resulted in decisions on the formation of different committees, when war broke out. A reform of the tax system had been decided on already in 1938 by parliament. The progressive company tax had been replaced by a proportionate tax, devised already in 1931 by the then Liberal government. According to the new law companies were also allowed a very generous right to write off depreciations of machines and inventories to improve the consolidation of business. In the same year a proposal from industry on tax-free investment funds for evening out business cycles also was approved by parliament.

On the basis of its own increased political strenght, an expanding economy and the two grand cooperative moves Labour started in the 1930's to elaborate its program for full employment and a "People's Home". On the level of ideology, the conception of a "People's Home" was probably crucial in rallying support behind Labour and neutralizing its adversaries, since it implied an all-embracing in contradistinction to a selective welfare program. When also privileged strata of society were included, they got a stake in the survival of welfare. But the model went into operation only after World War II, when the full employment policy at the same time increased the resources to be shared between conflicting actors.

6. *The conflict over the supplementary pensions scheme 1956–1959*

Although the war years implied a detoriation of material conditions, people from all quarters of life felt that they had to cooperate in view of external threats. The trade unions practiced stern wage restraint, the economy was planned and regulated to an unknown extent, representatives of business worked closely together with the state in a multitude of administrative bodies and all political parties except the Communists took part in government. The experiences of coalition government were so pronounced to the Prime Minister, Per-Albin Hansson, that he became a spokesman for a permanent government of all parties, including the Communists!

When war was over conflicts emerged again, however, since the war also brought a general political radicalization in its wake (the Communists increased their vote in 1944 and 1946 to an all-time maximum). For Labour planning became the watch-word. In 1944 "Labour's Post-War Program" (Arbetarrörelsens efterkrigsprogram) was presented with its three main points: (1) Full employment, (2) Equitable distribution and (3) Increased

efficiency and extended democracy in enterprises. There was still no talk about full-scale socialization, only a state bank and socialization of insurance was demanded. The concept of a planned economy was brought in to the forefront: "a planned economy which makes possible full and efficient employment of the resources of society, stability of employment for the whole population and a living standard for all based on the returns of social labour". A government commission under the chairmanship of the radical economist Gunnar Myrdal was appointed to investigate the problems of "post-war planning".

The drift towards planning was common for all nations after the war and all over the world Conservatives and Liberals suspected a socialist offensive. Business retorted by launching an anti-planning offensive. In this atmosphere even minor sources of conflict became important. When Labour in 1947 presented a new scheme of taxation aimed at financing social reforms (increased pensions and child-allowances) agreed on by all parties, Liberals and Conservatives reacted strongly. The tax reform was presented as a blow directed at private property, although in fact it was rather moderate: the tax on property, companies and high-income earners would increase somewhat, while the tax burden on low-income earners would decrease (motivated by the fact that the increased indirect taxation during the war had hit the poor harder than the rich).

The Labour government had its way, but from now on the resistance of the Liberals and the Conservatives stiffened. They succeeded also in gaining new votes and Labour once again was forced to take the Farmers' Party as its ally from 1951 up to the conflict over the supplementary pensions scheme in 1957. The idea behind this scheme was to add a pension related to income earned. All parties concerned advocated increased pensions. The conflict was over the construction of the pension funds. There were three alternatives: (1) Compulsory pensions for all employees financed by pay-roll taxes and administered by a state pension fund. This alternative was supported by Labour as a whole. (2) A voluntary government-administered supplementary pension of maximum 3,000 crowns. This was the standpoint of the Farmers' Party. (3) A voluntary pension system administered by a private institution with a board representing employers and employees. This scheme was supported by the Conservative and the Liberal Parties and also by SAF. The supporters of this alternative feared that the first alternative would increase state control over the capital market.

A consultative referendum was hold. Most people voted for the first alternative (46 per cent of the vote) and 15 and 35 per cent for alternatives (2) and (3), respectively. Now the Farmers' Party left the coalition with Labour and a Labour minority government was formed. It failed in its efforts to construct

consensus around the issue, even if the Liberal Party adjusted its standpoint somewhat and now advocated some kind of legislation. At this juncture Labour acted swiftly and resolutely. The government decided to dissolve parliament and an extra-ordinary election was held in June 1958. The Liberal Party, which had compromised the united bourgeois front on the pensions scheme, lost about ⅓ of its votes and seats in the Second Chamber of the parliament. Most of the ex-liberal voters went to the Conservative Party or to the Farmers' Party. In the new parliament the votes for and against compulsory pensions were now 115–115. When the government introduced its bill in February 1959 one Liberal MP, representing Left Liberalism in Gothenburg, declared that he did not intend to vote for the Conservative Proposal, only for the Liberal one. He also declared that he would abstain in the final vote, should it be a question of either voting for the Government bill or supporting the Conservative proposal. The result was that the bill passed by 115 votes to 114, the Liberal MP abstaining.

After the decision, the Conservative Party declared that it intended to get the Act abolished. The Liberal Party, on the other hand, gave in and in the 1960 election it fought with Labour against the abolition of the Act. Now the election ended in a serious set-back for the Conservative Party, while Labour gained new votes. After this verdict also the Conservative Party gave in.[14] From this conflict up to 1976 Labour retained political power. While the Farmers' party in 1957 had changed its name to the Centre Party and started making inroads among white-collar workers in the cities to supplement the decreasing votes from the dwindling peasant' strata, the Conservatives went into a crisis of identity slowly accepting the necessity of the welfare state. In 1969 the Conservatives changed the name of the party to the Moderate Party in order not to appear as rightists.

The conflict over the supplementary pensions scheme was the sharpest confrontation after the War. It concerned first and foremost power: who should control the pension funds. But in the end welfare considerations became decisive on the margin, since the defecting Liberal MP at the end preferred Labour to Conservatives. Once again the disinclination of conflicting parties to escalate conflict above a certain level was proved, since the defeated parties discontinued their opposition in spite of a narrow defeat. The problem of the bourgeois parties was that they could not build a solid common front, which probably reflected the strength of Labour.

At the same time this conflict was a rather isolated event. The fundamental pattern from the 1930's prevailed, as testified by the Labour-Farmers' alliance during the 1950's. Between 1949 and 1955 the government continually discussed with representatives of Big Business in the so-called "Torsdagsklub-

ben" (Joint Committee for Increasing Export and Production). This committee was explicitly created to remove the atmosphere of strain and suspicion in the aftermath of the War and to coordinate views and actions. This activity was continued by the so-called Harpsunds-conferences in the residence of the Prime Minister. These gave even rise to a public debate on the so-called "Harpsunds-democracy" in the beginning of the 1960's. And this was only the visible part of vast and growing machine for channelling, airing, modifying and mobilizing opinions into consensus as far as consensus was possible.

On the trade union level cooperation between SAF and LO was intensified, too, resulting in centralized negotiations from 1956 on. These were instituted at the suggestion of SAF in order to control wages. But it met also the interests of LO to practice the policy of wage solidarity to cement trade union unity. When SAF, LO and TCO (the Federation of Employees) accepted the so-called EFO-model as a basis for wage policy, the control of the conflict between Capital and Labour was supplied with a theoretical basis. According to this model, jointly elaborated by top economists of the organizations involved, the growth of wages was tied to productivity growth plus inflation, thus leaving the wage-profit shares fixed.

The fundamental condition for the continued success of cooperation between main actors was, of course, the exceptionally favourable economic growth after the War and the ensuing full employment. This allowed rising real incomes to all people and still more rapidly rising public incomes to pay for the increased welfare. The importance of this became visible when Swedish society during the 1970's drifted into a zero-zum world.

7. *The issue of wage earners' funds*

From an historical perspective, the 1950's and the early 1960's look rather idyllic and mainly characterized by successfull growth-manship, full employment and a vigorous expansion of the welfare state. But under the surface important structural changes took place. On the one hand, economic growth led to rising welfare and rising expectations, on the other hand people and resources were mobilized, reshuffled and concentrated. A new phenomenon appeared in industry, structural unemployment, and the costs of growth became evident as environmental problems mounted. At the end of the 1960's a growing uneasiness exploded in students' revolts and strikes among workers. It seemed as if welfare capitalism had not succeeded in solving the age-old conflicts of capitalist society.

After a short period of confusion, Labour reacted remarkably swift. The turning point came at the Congress of LO in 1971, when the Federation

requested the right of trade unions to reach agreements on "the conditions of employment and work as a whole", the right to negotiate on questions of particular importance to the workers before decisions were taken in firms and the right to appoint a minority of representatives to the boards of corporations. At this congress the issue of wage earners' funds was also raised. It was focused on control of wealth, workers' participation in management and on the mopping-up of excess profits due to the policy of wage solidarity.

Some of the decisions of the congress were taken over by government, which transformed them into a set of laws on employee representation on boards of companies, on work environment, security of employment, the status of shop-stewards and on co-determination (between 1973–1979). It seemed as if Labour had launched a new offensive to extend its positions from social to economic democracy.

This offensive would probably not have caused conflict, if growth had continued and the issue of wage earners' funds had not been raised. But precisely on the eve of this reform wave the world-wide depression of the 1970's set in and it hit Swedish industry hard. At the same time Labour lost government power (in 1976). The reforms planned and only partly realized recalls the image of a fleet of ships without crew in a see without water. At the same time the political climate changed. The predominant idea of the progressive welfare state was confronted by the conservative idea of neo-liberal individualism.

The LO congress of 1971 had assigned Dr Rudolf Meidner and associates to investigate the issue of wage earners' funds. In 1974 they presented their report. It suggested the establishment of collective inter-industry funds financed by an obligatory profit-sharing amounting to 10–20 per cent of pre-tax profits. The profit shares were to be transferred to the funds directly in shares. The voting rights to the shares were to be divided between inter-industry funds and plant unions. The report predicted that some firms might have a majority ownership for trade unions after 20–30 years (and a controlling influence in some big enterprises after only 3–5 years). It explicitly rejected the idea of enterprise funds and individual shares with reference to the fact that such schemes would not allow wage earners to become controlling owners of industry. Labour seemed to have presented a program for realizing the ultimate goal in one big sweep!

The Meidner proposal was on the whole accepted by LO at its congress in 1976. But the bourgeois political parties and the business community was stunned. It reacted with a report of its own in 1976, the Waldenström Report. This report acknowledged the problem of concentrated ownership in industry. But it pointed out that the Labour proposal would probably transform the

entire economic system. The Waldenström group represented "enlightened business" and thought that it was necessary to frame a positive alternative. They suggested on the one hand profit-sharing schemes attached to individual firms and on the other hand a plurality of independent funds financed by savings from wage earners and promoted by government by tax-deductions. The enterprise funds would be based on agreements between owners and employees and financed by sharing excess profits, i.e. profits above a standard level. The shares would accrue to the individual employees but would be frozen for a period of 5–10 years so as to not encourage capital consumption.

This scheme was an exceedingly clever counter-move. At the outset the Labour proposal seemed to have avoided the well-known problems associated with outright socialization in so far as it outlined an evolutionary process based on the institutions of private property. On the other hand, it implied that workers could be won for the scheme as a purely collective enterprise with no link to individual incentives. The Waldenström proposal cut through precisely at this point.

Meanwhile the Labour government appointed a committee on wage earners' funds in order to investigate the issue further but also to shelve embarrasing discussions for which it was not yet prepared. But it could not stop the rather confused debate that broke out among the ranks of Labour. A minority of militants, especially among trade unionists, accepted the LO proposal wholeheartedly. But some suggested "citizens's funds" instead of wage earners funds as an alternative, some tried to incorporate the suggestions presented in the Waldenström Report, while some flatly rejected the whole idea. The difficulties were increased by the loss of government power in 1976 and thus, the reshuffling of the government committee. Over and above, the new bourgeois coalitions government started a scheme of savings funds with considerable tax-allowances as an alternative to wage earners' funds.

Labour now realized that they had to modify the original proposal. A joint working-group of LO and SAP presented a new scheme. First, the idea of obligatory share issues to collective funds was given up and the proposal from the Waldenström group to limit profit-sharing to excess profits was taken over. Secondly, funds were to be limited to corporations and the capital market should be preserved and utilized: wage earners' funds would buy and sell shares like any other investment company. Thirdly, also wage earners would now contribute to the funds by a pay-roll tax and to make this more enticing the funds would be adjoined the state pension funds. Fourthly, the fund system were also given a more pluralistic structure in so far as regional funds – one for every province—were recommended. Thereby regional interests would be mobilised. But the core of the idea—collective funds—was preserved.

It would take as too far to account for the long and twisted journey of this issue. Contradictions increased, especially before the election of 1982, and business' and employers organizations were very active. Still, Labour stood pat and won the election, probably because people were more worried about rising unemployment than about wage earners' funds. After the election Labour rewrote the scheme once again, modifying it still more. In the first place, it was declared not only that the scheme would be tried and tested before the final decision but also that it would be given a limited life of existence—up to 1990. Further, the number of regional funds would be limited to five. Only 10 per cent of all companies were to be involved because of the specific construction of the financing of the funds. About two billions crowns per year would flow to the funds partly by a profit tax and partly by a pay-roll tax (20 and 0.2 per cent respectively). But companies are allowed to deduct half a million crowns or 6 per cent on the pay-roll before taxation and this implied that small firms were excepted. As before, the funds were to be affiliated to the state pension system and they would be instructed to buy shares and return a real profit rate of 3 per cent (corresponding to the long-run rate of growth of the Swedish economy). No company would be obliged to sell shares to the funds, which, however, may own up to 50 per cent of the shares in any company. At the terminal point of 1990 the funds are expected to own only about 8 per cent of the value of all shares registered on the Stock-Exchange. As to the organizational structure of the funds, each fund would be governed by 9 people and of these at least 5 should be representatives of wage earners, the rest of business and finance. The trade unions in those firms, where funds own shares, were entitled to command 50 per cent of the vote of the shares owned by funds.

A bill along these lines was presented to parliament in October 1983. A rather big counter demonstration was helt outside parliament. The leaders of the opposition vowed that they would repeal the system as soon as they took over government. They could point to the fact that public opinion was split over the issue. Labour has retorted that also the supplementary pensions scheme was decided by a narrow margin but accepted after some years. The acrimonous debate is now closed, partly because Labour seems to have decided not to engage in further public discussions. Probably the idea is to let the system grow quitely by itself to show that it works well and does not represent a threat to the economic system.

The interesting question is: does the introduction of wage earners' funds represent the end of the Swedish model of mutual compromises ending in consensus, even if a constrained one? The behaviour of Labour during the very process of conflict indicates a readiness to accomodate in so far as several

suggestions proposed by the adversaries were incorporated in the final revision of the original proposal. It could also be argued that the wage earners' funds, as constructed, by themselves do not represent a threat to business, since they will grow rather slowly and be wound up in 1990. In the meantime they will probably contribute to the bidding up of share prices and thus make present share-holders richer. But this would not explain the fierce resistance from some important strata. The reason is that the wage earners' funds do introduce a new principle, viz. that wage earners should be able to own industrial property collectively and by means of this ownership influence and control decisions in firms. Labour could thus legitimately claim the victory of a principle and that social democracy is now being extended to encompass also economic democracy. Nobody could tell if this plan also will come true, since everything depends on the actual working of the funds and on the future actions of business. Maybe wage earners' funds represent the end of the playing of cooperative non-zero sum games with minimax strategies and signifies a shift to non-cooperative zero-zum games with maximax strategies. On another interpretation, the conflict was mainly conditioned by the unfavourable external and internal conditions—first and foremost the long depression. If a new secular upswing starts—and it may well be under way—the strange god will establish himself more firmly on the altar beside the idol of the country peacefully and without conspicious conflicts—as before.

IV

Summing up the preceding observations some broad conclusions seem to emerge:

1. Main social actors in Swedish modern history have, on the whole, been inclined to solve major conflicts by compromise, cooperation and mutual accomodition rather than by open confrontation, escalation of conflict and suppression of adversaries. This has been made possible by the concurrence of a specific set of conditions, structures, strategies and modes of behaviour.

1.1. External and internal conditions and constraints have supplied rapidly increasing resources to be shared between conflicting actors. This has made non-zero sum games possible, facilitated peaceful modes of conflict resolution and easened social strain. Whenever growth sagged, the conflict potential of society tended to icrease. Also historical traditions as well as social and cultural homogenity have favoured cooperation and reconciliation.

1.2. The rise and development of socialist Labour potentially increased conflict in society. But thanks to its very strength and its specific strategy Labour rather contributed to an increased control of than to an escalation of

conflict. By transforming its long-run maximax strategy into an evolutionary set of successive minimax strategies Labour consciously avoided large-scale confrontation. This made it possible for Labour to gain the political initiative, establish cooperation with allied popular strata and organizations and to split and neutralize adversaries. Among the latter the "doves" have won preponderance over the "hawks", which also has favoured compromise, concessions and social reconciliation.

2. The 1930's marked the crucial turning point in the process. On the one hand Labour took over political power more or less permanently. This legitimized government in the eyes of extensive popular strata and made them prepared to accept the unavoidable and necessary terms of the social game in hope of an improved future. On the other hand Labour utilized political power to generalize welfare (the ideology of "People's Home") and create stable social and political alliances with middle strata as well as with Big Business, which in its turn was mainly interested in "business as usual". The success of this strategy was conditioned by a delicate trade-off between the legitimate demands of the conflicting parties. By favouring business, resources were created that could be used for building a comprehensive welfare state. By a similar move farmers were integrated into the structure.

3. This model presupposes also continous progress and engenders a society of perpetually rising expectations. Sooner or later the general process of democratization and participation spills over from the arena of politics and welfare to the arena of economics and on this arena the emphasis shifts from contract to control. Herein lies the importance of the wage earners' funds issue. The introduction of collective wage earners' funds in the 1980's may signify the end of the traditional model, which implies that the cooperating partners should not trespass on each others territories and not attempt to subjugate each other. However, it is too far early to pass a definitive judgement on the eventual outcome of this issue. In spite of its inherent dynamics the process of conflict of this issue in fact exhibits many of the characteristics and behavioural modes of the traditional model: continious modification and adaption. Thus, the wage earners' funds may very well turn out to be just another addition as well as a challenge to the traditional model.

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The Second New Nation: The Mythology of Modern Sweden

Arne Ruth

If the Middle Way was ever on trial in Sweden, the 1985 elections would seem to have vindicated it. The surprise victory of the Liberal Party was, if anything, the result of a growing resentment among Swedish voters to the political polarization of recent years. The Liberals had campaigned in a deliberately unideological manner, projecting their new, young leader Bengt Westerberg as a symbol of the twin values of compromise and practicality, basic aspects of the Swedish model in its days of glory.

Some observers have already hailed the election results as the restauration of the Swedish model. According to this scenario, the voters have turned against ideological politics of any inclination: first, by voting the radicalized Social Democratic Party out of office in 1976, then by checking the Friedmanite currents in Swedish politics through their rejection of the Moderate Party platform in 1985. The taming of the two major parties would supposedly introduce a new period of relative consensus between the Social Democrats and the middle parties.

If so, what would be their basis of cooperation? Certainly, the Swedish welfare system needs streamlining, and it is a safe prediction that, without the support of the Social Democrats, major changes in welfare policy can only be affected at the grave risk of provoking paralyzing social strife.

A policy of reforming the public sector, retaining the basic ambition to provide universal services, but fostering greater variety, efficiency and decentralization, could possibly become the rallying cry for a new Middle Way compromise.

This scenario, however, presupposes that the difficulties now confronting Sweden can be solved at the political level by a concerted effort to create a new party consensus. But the wishes of many voters notwithstanding, social and economic trends seem to favour ideological solutions rather than the opposite. The universalizing logic inherent in the welfare system would seem to call for even more comprehensive services as an answer to pressing, new social problems: regional imbalances causes by the concentration of high tech industries

in the big cities, and increasing wage differentiation between modern and traditional sectors of the economy. The logic of economic efficiency, on the other hand, demands an even greater emphasis on the very factors fostering these tendencies. The ideological battle of welfarism vs neo-liberalism does not seem likely to abate for a long time to come.

Seen against this background, the rallying of so many voters around the Liberal party may have been but another example of that peculiarly Swedish variety of wishful thinking captured by one caustically minded social scientist in the *Christmas Eve Theorem*. The Swedes, according to this proposition, when asked to choose between more comprehensive health care and a trip to the Mediteranean, will pick both.

This lack of reaction then, would appear to be the Middle Way of the 1980s. It represents a fundamental craving for compromise, frustrated by a real world demanding hard choices. Yet, the moral attitude at the root of this desire could undoubtedly still be a formidable social asset as a legitimazing factor—if only someone could come up with policies capable of long term mediation between the strictures of the world market and the social imperatives at home. So far, this seems as probable as squaring the circle.

At stake are some of the core values of modern Sweden. If we are in fact, as Ralf Dahrendorf has suggested in a recent book, approaching "the end of the social-democratic century" it is no wonder that Swedes should find themselves in a state of ideological uneasiness. The key words Dahrendorf uses to characterize the social-democratic era have also been pillars of the Swedish concept of political values: economic growth, equality, work, rationality, state and internationalism.

If economic growth, for one reason or another, is unattainable in the foreseeable future; if the network of social security established in the period since World War II proves too costly to maintain; if technology no longer serves to widen employment but to diminish it; if scientism is eclipsed by a "return of the sacred"; if citizens increasingly blame the state for not fulfilling the promise of creating a free and just society; if the idea of an international community governed by law and contract once more gives way to great power politics and overt military and economic competition among nation states—then the change will not simply be a matter of concern for Swedish Social Democrats, but would go, rather, to the very core of Swedish national culture. The crisis of social democracy would be a crisis of national identity as well.

II

The secret of Swedish social ethics is often said to reside in the world *lagom*; be that as it may, the word can at least be used to illuminate some of the dilemmas

now facing Swedish society. Untranslatable in its exact sense, *lagom* means *just right*, as well as *in moderation; sufficient*, as well as *appropriate* and *suitable*. It connotes not only a quantity, but a moral judgment on it as well—always relative, of course, to other quantities. The "golden mean" captures one important sense of the word but is far from exhausting its intricate usage. The expression is said to derive from the drinking habits of ancient Sweden, where the jug of beer was passed around a group of men; "making the rounds" is *gå laget om* in Swedish, and according to this etymology, *lagom-om* is short for *laget om*. At any rate, the image of the drinking bout is a telling metaphor for the moral implications of the word. To drink more than one's share from a community jug is of course unforgivable, but drinking too little is equally unsociable; it means opting out of the common spirit. Interestingly, *lagom* appears to be a peculiarly Swedish concept. Norwegian and Danish have only approximate equivalents.

