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Book Review

Sweden and the Revival of the Capitalist Welfare State

Andreas Bergh
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Sweden and the Revival of the Capitalist Welfare State is the third updated (and first English) edition of Andreas Bergh's well-researched book on the rise, fall, and return of the world-renowned Swedish welfare state. The work importantly traces the origins of the Swedish wonder, in which Sweden rose from being one of Europe's very poorest to being the world's fourth richest country in a period of 100 years. Bergh further discusses how this trend came to a halt and, in this third edition, analyzes how Sweden rediscovered its previous path and remained financially strong through the recent financial crisis.

The book consists of seven topically distinct chapters and an introduction. The first half of the book delineates the country's

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fascinating economic history over the past 150 years, from being a marginalized and backwards country in the outskirts of Europe and untouched by industrialization. Chapter two tells the story of how Sweden underwent rather radical free market reform that initiated and resulted in a full century of strong economic growth 1870-1970. These "golden years," as Bergh calls them, made Sweden prosperous in an unsurprising way: through the establishing of and continued respect for strong, market-supporting capitalist institutions.

Chapter three discusses how and why the until then highly successful "capitalist welfare state" stumbled for a quarter-century (1970–1995) as the state became progressively interventionist. Perhaps surprisingly, we learn that it was not failed welfare state policies that caused the country's decline, but failed macroeconomic such. They culminated in a severe economic crisis—Sweden's own depression—in the early 1990s, which necessitated a political change of course. Chapter four delineates the return of the capitalist welfare state on the Swedish political scene, and how it was revived through a series of extensive and politically significant reforms.

The second half of the book discusses the peculiar nature of Swedish politics and political economy. Chapter five targets the spirit of consensus that has characterized the country's political leadership under democracy; even right-wing and classical liberal parties have fundamentally been in support of the development of the welfare state and taken part in its expansion. It also introduces several areas of important recent reforms toward increasing competition within the realm of the welfare state.

Chapter six discusses the theoretical and systemic implications of these reforms, and focuses on how the Swedish welfare state exploits market mechanisms for efficiency in the system. Bergh here evaluates the consequences of recent deregulation, competitive procurement, the national school voucher system, and more. But whereas the welfare state has indeed seen reform such that "competition has increased on many markets and sectors, there is still a substantial degree of intervention in most markets." Bergh even notes that "it is more correct to speak of re-regulation rather than de-regulation" (p. 91).

The following chapter focuses on two politically and historically important areas that have remained unaffected by reform: labor market regulation and rent control. The discussion is an interesting exposition of core undertakings of the Swedish welfare state that provides an intriguing glimpse into the Swedish culture and mindset. Chapters six and seven jointly produce a balanced view of Sweden's political landscape and the extensive reform that caused the revival of the capitalist welfare state.

The historical review is well worth telling, as is the discussion on areas of reform *contra* sacred-cow issues in Swedish realpolitik. It properly serves as an illustrative example of what policies have worked, and what policies have not, along with plausible reasons for these outcomes. It is also interesting that Bergh doesn't shy away from discussing future scenarios and what to expect from each of them. This is done in chapter eight, which concludes the book with a discussion on the future of high-tax states such as Sweden and a sum-up of the welfare state's remaining challenges. While Sweden has overcome many problems and in a sense disproved pessimistic predictions about its unsustainability, it is wise to note that there are quite a few challenges ahead. Bergh prudently notes that "the welfare state is not yet off the hook" (p. 109).

Overall, the book is a great and informative read, and it provides a fact-based and balanced view of the world-renowned Swedish welfare state, its development and evolution. Yet while the vast amount of supportive data, presented throughout the book's chapters as well as in five appendices, is a major strength, it is also the book's main shortcoming: Bergh follows the data, but refrains from attempting explanations that do not follow directly from them. As a consequence, many a stone is left unturned.

To this reviewer, some interpretations of events seem a bit lacking and ahistorical. While the storyline appears consistent, it is told without much regard to the fact that the data may not tell the whole truth. The story would likely benefit from a deeper contextualization and a discussion attempting to make sense of the data from a more theoretical point of view.

For instance, Bergh offers no explanation or even context for the far-reaching free market reforms of the mid-19th century that put capitalist institutions in place and ensured a full century of economic growth. As Bergh notes almost in passing, Sweden had at the time a vibrant and highly influential classical liberal movement. But classical liberalism and free market thinking was widespread in Sweden and the Swedish provinces much earlier (Norberg, 1998).

Consider, for instance, how the Swedish monarch Gustav III, strongly influenced by Voltaire and Enlightenment thinking, enacted wide-ranging economic and social reform a century earlier. At about the same time, in 1765, Anders Chydenius, a priest and Member of Parliament from the Swedish province Ostrobothnia (now Finland), published the highly influential free market treatise *Den Nationnale Winsten* (The National Gain).

Also, if history books are to be trusted, Sweden was not the normal agrarian country but has a rather unique history that may play into the free market reforms that begin Bergh's story. Swedish peasants were primarily freeholders and therefore always an independent force to reckon with in national politics. It is easy to imagine that the culture and political rule of a property-owning populace could turn out very differently than in societies where a large part of the population suffered serfdom.

How historical peculiarities such as these influenced the political climate, and whether this helps explain how Sweden was ripe for a free market revolution in the 1860s, is not entirely clear. But it is possible that they can help explain why, for instance, "the development towards an egalitarian distribution started over 200 years ago" (p. 16) rather than with the 20th century welfare state.

