

Swedish State, its Welfare Policy & Industrialization: A Model for Developing Countries.

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ABSTRACT: The Swedish Welfare State is often seen as a global leader in promoting social equality. It represents a balanced approach that combines elements of capitalism and socialism. This paper aimed to assess Sweden's welfare policies to see if they could help address persistent issues of poverty, lack of resources, and social security challenges in Africa. Sweden's welfare model has evolved since the 1890s, but significant changes occurred in the 1990s due to economic crises and the effects of globalization. The study used a descriptive method and content analysis to evaluate data. The findings reveals that Sweden's welfare system is considered a global benchmark for social welfare, though changes in recent years have been modest. The study suggests that Sweden's focus on industrialization was not just for its own sake but to overcome economic challenges and achieve greater economic independence. The paper recommends that developing countries aiming to reduce poverty and foster a healthy economy should look to Sweden's approach. It concludes that Sweden's success in stimulating economic growth, improving living standards, eliminating poverty, and ensuring social justice stems from a transparent tax system, effective resource management, and vigorous industrialization.

KEYWORDS: Developing countries, Economic, Industrialization, Swedish Welfare, Tax System

INTRODUCTION

The Swedish welfare state, established by capitalist nation-states in the 19th and early 20th centuries (Leisering, 2003), is often seen as a model of a mixed economy. It aims to balance the roles of the private sector and public organizations to ensure a fair distribution of income and wealth, eliminate poverty, and promote economic efficiency and growth over time (Glyfason et al., 1997).

Sweden's welfare state represents a unique approach to economic advancement. Notably, Sweden maintained a policy of neutrality during both World Wars, which allowed it to develop differently from other European nations recovering from the wars. In 1936, the book **Sweden: The Middle Way** by Child described Sweden's approach as a third option between socialism and capitalism.

The 1960s were considered the golden age of the Swedish welfare state, symbolizing national pride and identity. By the 1970s, Sweden had become the third richest country in the world. However, economic crises in the 1980s and 1990s impacted its future prospects, leading Sweden to join the EU in 1995. Today, Sweden is a global leader in gender equality, with women making up half of the cabinet and 40 percent of the Swedish Parliament (Gould, 1999). By 1996, agriculture employed just 3 percent of the Swedish population. Wittrock (2004) characterizes Sweden as a post-industrial society with approximately 9 million residents. For over a decade, Sweden has been a leader in information technology. In 2004, the United Nations Development Program (UNDP) ranked Sweden as the second-best country worldwide in terms of education, income, and life expectancy.

Ker (1960) discusses in his thesis "The Logic of Industrialization" that many theories on welfare state development adopted a structural or functional perspective. They viewed the welfare state as evolving to meet the needs of societies at different stages of industrialization. As Sweden transitioned from an agricultural to an industrial economy, traditional family structures began to break down. This led workers to expect that the state and businesses should share in providing welfare. As a result, Sweden developed formal welfare programs, including accident compensation, sickness benefits, unemployment insurance, and old-age pensions.

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To understand the Swedish welfare system, it's important to consider the ideological foundations that shaped its policies. The Swedish Social Democratic Workers Party adopted Marxist and Keynesian economic ideas. By the 1930s, central planning was well-established in Sweden.

During its industrialization, the country borrowed extensively from abroad and took on primary responsibility for major infrastructure projects, such as railways and hydroelectric power.

The Swedish approach to social policy, influenced by the "Bismarckian" model, emphasized reform through state intervention rather than revolution. This model prioritized the state's role in managing essential functions and ensuring long-term economic growth, thus supporting the well-being of the working class (Ker, 1960).

HISTORICAL BACKGROUND OF SWEDEN

Sweden, located in northern Europe on the Scandinavian Peninsula, is bordered by Norway to the west, Finland to the northeast, and the Baltic Sea and Gulf of Bothnia to the south and east. The country features a long eastern coastline and is separated from Norway by the Scandinavian mountain range. Sweden also shares maritime borders with Denmark, Germany, Poland, Russia, Lithuania, Latvia, and Estonia. Covering an area of 450,295 km² (173,860 sq mi), Sweden ranks as the 56th largest country globally, the fifth largest in Europe, and the largest in Northern Europe.

As of January 2017, Sweden's population stands at 10 million. The northern part of the country is sparsely populated compared to the south and central regions, largely due to the longer summer days in the north, which historically supported more successful agricultural industries. Additionally, Sweden's advantageous location near key trade routes and partners in Continental Europe, such as Germany, has been historically significant. Sweden's natural resources include copper, gold, hydro-power, iron ore, lead, silver, timber, uranium, and zinc (Onimode, 1983).