Swedish society at present seems to be confronted with an increasing number of individuals, sometimes acting in collusion as powerful interest groups, who have lost the inhibitions of the *lagom* code. More and more, the authorities have been tempted to enforce the code by administrative measures, but this is felt by important segments of the population to represent a change in the delicate balance of repression and compassion that has constituted the *lagom* of state and local government. The concept of the "just" share was of course much easier to uphold in a situation of economic growth, when everyone could be compensated for being disadvantaged in the present by the prospect of a growing share in the future; the "common cake" was one of the most frequently used metaphors of Swedish political language in the era of seemingly unstoppable growth—with good reason. That it has now been superseded by the image of the "tightened belt" hints at the intricacies involved in upholding the *lagom* code in a time of scarcity.

With both its neighbors and the West in general, Sweden shares the social pressures arising from the decline of economic progress. In the era of affluence, however, the *lagom* code served to lessen competition for resources; individuals and groups favored by the market were willing to forsake part of their profits for the common good. Hence, the idea of progress became socially unambiguous. Well into the seventies, it could be used to integrate farmer, worker, and capitalist into the national culture.

The first important rupture came with the Kiruna strike in 1969–70, when the workers in the state-owned iron mines in northern Lapland, complaining about humanly degrading working conditions, struck unofficially and stayed out for three months. A wave of unofficial strikes followed throughout the country. For the Social Democrats, it was an alarming demonstration of the

high risk they ran of losing the special relationship with the working class that had been the basis of their unbroken reign. They countered swiftly by shifting their emphasis from the material aspects of progress to the quality of work in industry. A commission on shop-floor democracy was given the task of preparing new lagislation covering the worker's "primary right to negotiate" on any aspect of his work, including its method and organization and the choice of machinery and equipment. By the end of the 1970s, the unions had been given the formal right to participate in company decisions affecting major changes in the organization of the work force. Originally proposed in the mid-seventies as a step toward the formal take-over of private industry by the unions, but later stripped of their system-changing implications, the wage-earner's funds are another outgrowth of the controversy that was set in motion by the Kiruna strike.

The miners' action was the first major indication of growing resistance to the kind of technical and economic changes that had made Swedish industry continuously competitive on the world market. In the course of the seventies, the limits-go-growth message mingled with a newborn nostalgia, especially among urban youth, for the simpler rural values of Swedish life a generation earlier. A "green wave" swept the country, focusing eventually on the issue of nuclear power, and propelling the rural-minded Center party into government in 1976 in the first nonsocialist coalition since 1932.

Almost from the start, the green wave exploited *lagom*, since it proved to be ideally adaptable to the orthodoxies of ecological thinking. Thus the basically conservative bias inherent in the concept of *lagom* was restored and used as a vehicle against the instrumental rationality of planners and technocrats in government and industry. Eventually, as the first signs of the tax revolt appeared in Sweden, triggered by the controversies in 1976 around celebrities like Ingmar Bergman and Astrid Lindgren, an old-style conservatism, invigorated by neo-classical economics, turned with a new attentiveness to the growth of bureaucracy. The public sector, it was felt, had definitely broken the bounds of *lagom.*

Thus the Swedish model after having temporarily pacified its core group—the workers—was confronted on its flanks by two different kinds of conservatism, both of which questioned its underlying concept of progress. When regarded with the logic of the model, both opponents appear to be antisocial; ecological conservatism rejects the technological changes necessary to keep industry competitive, yet is unwilling to pay the economic price of scrapping industrialism altogether; the antibureaucratic conservatism wants to restore the free market, but refuses to accept the necessity of state action to remedy the social dislocations caused by market forces. Neither has provided a satis-

factory solution to the problem of revolutionizing a system where almost a third of the voters are pensioners and another quarter are employed in the public sector. The result is a further erosion of the public spirit indispensable to the system. The universal demand for security remains, but the willingness to pay the personal price necessary to guarantee it diminishes. The Social Democrats are caught in a double bind. Their frantic effort to restore the traditional sense of rationality to the system only adds fuel to the antitechnocratic and antibureaucratic fire.

The heart of the vexation paralyzing the Swedish model, then, seems to be the antinomies of the notion of administered progress underlying it. The concomitant myths of paternal care and egalitarian national solidarity embodied in Per Albin Hansson's concept of the *folkhem*, the people's home, inevitably pale as belief in the rationality of the model grows weaker. In retrospect, the model presents the paradoxical spectacle of a nation possessing more of the outward trappings of modernity than any other society, yet at heart remaining the incarnation of Tönnies's mythical *Gemeinschaft.* With the cushions of tradition gone, the brutally modern forces of *Gesellschaft* throw the society's delicately balanced social structure out of gear. Adding to the problem is the fact that, as it gradually loses its importance as an international symbol of modernity, the system is deprived of another fundamental asset: the moral energy that was generated from its universalistic aspirations.

III

The sense of moving with the spirit of the world, of being the agent of history in fulfilling the oldest dreams of mankind, has been a tremendous inspirational force ever since the idea of progress first took hold of the Western mind. Social movements have tried to capture this animating energy by projecting themselves as vanguards of the future. Occasionally, an entire nation has become for a while the embodiment of progress; revolutionary France and Russia count among these, as does the Belgium of 1831 and, in a different sense, Britain in the era of the idustrial revolution. Few nations have retained this role for very long. America, of course, is the exception. From its revolution on, the United States came to symbolize the forces of change. The dreams of the Old World came to life in the New. As Harald Elovson notes in his study on the impact of American thought on Swedish literature in the eighteenth century, even in a country as far removed from the spirit of revolution as Sweden, the American myth was firmly embedded by the 1780s. The words of a Norwegian clergyman writing in 1781 are characteristic of progressive Scandinavians of the time: "God help America to fight its way to liberty that mankind may not perish in serfdom."

The American myth became exceptionally important in the Nordic countries in the course of the nineteenth century. By the successive waves of immigration and return, the image of the New World as a haven of freedom was imprinted on the minds of broad segments of the Nordic peoples. Particularly in Sweden, because of its relative backwardness in industrial development and lateness in extending suffrage, worship of American ideals served as an alternative to national identification among members of popular movements, such as the revivalists and the teetotallers, and even among the nascent trade unions. The strength of the American myth among working-class Swedes eventually became the object of political controversy and even a government inquiry.

The image of the United States, of course, had a symbolic value for those beyond its shores and became for them a medium whereby their hopes and fears could be projected. The tradition of European anti-Americanism—the aristorcratic contempt for the "vulgarity" of American culture as well as political opposition to the peculiarly American combination of equality and individualism—has its roots in the opposition to this tradition of idealizing America.

The same dialectics of hate and worship have been at work in casting the Nordic countries, and especially Sweden, as the vanguards of social progress. Marquis Childs, in creating the image of Sweden as the "middle way" in the 1930s, was motivated by the desire to prove to his American audience that the policy if state interventionism and regional cooperatives inaugurated by the New Deal would constitute no threat to freedom. The fact that the politics of compromise in Scandinavia were designed to counter the threat of fascism, and were thus part of a radically different set of policy options, was largely overlooked by the American audience. Childs drastically overstated the role of cooperatives in Sweden, causing considerable trouble to the worthy officials of the Swedish Cooperative Union, who were flooded with a stream of American visitors in search of the secret of the middle way. Contemporary observers have pointed out that Swedish politicians at the time were rather taken aback at the American interest in their activities. During the war, Gunnar Myrdal noted that Swedish officials and labor representatives traveling in the United States went to a great deal of trouble to refute the image of Sweden as a real-life utopia, pointing out, among other things, that very many Swedes were still extremely poor by American standards.

After the war, the myth of the middle way grew to the point of becoming political folklore in the Anglo-Saxon world. Eventually, the theme of class compromise was superseded by the image of general progressiveness. A succession of books with titles such as *Sweden—the Progress Machine* and

Sweden—Prototype of Modern Society, many of them scholarly treaties, others rather in the tradition of Lincoln Steffens, helped to establish firmly the idea of Sweden, and eventually Scandinavia, as the spearhead of modernity. The utopian vein was accompanied by a dystopian, or dark, shadow, ridiculing or attacking the allegedly progressive qualities of modern Sweden: the "clean well-lighted place" of Kathleen Nott's reflection, the home of "the new totalitarians," as observed by Roland Huntford. The supposedly high rate of suicide soon became the basic *idée reçu* of the dystopian image of Sweden and the Nordic world, bolstered by President Eisenhower's famous (and later retracted) remark in 1959.

On the European continent, the Swedish myth had a somewhat different trajectory. In 1935, a year before Childs's book, an equally admiring Frenchman, Serge de Chessin, wrote *The Key to Sweden,* which was translated into English a year later. But the most effective propagators of the myth were the German and Austrian leftist politicians who, during the war, had lived in exile in Sweden and later carried the concept of class compromise back to their devastated homelands. Through the efforts of men like Willy Brandt, Herbert Wehner, Bruno Kreisky, and a host of lesser known Social Democrats, the ideal of Sweden as a model for the reconstruction of Europe was firmly embedded in the Continent's political landscape. It spread to France eventually, where it caught the imagination not only of the noncommunist Left, but of government technocrats as well. Through organizations such as OECD and ILO, important aspects of Sweden's innovative labor market policies were diffused throughout Western Europe. Under the chancellorships of Brandt in West Germany and Kreisky in Austria, conscious and partially successful efforts were made to project those countries into a model position; clearly patterned on Sweden's example, the theme of the "German Model" became an important part of Helmut Schmidt's election campaign of 1976.

When did the idea of Sweden as a model for the world enter the minds of the Swedes? In the absence of scholarly investigations, one has to surmise. Even though Childs's picture of Sweden was not entirely accepted by Swedish intellectuals and politicians, he nevertheless became a popular figure in the Swedish press. When he returned to Sweden in the late thirties to conduct research for his book on labor unions, *This in Democracy*, he was treated as an international celebrity. In the thirties, the concept of Sweden as a model for America was striking enough to sell newspapers. After the war, figures like Dag Hammarskjöld and Count Folke Bernadotte became symbols of the diffusion of the Swedish civil-servant ethos into the world, firing the imagination of their compatriots.

In the early fifties, at the latest, the concept of the Swedish model had

embedded itself in the nation's internal political rhetoric. Official institutions had become accustomed to foreign journalists and experts visiting Sweden to study the frontiers of social modernity. The neighboring Nordic countries entered into an informal partnership, whereby similar social reforms were rapidly implemented all over the North, with Sweden generally as the point of departure. In the eyes of the world, the image of the model was successively broadened to encompass the three Scandinavian countries, then later Finland and, to some extent, Iceland. The impression of the Nordic countries as inspired by a similar ethos was further enhanced by the fact that they tended to act and vote as a bloc in the United Nations and in other international organizations.

During the fifties, another important aspect entered into Swedish popular consciousness: the concern for the plight of the Third World. The ground had been prepared by the humanitarian efforts of Scandinavians like Fridtjof Nansen and Bernadotte. Missionaries of the revivalist movements also contributed to focusing moral energy on hunger and misery in faraway parts of the world; the 1952 Nobel Peace Prize to Albert Schweitzer served to further dramatize the issue. In terms of political consciousness, however, the breakthrough came with the vast amount of publicity devoted to the racial situation in South Africa. The tone was set in the early fifties by Herbert Tingsten in his capacity as editor of *Dagens Nyheter*; later, several younger writers followed in his wake. In 1961 Lars Gustafsson, then a representative of the very young literary set, noted that "in no other European country, Great Britain included, has so much newspaper space been used for description and discussion of the situation of the colored population in South Africa as in Sweden."

Gustafsson made his observation as part of a polemic against conservative objections to the idea of Sweden as a world conscience. In an extended version of his essay, published in 1964 as an English language pamphlet, he widened the scope of the controversy, discussing at length the moral issues involved in the interest taken by Swedish public opinion in Third World affairs. He violently rejected the notion that moral protest was a way of evading real responsibility, pointing to Sweden's long-standing commitment to the United Nations and to the high target set for aid to developing countries as proof of a willingness to go from words to deed. He flat-out castigated as hypocrisy the protests caused by Sweden's increasingly active stance on international issues.

> I personally find it difficult to take this criticism seriously. It seems to me based in that kind of feeling of irritation which always arises when someone disturbs the amity of the dinner table by loudly and clearly calling one of those present a scoundrel. In my opinion, and I believe I share it with a good many, there are occasions when considerations to sociable good humor must give way to the truth. The talk about the ignorance of

those protesting is founded to a great extent on a confusion of the terms: there is a difference between knowing the facts one is protesting against and the conditions which have led to their appearance. And there are facts which are unforgivable no matter how they have appeared.

Yet, despite his conviction that moral protest needed no further justification than the awareness of oppression, Gustafsson acknowledged that the attitudes favoring protest in Sweden were derived from a rather special set of circumstances. He ascribed them to a combination of two factors: a feeling of guilt at the singularly privileged position of Sweden in terms of military, economic, and political security, and the desire to break out of the isolation imposed by Sweden's position "as a spiritual and physical peninsula on the outskirts of Europe." In fact, he wrote, the politics of internationalism has replaced earlier notions of national identity in Sweden, growing into an ideology shared by almost every Swede' "This kind of international conscience is, I believe, a way out [of] and a constant consolation for everything we experienced for such a long time as isolation. If Swedish patriotism exists nowadays, it consists of our desire to make ourselves heard in the connection with which this new solidarity confronts us."

The notion of Swedish internationalism as an ersatz patriotism is intriguing. It has been common for both Swedes and foreign observers alike to comment on the lack of a traditional sense of national heritage in modern Sweden. The fact that Swedish political culture for many decades had seemed to lack any trace of romantic nationalism, yet obviously was inspired by a strong sense of common purpose, bewildered many of those writing on Sweden. An early case in point (1938) is Margaret Cole's comment in an anthology on modern Sweden by a Fabian study group: "The Swedes are far less dominated by their own national history than most of the other countries of Europe."

The Fabians failed to see, however, that the evaporation of traditional nationalism in Sweden was a very recent phenomenon. The fact that it had happened at all, and that this set Sweden apart from other European nations, was cause enough for their reflection. They were witnessing at close range an important aspect of the political modernization of Europe: a change in the basic ideals used to legitimize the state. Although a similar process had started in other nations as well, it would become fully apparent outside Scandinavia only after the war.

IV

The modern nation state is, of course, to a large extent the result of war. The story of the development of the European system of states in the sixteenth and seventeenth century is largely a military one. During this period, conflicts

between princely landowners over property rights were slowly transformed into interstate conflicts over commercial and security interests. Hereditary rulers aquired ever greater fiscal, military and administrative control over subordinate communities. Military activity led to growing demands on communal resources of money and manpower. These demands by the ruler led to counterpressures for participation from the people taxed. The cry "no taxation without representation" was heard everywhere in Europe.

The building of the Swedish nation is a model case in point. The king considered to be the founder of modern Sweden, Gustavus Vasa, established his legitimacy by fending off military and commercial threats from the outside, then crushed all internal opposition and proceeded to install a central bureaucracy to stabilize power relations. The political conflicts in the ensuing decades, when Sweden developed into a major military power, centered around the right of the crown to exert taxes for the purposes of war and the concomitant growth of bureaucracy. In Sweden's first modern constitution of 1809, the interrelationship between the right of the crown to wage war and the right of the people to control expenditure was formally recognized in that foreign policy became the exclusive prerogative of the King, whereas the four estate parliament was given veto power on tax increases.

This was the special Swedish compromise in the age of the great upheavals, when the dichotomy between princes and peoples, between the state apparatus and the community was violently resolved in a series of revolutions. The state was, in a sense nationalized. The people, at least in the rhetoric of the time, became their own masters.

The enlightenment philosophers of the 18th century were convinced that this development would eliminate war. History soon proved them wrong. The new power relations, with a minority of propertied people acting as the selfappointed guardians of the national interest, needed a new functional legitimation. Romantic nationalism developed as the new integrating ideology. And war, or the threat of war, was a major instrument in fostering nationalism.

This attitude was reflected in the educational system. Indeed, one of the reasons for the wetablishment of public education was the necessity felt by the propertied classes in fostering a nationalist mentality among the lower clases. In the schoolbooks of the nineteenth and early twentieth century, the nation's great military victories were projected as vivid symbols of national pride.

The rise of romantic nationalism was the necessary corollary to the rise of economic man. The concept of organizing economic life in terms of rational calculus and impersonal contractual agreement was the driving force behind the great revolutions. Nationalism was, in a sense, its side effect. In the course

of the nineteenth century, the ideology of the nation state evolved into a substitute for the communal bonds eliminated by the triumphant market system. In the midst of this development, however, the economic upheavals also fostered alternative models of communality: trade unions, the temperance movement, the free churches. They were to play an important part in transcending the mythology of romantic nationalism, creating a new base for the state in the 20th century.

As Michael Howard has pointed out, the first world war toppled the traditional system of legislation in the major European countries. The war could not be waged without the total participation of the population, in field and factory as well as in the armed forces. As a consequence, the process of political consultation and representation developed to an unprecedented degree. Paradoxically, the war thus ushered in an era that was to become essentially civilian in its outlook.

The old notion of national pride, however, was still quite strong. So was the ideology of laissez-faire. The economic crises of the thirties pitted these currents against each other. As Peter Drucker emphasized in his 1937 book, "The End of Economic Man", the rise of fascism could be interpreted as a revolt against the values of classical liberalism. The communal myth of the nation rose in a final battle against its historical counterpart, the myth of man as an isolated, rational individual. Drucker pointed, as did many of his contemporaries, to the singular importance of mass unemployment in creating this shift of allegiance among large segments of the population. The lower classes, who had after the war been promised a share of power in the still largely liberal economics of the time, felt betrayed. Some revolted from the left against liberalism and nationalism as well. A great many, however, saw their salvation in a new kind of politics that promised to transform the modern state from a vehicle of *Gesellschaft* to one of *Gemeinschaft.*

The welfare states established in the Scandinavian countries during the 1930's represent the bold attempt to find an alternative to this chain of events by breaking out of the free market—nationalist dichotomy. First among the European nations, they succeeded in implementing a thoroughly modern principle of legitimation, based upon the concept of participatory democracy. These countries experienced in their politics a consciousness of common ways and institutions encompassing all social classes. And for the first time in modern European history, this consciousness was almost exclusively shrouded in terms of an egalitarian and progressive ideology, rather than in the mythology of romantic nationalism. In this way, Scandinavia in general and Sweden in particular, became harbingens and symbols of a social revolution that was to radically transform all of Western Europe after the war.

V

There were two events of great symbolic importance in Sweden in 1930, one marking the end of the old era, the other, the beginning of the new. The first is now almost totally forgotten: the point at which the number of Swedish emigrants returning from America surpassed those who were embarking for it. The other, the Stockholm Exhibition, was once considered to be a major national triumph, but in recent years, has taken on a somewhat ambiguous meaning.

The Stockholm Exhibition has been so enshrouded in mythology as to make it almost impossible to appraise its real significance. It served as the springboard of functionalism in all of Scandinavia, and within this context, its initiators waged war on the obsolete ideals of urban construction. But in the Swedish setting, functionalism was to become much more than an architectural style. Its proponents marched forward, exuding enormous self-confidence; they possessed a world view and a view of humanity which held that life and society can be broken down into a number of basic functions, and that these can then serve as the foundation for planned action. "Accept!" they cried, and the cry was directed as much at the past as at the future. History has nothing to teach those who hold the key to the latter.

Why this attitude took hold more readily in Sweden than anywhere else has puzzled many. The pioneering work, after all, had been done elsewhere. Yet, the rapid breakthrough needs to be set against the background of the very old and rather peculiar industrial tradition in Sweden, for it was industry that provided the model for the social visions of the architects and planners. During the political turbulence of the 1920's, the factory seemed to be the only part of society that was capable of successful planning. Functionalism would represent industrial logic applied to social planning.

Compared to Denmark and Norway, industrialism in Sweden took off rather late, but once it did, the pace of development was dramatic. Around the turn of the century, Sweden's per capita GNP started to grow faster than that of Great Britain and Germany. From 1890 to 1914, technological developments favored Sweden in three important ways: the Thomas process of eliminating phosphorous from iron made Sweden's vast deposits of phosphorous iron ores in northern Sweden quite valuable; new techniques of chemical processing for the manufacture of pulp and paper transformed the country's enormous forests into a gold mine; and new methods of generating power by electricity made it possible to locate factories away from rivers. During this period, the foundations were laid for most of contemporary Sweden's huge engineering industries—SKF, ASEA, Atlas Copco, L.M. Ericsson, and Alfa Laval. These grew rapidly into major international concerns, so that the scale

of Swedish industry differed qualitatively from that of its Nordic neighbors.

Modern Swedish industrialism, however, was shaped by an ancient legacy. The manufacture of iron dates back to the thirteenth century in Sweden. The mineral wealth of both iron and copper supplied the financial basis for Sweden's expansion into the Baltic area during the seventeenth century. The high quality of its ores gave Sweden's iron producers a virtual monopoly on the European market—in the first decades of the eighteenth century, for example, 80 percent of England's imported iron was Swedish—that lasted until the final decades of the century. State-restricted production to keep prices up made the iron industry immensely profitable and gave rise to the new class of industrial *seigneurs*.

Iron manufacturing took place in factory villages of a semifeudal nature, so-called *bruk*, where, despite the basic pattern of subjugation, the work force was in time provided with decent housing, medicine, and even schools, amenities that were unknown to the society at large. Local peasants became involved in the industrial process as suppliers of charcoal; in the iron manufacturing districts, this often constituted a major part of their livelihood. Thus the countryside, by way of the factory villages scattered throughout mid-Sweden, became familiar with the organizational forms of industry long before industrialism actually occurred. High culture was influenced by this environment, too; many of the leading artists of the nineteenth century came out of this early industrial culture, and later on, as this first phase drew to a close, it provided the setting for epic stories such as Selma Lagerlöf's *Gösta Berling*.

In his perspective report on Sweden after the 1982 elections, *svensk höst*, the West German author Hans Magnus Enzensberger found a trace of the earliest roots of the *folkhem* and the welfare state in northern Uppland's Lövsta *bruk*, an idyllic former ironworks, virtually unchanged since it was built around 1730. The straightforward symmetry within its rectangular boundary; the houses of the works-manager, the blacksmith, the assistant; next, the school, the pharmacy, the doctor; the wooden belfry whose bell called everyone to work; the church, in Carolingian baroque, with its exquisite period organ; and, then, the manor house in the middle of the French park on the other side of the perfectly straight village street—all symbolized to Enzensberger the Swedish model with its belief in planning and care, a protective reason and constructive cooperation between governors and governed.