Historical explanations fall outside the scope of Bergh's analysis, but may still be important to gain a deeper understanding for the turn of events. It is also interesting how Bergh emphasizes domestic events to such extent that he largely refrains from including international economic and political influences to understand the small and export-dependent country's development.

A possible reason for this may be found in the author's statement that "Sweden's economic expansion [is] a case study illustrating the importance of institutions" (p. 8). Bergh wants to tell the institutional story, and this motivation permeates the book. There is undoubtedly good reason to focus on the institutions: they played a central role in Sweden's development, and willingness to keep them intact has been core to Swedish politics for a long time. Yet pointing to institutions takes us only so far. While they may be a major *explanans* for economic development, the shift toward adopting capitalist institutions remains largely unexplained.

Even so, there is more to the story than productive institutions. That Sweden remained neutral and unharmed during two World Wars, both of which played out in Europe and had a severe effect on Sweden's neighboring countries, should have had a significant effect, at least temporarily, on the country's relative economic development. Indeed, whereas Europe's productive capacity was largely destroyed or directed toward military production, Sweden's productive apparatus was essentially unaffected by the wars and consequently well positioned to exploit post-war demand.

Naturally, this should have been a great boon for the country's development, and as should be expected Sweden's economy grew quite rapidly. This seems to corroborate Bergh's storyline, which holds the "golden years" of economic growth continued through 1970. But as the post-war position is taken into account, the causal link between market-supporting institutions and economic growth is no longer as obvious. Is it not possible that a country with comparatively poor institutions would have been able to grow its economy had it enjoyed Sweden's unique position after the wars?

The storyline is further muddled as we follow the story past 1970 and into the "not quite so golden" years 1970–1995. Bergh notes that "there is some agreement in academic and political debate that Sweden made a number of mistakes which led to an aggravation of problems" (p. 36). He continues to discuss how in the mid-1970s Sweden started taking drastic measures to stay afloat. "Problem-stricken industrial sectors" were heavily subsidized and the Swedish krona was repeatedly devalued "to keep the industry competitive" (p. 37). The Swedish government set a new course: "the macroeconomic strategy from 1976 onwards was to use devaluations to postpone dealing with the fundamental economic problems" (p. 39). The interventionist welfare state was born.

Yet it is difficult to see how this constitutes a real explanation of what caused the emergence of the interventionist welfare state in the 1970s and an abrupt end to the institutions of the "golden years." Industrial sectors do not turn "problem-stricken" overnight, and even the 1973 international oil crisis (not in the book) would not have caused what Bergh refers to as "fundamental economic problems."

It may be possible to formulate an alternative explanation that places greater emphasis on the international events and the distortive effects of domestic progressive politics and incessant macroeconomic meddling. While the institutions of the capitalist welfare state may have been relatively unchanged, post-war Sweden's policies stand out as something of a socialist experiment. As Bergh notes (p. 26), "Sweden did not … phase out rent control after the Second World War," "[t]he capital market was regulated after the Second World War in order to be able to direct investments into socially prioritized areas," and "[f]rom 1955 the state directed company investments with the aim of stabilizing business cycles." And overall, "[a]fter the Second World War and up until the mid-1970s, Sweden pursued Keynesian stabilization policies" to "manage household demand" (p. 37).

Rather than focusing on the formal institutions, an alternative explanation could point to Sweden as a country that was exceptionally well positioned to ride the post-war boom from beginning to end. Domestic production for virtually insatiable export markets generated sufficient economic growth to mask and postpone the real economic effects of the highly distortive, interventionist policies. As the problems amassed and the post-war demand for Swedish exports petered out, time caught up with the experiment. At this point, the government responded with intervening with the institutional framework instead of (which would have been more prudent) rolling back the experiment.

If this is a plausible explanation, then the real "golden years" ended with the Second World War (if not sooner) and was followed by a period of economic growth and political interventionism. This doesn't appear to support the institutional story, and Bergh doesn't dwell on the post-war period but only notes that the core capitalist institutions were intact. He quickly moves on to the 1970s and the "not quite so golden" years, during which "the fundamental productivity and structural problems remained unsolved: too many actors in the Swedish economy essentially did the wrong things in the wrong way" (p. 37). We are not offered an explanation for the reason why "too many" busied themselves doing "the wrong things in the wrong way."

The macroeconomic policies and institutional interventionism in the 1970s were, as we might expect, utter failures. They ultimately led to Sweden suffering its own depression in the early 1990s, which prompted a brusque political awakening that brought about a new consensus around extensive reform as well as a return to respecting market principles.

The Swedish welfare state from 1995 has consequently retreated from interventionist policies to such degree that Bergh notes that "the Swedish model as it appeared in 1980 is probably dead" (p. 67). So great is the difference that "Sweden after the reforms is considered to be a competitive economy with a good business climate" (p. 64). This does not mean, however, that the Swedish state is small. No, "Sweden increased economic freedom without substantial reductions in size of government" (pp. 65-66); the changes constituted "liberalization without welfare state retrenchment" (p. 66).

Bergh truly does a great job at dispelling myths about the Swedish welfare state, its rise and presumed effects and achievements. He is perhaps too dedicated to the institutional explanation and a little too reluctant to speculate on possible explanations, but there should be no doubt that this book is a very nice contribution to our understanding of the reality of the welfare state in contrast to progressive mythology. The book is money well spent for anyone interested in contemporary politics and political economy.

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