The cultural patterns associated with the *bruk* tradition have been highly influential in clearing the way for Swedish industrialization, but unfortunately, we know surprisingly little about the actual process. The ease with which industrialization proceeded in Sweden has led modern historians to focus on the external aspects—on economic and administrative processes—rather than

on the inner forces, the ideas and cultural patterns, that made this development possible. With few exceptions, they have stayed within the logic of the Swedis model, which entails the belief that the development has, on the whole, proceeded straight from darkness to light. The contrasts they have seized on consist of the conflicts between the two main classes of industrialism, those centering on the model itself. Swedish historians have shown a remarkable lack of interest in thinkers who have sought a radically different approach and who have questioned the very nature of industrial progress.

Whereas in other countries, the ravages caused by modernization have continued to influence ideology and political behavior, giving birth to competing views of the national heritage, the dominant view of Swedish history is overwhelmingly one-dimensional: it is the chronicle of the victors. The basic idea of this view is the belief that the ideological heritage of the predemocratic era was largely irrelevant to the ensuing development and thus, as a field of study for historians, can be regarded as an embellishment rather than an intrinsic part of the structure.

This perspective has left us with some major enigmas when it comes to understanding the foundations of modern Sweden, foremost of which would seem to be the extremely rapid pace of the ideological transformation connected with the establishment of parliamentary democracy. The extension of suffrage in Sweden was halting, and full suffrage came much later than in other Nordic countries. That only fourteen years elapsed between the democratic breakthrough in 1918 and the start of the forty-year-long unbroken reign of the Social Democrats is a point worthy of reflection. As Douglas Verney has noted, between 1909, the year of the general strike, and 1918, the year of full male suffrage, a change took place—without bloodshed—far more dramatic than any that had occurred in other Western democracies in a comparable period. On an ideological level, it meant the abandonment of a traditional, authoritarian, militaristic outlook, one tainted with mythology out of Sweden's imperial past, for progressive ideals. In internal politics, it signified a shift from defense to social welfare and education as the main areas of state expenditure. In foreign policy, it implies the relinquishment of Sweden's traditional orientation to the east and south in favor of new political and commercial ties with Britain and the United States. Humanitarianism and internationalism replaced the nostalgic nationalism of former decades.

To some extent, of course, this transformation was part of the general European war experience. In Sweden as elsewhere, it meant a change of the ruling elite. In 1920 a minority Social-Democratic government was installed, although its parliamentary base was extremely limited. All during the twenties, there was a rapid succession of weak governments. The armed forces, the

upper governmental bureaucracy, and—obviously—industry were still dominated by the old elite.

One of the most glaring deficiencies in the prevailing view of the origins of the Swedish model is the lack of a detailed picture of the gradually shifting allegiance of this traditional elite. As an *ancien regime*, it was ideologically, politically, and economically much stronger than its counterparts in the other Nordic countries. It constituted an oligarchy in every sense of the word. In the conservative cabinet of 1908, headed by an admiral, six out of eleven members were nobles, as were thirteen of the twenty-three county governors. The aristocracy was, furthermore, the source of one third of the commissioned officers in the armed forces. In industry, the *seigneural* class still held a formidable position. And through the universities and institutions such as the Swedish Academy, intellectual life, too, was strongly, linked to the oligarchy of power.

Partly provoked by anti-Swedish liberal patriotism in Norway, partly by the antinational radicalism of the 1880's, aristocratic intellectuals in the 1890's forged a new right-wing nationalism based on the worship of nature and the mythology of Sweden's great-power era. The ruling circles grasped it eagerly. Thus, modern Swedish nationalism, in contrast to the situation in the other Nordic countries, became almost exclusively an upper-class ideology. Domestically, it was directed against the labor movement as a source of disruption, which in turn provoked a strong antinational reaction among workers. It took the Social Democrats until the First World War to close ranks behind a policy of national solidarity.

The new conservative nationalism, however, did have progressive traits. Notwithstanding its anti-Norwegian and antilabor nostalgia for ancient, heroic times, it also reflected a growing awareness that Sweden's future source of greatness would not be military prowess but industrial skill. Its symbols were traditional, but it was remarkably lacking in anti-industrial yearnings. Compared to the Wagnerian cultural pessimism that accompanied the industrial breakthrough in Germany, it stood out almost as a champion of rationality. Some of its proponents clearly sensed that if Sweden was to be a great power, its social structure would have to be altered dramatically. In the 1890's, a leading conservative intellectual, Harald Hjärne, professor of history at Uppsala University, framed the basic terms of a historical compromise in his famous formula, "Defense and reforms." Through the combined rewards of progressive taxation and universal suffrage, the workers would be enticed to accept the burden of a conscript army and generally to become patriots.

The problem of integrating the workers into the national culture was central to conservative thought in the first decade of this century. At the same time

that organized labor was being fought with great determination, the individual worker was being wooed—at least in theory. The sense of desperation one finds in the many conservative tracts dealing with the dilemma derives not so much from the political advance of the labor movement as from the fact that the workers—far from responding to the call for patriotism—were leaving Sweden in droves. It was emigration that finally spurred the shaping of a new set of national priorities. The conservatives' vision of a glorious industrial future was darkened by the fear that their factories would be left empty, without workers. Their self-confidence was deeply shaken by the seemingly inexplicable fact that emigration from Sweden continued steadily even while that from several other European countries declined drastically. Adrian Molin, a leading theorist of emigration, summed up in 1910 the inevitable conclusion in a typical example of conservative flagellation:

> There are of course people who think social discontent in Sweden is actually a result of the success of socialist agitators. There are also people who believe that the emigration is essentially the work of crafty emigration agents and unscrupulous recruiters. Actually, these views bear intimations of one of the most fundamental causes of both our social discontent and of emigration: the smugness of Sweden's leading social class, its blindness to the failings of its leadership. For both the labor movement and emigration are expressions of the little people's revolt against the governance of the ruling class and especially against its management of the nation's productive work . . . What we need is an effective *democratic* reform policy with a sober, businesslike disposition, and with *conservative* respect for those values that deserve to be conserved. . . . The ability to believe in an end to emigration is tantamount to the ability to believe in a future for the Swedish people, in development into sound, realistic reform work, into forceful, energetic expansion, into a belief in Sweden's lucky star—Sweden's greatness.

Molin, chairman of the then newly established National Association Against Emigration, publisher of the conservative journal *The New Sweden*, and close collaborator of Professor Rudolf Kjellen, the theoretician of geopolitics, traveled extensively throughout the United States, as part of an official government mission, trying to discover which aspects of American life were the main attractions for emigrants. The mission published a report that was not only the most thorough investigation into the causes of emigration undertaken by any country, but far more important, it was a complete survey of the Swedish national economy, the economic history of its various regions, and their potential for future development. Its stated aim was to see whether American social and economic conditions could be transplanted to Sweden, but its closing remarks were the most telling, for it was here that the concept of *planning for change*, later a basic aspect of the Swedish model, was introduced.

Were we to attempt in a few words to give a brief indication of our own idea of the causes for the great emigration, then we would say that in Sweden we dallied twenty years too long with the railroads and thirty years too long with universal [actually, male] suffrage. And the most important cure for emigration, in other words, is, in the future, *not to get behind*, either in the matter of economic enterprise or in that of social reform.

The report left few immediate traces, its recommendations becoming engulfed by the political turbulence of the First World War. In any event, emigration soon ceased to be a major issue. The controversy over it, however, did force a turn away from imperial nostalgia toward a new dream of industrial-economic supremacy. Greatness, it appeared, could be achieved in a different way—through a policy of rational cooperation between government and industry. But the basic values of the old national consciousness had placed Sweden at odds with its neighbors and had led its proponents to seek commercial outlets on the basis of geopolitical ties—and the conservatives were unable to see that their vision of greatness could be fulfilled only with a new elite in power, one that would envision the whole world as its market.

But their effort, however limited in vision, was publicly praised by progressive observers even before the war was over. Ludvig Nordström, visionary novelist and essayist, took the conservative dream of greatness as the point of departure for his own conjectures of Sweden's role in a new world, dominated by Anglo-Saxon values.Citing anonymous British commentators, he concluded that Sweden was now on the verge of real greatness:

Sweden has a bright future, in part as an independent industrial country and in part as a connecting link between the Western and Eastern Hemispheres. Sweden —or perhaps more accurately Scandinavia—will become one of the focuses of world industry, abundant as it is in ample measure of ore, water power, and other prerequisites necessary for industry. It has the good fortune to possess a wise, alert, and well-balanced people geared for progress; good organization; sound political insticts, and some of the world's best engineers. And it has the privilege of being related racially to the Anglo-Saxons, that is. Englishmen and Americans, who together are clearly going to decide the form and fate of the world in the age to come. . . . Why, one may ask, could not Sweden become a model country for the rest of the world? It has everything necessary with its excellent race, its developed institutions, its talents, its instinct for sports, and its ethical prospects.

This is probably the first time that the notion of Sweden as a model was mentioned in a modern context. For Nordström, the idea was part of a scientistic vision of the new world order, heavily influenced by the utopianism of H. G. Wells. In the aftermath of the First World War, Nordström's extravagant calims count among several signs that Sweden was not wholly unprepared for the international attention it was going to receive a decade later. In

October 1930, the emigration controversy finally became history, with the announcement that for every Swede leaving for America, four went the opposite way. And earlier the same year, Nordström's dream of Sweden as the forerunner of a scientistic world order was taken over by a new generation of architects, scientists, and social engineers in the wake of the Stockholm Exhibition. A few years later, Nordström himself was to write an immensely influencial tract against the deficiencies of Swedish urban planning and sanitary conditions. Its title, "Fifthy Sweden," was laden with the power of progressive mythology. Under the banner of scientific planning, the fight against the "filth" of the old order was triumphantly waged in the decades to come.

VI

When the 300th annivesary of the death of King Gustavus Adolphus II was commemorated in Sweden in November 1932, one of the principal speakers was Johan Nordström, professor of the history of ideas at Uppsala University. Using rhetorical figures of almost baroque magnificence, Nordström tried to evoke the *zeitgeist* of Sweden's great-power era. He spoke of the reign of Gustavus Adolphus, "the Lion of the North," as "the springtime of Swedish history," enshrouded in a mythology of ancient deeds of valor, the very naivete of which, according to Nordström, was proof of the vital force of the age. For the first time, Swedish national culture took on universal significance: it was brought into the heart of Europe as an agent of liberation. The emerging Swedish empire was spiritual as much as material; far from being the result of vulgar power tribulation. It had a moral purpose.

Nordström's deliberately romantic interpretation of Sweden's rise to eminence in teh seventeenth century was doubly anachronistic. As a picture of the spirit of the imperial period, it obviously bore only slight resemblance to reality. It was at odds with recent historical research that had laid bare the palpably material motives behind Sweden's military expansion. Adoration of the "warrior king" was rapidly becoming unfashionable. In fact, the festivities of 1932 were the last large-scale national celebration in Sweden anchored in the traditional great-power mythology.

Yet, despite Nordström's apparent lack of contact with the values of his time, his speech can be read today as a bold premonition of the new *zeitgeist* that was to emerge during the thirties in Sweden. The old historical tradition was rapidly scrapped as unfitting to a nation aspiring to the peak of modernity. The new mythology, however, retained significant elements of the tradition it was superseding. Swedish national culture would once more serve as a liberating force in the world. Sweden would build a new spiritual empire as the native

land of moderna values.

On the level of administrative structure, there was an important element of continuity as well: the state apparatus that administered Sweden's economic recovery during the thirties was heir to the ultramodern principles of statecraft established three hundred years earlier by Axel Oxenstierna, chancellor to Gustavus Adolphus. The tradition of rational administration of the public interest is the paramount and never discarded legacy of the great-power era in Sweden.

In what can only be called a model case of democratic regeneration, a political force that had been considered subversive only two decades earlier found itself to be the new guardian of this tradition. The communal bodies that had been born in reaction to industrial capitalism—the trade unions and farmer's associations—were allowed to share in the management of state affairs. The result was a change not only in the formal division of power, but in the moral quality of society as well. The new social forces infused their values into the state. It was a trade-off: the values would be backed by the authority of the state and even allowed to penetrate the educational system, but in return, the labor movement had to abandon its sectarian ideology. In doing so, it was transformed into a guardian of the national interest.

It is sometimes overlooked that this political change was consciously brought about as a democratic answer to the same economic and social pressures that had led to fascism on the Continent. The moral motive of combating fascism was an important feature of the alliances between workers and farmers that had been established in the three Scandinavian countries from 1933 on; in Denmark, the so-called Kanslersgade agreement—which allowed for measures to help the unemployed in return for a reduction of farm taxes—was concluded on January 30th, the day of Hitler's ascendancy to power. In Sweden, where a similar accord was struck a few months later, the antifascist objective was even stronger. In the elections three years later, the links between workers and farmers proved a political boon to the Social Democrats. It gave them an absolute majority in the Parliament and thus a power base from which to forge the next step of the historic compromise: the Saltsjöbaden agreement of 1938 between industry and the trade unions.

The political authority of the Social Democrats was further enhanced by the success of their economic policies. They had boldly challenged the conventional wisdom of economists at home and abroad. Independently of Keynes, Ernst Wigforss, the minister of finance, had argued that by creating jobs and paying high wages, the purchasing power of society could be increased so that manufacturers would have more outlets for their products and unemployment would be eliminated. His actions proved him right.

Labor turned out to be the perfect executor of the plans for economic and social development that had been made decades earlier by members of the old elite. The political synthesis of the Social Democrats assured social stability and economics growth to both industry and the bureaucracy. Workers and farmers were promised social security, political power, and a fair share of the growing industrial wealth. The moral authority accruing to the Social Democrats from their success in defining the common good facilitated the transition from a traditional to a modern sense of historical identity. The events of the thirties—from the Stockholm Exhibition to the Saltsjöbaden agreement—were experienced even then by a majority of the Swedes as the starting point of a *projet de société*: the comforting vision of the people's home became the founding myth of what seemed like a wholly new social order. A new communal awareness was born, a consciousness of shared destiny that cut across both class an regional cleavages.

The most amazing aspect of this development is that it happened at a time when democratic culture everywhere else in Europe seemed to have lost its vital force. By calling his 1932 study of the development of democratic politics "The Triumph and Crisis of Democracy," Herbert Tingsten expressed a general feeling of despondency among European liberals of his time. And George Orwell, in his 1944 essay on Arthur Koestler, epitomized this view of the thirties as the starting point of an era of political decay: "Since about 1930 the world has given no reason for optimism whatsoever. Nothing is in sight except a welter of lies, hatred, cruelty and ignorance. And beyond our present troubles loom larger ones which are only now entering into the European consciousness."

If the general political current of the thirties seemed to favor authoritarian government as the way to restore economic growth and social stability, Scandinavia in general and Sweden in particular appeared as the exception. Swedish intellectual climate was, on the whole, curiously optimistic, albeit in a low-key, reformist fashion. The contrast to the dominant mood of the decade was a favorite theme of foreign observers. In a typical comment, the *London Economist*, in a 1938 special report, described Sweden as an island of hope in a sea of despair.

The project of shaping a new national consensus in Sweden was thus invested with a universal moral and political significance. Against the forces of reaction and authoritarianism, Sweden took on the role of guardian of the values of 1789. Sweden's image of its future became inextricably linked to the effort of promoting its social model as the democratic solution to the liberal dilemma. In this perspective, the evolution of the welfare state could be seen as the ultimate fulfillment of the liberal dream. Universal material rights were

added to the formal rights of citizenship, making the concept of equal opportunity much less of a fiction. The hope of the liberal project seemed to lie in discarding traditional concepts of the autonomy of the market.

The success story of the Swedish model had one curious aspect: the externt to which Sweden entered into a sort of competition with the United States as the symbol of modernity. New Deal liberals, much taken with the Swedish model during the thirties, had a vision of a spiritual axis running from Washington to Stockholm: America was to be regenerated by an infusion of Swedish social wisdom, while Sweden was to be rejuvenated by American optimism. Through the efforts of intellectuals like Gunnar and Alva Myrdal, widespread admiration in Sweden for the policies of Franklin D. Roosvelt merged with an interpretation of the American tradition as inherently progressive. The reversal of the New Deal after the war and the outright hostility to the concept of the welfare state by both the Truman and Eisenhower administrations was a tremendous blow to the hopes of a combined Swedish-American effort to reform the world. Yet, even after the feeling of a shared political destiny had vanished, admiration for American values remained strong. In the late fifties, the Social Democrats found a theoretical justification for enlarging the public sector in an American source: John Kenneth Galbraith's analysis of the disparity between public squalor and private affluence. Again, in the Swedish opposition to the war in Vietnam, the notion of common values played a role, protest against official American policy being interpreted as consistent with the "true" American tradition.

In the popular American literature on the Swedish model, the comparison between Swedish and U.S. interpretations of modernity is a recurrent theme, many writers in fact using the Swedish model as a vehicle to demonstrate aberrations of the American Dream. The tendency to pit the two models against each orther appears in scholarly studies as well. Richard F. Thomasson, in his 1970 book, *Sweden: The Prototype of Modern Society*, replying to Seymour Martin Lipset's famous assertion that America is the first new nation, declares that Sweden has eclipsed it as the foremost emobdiment of modernity. Sweden came late to modern values, Thomasson observes, but it has come to accept them with speical intensity. Swedes, ha notes, not only have a strong commitment to democracy, egalitarianism, empiricism, and secular rationalism, but combine these with a belief in the malleability of institutions. Indeed, Sweden, even more than the United States, appears in Thomasson's analysis to fit Frank Thistlethwaite's description of the American mentality—"a society fluid and experimental, uncommitted to rigid values, cherishing freedom of will and choice, and bestowing all the promise of the future on those with the manhood to reject the past."

Even as Thomasson's book was being published, reality belied his idyllic view of Swedish society. The miners of Kiruna had shaken the complacent belief that secular rationalism in itself could provide a yardstick for the common good. The much-praised consensus on moderne values appeared suddenly to be little more than the arrogance of an elite, accustomed to running the affairs of state according to a purely formal definition of political goals. The "we'll-do-it-for-you" paternalism of the people's home now appeared to many to be autocratic rather than benign. And as the Social Democrats tried to regenerate support by emphasizing the moral issues of quality of work and power-sharing in industry, a fateful weakness of the model came to light: the evaporation of binding value symbols. The mythology of progress proved unable to legitimize the new political signals. The Right felt the new destination to be a deviation from the model. The youthful Left, already in the throes of an existentialist revolt against technocratic modernism, saw the changed Social-Democratic rhetoric as yet another machination of instrumental rationality. With the oil crisis and the ensuing recession, whatever remained of the old consensus rapidly eroded.

VII

Nothing fails like success. The Swedish model could not survive without the momentum of repeated accomplishment; for the system to retain the devotion of its subject citizens, the promise of the future had to be constantly renewed. Such a prospect, however, cannot be upheld for all of the people all of the time. Indeed, that so many believed it for so long is one of the wonders—and mysteries—of modern history.

So where does this leave the Swedes? In a predicament not unlike that ascribed to other Europeans by Stanley Hoffmann—with their sense of national identity (and hence of national destiny) just bits and pieces floating in teh here and now. The Swedes, however, have never been captured by the European myth, and their rejection of the past stems from sources different from those described by Hoffmann as underlying the spiritual misery of modern Europe.

It has also been more redical. Modernization has succeeded in Sweden to the extent even of eradicating the atavisms, the obstacles to collective efficiency whose existence on the Continent has for so long disturbed the Eurocrats of Brussels. In destroying those pockets of resistance, it might just be that Sweden has also rid itself of a crucial factor of regeneration. In the meantime, modernization is carried on, but with most of the old promises abandoned: it is now simply a matter of muddling through in difficult times. The Social Democrats have reappeared as the administrators of the fragments of collective

destiny; their appeal, however, derives more from their perceived competence in holding growth stoppage and unemployment at bay in these troubled times than from any positive vision of the future.

The repository of values accumulated in the fifty year history of the Swedish model still determines the limits of political discussion, even if the parameters of license have been broadening.

Still curiously unshaken among the modern Swedish myths is the very backbone of the national consciousness: the collective sense of being exceptional. Unlike its counterpart in the United States, it has never been explicity stated as an ideology. Nonetheless, Swedes undoubtedly share a feeling that their country, in a deeper sense, is immune to the crises affecting the world at large. This myth has been nurtured by the country's geographical isolation and the luck that has spared if from all European wars since the time of Napoleon. It was reinforced by the feats of technological, social, and political creativity that transformed Sweden during the twentieth century from a society of misery and backwardness into a model for the world. The coincidence of a completed social modernization with the breakthrough of a technological revolution after the Second World War, when Sweden, virtually alone among European nations, was left in possession of an intact and highly efficient industry, provided the material base for Sweden's rise to the status of a small state with the freedom of action of a great power.

The really remarkable feat of Swedish twentieth-century elites, then, appears to be the skill with which they converted their nation's samll-state position from a handicap into an asset. Sweden managed to ride against the apparent tide of the century, which seemed to relegate the small states to the status of dominions of the empires. The very success of the effort fostered a national ideology in which seemingly contradictory elements were combined: a sense of common purpose as strong as anything ever dreamt of by nineteenth century romantic nationalists, yet uncommitted, even hostile, to preindustrial values. A rationalistic futurism took the place of religion; social and technological change was felt to be not only unavoidable, but morally imperative. Antitraditionalism became, paradoxically, the dominant tradition, a dynamism that was reinforced by the narcissistic feeling among the elite of being the object of admiration. Modern Sweden was a mini-Prometheus unbound. The temptation to continue this tradition will be very strong. Industrial organization and technological innovation are among the oldest and most formidable currents in Swedish culture. Sweden is quite likely to meet the challenge of the future in this field better than most other European nations. But there will need to be a new source for the cultural myths necessary to release once again the social energy that has for so long characterized the Swedish model. Sweden

is now, for the first time in this century, fully synchronized with its Nordic neighbors and the rest of Europe. The problems are common to Europe at large. The age of Swedish exceptionalness appears to be drawing to a close. Hence, any search for a new historicity in Sweden will have to start with a reappraisal of the traditional links with the neighboring countries.

VIII

In his 1936 travel book on Scandinavia, the Czech writer Karel Capek admiringly described the charms of the early Swedish model: "Sweden is the country with many bridges and roads but little politics; where the girls lack makeup, the dogs muzzles, the streets policemen, the bathing-huts keys, and the doors latches, where cars and bicycles are left unattended, where life is led without fear and the people are extremely hospitable." European political journalists in the eighties quite obviously take a different view. No one can ignore the fact that, while Sweden still possesses many bridges and roads, it also has too much politics, muzzles on people as well as on dogs, and far too many policemen. The girls are still beautiful, but one would be hard put to find any without makeup. Indeed, boys use it nowadays too. And no one in his right mind would leave his bicycle unattended in any part of Stockholm for more than a few minutes.

But the same could be said for any big city in any Western—or, for that matter. Eastern—country. That the existence of these (and other related) phenomena in Sweden can be used to prove that Big Brother has decided to use Sweden as a laboratory, before taking over the rest of the world, is indicative not only of modern journalism's constant need for dramatic reversals, but also of the troubled view of the future now prevailing in Europe. What is attacked in the Swedish *contre-model* is a particular form of technological and administrative modernity that only fifteen years ago was hailed as the harbinger of a wonderful future. The baiting of Sweden seems to be a peculiar kind of exorcism.

George Orwell's vision looms over this discussion in more senses than the obvious one, that of the mythical power of the figure 1984. Despite the reassuring assertions that his prophecies have not come true (except in Sweden), there is a malaise in the air that is remiscent of the thirties. The world of the eighties gives as little reason for optimism as that of the thirties. To make matters worse, there are not even any clearly discernible representatives of evil; no Stalin and no Hitler. And the models of democracy of yesterday, tiny Sweden and magnificent America, have both faded. The predicament has produced neither villains nor heroes.

Could it be that the "larger troubles" that Orwell warned of in his essay on

Koestler took forty years to enter the European consciousness? Could it be that Sweden's illusion of being the master of its own fate was a self-deception shared by all of Western Europe? If so, the anger now aimed at the Swedish model is simply the frustration caused by a common plight: the loss of a historical heritage and the inability to regain a sense of communality now that the blessings of modernity have proved ambiguous and alternative visions of the future are simply the recycled cliché's of yesterday.

The tendency to disclaim the historical significance for all of Europe of the Swedish experience will, however, only serve to make matters worse. A viable legitimation for the evolving social and technological order can only be found in transcending the welfare state, never in dismantling it. The dream of a modern economy entirely independent of the public sector is unreal. Any government attempting to strip the state of its powers will find itself confronted with the paradox of having to strengthen central authority and command. Neo-liberal freedom can only be achieved by bureaucratic means, by giving ever more detailed directions on reforms to be carried out. Democratic participation and local decisionmaking will inevitably suffer. Attemps will surely be made to solve the ensuing lack of legitimaticy by recourse to traditional methods (witness the example of Mrs Thatcher and the Falklands war). Thus, along with the anachronism of neo-liberalism, Europe runs the risk of once more being confronted with the ugly twin brother of laissez-faire: nationalism.

The cure could well turn out to be more deadly than the discase. Perhaps, the attitude of Swedish voters in the 1985 elections is not so illusionary after all. In the face of an unacceptable choice, they hedged their bets, huddled between the warring camps and hoped for time to resolve the dilemma.

Changing Economics and Values The Case of Sweden as seen by an American Visitor

Michael Maccoby

During the past ten years I have observed Sweden from the point of view of an American looking for a more humane model of socio-economic development; Sweden appeared to have solved the problem of production and to balance a well-run economic machine with an equitable system of distributive justice. There is no poverty, and beyond that, Swedes are concerned about the environment, the quality of life, and have a sense of social responsibility for the wider world.

All this attracted me, for in the USA of the early 70's, those who shared this outlook were in the minority. I believed we could gain ideas and hope from Sweden. Yet, even than I was not an uncritical visitor. I observed a sense of malaise and uneasiness over the welfare state. For many of its members, Sweden felt like the great machine mother, with life-long protection at the cost of freedom. Many people felt like individualistic hedonistic cells in this mass organism. They said they felt they were losing a sense of responsibility, of caring for each other, as each expected to be cared for by the state. Some also felt that this system lulled Swedes into a false sense of security that did not fit a changing world economy of high energy costs and fierce competition.

Young people were also challenging the industrial hierarchies. In 1969 mineworkers in the north struck against both management and union authorities. In factories, absentee rates soared and Sweden sought immigrants to man the lines. Some Swedes were aware of all this and were trying to do something about it.

Volvo's visionary leader, Pehr Gyllenhammar, had ordered his engineers to redesign the assembly line, and the result at Kalmar showed a new way to humanize work. Careful follow-up studies demonstrated ten years later that this was also more productive.

But for most managers even within Volvo, attempts at humanization and reform of work remained at the level of good works until the late 70's. Up until

that time, a basic web of belief seemed to form a national consensus. This included the view that bureaucratic-industrial hierarchies run by experts would produce goods and services and create wealth for Sweden. People would be motivated by a combination of economic incentive and duty, and rules would substitute for authority. At the top of the hierarchies, the role of leadership was essentially administration, to keep the machine going efficiently, to follow the laws, and to decide what was fair. Inasmuch as this system also was oppressive and dehumanizing, unions pushed through legislation meant to give them the power to improve the quality of working life.

During the past few years, these beliefs have been shaken. The old approach to creating wealth does not work in an economy challenged externally by fierce competition in its key industries and internally by new values. Sweden must either earn more or spend less. Changes in technology and competition have downsized or wiped out traditional industries (e.g., m ship building, foundries) and in others replaced workers with robots or automated systems, causing an employment problem in a country which highly values full employment and a government which makes this goal a major priority. To maintain a way of life in a country which depends on exports for almost one-third of its GNP, new, higher value-added products must be designed and produced at lower cost. Government must function more effectively. Innovative entrepreneurs must be encouraged, and a new generation oriented to self-expression at work must be turned on and motivated.

Sweden's economic problems challenge institutions, attitudes and values that appeared beautifully adapted to conditions that are rapidly disappearing. The questions that must be addressed start with an analysis of economic change. What is changing and what adaptation is demanded of Sweden? And what can we say about the capacity of Swedish society to change? What are the sources of creative response? And where are the strongest resistances?

These are large questions, but the challenge to Swedish institutions is cultural and ideological as well as economic. To understand the problem requires a holistic analysis. What I offer here is sketchy, a beginning based on observation, listening and hours of dialogue with Swedish leaders from business, interest groups, and government. Particularly, I have explored these issues with Lennrat Strömberg, Anders Edström, Jan Erik Rendahl and other researchers from FA radet who have been studying leadership at all levels of Swedish organizations.

The New Mode of Production

Daniel Bell first wrote of the information age and Alvin Toffler popularized the idea of a third wave of industrial development. Inasmuch as we can observe

the changes taking place, they are caused by increased competition, as much as information technology. Indeed, the two factors are related. Competition from the Japanese first challenged European and American products, both in price and quality. To compete, Sweden and the other Western countries need to cut costs and increase quality. Workplaces are automated and more motivated workers are needed to insure safety, efficiency and quality. Also, as the industrial West and East sell technology to the developing countries, they produce at much lower cost, forcing countries like Sweden to create more value-added products. These include technical services, customized engineering programming, administrative services that replace the need for more costly middle management.

As a result of technology and competition, a new mode of production is evolving, one that challenges the industrial bureaucratic system and the theories of management that have served it for the past 75 years. The management of industrial bureaucracies have been adaptive to conditions which are changing: electro-mechanical technology, standardized products for mass markets. Industrial bureaucracies can be designed like mega-machines, controlled from the top and organized on principles of job simplification and functional division of labor. Everything can be measured and industrial engineers find the one best way to do things.

The new competition and technology require people at work who can solve problems. The key to success for service industries is a workforce which can satisfy the customer. Even in factories, automation turns production workers into service workers. The new conditions require new skills, attitudes and above all, changed interpersonal relationships. To be effective in the new conditions industrial bureaucracies must be transformed into networks of what I call technoservice teams.

Technoservice and the export ideal

In contrast to industrial bureaucracies, technoservice teams are oriented to differentiated markets. They must be flexible, adaptive to an unpredictable market demand for new products. They require a flattened hierarchy, and there is no one best way to design jobs. The type of business that Sweden most depends on, based on highly organized engineering, is the type that must be transformed into technoservice teams. To function effectively, they require leadership that goes far beyond bureaucratic administration to design strategy that includes market analysis, technology and the human resource development essential for continual change. Technoservice leadership must communicate strategy including a shared vision, a culture that supports decentralization

of many small decisions so that every action does not have to be monitored centrally. Technoservice demands interdependency, teamwork as opposed to the bureaucratic-industrial system where each person has an isolated job that is coordinated at higher levels.

Ironically, the bureaucratic-industrial organization, which is criticized for its dehumanizing control, tends to preserve an ideology of managerial individualism. The ideal is to be an expert, with technical skills and an autonomous area of action. The means of preserving dignity in an organization is to be an expert and move up the ladder. As Swedish social psychologists point out, workers want greater autonomy, to be considered experts even in lower-level jobs. Sweden, like other advanced bureaucratic-industrial societies, has built an academic system which feeds and reinforces the culture of experts. Technoservice requires a new managerial outlook, attitude and skills. It threatens autonomy by demanding interdependence, teamwork, supportive relationships, an attitude of helping internal and external customers to solve problems and to develop human resources.

Technoservice requires an enlarged concept of the expert, one that includes knowledge of group process and team building, as well as technical knowledge. This challenges what appears to be a strong dichotomy in the Swedish psyche of conformity/obedience vs. individual autonomy. Indeed, inasmuch as Swedes think of an alternative to the individualistic economic man, it is in negative terms of the loss of individualism, brainwashing, forced conformity, Orwell's 1984. In the new technoservice paradigm, one can achieve a feeling of independence by becoming more of a leader at work, by starting one's own business, or by conforming on the job and developing oneself outside of work. What is required at work is neither pole; rather, the new system calls for interdependent people who solve problems together.

The technoservice paradigm has been dramatized by Jan Carlzon's service-oriented philosophy at SAS and by Alan Larsson's conception of a decentralized customer-responsive, Labor Market Board. Although the new paradigm is appealing to a generation that wants to express more of the self at work, the implications are disturbing, even dangerous, to those who have adapted to the Swedish version of the bureaucratic-industrial world. Ideology, institutions, roles are all challenged. What must change and what will be preserved?

The Challenge to Economic Man

There is a broad consensus today by Swedish leaders from all sectors about what is changing and what Sweden must do about it. International competition requires more investment in business, the need to invest in new technology

research and development and to cut government costs. Where leaders differ is what they believe it will take for Sweden to be more competitive, to create wealth for the society, to maintain a culture of equitable affluence, to maintain full employment. Business leaders are attracted to a more market-oriented approach, not only because they believe it will be more efficient; they also believe that economic incentives will stimulate entrepreneurial activity and create jobs. The social democrats believe they must encourage profitability and capital investment by gaining collective support to hold down wages, but that workers will support such a policy only if they share equitably in the results. For the social democrats, the new Wage-Earner Funds are a way of guaranteeing that workers share in profits they have sacrificed to create. For employers, the Funds are a way of penalizing successful companies and laying the groundwork for further government control, ultimately weakening the entrepreneurial spirit and the ability of management to act effectively.

Leaving aside the issue of whether the Funds will do either what is hoped or feared, one might argue that these ideological disputes mask a power struggle between employers and union leaders. But even so, Swedish leaders share deep common values and respond to rational argument based on evidence. No one wants to destroy the cooperation essential to prosperity. One of the difficulties with the current argument is that it is based so much on belief, not on convincing evidence. If we examine the ideological differences more closely, we find they have a great deal to do with ideas of what creates productive motivation. All Swedish leaders, like leaders in all the industrialized countries, share a basic belief in economic man. The arguments are about equity, distributive justice, sufficient reward to motivate. The solutions offered are all in terms of funds, wage agreements, and tax policy. There is little discussion about what other than money creates productive motivation for entrepreneurs and workers, when in fact, the new conditions require rethinking this very question.

What are the assumptions of economic man? Albert Hirschman in *The Passions and the Interests* (Princeton University, 1978) and other papers, has written about the philosophical assumptions of economic man as the concept was created in the 17th and 18th centuries. Economic man is based on the idea of the Enlightenment that economic interest is a safer motive for men of action than such irrational human passions as power, glory, and conquest. Economic interest demands rationality and cooperation. The glory-seeking prince is controlled by the no-nonsense merchant. Economic man also served to explain the motivation of the worker moving from farm to industry, accepting money as a necessity and compensation for the indignity of regimented industrial work. And so it goes for all who participate in the economy. The human cost of

economic man is self-alienation and the suppression of benevolent communitarian drives, but according to Adam Smith, it is a good bargain. Sweden has not fully bought Adam Smith's theory that the invisible hand of free enterprise will create a common good. The welfare state bureaucracy is meant to be a supplementary helping hand. But Swedes like the rationality of economic man, the idea that a calculus of fairness can be determined by experts.

Other theories of productive man have influenced Swedish social democratic ideology, and modified economic man. Marx's theory of political man claims that if powerless working people join together to gain power, they will protect themselves from exploration and even create a more productive organization. This theory has influenced Swedish workplace legislation, but it has been found that the power to bargain over how to manage work does not necessarily improve the quality of working life and it may even undermine productivity.

This September, ten years after my first visit to Sweden, I brought another group of American managers and union leaders to examine Swedish industrial relations. We found that even the intellectuals of the *Arbetslivscentrum* now recognize that the codetermination law (MBL) and other decrees did not lead to a more democratic workplace. In an attempt to humanize organizations, Sweden has misapplied democratic theory. Modern industrial democracies protect individual rights and institutionalize balances among interest groups. Democracy helps to create the basis of a humane industrial culture by protecting rights for health, safety, equity and dignity, but is of little use in building good and effective organizations. Many democratic firms have failed due to poor leadership. Large organizations are technocratic, not democratic. They run effectively according to expert knowledge. Unions provide democratic opportunities to demand fair treatment, but ultimately technocracy will be humanized only by leadership which combines sociotechnical innovation and managerial creativity. In the extreme, the Marxist theory of political man has supported Yugoslavian worker ownership. There it has been found that workers who collectively own the industry and remain in the same fragmented roles as before, electing the same autocratic leaders, are just as alienated as workers in a capitalist bureaucratic-industrial system. In contrast, the most creative managers in Sweden share information with unions, consult with them, are responsive to their concerns, but finally, make decisions and accept responsibility for them. The weakness in Swedish management I have observed is in developing opportunities for workers at all levels, not only to influence decisions, but to propose changes in both methods and work environment, in effect, to use their minds and experience to challenge the experts. Where this occurs in the U.S. and Japan, the expert role becomes

more of a resource to workers who become more motivated and effective.

The major criticisms of economic and political man have been in the context of industrial bureaucracies. Sociological man theories claims that social role determines behavior. By making the role more important, with status and responsibility, people will be more motivated. Sociological man supports bureaucratic dignity, but not necessarily productivity. Certainly, no structured role guarantees cooperation and good service. Finally, the theory of psychological man especially as presented by Abraham Maslow tends to rationalize the other theories by proposing that people are motivated by needs, at lower levels for money, power, and status. And once these needs are sufficiently satisfied, for achievement and self-realization. Psychological man argues that once affluence dampens survival fears, the cultural level rises and economic man no longer explains motivation. According to Maslow, people at the top can express creative urges at work.

All of these theories are of course partially true, but they all share a vision of an individualistic person being turned on to perform specialized or fragmented tasks: a partial person.

For economic, political or sociological man, the meaning of activity is in gaining money and power, or in maintaining dignity through status. Even Maslow's self-realization is described as individualistic self-expression. These theories conceive of organizational society as a collection of isolated units, coordinated by managerial experts. They fit the paradigm of bureaucratic industrial society, not technoservice, which requires an evolution of relationships.

A productive economy requires productive people. Both macroeconomic policy and management philosophy assume inadequate theories of motivation. Swedes need to rethink their view of the productive, motivated person, as a basis to criticize policy, and to develop a new legitimate vision of the economy.

To move from polarizing ideology requires systematic observation and interviews with a focus on cases. Such studies offer the possibility of knowledge useful to design policies that fit neither ideological pole, but rather build on shared values. If in fact, ideology masks a naked power strugle, good evidence will uncover it. In a clear contest of policies, Swedish democracy promises to provide a humane and reasonable choice, one based on a sense of equity and support for continued prosperity.

A nation's economic sense depends above all on people, their values as much as their skills. Organization and leadership cannot create this national resource. It can either develop human potential or misuse it. Sweden has an impressive potential in its people, but this must be developed to fit the new economy.

The "Lagom" Concept

To develop a more productive Swedish society, it is necessary not only to understand the new demands of technoservice, but also the strengths and weaknesses of the Swedish character. To be sure, the analysis of a nation's social character is controversial and cannot be studied with the same validity as a smaller village or work group. Often conclusions about national character are based on narrow experience and pay insufficient attention to differences of class, region and ethnic groups. Yet, elements of national character are crucial for understanding a society. For example, all experienced observers agree that the Japanese combination of fierce meritocratic competition and family-like organization helps to explain both their economic success and the new strains caused by self-oriented workers who are unhappy with their roles. Tocqueville's observations of America in the 1830's, passion for liberty, the love of risk-taking, the mobility of the population, still explain significant values and emotional attitudes that both energize economic development, and cause callowness toward the losers, the weak and the timid.

My view of Swedish character is based not only on in-depth interviews at all levels of society, but also on observation and dialogue with researchers and writers. Sweden is a small and relatively homogeneous country. There are strong pressures for conformity, starting in childhood. And there are strong internal counterpressures, supported by Protestant theology and democratic theory, to rebel, to express oneself, to defend one's dignity. The most attractive side of conformity is expressed in the concept of *lagom,* which implies limits, balance, restraint, a contrast to the American urge to unbridle greed, to "shoot the moon". The negative side of the Swedish character is a fearful search for certainty, hiding behind authority, overvaluing the rules and "objective proof" that protects one from criticism. It is notable how many Swedes, living well in a free and comfortable society, complain about oppression which they blame on the welfare state bureaucracy rather than on the culture that predates it. Limits on accumulating wealth are strengthened by shared feelings about what is right, rooted in childhood admonitions that putting too much on one's plate is not *lagom.*

It is possible that when Swedes talk about the computers that control their lives, they unconsciously transfer their fear and resentment of the collective others who know immediately who has succeeded and who has failed in a country where, unlike the U.S., one cannot easily move, declare bankruptcy, or start a new career. Friends in Sweden have told me that when someone fails, no one talks to him about it. The person is treated delicately, as though he had a serious, perhaps incurable, illness. There is no Swedish Richard Nixon, who rebounds from defeat and disgrace.

Individual autonomy is most safely expressed through expertise, particularly in scientific areas, or in sports where no one can dispute achievement.

Bureaucracy is a favorite whipping boy of intellectuals of both right and left. Yet, all industrial societies require government technocracy to regulate the game, develop infrastructure and care for these who cannot adapt to continual change. What kinds of bureaucracy does Sweden need? Is it possible to make bureaucracy more efficient and serviceoriented? What does this require?

Leadership

Change requires leaders with vision, not expert administrators, but there is strong ambivalence toward good leaders. There are a number of reasons why. The union ideal has been solidarity, and the new business ideology tends to glorify the entrepreneurial leader. Beyond this conflict, there is, I believe, an anti-leader bias in the Swedish national character, combined with an historical fear of charismatic leadership and its potential for harm. Memories of Hitler are still fresh. When I wrote about Pehr Gyllenhammar in *The Leader,* and described him as the best corporate executive I had met, Swedish reports expressed pride, and scepticism bordering on hostility. Those who interviewed me were looking for Gyllenhammar's faults. There is the quality in Swedish ambivalence to authority of a stubborn child who demands autonomy, yet knows he needs a good parent and fears becoming too dependent, too admiring, oppressed and blinded by his need.

I believe that those who fear the cult of leadership underestimate the Swedish character. Hitler was able to gain power because he gave focus to the hatred of the German people who had been humiliated by defeat, wiped out by inflation. The Swedish character is more suspicious of charisma. When it warms to a leader, it is one like Fälldin who expresses the farmer's humanistic, individualistic values. But as in the case of Fälldin and nuclear energy, Swedes are quick to be disillusioned when the leader appears to choose self-interest over principle.

Technoservice and the transformation of bureaucrarcy require organizational leaders, not merely expert administrators. These leaders must develop strategy, communicate a shared vision, articulate values.

Teamwork is required on all levels. Swedes believe they work well together in groups but they confuse following the rules with teamwork. In my experience Medel-Svensson is too afraid to take a critical stand. The older generation tends to see conflict as destructive, the critic as a trouble-maker. The younger generation in Sweden are more self-expressive, according to studies by Hans Zetterberg. But they require leadership that listens, training in group problem

solving and building consensus based on taking account of different views, using conflict to explore alternatives. Auto assembly workers respond to foremen who hold regular meetings and pass on their ideas for improvement. If the work remains monotonous and no one listens, they stay home and seek other activity, such as sports, auto-repair work, that allows them to use their brains, to think as well as act. The best leaders are developers, who pass on leadership functions to the group so that fewer leaders are needed.

Some of the top business leaders we interviewed have begun to build on what seem to me the strengths of Swedish managerial society. Following Gyllenhammar, Percy Barnevik at ASEA, and Björn Svedberg at L. M. Ericsson have moved toward decentralized, development-oriented organizations. Jan Carlson's compelling, easily understood model of technoservice has sparked public service leadership toward a decentralized model. These new approaches promise greater prosperity, but they threaten the Swedish sense of equity, the values that support cooperation. Internationally competitive companies demand the best-trained, most capable employees, and they challenge wage solidarity. The new SAS service model satisfies the business customer, but thrusts the ordinary traveler back into an ividious third class.

I believe there is a remarkable number of creative Swedish business leaders who have benefitted from the unique experience of Sweden. They are in a small country which is dependent on the international market, and unlike many American companies that are protected by a huge internal market, they are forced to change, to develop new products and skills, or go under. To succeed in foreign markes, they must be open to different cultures, learn other languages. This makes them less ethnocentric, more receptive to new ideas. They have the advantage of a homogenous workforce which is becoming increasingly educated and capable. Furthermore, unlike most American management, they must work with strong unions which are willing to cooperate to strengthen the economy. This requires a concern for fairness and dignity which is essential for the trust and communication required by technoservice. Good leaders recognize that it provides an opportunity to establish a sense of legitimacy, an acceptance by all shareholders of a corporate culture and strategy. For this reason, Gyllenhammar brought unions on the Volvo board before this was required by law. However, to maintain this balance, unions and government leaders must keep up. The new organizations must be supported and criticized.

Many of the innovative Swedish leaders I have interviewed are in their 40s. This generation has a changed attitude to the role of leadership. My colleagues and I have differentiated four recent generations of Swedish leaders in terms of social character. First came Per Albin Hansson, the Prime Minister in the 30s,

who coined the phrase "folkhem", the idea of Sweden as an extended family. He was the leader of the generation and the grandfather. Then came the father figures like Marcus Wallenberg and Tage Erlander. They used their power to create the Swedish version of the industrial bureaucratic economy based on a balance between the values of productivity and justice. Then came a generation of administrators who passed the tests and were chosen by the fathers to run the system, to be the good sons. This generation has not felt it had power to change things. Indeed, it is somewhat embarassed by the role of leadership, somewhat sensitive to the accusation of usurping the father role. Now there is a new generation which sees himself (there are few women) not as a well-behaved boy (*duktig pojke*), but as one of the boys (*bra kille*), a team leader who has gained power by his achievement and is expected to develop a winning strategy. This kind of leader is willing to take risks putting his job on the line to achieve new goals. In terms of style, these new Swedish leaders better fit the demands of a technoservice economy.

Sweden is also producing entrepreneurial leaders of small businesses. According to a study by Åke Bekerus and Berit Roos, there are different types. All are motivated by the vision of freedom from organizational restraints. Some want to work as craftsmen in a small company. Others, especially in the new high technoservice areas, enjoy business as a game. The best of them express the Swedish sense of creating a family, motivating people by making them part of the business, sharing in the profits. While these entrepreneurs would appreciate a cut in the marginal tax rate, they are more concerned with over-regulation and would benefit from a service-oriented bureaucracy. One hears of cases of Swedish businessmen who leave the country, presumably because they want more than lagom. To some degree, it is to be expected. The rich are always looking for more exciting and luxurious places. The question is whether on balance, Swedish lagom and the welfare society stimulate or stifle creative business development. There is much evidence of support and stimulation. Inasmuch as this can be improved, what policies are needed? The answer should not be merely in terms of economic man.

Developing Human Resources

What policies are needed to develop the Swedish economy? The danger is an ideological polarization based on policies that do not fit either the strengths of Sweden, nor the demands of a technoservice economy. A rational answer must be holistic, including organizational development, business strategy, macroeconomic policy, institutional adaptation, investment and education.

Sweden must pay attention to leadership in unions and public administration, as well as business. To this visitor, there is a sense that Swedish potential has been trapped in the industrial bureaucracies, that the spirit of play and innovation has been suppressed in expert roles. The strategy for development requires making use of the best cases as a basis for policy. Sweden has been the model of rationality. Now, Swedes must become more pragmatic, testing and reinterpreting values in the light of experimentation in the new economy.

The Economic and Political Basis for Full Employment Strategies

Fritz W. Scharpf

1. The legitimacy of economic policy-making, which is the central theme of this seminar, can be discussed either at the level of the practical politics of winning or losing the next election, or at the level of political philosophy. Obviously, the two levels are not strictly separated, as is demonstrated by the increasing interest of very practical politicians in Antonio Gramsi's philosophical concept of "ideological hegemony". Nevertheless, I will begin my discussion at the second level and will return to the first one later in my remarks.

2. At the philosophical level, the legitimacy of economic policy-making can only be discussed with reference to one of the competing bodies of politico-economic theory or ideology defining the respective functions of political processes and market forces, and their interaction, in capitalist political economies. At the most fundamental level, it is useful to distinguish among three such bodies of thought which might be labelled "Liberal", "Marxist", and "Social-Democratic".

In the *Liberal* tradition, market forces are accorded priority. If left undisturbed, they are generally expected to produce socially optimal outcomes. There will be individual losers in the competitive struggle, but this cannot be helped and will, in any case, serve *"pour encourager les autres"*. Private charity and government transfers may provide minimal welfare benefits which must not, however, undermine the willingness to compete in the market place. Apart from that, government intervention must be accepted in order to correct for "market failures", such as the inability of private enterprise to provide for external defense and domestic law and order, or to prevent environmental pollution. But government intervention remains a necessary evil whose scope and intensity should be minimized. Thus, for Liberals, eternal vigilance against the expansion of government functions is the price not only of liberty but also of economic well being. The legitimacy of economic policy-making, in other words, is doubtful in principle. Even in areas where its necessity cannot

be denied, its exercise must be closely circumscribed and carefully watched.

For *Marxists,* on the other hand, market forces are inherently incapable of producing socially acceptable outcomes. Not only is the income distribution resulting from capitalist accumulation considered exploitative, but there is also the inherent tendency of capitalist dynamics to generate crises of over accumulation and under consumption and, thus, to waste the productive potential of modern economies. The state, even when it is not considered to be exclusively the instrument of the ruling classes, is incapable of correcting the internal contradictions of capitalism. Government economic policy, therefore, cannot be legitimate from the point of view of the working classes except when it is used to restrict the economic power of private property or to increase the power resources of a revolutionary labor movement. The only legitimate goal, at any rate, remains the eventual abolition of capitalist control over the productive forces of society, rather than the more efficient management of present-day capitalist economies.

For Liberals and Marxists alike, therefore, the legitimacy of economic policy-making is an issue of only marginal interest. Most economic policy choices of modern governments are, by postulation, either irrelevant for, or clearly damaging to, the overriding concerns of either ideology. Not so for *Social Democrats*. Sharing neither the Liberals' belief in the inherent goodness of market capitalism, nor the Marxists' faith in the perfectability of state socialism, they are resigned to coping with the imperfect world of mixed economies. While they recognize the superior economic efficiency of functioning markets, they are more sensitive than the Liberals to the social injustice of its distributional outcomes. While they recognize the crisis-generating potential of dynamic world capitalism, they are more aware than the Marxists of the damage that can be done by the bureaucratic control of micro-economic decisions. Hence, Social Democrats believe in the need for a collective organization of working-class interests to increase their share of the "surplus product", and they believe in the need for public welfare programs and for government intervention to control the crisis-generating dynamics of capitalist economies. But Social Democrats are also very much aware of the necessary incompleteness of control and of the possibility that the consequences of government intervention may be ineffective, counterproductive or downright catastrophic. It is within the ideological context of Social Democracy, therefore, that the legitimacy of economic policy-making is truly problematical. Only if the need for an active, interventionist economic policy is accepted in principle, may the performance of economic-policy functions achieve the political centrality and salience of a decisive issue, not only for the success or failure of individual governments, but for the legitimacy of political regimes as well.

By the same logic, however, the reverse must also be true: if the ideological hegemony of Social Democracy should be broken, the political salience of economic policy-making may be reduced and economic performance may lose its status as a crucial issue for the success or failure of democratic governments and, perhaps, for political legitimacy. I shall return to this point later.

3. Within the ideological context of Social Democracy, the legitimacy of economic policy-making is judged primarily by its ability to maintain full employment which, in Thomas Balogh's apt expression must be the paramount goal of the labor movement because "it generally removes the need for servility, and thus alters the way of life, the relationship between classes ... (and) the balance of forces in the economy" (Balogh, 1982, 47). In addition, of course, price stability and the external balance must also be respected as contraints whose violation may either directly or indirectly (by jeopardizing the feasibility of full-employment policies) undercut political legitimacy. The crucial question for governments, therefore, is whether they will be able to develop successful full-employment strategies with reasonable price stability and balanced external accounts.

In the 1970s and the 1980s, however, policy makers looking for guidance found themselves confronted with two competing schools of economic theory leading to conflicting recommendations for macro-economic management. The two schools (which, needless to say, are also riven by considerable internal disagreement) might be conveniently labelled "Keynesian" and "Monetarist". Their prescriptions were most faithfully practiced in Austria after 1974, and in the United Kingdom and the United States after 1979, respectively.

4. The *"Austro-Keynesian"* strategy which allowed Austria to maintain full employment and reasonable price stability during the world-wide recession following the first oil-price shock of 1973 can be characterized as a very specific combination of Neo-Keynesian demand management and voluntary incomes policy. In somewhat idealized form, the Austrian strategy may be described as follows:

- The government took the lead in providing compensation for the demand gap caused by the transfer of rapidly increasing oil revenues to the OPEC countries. Care was taken, however, to channel a large share of deficit-financed public expenditures to the "supply side" of the economy through generous subsidies for productive investment.
- Fiscal-policy measures to maintain aggregate demand were facilitated by monetary policy. The supply of money was allowed to rise as necessary, and

real interest rates were kept at levels low enough to stimulate real investment.
- In order to reduce an initially high rate of inflation, the central bank chose to pursue a deliberate hard-currency policy (by pegging the Austrian Schilling to the German Mark).
- More important, however, for the successful fight against inflation was a form of voluntary incomes policy pursued by the "social partners", which helped to neutralize the inflationary cost-push of oil-price increases through wage moderation after 1975.

As a consequence of this complex strategy, Austrian growth rates were the highest in Europe after 1975; productive investment was maintained at very high levels; productivity continued to rise; Austrian exports remained competitive in spite of a steadily appreciating currency; and the rate of inflation came down to level achieved only by Switzerland and Germany. And throughout the 1970s, unemployment remained at, or below, the two-per-cent mark.

Unfortunately, however, other countries which also tried to respond to the oil-price shock of 1973/74 with Neo-Keynesian demand expansion were less successful. A closer analysis of their policy choices usually reveals that they missed at least one of the necessary elements of the Austrian strategy (Scharpf, 1983).

The Federal Republic of *Germany,* for instance, managed to put together only three out of four elements, expansionary fiscal policy, wage moderation and a hard currency. Monetary policy, however, was severely restrictive until 1977, rather than permissive as it was in Austria. As a consequence, Germany enjoyed the lowest rates of inflation and suffered the largest losses of employment (only partly reflected in registered unemployment, as the immigration of foreign workers was curtailed) of any Western European country except Switzerland.

Sweden, on the other hand, was able to combine monetary and fiscal expansion until 1976, and it also pursued a hard currency policy. Instead of wage moderation, however, wage settlements in 1974/75 were also deliberately expansionary—with the predictable consequences of pushing up the domestic rate of inflation, increasing imports and damaging the competitiveness of Swedish exports. Restrictive policies after 1976 managed to bring down the rate of inflation. The resulting economic stagnation reduced employment in the private sector. Nevertheless, Sweden was able to maintain full employment throughout the 1970s. But it was achieved by the expansion of public sector employment (particularly at the local level) and by the employment-substituting efforts of an "active labor market policy", rather than by a successful economic policy.

The *United Kingdom,* starting from a much less favourable unemployment/inflation/external-accounts situation in 1974 came quite close to repeating the Austrian success story between 1975 and 1978. The willingness of unions to accept an extreme measure of wage restraint during the period of the "social contract" helped to dramatically reduce the rate of inflation from 24.2 percent in 1975 to 8.3 percent by 1978. At the same time, government fiscal and monetary policy, while laboring under severe balance-of-accounts constraints, still managed to maintain the level of employment, and to contain the rise of registered unemployment at comparatively moderate levels. The British strategy foundered, however, in 1978 when the unions were forced to abandon the "social contract" under the increasing pressure of rank-and-file discontent. As a result of the "winter of discontent", the Conservatives won a resounding electoral victory in the spring of 1979.

The *United States,* finally, also owed their phenomenal employment increases (17 % between 1973 and 1982, while Sweden gained 8.8 %, Austria 4.4 % and Germany lost 4.8 %) to a Keynesian strategy of fiscal and monetary expansion. If registered unemployment nevertheless remained at high levels, that was entirely due to the increasing labor supply of the "baby-boom generation"—which also helped to moderate real-wage increases in the absence of an explicit incomes policy. Unlike Austria, however, the country of the dominant world currency never had the option of combining an easy-money policy at home with a hard-currency policy toward the rest of the world. Throughout the Carter years, the US Dollar was floating downwards, with beneficial effects for American exports but unfortunate consequences for the domestic rate of inflation. By 1979, therefore, Keynesian strategies were thoroughly discredited in the United States; the Federal Reserve switched to an explicitly Monetarist regime with the control of inflation as its topmost priority. As a consequence, the economic rules of the game were radically changed for everybody else as well.

6. My brief survey was intended to demonstrate that even in the difficult years after the first oil-price shock, Keynesian full-employment strategies could still succeed. Their success depended, however, upon a highly specific pattern of coordination among several policy functions, with expansionary fiscal and monetary policies assuming the responsibility for full employment, while inflation was being controlled through wage restraint and (where feasible) exchange-rate policy. But if economic-policy success in Social Democratic terms was still possible during the 1970s, the line which successful countries would have had to walk had become very thin indeed. If only one of the necessary elements was missing, the result was substantial employment losses,

or high rates of inflation and a deteriorating external balance, or both.

But as the difficulties of successful economic management increased, and as one country after another had to pay a price for its particular management mistakes, the focus of academic and political discussions of economic policy-making also began to shift. Instead of criticizing particular policy measures with a view to improving their effectiveness, the underlying phiosophy of economic management was increasingly attacked as being unsound in principle. Thus, the Monetarist "counter reformation" of the 1970s confronted macro-economic policy makers with a fundamental challenge, rather than with sophisticated but sympathetic professional criticism.

It seems possible, however, that the fundamental character of the challenge was not initially recognized in countries where the ideological hegemony of Social Democrarcy was taken for granted (Brittan, 1977; 1983). Monetarism, after all, could also be interpreted as a relatively technical discussion of the disadvantages of discretionary monetary and fiscal interventions, of the relative merits of controlling either interest rates or the supply of money, or of the validity and reliability of various measures for the quantity of money. Capitalizing upon some of the obvious weaknesses of Neo-Keynesian theory in the monetary field, Monetarism was able to gain academic respectability as well as practical influence upon central-bank policy, first in Germany and then in Britain and in the United States as well. It was only when Monetarists insisted that these policies should be maintained in the face of rising unemployment, that the more fundamental, and entirely non-technical nature of their challenge to Social Democracy became visible.

7. In essence, Monetarism is rooted in the "'Liberal" ideological tradition, where market outcomes are assumed to be socially optimal. More specifically, Monetarism assumes that the private sector of the economy will tend toward full-employment equilibrium (defined by the "natural rate" of unemployment) if undisturbed by government intervention and other institutional impediments to the rapid adjustment of wages and prices. By the same token, the macro-economic management of aggregate demand cannot permanently decrease unemployment below its "natural" rate, but it may very well generate increasing inflation. What is necessary, therefore, is a steady course of government fiscal policy and, above all, a monetary policy limiting the supply of money to the requirements of inflation-free economic growth. In practice, for all Western economies in the 1970s, this meant that the money supply would have to be sharply curtailed, and that a tight-money policy would have to be maintained for some time in order to "squeeze out" inflationary expectations.

According to the Monetarist textbook, these recommendations could be

entirely compatible with full employment if only wages and prices were sufficiently downward flexible in response to tighter money constraints. If not, there would indeed be unemployment whose volume and duration should be directly proportional to the extent and the rigidity of the institutional impediments to wage and price adjustment in a particular economy.

It is at this point, that the ideological conflict underlying the technical disagreements between Monetarists and Keynesians becomes obvious: in the Keynesian (but not necessarily in the Neo-Keynesian) world view, the influence of institutions upon wages and prices is taken for granted, and it is the task of government economic policy to manipulate macro-economic parameters in such a way that acceptable economic outcomes will be achieved nevertheless. It is realized, furthermore, that the existence of powerful interest organizations in the economy may also provide opportunities for the "public use of private interests", and for collaboration and concertation between government, business, and labor whose outcomes may be more beneficial, and more reliable, than even the outcomes of well-functioning markets (Streeck, 1983). Thus, from a Keynesian point of view, the growing "institutionalization" of economies will generate not only problems for economic policy-making but also opportunities, culminating in "neo-corporatist" arrangements for the concertation of economic strategies between government and the peak organizations of business and labor. The Austrian "Joint Commission on Wages and Prices", which had facilitated voluntary wage restraint after 1975, is perhaps the most fully developed example of such neo-corporatist institutional arrangements (Marin, 1982).

Monetarist policy recommendations, by contrast, are derived from a model economy defined by the atomistic competition of individual actors. The historical evolution of social, political, and economic institutions is either ignored or considered only for its capacity to contribute to, or detract from, the optimal functioning of market systems. While the growth of institutions might sometimes (as in the extension of property rights) be beneficial, it is more likely to lead to "institutional sclerosis" (Olson, 1982) responsible for welfare losses through interfering with the flexibility of wages and prices. Unlike the Keynesians, however, the Monetarists are not willing to accommodate such inflexibilities. While they recognize that in the presence of institutional rigidities a Monetarist policy would be able to achieve inflation control only at the price of rising unemployment, this is a price that they are willing to pay. If the body of the economy should still be reasonably healthy, the pressure of unemployment would help to force down wages and prices before too long. On the other hand, persistent mass unemployment would suggest a very severe case of "institutional sclerosis" and, at the same time, facilitate the only acceptable therapy,

"institution busting". Given the fact that the role of the devil in the Liberal/ Monetarist demonology is always assigned to unions organizing the collective interest of the working classes, the emphasis is, of course, likely to be more on "union busting" than on "trust busting".

8. Neither the deliberate choice of fighting inflation with mass unemployment nor the suggested remedy of weakening the power resources and the organizational cohesion of labor unions would, of course, have been politically acceptable under the ideological hegemony of Social Democracy. Nevertheless, explicitly Monetarist policies are now openly pursued in some of the major Western economies including the United States, the United Kingdom and West Germany. Their political feasibility was, I suggest, facilitated by two related factors:

- First, Monetarist strategies need not be highly visible in order to be economically successful. In West Germany after 1974, for instance, the federal bank was able to pursue an extremely restrictive monetary policy while the federal government remained publicly committed to a Neo-Keynesian full-employment policy. Public debate was almost exclusively concerned with the fiscal policy of the Social-Liberal government, criticizing it either for running excessive deficits or for being insufficiently expansionary, while the restrictive nature of central bank policy was virtually ignored. Nevertheless, it was the one factor which was mainly responsible for mass unemployment in Germany after 1974 (Scharpf, 1983).
- The second and more important factor facilitating Monetarist policies is a wide spread dissatisfaction with the apparent failure of Keynesian economic management. In Britain, for instance, the Conservative victory of 1979 could be interpreted as the combined result of working class protest against persistent unemployment and of middle class protest against rising inflation (and, of course, against the Labour governments's apparent inability to do anything about the disruptive strikes during the "winter of discontent"). But Britain was an extreme case. American voters, in 1980, reacted against moderately high rates of inflation without giving the Carter government credit for a remarkable increase of employment. Conversely, in 1983, the electoral defeat of the German Social Democrats was generally interpreted as a reaction against high unemployment, even though inflation rates continued to be very low by international standards. At any rate, it seems fair to say that the political disenchantment with Keynesian economic management after 1975 resulted more from the disappointment of exaggerated expectations than from demonstrable policy failures in the fact

of world-wide economic difficulties. But then, the politics of the Left was always a "politics of hope" and, as such, vulnerable to the escalation of disappointment. More specifically, successful economic management along Austro-Keynesian lines would have required a good deal of self-disciplined collaboration between the various governmental sectors (including the central bank) and the "social partners" (mainly the labor unions). Obviously, such patterns of collaboration among separate and partly antagonistic institutions are always in danger of disintegrating when "legitimate expectations" of participating organizations should be disappointed.

While Austria so far has managed to maintain the capacity for collaboration among the essential participants in the joint effort of macro-economic management, other countries were not so lucky and, therefore, less successful. As a consequence, most governments committed to Keynesian policies lost political support at one time or another after 1975.

9. Of course, the electoral defèat of Keynesian governments was not necessarily a vote of confidence for Monetarism. But it could be so interpreted by governments ideologically opposed to Social Democracy. In any case, electoral victories, built upon the disappointment of Keynesian hopes, seemed to call for new policy departures.

Nevertheless, strightforward Monetarism was politically a high-risk strategy. Inevitably, unemployment would have to rise far above the levels tolerated under the earlier Keynesian regimes. If voters continued to respond as they had done in the past, the result could only be political disaster at the next election. Thus, if Monetarism was to succeed politically, it depended upon changes of the ideological context within which the success or failure of economic policy was to be evaluated.

The intellectual substance for ideological change was, of course, available in the form of "Liberal" doctrines that had been revitalized and, in many ways, radicalized during the 1960s and 1970s by "Neo-Conservative" intellectuals in the United States and in Europe. Still, it was by no means certain that the acceptance of mass unemployment could be made palatable to a majority of voters. But it also was not quite as hopeless as optimistic Social Democrats would have liked to think. Unemployment, after all, is not a classical "bread-and-butter" issue for the great majority of voters. In all modern societies, the relative size of groups entirely outside of the labor market or in highly secure jobs is increasing. In West Germany, for instance, even after ten years of mass unemployment, about two thirds of all wage earners have never been personally affected by unemployment at all. And, paradoxically, the fear of

unemployment may lose its political salience as the economic crisis continues, because those who have not yet lost their jobs will have powerful psychological motives to develop explanations and justifications for their own immunity. Thus, unemployment is for the great majority of voters an "altruistic" political issue, rather than a problem which they see as affecting directly their own, "egotistic", economic interests (Alt, 1979).

The real burden of mass unemployment, on the other hand, is systematically shifted to "marginal groups" in the labor market through various processes of rational selection and social stigmatization in hiring and firing, and through the voluntary withdrawal from the labor market of discouraged individuals (Schmid, 1980). These marginal groups include older workers pushed into early retirement, youngsters who never managed to find regular employment, married women returning to the role of "house wife", foreigners, low-skill groups and, generally, individuals with physical, mental or motivational handicaps from the point of view of potential employers. What is important is the variety of life-situations and characteristics of those groups which eventually have to bear the burden of mass unemployment and, hence, the extreme inprobability that the affected groups themselves might be able to define their common interest and to organize themselves in such a way that they would have to be taken into account as a political force in their own right. The victims of unemployment constitute, in Ralf Dahrendorf's terms, an "underclass", without the potential for class conscienceness and solidaristic political action (Dahrendorf, 1984). If their interests are taken into account by the political process at all, it is through the "altruistic" definition of political morality and political identity by those who are not, themselves, directly affected by the problem.

But if the political salience of mass unemployment is determined primarily at the ideological level, it is also subject to redefinition through processes of ideological competition and ideological change. There is, in other words, no compelling reason of economic self-interest that would prevent the formation of relatively stable political majorities from the "raw material" of all those voters who are not, and do not expect to be, affected by unemployment. Furthermore, once mass unemployment continues year after year, it tends to be defined more and more as a problem which no government would be capable of eliminating. Under such circumstances, the "cognitive dissonance" between what is and what ought to be may become very uncomfortable, and ideologies offering moral release from the altruistic concern for the victims of unemployment may become psychologically much more attractive.

At any rate, the ideological program of Liberalism/Monetarism may find much more public acceptance under conditions of mass unemployment than

Social-Democratic intellectuals and politicians would have thought possible within the confines of their own ideology. If that should happen, the whole frame of reference defining success or failure and, ultimately, the legitimacy of economic policy may change as well. A new set of economic policy goals could then be defined in terms of a Monetarist/supply-side strategy, emphasizing the importance of price stability, reduced tax burdens, productivity increases, technological modernization, and international competitiveness (Giersch, 1983). Unemployment (if it is not defined away as "voluntary" or as the necessary consequence of over-generous welfare systems) will then appear as the unfortunate, but inevitable, pre-condition for a much-needed revitalization of the economy. It may remain a political irritant, but it will lose its special status as the crucial criterion of political legitimacy.

Of course, the political success of a Liberal/Monetarist redefiniton of economic legitimacy, while certainly possible as demonstrated by Margaret Thatcher in the United Kingdom, is by no means a foregone conclusion. What is at issue is an ideological struggle in which, however, the Social-Democratic/Keynesian side is presently on the intellectual and ideological retreat. Instead of trying to guess at the ultimate outcome of the struggle in various countries, I will focus my remarks in the concluding section upon the economic feasibility of Social-Democratic/Keynesian full-employment strategies in the economic environment of the mid-1980s.

11. My emphasis on the question of economic feasibility is based upon the belief that the *ideological* ascendence of Liberalism/Monetarism has profited less from a general displacement of altruistic and solidaristic sentiments by the "lifeboat ethics" of the "me-generation", than by the alleged *intellectual* bankruptcy of Keynesian macro-economic management. Monetarism after all, at least in its British version, does have the virtue of not promising a return to full employment just around the corner. Keynesians, on the other hand, have all too often jeopardized their credibility by raising unrealistic hopes. A necessary (but certainly not sufficient) precondition for recapturing the ideological hegemony is, in my view, the intellectual honesty of acknowledging that Keynesian strategies alone would not be able to defend, and much less to regain, full employment under present conditions. I see mainly two reasons leading to this conclusion:

- First, I am convinced that a relatively permissive monetary policy was an essential element of the original Austro-Keynesian strategy. Without it, monetary restraint would not only have reduced aggregate demand (thus creating a certain amount of "Keynesian unemployment"), but rising real interest rates would also have raised the minimum rate of return at which

unemployment-creating investments were competitive with investments in the money markets (thus contributing to a rise in "classical unemployment"). Pursuing an easy-money policy within Austria was difficult enough after the German federal bank had switched to Monetarism after 1974. It became virtually impossible after 1979, when the Monetarist switch of the US Federal Reserve confronted all Western economies with rapidly rising interest rates in the US and Euro Dollar markets.

For central banks in those Western countries which had not themselves switched to a Monetarist philosophy, high real interest rates in the dominant Western capital markets created a dilemma: Should they try to continue with an easy-money policy, speculative capital would begin to leave, and their currencies would begin to devaluate more rapidly, with further incentives to capital exports and rising rates of inflation. In the end, reflationary policies designed to stimulate domestic investment could result in accelerating capital flight and, hence, domestic disinvestment. This, essentially, seems to have been the mechanism which forced the French government to reverse its expansionary course after 1982.

But if, on the other hand, central banks allowed domestic interest rates to rise in order to protect their currencies against rapid devaluation, and their financial markets against capital flight, they also had to contract consumer and investment credit in spite of the need for economic expansion, and they had to create opportunities for investment in financial assets whose rates of return compared favourably with higher-risk real investments. Under such circumstances, the whole burden of Keynesian demand reflation would have fallen upon government fiscal policy which, through investment subsidies, would have had to counteract the cost-push as well as the opportunity pull of high interest rates in international financial markes. Quite apart from the problematical economic effectiveness of fiscal expansion in the face of monetary restraint, such a strategy would rapidly increase the size of the public deficit with problematical political repercussions even in Austria.

The recent weakening of the US Dollar may have increased the freedom of action for central banks in Western europe (and even more so for Sweden, as a consequence of the massive devaluation of the *krona* in the Fall of 1982). Nevertheless, in interdependent financial and currency markets, a Monetarist policy pursued in the dominant economy of the Western world does impose a massive external constraint upon countries whose political priorities would require them to pursue a domestic policy of Keynesian expansion.

– The second problem is even more serious in countries which have allowed

productive investment to decline during the world-wide recession. In West Germany, for instance, the full utilization of existing capital stock after ten years of stagnating investment is estimated to allow only for the additional employment of about 500,000 persons (Sachverständigenrat 1982, Tz. 79). With registered unemployment above the 2-million mark, that means that there is now a "structural" deficit of more than 1.5 million workplaces. In countries like the United Kingdom or Sweden, where investment in the private sector suffered even more severely, the structural job deficit in the private sector must be even larger. Unlike Germany and Britain, however, Sweden has so far managed to avoid mass unemployment through the expansion of public-sector employment and of tax-financed labor market measures. For an outsider it is not easy to judge whether these are solutions that could still be expanded in the future.

Within a Keynesian framework, stuctural job deficits are problematical because they are likely to be immune to strategies of demand management. Fiscal and monetary reflation could, at best, assure the full utilization of the existing capital stock. If pushed beyond that point, excess demand is likely to push up prices more rapidly than it will be able to generate additional, job-creating investment. Furthermore under such conditions, voluntary incomes policies (assuming that they would be accepted by unions in the first place) are likely to be undercut by wage drift. As a consequence, demand-pull inflation would be exacerbated by a good deal of wage-push inflation.

Wage push could be more moderate, however, in highly flexible labor markets with a great deal of regional, sectoral and occupational mobility, and with the possibility of wage competition by job seekers who are unemployed. Thus, the United States during the Carter years was able to reduce a substantial structural job deficit (caused by the increasing labor supply of the baby boom years) through fiscal and monetary demand expansion. The flexibility of the American labor market was high enough to avoid significant regional and skill bottle necks and wage-push inflation. Unfortunately, demand pull inflation, while moderate by international standards, was sufficiently high for the Federal Reserve and for the American voters to opt agains Keynesian full-employment strategies in 1979 and 1980.

For European countries, however, with their much more rigid segmentation of regional, sectoral, and skill-specific labor markes, and with their much lower degree of wage flexibility, the prospects of reducing a structural job deficit through excess-demand strategies, without inflationary overheating, are considerably less favorable than they were in the United

States. Perhaps Sweden might be able to do better than the other European countries if it should be able to reorient its highly developed "active labor market policy" toward its original purpose of facilitating labor mobility (instead of creating employment substitutes for those who cannot find regular jobs) (Hedborg/Meidner, 1983). But the overall prospects for demand reflation in the face of a structural employment gap remain dim.

In the present intellectual environment which emphasizes "structuralist" explanations for the rise and persistence of mass unemployment, it is certainly important to argue that neither the satiation of consumer needs, nor the changing international division of labor, nor the acceleration of technological progress, and not even the increasing burdens of the welfare state, are primarily responsible for the sructural employment gap in the highly industrialized countries. It could have been avoided if economic policy-makers in all major Western economies had been able to maintain aggregate demand through fiscal and monetary reflation (and to contain inflation through incomes policies). But now, that the structural employment gap has been allowed to arise, it is necessary to acknowledge that demand management by itself would be incapable of re-achieving full employment without prohibitive costs in terms of inflation. What is needed, therefore, within a Social-Democratic ideological frame of reference, are *supply-side strategies* with a better chance of re-achieving full employment than what is offered by the Monetarist competition.

12. Supply-side strategies are, of course, a "home game" for Monetarists. It is they who have always argued that it is necessary to reduce taxes on business, to eliminate burdensome regulations and to reduce wages – all in order to increase the profitability of capitalist investments, and eventually, the number of jobs. Keynesians, on the other hand, have always maintained that it is not present profits but the expectation of future profits, depending upon expected demand even more than upon present costs, that will influence the "animal spirits" of investors. There is a version of supply-side arguments, however, which ought to be taken rather more seriously by Keynesians, at least in Western Europe: We know from the "Birch study" that the enormous employment gains in the United States during the 1970s were primarily achieved by small businesses and newly-founded businesses, while employment in large firms had tended to stagnate or even decline. We also know from more sketchy European data that the patterns over here are similar, even though small firms in Europe are not quite as active in the process of job generation. These findings seem to be plausible enough. Large firms producing for mass markets under the heavy pressure of international competition are forced to exploit all technological and organizational opportunities for rationalization. Small

firms, on the other hand, are able to exploit market niches which are too small for the attention of big business, and they are able to exploit the opportunities for expansion offered in the service sector – especially in the area of income-elastic services for private consumption. This was the major area of job growth in the United States.

In Europe, however, the institutional impediments to the founding of new firms, and to the development of small firms, are so much higher than in the United States that they are unlikely to be overcome quickly enough by mere demand-side strategies. What is needed, instead, is a good deal of purposeful deregulation, eliminating barriers to entry that have accumulated over many decades, if not centuries, of bureaucratic perfectionism, conservative protectionism and progressive idealism. In addition, what is needed is management advice and venture capital for new entrepreneurs combined with an active role for "intermediaries" between the world of government industrial policy and industrial subsidies on the one hand, and the world of small business on the other hand (Hjern/Hull, 1983).

Obviously, these are requirements which are more in harmony with the ideological preferences of Conservative or Liberal governments. Social-Democratic governments and labor unions, on the other hand, are identified too exclusively with the world of big government, big business and big unions to be comfortable with the idea that full employment should be pursued through strategies which are essentially small-business oriented. Unions, in particular, would be confronted with the problem that they have been mainly successful in organizing the work force of large industries, and that small businesses are not only notorious for their hostility to unionization but also for their flagrant violations of many standards of employee representation, occupational safety and health, working hours, and the like. Thus, the social, emotional and organizational distance between the world of small businesses and the world of organized labor should not be underestimated. Nevertheless, it will have to be bridged if the job-creating potential of small firms should be successfully exploited by Social-Democratic strategies. Ideally, it might be a government-union alliance that could become the major force in stimulating the vigorous development of employment in small businesses in Western Europe.

13. Finally, I do not believe that full employment, in those countries that have allowed themselves to slip into mass unemployment, could be recovered before the end of the decade without a significant contribution of work-sharing strategies. I also am convinced, however, that these are high-risk strategies that could easily destroy more employment opportunities than they are able to

redistribute. In the first place, it should be recognised that any reduction of the working time of those who are presently employed would, *ceteris paribus*, reduce the total volume of working hours in the economy. Regardless of whether work sharing should take the form of early retirement, of part-time work, or of a shortening of the standard working week, there would be substantial gains in labor productivity, allowing firms to produce a given output with reduced labor input. In addition, however, shortening the working time could further reduce the total volume of work if it should either reduce aggregate demand or increase real unit labor costs. Thus, the path of an economically efficient redistribution of the existing volume of work is narrow indeed. Unfortunately, if both constraints, of income neutrality and of cost neutrality, are to be respected, the impact of work sharing upon unemployment may be too limited to achieve politically visible success within a reasonably short period.

From a Social-Democratic point of view, therefore, it would be plausible to use government policy for widening the scope of economically efficient work-sharing strategies. One possibility would be to offer wage-cost subsidies to employers who are willing to increase their total work force in response to reductions of average working time. Such wage-cost subsidies could be financed mainly from the financial gains of the public sector, through increased revenues and reduced outlays, when overall employment rises. They could help to neutralize the cost increases otherwise associated with income neutral reductions of working time (Scharpf/Schettkat, 1984).

14. The switch to job generation in the small-business sector and to publicly subsidized work-sharing would be difficult for the labor unions and for Social-Democratic political parties. If successful, however, and if combined with a steady strategy of macro-economic demand maintenance, they might offer realistic hopes for the recovery of full employment, even under the adverse circumstances of the present international economic environment.

By comparison to the bleak prospects of monetary restraint, fiscal retrenchment, mass unemployment and negative redistribution under Monetarist auspicies, the ideological attractiveness of a supply-side oriented Social-Democratic strategy ought to be considerable. Its major problem may be acceptance within the labor movement itself. Neither the reorientation toward small businesses, nor the adoption of work-sharing strategies that are cost-neutral for employers, would be easy for labor unions and for the parties of the Left. From a strategic point of view, however, radical policy departures will be inevitable in any case, if political forces on the Left are to have any chance at all of recapturing the initiative in the area of economic policy-making, and to

regain the position of ideological hegemony. If that should fail, the most likely scenario for the coming decade might be an increasing political tolerance for mass unemployment, combined with a deepening split in our societies between the majority of securely employed job holders with adequate incomes, and a growing minority of those who are in early retirement, or who are unemployed or irregularly employed in substandard jobs or in the shadow economy.

If this scenario seems morally repulsive, it will be necessary to oppose the Liberal/Monetarist redefinition of the criteria of political legitimacy. But the opposition is unlikely to succeed ideologically, unless Social-Democratic ideology is itself redefined in ways which offer an intellectually plausible response to the nature of the present crisis and to the need for supply-side strategies.

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Social-Values, Political Goals and Economic Systems: The Issue of Employment in European Societies

Jacques F. Lesourne

When around 2020 economic historians consider the rise of unemployment in the European societies of the 80s, there is little doubt that they will be as amazed about the inadequacy of our analysis, the inconsistency of our projections or the inefficiency of our policies as we are ourselves when we study the reactions of our grand parents to the economic situation of the 30s. They will have of course the advantage of a better access to the facts of the period, the superiority of their knowledge of the following decades, the benefit of an absence of involvement in our ideological or political debates. As observers of the present, in spite of our handicaps in comparison with future historians, we may try however to examine without complacency the employment issue in our contemporary European societies in order to understand how this situation has developed since the end of the sixties, which scenarios are conceivable for the future and why our policies have been uneffective. Since we shall avoid subtleties to keep the picture as clear as possible, the result will of course be somewhat provocative and debatable, but it should contribute to a better formulation of the problem. For convenience, the paper will essentially refer to France, but most of the analysis seems to remain valid when transposed to other Western European economies.

Unemployment genesis

To discuss adequately unemployment genesis, a few preliminary distinctions have to be introduced: (1) one may refer to a *static* or to a *dynamic* description of the economy (2) one may consider a *closed* or an *open* economy (3) on may select a *macroeconomic* framework with only one category of labour or a *microeconomic* context with a whole variety of labour categories.

Let us start with the simplest situation: *a static and macroeconomic analysis of a closed economy*. In that case, modern economic theory shows (Malinvaud 1980, 1983) that two kinds of unemployment may exist:

- keynesian unemployment: firms do not recruit because of unsufficient demand;
- classical unemployment: firms do not recruit because they consider the expected additional cost generated by a recruitment as higher than the savings or the supplementary income it would induce. In their evaluation, firms take of course into account not only the present and future wages, but also the social levies and the monetary counterpart of the constraints of all kinds related to employment.

While a higher growth rate would eliminate keynesian unemployment, marginal labour cost flexibility is necessary for the resorption of classical unemployment and the restoration of equilibrium on the labour market.

The *openness of the economy* adds to this description two well-know considerations:

- At a given exchange rate, the higher the exported percentage of the national production, the more sensitive is the production level to the volyme of activity of the main foreign partners. As a consequence, keynesian unemployment may be generated from outside.
- As for the real exchange rate, it influences the volume which can be profitably exported by the firm and hence the demand for labour at various labour costs. In other words, it may have an impact on the level of classical unemployment though the true cause of this unemployment lies in domestic rigidities.

The analysis becomes of course much more complex when the *dynamics of economic evolution* is introduced. Depending on the assumptions made, unemployment may then occur as a permanent or a transitory phenomenon. For instance, the keynesian unemployment volume will be altered by changes in economic agents' expectations; classical unemployment will decline if the excess of labour generates a decrease in the real cost of labour which induces progressively a substitution of labour to other inputs and an increase in the production level considered profitable.[1] Of course, the speed at which a transitory phenomenon would spontaneously disappear is a crucial element for the choice of an economic policy.

[1] While the impact of real labour costs on classical unemployment is clear, the influence of real interest rates is more ambiguous; since an investment may increase the productive capacity and/or improve productivity, a rise in the real interest rate will simultaneously reduce capacity investments (and hence will unfavourably affect labour demand) and delay productivity investments (and hence will maintain jobs). But, because capacity investments are more sensitive to the interest rate than productivity investments, the first impact is probably bigger than the second and the resulting influence is negative. High real interest rates generate also keynesian unemployment through the usual mechanism of reduction of global demand.

But an economy cannot be reduced to a unique production sector and to a unique category of labour. When *microeconomic* considerations are taken into account, structural change becomes possible which means that labour demand increases in some sectors and for some categories while it decreases for other sectors and categories. Hence the existence, even if labour costs were not rigid, of a third type of unemployment, sometimes called *frictional* and due to the reallocation of the various categories of labour throughout the production sectors.

Let us keep in mind these theoretical elements and consider what has happened in the European economies since the end of the sixties:

(1) Almost everybody would agree on a first part of the analysis: the sustained postwar economic expansion has only been made possible by an exceptional conjunction of historical factors, European reconstruction and Japanese take-off, flexibility in domestic reallocation of resources facilitating a balanced growth in supply and demand without important tensions in prices, high growth of foreign trade within the frame of a stable monetary system, low levels of indebtedness of economic agents at the start of the period . . . The progressive disappearence of these conditions since the second half of the 60's has contributed to the seriousness of the recession generated by the first oil shock, the OECD growth rates being reduced from 5.0 % on the average during the decade 1963–1973 to 2.7 % between 1974 and 1978 (corresponding figures for France are 5.5 % and 3.2 %). The second oil shock has not been a pure repetition of the first because the magnitude of the balance of payments desequilibria and the strength of inflationary tensions have lead to restrictive policies aggravating the recession: on the period 1979–1983, the OECD growth rate goes down to 1.1 % (the French rate being around 0.9 %). Therefore, there is no doubt that unemployment in western Europe is to a significant extent due to the reduction in the rate of economic growth. There exists in 1984 a sizable amount of keynesian unemployment.

(2) But this is only the beginning of the story: In a country like France, unemployment rates start to increase as early as 1967 and they almost double between 1967 and 1974 during a period of exceptionally high growth. A study from Professor Allais (Allais 1980), covering the period 1952–1978 and based on an econometric model concludes that classical unemployment which had probably been negative during most of the sixties has become positive around 1967 and has regularly increased during the 70's. For 1978, the evaluation of Professor Allais leads for this type of unemployment to a volume of the same order of magnitude as for keynesian unemployment. This conclusion is sup-

ported by many other microeconomic studies, for instance by the analysis of firms' employment policies.

Two elements have contributed to the (relatively) too high level of real labour marginal costs in European societies:

- the need to extract more and more resources to finance the Welfare State: in France, for instance, the Welfare State expenditures are essentially covered by contributions related to wages; as a consequence of the growth of these expenditures, the cost of labour for the firms has increased during the seventies even when real wages were constant; not only it has induced firms to adopt more restrictive recruitment policies but it has also favoured the development of the informal economy, the households buying labour at a reduced price on the black market or substituting their own time to external labour;
- the development of what I have called the *social oligopoly;* in other words the fact that in order to negotiate between themselves and with the government, the social groups (from peasants to physicians) have created bureaucratic superstructures whose objectives have constantly been to obtain an indexation of compensations, an increase in minimum wages, a decrease (at constant incomes) of the number of hours worked per year, a reinforcement of labour regulations. Quite understandable throughout the sixties, this attitude has persisted during the 70's, the employed people prefering the preservation of their advantages to a hypothetical decrease in classical unemployment and the unions not being ready to give the priority to the fight against unemployment (in spite of some desperate struggles to try to prevent the unavoidable closure of unprofitable firms). Hence, our societies have rigidified the formal labour market up to a point at which any reasonable employer should try to avoid any permanent recruitment by any means. To stop growth or to substitute capital to recruitment through productivity investment will often appear more profitable and less risky. Firing has also become so difficult that it is delayed as much as possible and concentrated in big operations which give rise to major social conflicts.

  But what is remarkable is the blindness of the European societies (at least the French one) with respect to classical unemployment. They positively refuse to see it. For reasons which are of course easily understandable: the improvement in labour conditions has been an aspiration for decades and to relate it to unemployment is a crime of lèse-majesté; the corporatist democracy (i.e. the system of relations between the government and the members of the social oligopoly) is considered as legitimate and not many are ready to challenge the strategies of its agents.

(3) The genesis of classical unemployment interferes of course with structural change. The forces which are modifying the productive structures of the European societies are well-known: competitive pressure from the NIC's and from other industrial countries, technical progress, evolution in the composition of demand. As a consequence:

- there is a decrease in the relative scarcity of those categories of labour which are abundant throughout the world or which can be easily replaced by automation while on the contrary other Europeans see their professional abilities becoming more and more valuable; in other words, the dispersion among the various categories of the equilibrium labour costs is probably becoming greater, which makes some categories very sensitive to classical unemployment;
- while the production develops in some sectors, it shrinks in others but because of the cost of labour, the expansion in the new activities is more capital intensive that it could normally be. Hence, structural change reveals a certain amount of classical unemployment which would remain hidden in a non-changing economy (as long at least as the firms are not compelled to fire to avoid bankruptcy).
- Economic interdependence aggravates the negative consequences of rigidities: In the declining industries, the more difficult it is to a country to adapt its costs and its production levels, the harder it becomes to find a stable and profitable level for these activities and the heavier it turns out to be to support the corresponding financial losses which represent amounts distracted from investment in promising activities; simultaneously, the slower development of the new activities decreases the advantages of learning and makes therefore less easy to capture a significant part of the international markets. As a result the equilibrium real cost of labour tends to decline (or to increase more slowly) in the country, which in presence of rigidities tends to stimulate classical unemployment.

(4) These mechanisms are so unpleasant that many observers prefer to look for other explanations. Two of them are frequently proposed, jointly or separately:

- According to the first, we are confronted with global demand saturation and it is the lack of needs which limits employment. But, if it were so, the majority of people would be ready to accept a stagnation (or a decrease) of their income in exchange for a reduction of their working time, which would decrease the level of employment demand and diminish unemployment. However, though some groups support such an arbitrage, they still consti-

tute a minority (in a country like France) as has been clearly shown by the refusal of the workers to accept a decrease in their income when the length of the working week has been reduced in 1981/2. Hence, in spite of the fact that final demand is near saturation for some commodities in the European societies, the thesis of a global demand saturation is at least at present in contradiction with the facts.

- As for the second explanation, it designates technical progress as one of the main causes of unemployment in our societies, stressing rightly that with microelectronics we are in the middle of a technological revolution of unprecedented scale with far-reaching consequences: the emergence of an information society, the replacement by robots and computers of many idividuals' physical and mental activities, the development of new equipment goods and consumers durables . . . It is difficult to deny that technical progress is destroying at present many production jobs in the secondary sector. As such, in a flexible society, it would contribute at any case, to a rise in frictional unemployment since the new jobs would demand different abilities and would not be necessarily created at a sufficient speed, but that does not mean that it would generate permanent unemployment, since:
  – either there would be no new demand and, as we have seen above, employment demand would decline,
  – or technical progress would give rise to an economic surplus which would be devoted to an increase in the demand of traditional goods (the cost of which having become lower) or to the appearance of a demand for new commodities; in the course of the process, one would observe however significant changes in the equilibrium real costs of the various categories of labour. As written by Herbert Simon years ago, a full employment situation is perfectly conceivable even in a world in which computers would have an absolute advantage over individuals in all their abilites: in such a world, people would be employed in the activities in which they keep *relative* advantage over computers. But the present situation is not as desperate for individuals since they retain in many fields absolute advantages over microelectronic devices.

  As stressed by Alfred Sauvy, technical progress has never given rise to permanent unemployment since the dawn of industrial revolution. If the evolution seems to take a different course in western Europe in the 80's, it is due to the constraints preventing real labour costs to adapt, inasmuch as technical progress changes the equilibrium prices for the various categories of labour and, in presence of rigidities, aggravates classical unemployment.

  The forecasting errors made a few years ago in some sectors like steel (and partly due to an underevaluation of the new technical possibilities), the

fact that many firms have delayed firing as much as possible, have of course amplified the recent increase in classical unemployment.

This analysis puts into evidence two related phenomena:

(i) Rigidities or (what is a different vocabulary for similar things) the over-evaluation of real labour costs play a central role in the present unemployment situation within the European societies. This situation is the consequence of the emergence of a strong social oligopoly during the post-war growth period. This oligopoly tends to reinforce the demands for security and protection which exist in the society. Though it claims constantly its commitment to full employment, it is not ready to accept any change in the rules of the game, since the unemployed are not a very strong pressure group and since the employed still prefer to keep all the advantages they enjoy while being employed.

(ii) Simultaneously, the intellectual pressure of the social oligopoly is so strong that many observers and almost all political leaders remain blind, consciously or not, to the importance of social rigidities. Rather than to see the unseeable, they prefer to accept comfortable inconsistent explanations, preventing themselves from looking for policies which would keep the *goals* of the Welfare society but would change—to take into account present realities—the *intruments* through which these goals are pursued.

But before discussing policies, it will be useful to present a few scenarios about the possible evolutions.

A few scenarios for the future

From the preceding analysis, we may deduce that four main dimensions have to be taken into account in the construction of any set of employment scenarios over a period of ten to fifteen years: the rate of growth of the international economy, the evolution of attitudes with respect to work and income within the country, the amount of rigidity of the labour markets, the rate of growth and the financing of welfare expenditures. Other dimensions have also to be introduced as the quality of education and training, the rate of technological progress, the regulations about the working time but it will be easier to consider them in the course of the discussion.

(i) The future level of *world economic growth* seems essentially conditioned by the ability of nations to implement efficient economic regulation systems:

exchange rates regulation to avoid the uncertainty generated by the fluctuations in the big currencies relative values; international financing regulation to avoid the unsolvency of debtor countries; internal regulations to permit a smooth simultaneous development of consumption and investment; internal flexibility in inputs allocation and in prices and incomes evolution.

Since the introduction of these regulations will take time, the probability is high that the world economy will experience a reduced and irregular growth at least for the next decade. Hence we cannot expect from a revival of growth an almost complete elimination of unemployment. At most, it may reduce keynesian unemployment (as observed at present in the United States), but it should not be sustained enough to contribute as such to a major decrease in classical unemployment.[1]

All the scenarios proposed hereunder will postulate the same assumption of a modest world economic growth.

(ii) The evolution of individual attitudes with respect to work and income is of course central to the construction of unemployment scenarios. To simplify a rather complex matter we are interested in the two following trade-offs:

– the trade-off between income (direct or indirect) and free time (this expression being preferable to leisure since it is compatible with a greater variety of activities),
– the trade-off between direct (or monetary) income and indirect income (i.e. free access to collective service).

At the individual level, several extreme attitudes are conceivable: (a) the individual privileges direct income and is not ready to accept a decrease (or a smaller increase) of this income in exchange of more free time or better collective services (b) the individual gives the preference to "quality of life" and is ready to consider a limitation of his income if he may improve this quality through an increase of the free time available (c) the idividual accepts to sacrifice a part of his direct income or a part of his free time to enjoy better collective services.

Such attitudes give rise to a whole set of assumptions at the level of society. Let us consider, in the following discussion, those which are the most characteristic:

In the first possibility, the vast majority of individuals stick to attitude (a) privileging direct income.

[1] Classical unemployment is easier to limit in a growing economy, since the equilibrium real cost of labour is increasing, which may diminish the discrepancy with the effective real cost of labour, if this latter remains constant or increases only very slowly.

In the second one, on the contrary, a general move takes place towards attitude (b), free time being privileged.

In the third one, almost all society members accept priority to be given to an increase in indirect income.

Finally, the last assumption corresponds to a fragmented society in which different attitudes are adopted by various groups within the society.

(iii) As far as rigidities are concerned, two paths have to be explored: Either the social oligopoly is so strong that it succeeds in maintaining the real cost of labour and the absence of flexibility of labour markets whatever the employment situation or under the pressure of the external economic environment, European societies accept quicker adjustments in their prices and resource allocations.

(iv) The evolution of the Welfare State may be characterized by two parameters: the rate of growth of welfare expenditures with respect to the rate of growth of GNP and the discrepancy between the cost of labour to the firm and the net income drawn from labour by the individual. These two parameters do not necessarily follow parallel paths though an increase of the first tends generally to increase the second.

Many scenarios can be built out of combinations of the preceding assumptions but we shall only analyze briefly those indicated by a circled number on table 1.

Table 1. *A few employment scenarios for European societies.*

Prevailing attitudes	Labour markets			
	Flexible		Rigid	
	Welfare state expenditures		Welfare state expenditures	
	slow growth	rapid growth	slow growth	rapid growth
(a)	2			1
(b)			3	
(c)		4		
Mixed	5			6

Scenario 1: In this scenario, people essentially look for direct income. They resist a reduction of the working time and fight for high real salaries. The simultaneous rapid growth of private consumption and welfare expenditures

reduces the firms profitability and hence limit investment. The discrepancy between the marginal cost of labour and salaries tends to increase and the firms limit recruitment and concentrate their investment on labour-saving projects. As for the unemployed they look actively for an income in the informal economy, not without success since it is highly profitable to avoid social levies. Hence, *this scenario corresponds to a high level of classical unemployment and to an active black labour market.*

Of course, the harder the international competition, the less efficient the training processes, the quicker technological evolution, the higher will tend to be the unemployment level.

Scenario 2: Individual attitudes are the same as in scenario 1, but the labour markets are flexible and the welfare state expenditures do not grow as fast as GDP. It may be supposed in addition that the discrepancy between labour costs and wages is progressively reduced. In such a scenario, frictional *unemployment* remains, but *classical unemployment significantly decreases and informal labour markets do not develop.* However, because of the great differences between the relative scarcities of the various abilities, wages dispersion tends to increase within society. Hence a question which we shall consider later: To what kind of redistribution policy is it possible to associate such a scenario?

Necessarily, such a scenario has less adverse distributional effects when the training processes are able to produce quickly individuals with scarce abilities out of those whose abilities are becoming relatively more and more abundant.

Scenario 3: People are now supposed to accept a simultaneous reduction of their working time and of their income. In addition the Welfare State expenditures are controlled and do not increase the labour costs to the firm. In this scenario, one observes at the same time a decrease in the final demand for commodities and a decrease in the demand for employment (expressed in working hours). The firms accept a reduction of the working time or part-time work in exchange for a better use of the equipment and without any increase in their total labour costs. Of course, the length of the working time has to be maintained for the scarce labour categories (as long as people are not trained in sufficient numbers) but for the other categories the amount of labour available is divided among more people. *Unemployment decreases.* Expressed in GDP terms, *growth is of course lower* than in scenario 2. As for *the labour black market, it is not very active.* What develops on the contrary is *the amount of unpaid informal activities* (transformation of goods into services by the individuals themselves, creation of associations, production of some of the services of the Welfare State by small groups of individuals).

Scenario 4: In this scenario, flexibility of the labour market facilitates a resorption, at least partial, of unemployment. Simultaneously, the rapid growth of welfare States expenditures increases probably the difference between labour costs and wages, which implies a very unfavourable evolution of direct income (and hence of private consumption) but such an evolution is accepted by the individuals who privilege collective services. Working time is not reduced and unpaid informal activities do not develop much. It is more difficult to conclude for monetary informal activities since the incentives are high, but the population concerned not as big as in other scenarios.

Scenario 5: This is the first of the two scenarios with heterogenous attitudes among the individuals. Since the labour markets are flexible and the Welfare State expenditures do not grow too much, the scenario is favourable to the appearance of a great variety of solutions with respect to the nature of labour contracts. Part-time work develops and many forms of it coexist with full-time work without any reduction in working time. On the whole, firms are favourable to such experiences since the cost of labour can be adapted in each case. As a consequence, paid informal employment does not expand, but non monetary informal activities, though not being as blooming as in scenario 3, present significant development.

Scenario 6: This scenario differs from the preceding in two respects: First, labour markets are rigid, second welfare expenditures grow rapidly. Because of these two features, the adaptation of labour supplies and demands in volume and *nature* becomes much more difficult than in the preceding scenario. Firms are generally reluctant to explore new forms of employment, their main effort being to limit labour costs. Hence, in this scenario, classical unemployment coexists with an active black labour market and with some development of unpaid informal activities.

What are the probabilities of these various scenarios?

The French CFDT union is actively promoting the third, but the reaction of the workers to a decline of the working time two years ago does not support the assumption that in the medium term, attitude (b) will become dominant among individuals.

The probability of scenario 4 does not look high: a growing resistance to Welfare State expenditures seems to be observed and the future flexibility of labour markets is also at question.

On the contrary, scenario 1 (or a combination of scenarios 1 and 6) seems to correspond to the most probable evolution, at least in the coming decade. The social oligopoly fights to maintain the rigidity of markets. Governments have

the greatest difficulties in restructuring the Welfare State and individuals, in their majority, still demand income. If this analysis is true, we have to admit that the unemployment prospects remain gloomy in western Europe.

These prospects would be of course much more favourable in scenarios 2 and 5 though perverse effects could appear in income distribution. In these scenarios, the European growth rates would be higher and unemployment would progressively decrease. These scenarios have however a rather low probability of occurrence since, as we have explained in the first part, European leaders are totally blind to some of the mechanisms generating unemployment.

We have now all the necessary elements for a useful discussion of the employment policies.

Employment policies

Two questions may be raised about employment policies: (1) Which opinion to express about the policies which have been followed since the first oil shock? (2) In which directions to search for more adequate policies in the future?

(1) To consider the first question, it is of course necessary to realise that the goals of government cannot be limited to the pure restoration of full employment. They have also to avoid social explosions and to take into account distributional aspects, to fight inflation and to maintain the balance of payments equilibrium. We must keep this in mind in the following discussion.

In France, three periods have to be distinguished: 1974–81, 1981–83, 1983–84.

During the first period, the policy has been characterised by:

- a great improvement of unemployment compensations for the individuals having lost their job as a consequence of the economic situation:
- a sustained increase in real wages from 1974 to 1976 followed from 1976 to 1980 by an increase in the social levies included in the labour costs, the consequence being a regular increase in real labour relative marginal costs; simultaneously, from 1974 to 1976, labour regulations have been strengthened;
- a moderate acceptance of the decline in productive capacity and employment in the non-competitive industries, their restructuration being largely financed through government funds;
- a moderately restrictive macroeconomic policy;
- efforts to ameliorate training procedures.

In other words, most of the measures taken (consciously or not) could only aggravate classical unemployment while the government prefered not to stimulate demand in labour intensive sectors with low import-content (for instance housing).

The second period corresponds to the first policy of the socialist government. During 20 months, the main policies which have had an impact on employment have been:

- a stimulation of global demand through budget deficit in order to limit keynesian unemployment (but—partly because of the recession in the US—it has generated a massive balance of payments desequilibrium),
- a wave of recruitment in the civil service,
- a reduction from 40 to 39 hours of the weekly legal working time generally not compensated by a decrease in total wages,
- a general increase of real labour costs through various measures (increase in the length of paid holidays, augmentation of minimum wages, constraints on temporary work or on fixed term labour contracts, additional labour regulation).
- a reduction in the employment demand coming from the people above 55, various incentives being given to these people to retire earlier (what the government has called the social treatment of unemployment).

From this enumeration, it is quite clear that the government has stimulated classical unemployment and has had only a transitory influence on keynesian unemployment. The only efficient action has been to debaptize some unemployed and to call them retired persons (which in fact may be positive from a social point of view).

The third period has started at the beginning of 1983 when the government has been compelled to reverse completely its macro-economic policy because of the balance of payments situation. As a consequence, the rate of growth has been strongly reduced. Keynesian unemployment has begun to increase again and the financial situation of the firms has compelled them to readjust their staff volume. Hence, a certain amount of classical unemployment which had remained hidden for one year has become reality. At the same time, the possibilities of a social treatment of unemployment have been exhausted. Therefore, a rapid increase of the unemployment volume is considered probable over the next five years (200,000 more unemployed per year approximately).

From this summary of French employment policies, a conclusion may be drawn: Under the pressure of the social oligopoly and of the prevailing *Weltanschauung,* the French governments, whether from the right or from the

left, have not made a correct diagnosis of employment genesis. Consequently, their employment policies have coupled some measures liable to have a positive impact on employment with many others which could only have negative effects.

(2) At this stage, we may ask ourselves which directions could governments explore in order to improve progressively the employment situation?

To begin with, it should be clear that the present level of economic interdependence excludes any stimulation of global demand limited to a given national economy. Hence, in that direction, the only possibility is a concerted action of the main OECD governments.

This being said, the governments should try to favour the emergence of a scenario of type 2 or 5, the outcome depending of course on an evolution of individual attitudes which cannot be controlled. Therefore:

- They should progressively (it will take years) change the financing of the welfare expenditures in order to reduce significantly the discrepancy between the labour cost to the firm and the labour income for the individual.
- They should consider a reform of the Welfare State not to destroy what has been a marvelous achievement of post-war European societies, but to adapt this institution to a totally new environment. For instance for France it is conceivable to separate health expenditures into two categories, the hospital expenditures being taken in charge by the welfare system and the other expenditures being covered by personal insurances (the premium being reimbursed to the low-income households). Simultaneously, a better control of welfare expenditures could seriously reduce their growth rates.
- They should promote a greater flexibility of labour markets and avoid at least any reinforcement of existing constraints. For the same reason, they should be careful about any increase of minimum wages. (In the long run, it is less destructive for a society to have people with a lower income than people practically excluded from the economic system.) They should also eliminate distortions against temporary work or part-time work.
- Since, the result of such policies could be a greater dispersion of income, the possibility could be considered of a progressive and partial replacement of minimum wages by a minimum family income (with a negative income-tax at low-income levels).
- Finally, great efforts should be made to implement training policies as efficient as possible in order to transfer as quickly as possible individuals from relatively abundant labour categories to relatively scarce labour categories.

That these guidelines are unsufficient to define in practice a detailed employment policy is obvious: they indicate however errors to avoid and directions to explore. Nevertheless, we must not underestimate the great difficulty for a government to implement adequate employment policies. On two grounds:

- Such policies imply reforms which have to be introduced progressively and pursued over many years.
- Such policies may not be supported by public opinion and will be resisted by many members of the social oligopoly (this suggests that a condition of their success would be a direct appeal of the government to those numerous citizens who are dissatisfied with the present employment prospects).

At any rate, success is far from assured.

The issue of employment in European societies is of course crucial for the future of these societies, but for the observer it has also another interest: it illustrates how the *Weltanschauung* and the institutional setup which have developed during the high growth post-war period make us blind to some key features of the functioning of the economic system. The fact that simultaneously we probably enter a period of fragmentation in social values and individual attitudes adds to the confusion. The governments therefore tend to respond to the short-term demands of their electorate and of the social oligopoly without basing their action on a consistent interpretation of the evolution and without asking themselves what would be the appropriate instruments which in the new context would enable them to approach, at least partially, their goals.

But we should not forget that this unability of European societies to cope with the issue of unemployment means for the future a lower monetary income growth, a relative decline in the world economy, more suffering for the underprivileged groups, greater risks of social explosion. If nothing changes, the European societies will have to pay the price of their incapacity to adapt.

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The Role of Cultural Values in Economic Development

Geert Hofstede

Values, politics and economics

Economics as a discipline can describe processes of economic development, but it usually fails to explain why some countries develop so differently from others. Political processes account for some of the differences, but we are still stuck with the question why political processes differ so much. External circumstances: availability of resources, wars, foreign dominance, and others, also account for some of the differences, but countries with similar resources or constraints still develop differently. The search for the roots of economic development leads us to fundamental properties of a country's social systems, properties, relatively stable over time, which underlie both economic and political behaviour and which interact with external conditions. At given moments in the country's history, these properties can have cumulative effects which, for example, lead to a fast increase in wealth. These fundamental properties I subsume under the label "national culture", in which the word "culture" is used in its broad, anthropological term, not in its narrow sense of "civilization".

"Culture" in the broad sense I have defined elsewhere (Hofstede, 1980: 25) as "the collective programming of the mind which distinguishes the members of one human collectivity (in this case, nation) from another". Some anthropologists will maintain that modern nations are internally too heterogeneous to have a "national culture", but I have shown empirically that the "mental programmes" of different categories of people within the same nations do contain a common national component (op. cit.), next to regional, generational, class, sex, occupational, organizational, and other components. Our mental programmes are usually acquired early in our lives, and transferred from one generation to the next; in this way, the mental programmes typical for a nation can carry remarkable stable elements over centuries.

Common manifestations of a culture, be it a national, generational, organizational or other level culture, are its *symbols, heroes, rituals,* and *values.* They are interdependent, and in the sequence presented here, they are progressively difficult to transfer across cultures.

Symbols: words, dress, pictures, status objects are most easily transferred from one culture to another; however, the cultural similarity acquired through the transfer of symbols is often only superficial; in another cultural environment, the same symbol may acquire a quite different meaning. An example is the blue jeans dress fashion, which has acquired different symbolic meanings for different groups of people at different moments in time.

Heroes are people, real or imaginary, who are admired as models for behaviour.

Rituals are collective activities related to the existence and meaning of the institutions of society; not only religions celebrate ritual activities; business has its meetings, its management courses, its co-determination procedures (even when no effect on decisions can be expected); politics has its election campaigns. But similar rituals in different cultures may have very different meanings for the people involved: elections in Salvador do not mean the same as in U.S.A. (whatever some politicians may suggest).

Values are most difficult to transfer. Values are preferences for certain states of affairs over others. Some values are related to relatively specific aspects of life—such as, what is socially approporiate behaviour for people of a certain age and sex; these are still relatively easy to change and transfer, if the circumstances of life change. Other values are broader, and deeper seated, such as a preference for freedom over equality or vice-versa; these underly not only individual choices but also collective political choices of nations. In my earlier research (op. cit.) I have shown that the distribution of such broad values across comparable individuals differs from one country to the next, and that countries in which certain values are held by a greater part of the population tend to show corresponding political characteristics.

The word "value", in the singular, is also an economic term. In economics it is used in two senses: a narrow one, equivalent to "price", and a broad one, equivalent to "utility" (Bannock et al., 1972). "Price" is measurable, but "utility" can only be measured ordinally, that is as a preference for one thing over another (op. cit.). As such, it has non-economic roots; it is "essentially a psychological thing" (op. cit.). In fact, the "utilities" in economics are of the same nature as the cultural "values" as defined above, and this explains how they can influence economic processes. They are pre-economic; they represent the choice of ends in life which precedes the choice of means. Economics, I believe, is a science of means, to be applied once the ends are given. Values are pre-rational: whereas we feel ours to be rational, other equally rational people may hold different values; and agreement on essential values is a precondition for a consensus on rational lines of action. Economic rationality in an absolute sense therefore doesn't exist; it only exists within the limits of a

particular values system; it is a relative concept.

If economics is about means, politics is about ends. Politics is the mechanism through which society copes with the multiplicity of values present, and which decides what values will prevail. Cultural values directly affect political processes, and only indirectly affect economic processes.

The intensity of these relationships depends on the nation's level of economic prosperity. In times of affluence, different value choices can be satisfied simultaneously; different political groups can have their priorities accepted; one can both have one's pudding and eat it. In times of scarcity, every value-induced priority causes a "posteriority" elsewhere, and value differences immediately translate themselves into political and economic conflicts.

Dimensions of national differences in cultural values

In my research, I analysed measurements of a number of work-related values of matched samples of respondents in 50 countries and three multi-country regions. The samples were obtained from the different national subsidiaries of one large multinational corporation. However, paradoxically, my research provided no information whatsoever on the particular organization culture of this multinational (although we can assume that it has a particular organization culture). By comparing samples *within* the same multinational, similar in all respect except nationality, I made *nationality* my independent variable. The only reason I used the multinational data is that they happened to be available, and that they were very well matched from one country to another. But if I had had samples of students, or housewives, or policemen in the 50-plus countries, I could have done the same study and I should have arrived at the same conclusions. In fact, in my study I show that where other researchers, using other research questions on other research populations, covered some (at least 5) of the same countries, and the same broad issues, the differences among countries they find are highly correlated with mine. My book lists 14 other studies which in this way validate my findings; 5 of them are based on representative samples of local national populations; the others use other narrow but matched samples, either students or managers (Hofstede, 1980: 326–327).

In the analysis of the data I looked for the underlying factors able to explain the differences in mean value scores from one country to the next, and found four such factors or "dimensions", together explaining about 50 per cent of the differences in means. I called these dimensions:

1. Individualism vs. Collectivism
2. Large vs. small Power Distance
3. Strong vs. weak Uncertainty Avoidance
4. Masculinity vs. Femininity

Each of these four relates to a fundamental problem which every human society faces and to which different solutions are possible. The validations of my research against other studies to which I referred in the previous paragraph showed that the same or very similar dimensions can be traced in other data. In a recent paper (Hofstede and Bond, 1984), it is shown that all four dimensions are present in data collected from male and female students in ten Asian and Pacific countries surveyed with another questionaire, the Rokeach Value Survey.

Individualism vs. Collectivism relates to the strength of the ties between individuals. In an individualist society, these are loose: every adult person is supposed to look after his or her own interests only, and maybe those of his or her immediate family (husband, wife and children). In a collectivist society, these ties are strong: people remain all their lives tied to the in-groups into which they were born (extended family, clan, tribe), and they can expect from in-groups protection against the hardships of life, but in exchange for unquestioning loyalty. Note that I do not use the term "Collectivism" in a political sense: as I defined it, it operates at the level of the family, and it does not refer to anything happening at the level of the state.

Power Distance refers to the degree of power inequality in a society. It is defined as the extent to which the less powerful in institutions and organizations accept that power is distributed inequally. Its roots are also in the family, in the degree of dependence or independence from parental authority fostered in children, and later on reinforced in teacher-student relationships in schools and in boss-subordinate relationships in work situations.

Uncertainty Avoidance describes the way a society deals with the future and with the unknown. It represents the extent to which people in a society have learned to tolerate ambiguous situations. In uncertainty avoiding societies, anything unclear or ambiguous generates a high level of anxiety; society tries to reduce this anxiety, at the social level by rigid written or unwritten behaviour rules, and at the personal level by a belief in absolute truths. At the same time, the high anxiety level in such societies is manifest in compulsive activity and in the social acceptance of direct expression of emotions. In uncertainty accepting societies, ambiguity is more easily tolerated; behaviour patterns are less strictly prescribed and deviance is more easily tolerated; new situations are approached pragmatically rather than dogmatically. There is no need for a belief in absolute truths; relativism prevails. The lower anxiety level is manifest in a more relaxed atmosphere; contemplation is preferred over activity, and the open expression of emotions is disapproved of.

Masculinity vs. Femininity relates to the social roles of the sexes in a society, in particular to the social role of men. My research shows that between modern

nations, the self-concepts of men differ much more than those of women; the latter contain an element of nurturance, of caring for people and for the quality of life, in all societies. In the societies which I labelled "masculine", men tend to conceive of their role as maximally different from the role of women: they are concerned with asserting themselves rather than caring for others, winning rather than cooperating, money and things rather than people, the strong rather than the weak. This role definition of the men is visible in the institutions of these societies which are mainly run by men; they are oriented towards material progress and the reward of performance. In the societies which I labelled "feminine", the men's role conception shows considerable overlap with the women's; they are less assertive and more oriented to caring for people and for the quality of life. They prefer cooperating over winning, equality over excelling, the weak over the strong. This very different role conception of the men is visible in the institutions in which men dominate: these are more oriented towards welfare for all and the protection of the weak, less towards performance and the reward of the strong.

The cultural values of Swedish society

In my research (Hofstede, 1980, 1983), I found for each of 50 countries an index score on each of the four dimensions described above. These index scores are based on the answers of the matched samples of respondents I studied on 20 paper-and-pencil questions about value preferences. As I mentioned above they have been validated against the results of studies done by others with other questions on other matched samples of respondents from five or more of the same countries.

Figure 1 shows the index scores and rank numbers for the fifty countries. In our case, we are particularly interested in the position of Sweden. We see that Sweden ranks as follows on the four dimensions:

Individualism	: 40 out of 50 (high)
Power Distance	: 7 out of 50 (small)
Uncertainty Avoidance	: 5 out of 50 (weak)
Masculinity	: 1 out of 50 (very low, i.e. feminine)

Figure 2 shows a computer-made "dendrogram" which expresses graphically the degree of similarity between the scores of the 53 countries/regions on all four dimensions taken together. It measures horizontally the per cent error which has to be accepted in order to consider two countries as similar, and thus depicts a "family tree" of nations. Sweden scores most similar to Denmark, and with a slightly higher error tolerance forms a cultural cluster with Den-

mark, Norway, Finland and the Netherlands. Note that the computer which drew the dendrogram was not fed any data on geography or history; it clustered purely on the basis of the mean answers to paper-and-pencil values questions of my samples of respondents. Sweden, and the five-country northwest European cluster with it, distinguishes itself from other countries by:

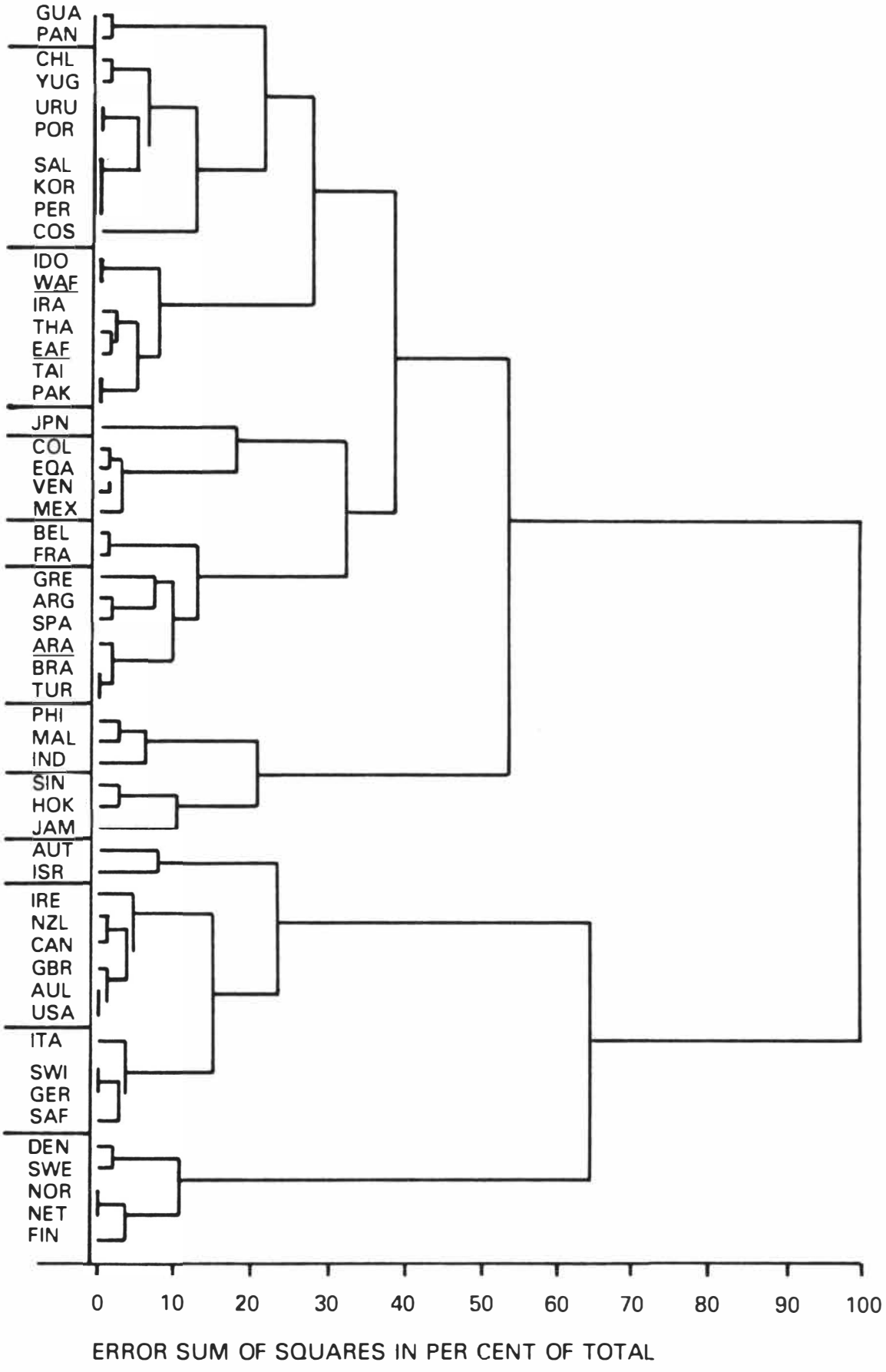
	together with:	*but opposed to:*
High Individualism	all wealthy countries	all poor countries
Small Power Distance	other Germanic and Anglo countries	Latin and Asian countries
Weak Uncertainty Avoidance	Anglo countries South-East Asian countries	other Germanic countries; Latin countries; East-Asian countries
Femininity	Some Latin and Asian countries	other Germanic and Anglo countries; other Latin countries; Japan

Figure 1. *Index scores and rank number for fifty countries and three regions on four value dimensions.*

Country	Abbreviation	Individualism Index (IDV)	Rank	Power distance Index (PDI)	Rank	Uncertainty avoidance Index (UAI)	Rank	Masculinity Index (MAS)	Rank
Argentina	ARG	46	28–29	49	18–19	86	36–41	56	30–31
Australia	AUL	90	49	36	13	51	17	61	35
Austria	AUT	55	33	11	1	70	26–27	79	49
Belgium	BEL	75	43	65	33	94	45–46	54	29
Brazil	BRA	38	25	69	39	76	29–30	49	25
Canada	CAN	80	46–47	39	15	48	12–13	52	28
Chile	CHL	23	15	63	29–30	86	36–41	28	8
Colombia	COL	13	5	67	36	80	31	64	39–40
Costa Rica	COS	15	8	35	10–12	86	36–41	21	5–6
Denmark	DEN	74	42	18	3	23	3	16	4
Equador	EOA	8	2	78	43–44	67	24	63	37–38
Finland	FIN	63	34	33	8	59	20–21	26	7
France	FRA	71	40–41	68	37–38	86	36–41	43	17–18
Germany (F.R.)	GER	67	36	35	10–12	65	23	66	41–42
Great Britain	GBR	89	48	35	10–12	35	6–7	66	41–42
Greece	GRE	35	22	60	26–27	112	50	57	32–33
Guatemala	GUA	6	1	95	48–49	101	48	37	11
Hongkong	HOK	25	16	68	37–38	29	4–5	57	32–33
Indonesia	IDO	14	6–7	78	43–44	48	12–13	46	22
India	IND	48	30	77	42	40	9	56	30–31
Iran	IRA	41	27	58	24–25	59	20–21	43	17–18
Ireland	IRE	70	39	28	5	35	6–7	68	43–44
Israel	ISR	54	32	13	2	81	32	47	23
Italy	ITA	76	44	50	20	75	28	70	46–47
Jamaica	JAM	39	26	45	17	13	2	68	43–44
Japan	JPN	46	28–29	54	21	92	44	95	50
Korea (S)	KOR	18	11	60	26–27	85	34–35	39	13
Malaysia	MAL	26	17	104	50	36	8	50	26–27
Mexico	MEX	30	20	81	45–46	82	33	69	45
Netherlands	NET	80	46–47	38	14	53	18	14	3
Norway	NOR	69	38	31	6–7	50	16	8	2
New Zealand	NZL	79	45	22	4	49	14–15	58	34
Pakistan	PAK	14	6–7	55	22	70	26–27	50	26–27
Panama	PAN	11	3	95	48–49	86	36–41	44	19
Peru	PER	16	9	64	31–32	87	42	42	15–16
Philippines	PHI	32	21	94	47	44	10	64	39–40
Portugal	POR	27	18–19	63	29–30	104	49	31	9
South Africa	SAF	65	35	49	18–19	49	14–15	63	37–38
Salvador	SAL	19	12	66	34–35	94	45–46	40	14
Singapore	SIN	20	13–14	74	40	8	1	48	24
Spain	SPA	51	31	57	23	86	36–41	42	15–16
Sweden	SWE	71	40–41	31	6–7	29	4–5	5	1
Switzerland	SWI	68	37	34	9	58	19	70	46–47
Taiwan	TAI	17	10	58	24–25	69	25	45	20–21
Thailand	THA	20	13–14	64	31–32	64	22	34	10
Turkey	TUR	37	24	66	34–35	85	34–35	45	20–21
Uruguay	URU	36	23	61	28	100	47	38	12
U.S.A.	USA	91	50	40	16	46	11	62	36
Venezuela	VEN	12	4	81	45–46	76	29–30	73	48
Yugoslavia	YUG	27	18–19	76	41	88	43	21	5–6
Regions:									
East Africa[1]	EAF	27	(18–19)	64	(31–32)	52	(17–18)	41	(14–15)
West Africa[2]	WAF	20	(13–14)	77	(42)	54	(18–19)	46	(22)
Arab Ctrs.[3]	ARA	38	(25)	80	(44–45)	68	(24–25)	53	(28–29)

[1] Ethiopia, Kenya, Tanzania, Zambia
[2] Ghana, Nigeria, Sierra Leone
[3] Egypt, Iraq, Kuwait, Lebanon, Lybia, Saudi-Arabia, U.A.E.

Figure 2. *"Dendrogram" showing the degree of similarity of fifty countries and three regions on all four dimensions taken together.*



Consequences of cultural value positions for countries' present and future economic and political choices

The following analysis, which tries to identify practical consequences of a country's value position, is obviously not without speculation. Also, it refers to values on which there is also a large amount of variation within any national society. Variations within a society can at least partly be described by the same dimensions; however, the range of variation along these dimensions within, for example, Swedish society, which may seem large for those using a purely national frame of reference, will look much smaller relative to the variations found on a world scale.

Individualism in a society means an urge for *self*-actualization rather than collective actualization, for "doing one's own thing". The meaning of life in an individualist society is not determined by the social and institutional framework (village community, family, church, stable employment, relationship) but a question to which every individual has to find his/her own answer without support from others. The norm is for people to be inner-directed rather than other-directed by their social environment. This is a task which some enjoy but which others find too heavy, who then become alienated, socially or mentally deranged. Without the support of the surrounding social system, family relationships become unstable and marriages, if contracted at all, are often only temporary. The trend around the world is for Individualism to increase as long as wealth increases. My research shows that wealth precedes Individualism, not the other way round. On the contrary, high levels of Individualism reduce a nation's further rate of economic growth, as in a nation of individualists it is difficult to organize the collaborative effort necessary for national economic success. Disagreements at work, absenteeism, brain drain, work and career avoidance are friction losses due to a highly idividualist national value system. It is likely that Individualism will not increase forever, but that a worsening economic outlook will freeze it at its present level or even stimulate a return to more collectivist values.

Small Power Distance in a society means that the exercise of political or hierarchical power is supposed to meet the criterium of legitimacy. This is much less the case in large Power Distance societies (like France, Mexico, Singapore) in which power, once acquired—in whatever way—usually legitimates itself; the powerful act according to their "bon plaisir" (personal discretion—an expression ascribed to the French king Louis XIV). Other factors being equal, Power Distances decrease with the level of education in a society (which reduces people's dependence needs). Over the past 30 years, average

education levels in most countries around the world have increased, but more in the wealthy countries than in the poor. Correspondingly, Power Distances have been reduced, but again more in the wealthy countries than in the poor; and pre-existing differences in Power Distances, unrelated to education levels, also subsist. A decrease in Power Distances translates itself into an increased concern with the legitimation of the acts of political and hierarchical leaders; with ideologies of concensus and co-determination, and with institutional reforms meant to satisfy the demands for legitimation. This legitimation is relatively easily obtainable in a period of economic prosperity, when consensus can often be bought by compromises, even if these are costly. In a period of economic stagnation, power-holders will have to make impopular choices between alternatives more frequently, and consequently the legitimacy of their acts will be disputed more frequently. A legitimacy crisis is likely in this situation. It is unclear whether this will eventually lead to Power Distances increasing again, which should reduce the need for legitimation of power.

Weak Uncertainty Avoidance in a society means among other things a relatively high level of "citizen competence", that is the feeling of ordinary citizens that they have the ability and the opportunity to influence the authorities; a corresponding feeling exists among subordinates in organizations. In strong Uncertainty Avoidance societies, citizens tend to leave the solution to their problems to the authorities and to experts and believe that even if they were able to contribute something themselves, they will not be listened to.

Another correlate of weak Uncertainty Avoidance is a relative tolerance towards minorities and dissidents. Strong Uncertainty Avoidance societies foster the feeling that "what is different is dangerous". As far as trends in Uncertainty Avoidance go, a study by Lynn and Hampson (1977) of national anxiety levels in 18 countries from 1935 to 1970 shows a peak somewhere around 1945 and a low in 1965, followed by a new increase. This study suggests that levels of neurotic anxiety—which underly the phenomenon of Uncertainty Avoidance—fluctuate over time. It is quite likely that also earlier, peaks were accompanied by world wars. If we assume the wave length of the fluctuations to be about 40 years (20 up, 20 down), there should be a new peak around 1985, that is now. Observation of national and international political events supports the existence of extreme levels of Uncertainty Avoidance. Symptoms on the international level are increased nationalism and protectionism, a feeling of mutual threat, unwillingness to compromise, international institutions in crises. On the national level in various countries we find a decrease of social tolerance, growth of fascistoid and xenophobic movements, less tolerance towards minorities among the public at large and among author-

ities, sometimes also expressed in legislation. The "fear of freedom" as described by Fromm (1965) is on the increase. It is unclear how this situation will develop further. If the wave theory and the wave length estimate are correct, Uncertainty Avoidance levels should now start to decrease again. The past device of a World War as a means to release anxiety tension has become unusable in a nuclear age—unless anxiety will further increase to such a level that political leaders become paranoid or paranoiacs assume political leadership. If the world is saved from this disaster, we may watch a non-violent reduction of Uncertainty Avoidance levels, manifested internationally in a new détente and nationally in greater social tolerance.

Femininity in a society means among other things that politicians as well as citizens will have a fundamental sympathy for the weak and a distrust of the strong. In national affairs, this translates itself into a welfare state in which the successful are taxed to pay for the support of the unsuccessful. This is relatively easy in times of economic prosperity, when there are many successful and relatively few unsuccessful. It becomes problematic in times of economic stagnation in which few are successful and many unsuccessful. Also, a feminine value system puts higher value on protection of the environment, whereas a masculine value system puts higher priority on economic development even at the detriment of the environment. In international affairs, femininity translates itself into government-sponsored development assistance to poor countires. From 1967 to 1976, the mean percentage of their Gross National Product which 15 wealthy countries spent on development assistance, varied from .15 (Italy) to .99 (Netherlands); the Swedish figure was .79 per cent. The rank correlation between the country's Masculinity Index measured around 1970 and the 1967–'76 per cent development assistance was −.81, extremely high (Hofstede, 1980: 308). With 1983 data for 17 OECD-countries (World Development Report 1983, Table 18), the rank correlation with the (1970) Masculinity Index is still −.73. Note that the level of development assistance given does not depend on the needs of the receiving countries, but on the values of the donor countries; it is compulsive spending.

Another difference between masculine and feminine countries is that the former tend to resolve conflicts by fighting, the latter by peaceful means. This is again visible on the national level (labour disputes in Britain vs. Sweden or the Netherlands) as well as on the international level (Falklands vs. Ålands). One of the main problems of our world is that the superpowers hold quite masculine national value systems. For U.S.A., this is evident from my data (rank 36 out of 50). For U.S.S.R., I have no quantitative data, but an analysis of Soviet society and of Russian family life leads me to estimate the Soviet

value system at as a similar level of Masculinity as the U.S. value system. The arms race is a compulsive chain of reactions of two masculine champions who know no other response to a display of strength than a greater display of strength; a behaviour shown by many male animals in the rutting season. It is highly significant that in countries like U.S.A. and Great Britain *women* often take the lead in the anti-arms-race movement ("do not give the boys their toys").

There are no indications of countries making fundamental shifts on the Masculinity-Femininity dimension. Over the 1968–1972 period for which I have longitudinal data, there are only minor shifts in Masculinity, and these show a further divergency among countries, so that feminine Sweden becomes more feminine and masculine Austria more masculine (Hofstede, 1980: 361). I suppose the mechanism to be about as follows: in a period of economic prosperity, politicians spend according to their country's dominant values priority. Feminine countries spend on welfare and development assistance; masculine countries spend om armament and prestige projects, like Sputniks. The institutions generated in this way (welfare agencies, army staffs) reinforce the values that created them, and we see countries drifting further apart value-wise and in the composition of their national budgets. When the economic cycle takes a downward turn, all countries find themselves overspending, in quantity but also in quality (on projects with low marginal utility). The initial reaction is to cut on the items that have low value priority. Masculine countries cut on their already modest welfare and development assistance budgets, feminine countries cut on armament and prestige projects. When the crisis deepens, they are forced to cut also on items with high value priority but low marginal utility. At the same time, the extravagances of the former spending pattern become evident to more people, and national values which led to this spending pattern shift somewhat back to a more moderate position: feminine countries becoming slightly less feminine and masculine countries less masculine. If this mechanism is true, we can expect masculine countries to remain masculine and feminine countries to remain feminine, but with fluctuations in the direction of a middle position in times of economic stagnation.

Some conclusions for Sweden

In cultural matters, a nation's strong points are at the same time its weak points. The same value configuration which led Germany, Japan and Italy to aggression in World War II—a combination of Masculinity with strong Uncertainty Avoidance—led to their remarkable recovery and economic success in the thirty years following the war. Swedish national values are quite extreme

on a world scale. On the four dimensions, as we saw above, Swedes in my sample scored on 1st, 5th, 7th and 40th position out of 50 countries. Sweden is more or less similar in values only to four other small North-West European countries. This is not something that can be labelled as "good" or "evil"—any country's national values are by definition "good" from that country's majority's standpoint; as obviously, minorities and special interest groups will revolt against them. From a point of view of economic development, we can try to label value positions as functional or dysfunctional; but the choice for economic development at the expense of, for example, the environment implies already a value choice. "Zero growth" appeals more to a feminine than to a masculine society.

Politicians and businessmen from Anglo countries will criticize most in Swedish society those aspects related to Swedish Femininity—because this is where Swedes differ from themselves. Certain interest groups in Swedish society will tend to agree with them. Again, virtues can at the same time be vices. The Swedish sense of moderation (lagom) is a virtue, but some see it as a preference for mediocrity and then it is a vice. A weak point of Swedish Femininity from a point of view of economic development is its extreme taxation of the strong on behalf of the weak, and the construction of a welfare system that can become a deadly embrace. "In Sweden most things are forbidden and what is not forbidden is compulsory", I heard an Englishman say. A strong point is the other side of the same medal: the relationship-orientation inherent in Femininity which leads to conflicts inside and outside the country generally being resolved peacefully and without the waste of strife. The Swedish ability to achieve consensus is a national asset (see Bo Gustafsson's contribution in this volume). It is badly needed, for the combination of Individualism (everybody wanting to do his/her thing), Small Power Distance (strong claims for legitimacy of power-holders) and weak Uncertainty Avoidance (citizen competence, distrust of experts) means that differences of opinion among persons and groups in the country will be frequent and profound. But Sweden is likely to maintain its ability to resolve such differences of opinion peacefully.

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Economics and Values is a book on the social foundations of economic policy making.

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