Swedish politics operates within a framework of parliamentary representation and a democratic constitutional monarchy. The government, led by the Prime Minister of Sweden, holds executive power, while legislative power is shared between the government and a multi-party elected parliament. The judiciary is independent, with judges appointed by the government and serving until retirement. Sweden is a constitutional monarchy (Esping-Anderson, 1996).

Sweden's democratic history traces back to the Viking Age, with early forms of electing kings and a transition to regular royal power in the 14th century that was somewhat democratic. The current democratic system evolved through a series of reforms during the 19th and 20th centuries, culminating in the introduction of women's suffrage. Since the Great Depression, the Swedish National Politics have been predominantly influenced by the Social Democratic Workers' Party, which has held a plurality, and occasionally a majority, in parliament since 1917 (Mejer, 1989).

THEORETICAL FRAMEWORK

The paper employs the "Social Welfare Theory" as articulated by Evangelos Koutronas. This theory argues that society should offer protection to its members through public measures designed to mitigate economic and social distress. These measures address issues such as loss of income due to sickness, injury, unemployment, disability, old age, maternity, and death, as well as the provision of medical care and family subsidies. The theory envisions a system where the government, supported by a robust network of social institutions, plays a central role in safeguarding and enhancing the economic and social well-being of its citizens. It emphasizes the principles of equal opportunity, fair wealth distribution, and the public good for those who cannot support themselves.

Key social welfare needs identified by this theory include:

- **Physical and mental well-being**
- **Knowledge and information**
- **Justice and fairness**

- **Economic security**
- **Self-realization, intimacy, and relationships*

STATE PARTICIPATION IN SWEDISH WELFARE POLICY AND INDUSTRIALISATION

In analyzing the Swedish state, it's important to recognize that government intervention through targeted social policies was designed to address income inequality caused by the transition from subsistence farming to industrial manufacturing. During this shift, most households lacked the capital to invest in industrial machinery. Consequently, former farmers began working for new

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entrepreneurs who controlled the capital and investment funds (Anyanwu, 1993).

This change in capital ownership made it harder for households to effectively utilize their labor. Specifically, it became challenging to cope with reduced labor demand or when a family member fell ill, leading to income losses that threatened many Swedish families' financial stability. As the demand for specialized jobs increased, education gained importance for securing higher-paying and more stable employment. Thus, a strong social protection system was necessary to support families and ensure social stability. The rise in poverty due to fluctuating labor demand led to increased crime and political unrest, often organized by workers. Hence, the Swedish welfare model was seen as crucial for the development of the market economy (Mejer, 1989).

At the time, most economists supported a laissez-faire approach, advocating for minimal state intervention focused only on protecting private property rights. As a result, significant reforms were implemented in the financial, educational, and social sectors. Key elements of these reforms included overhauls in the tax system, pension system, social insurance programs, healthcare system, and overall social security framework (Kokko, 2015).

SOCIAL WELFARE SCHEME

Social insurances

For years, Sweden's welfare state has developed two distinct social insurance systems: a public system and a negotiated system linked to labor market participation.

The public insurance system addresses three main areas:

1. **Parental Insurance:** This supports family policies aimed at ensuring a reasonable standard of living for children.
2. **Public Health Insurance:** This provides compensation for income losses due to illness, including benefits such as sickness allowances, temporary disability pensions, disability pensions, early retirement pensions, and compensation for work-related injuries.
3. **Age-Related Insurance:** This guarantees a basic standard of living for the elderly (Swedish Statistics, 2023).

Pensions:

Sweden introduced a flat-rate public pension system in 1913, offering a modest annual benefit to all elderly citizens. This pension provided vital financial support to households with elderly members. Although it wasn't sufficient for a comfortable living on its own, it was complemented by family care from children. After World War II, the pension system evolved to include earnings-related components, providing higher pensions based on individual tax contributions (Swedish Statistics, 2008).

Health Insurance:

To Health insurance represents the second-largest component of the Swedish social insurance system, after retirement pensions. It is funded through the general budget and is designed to protect against income losses caused by illness (Hassler & Lindback, 1999). Although the extensive health insurance system had significant social benefits, it became very expensive. In the 1950s, workers were compensated for 10-15 days of sick leave per year. By the late 1980s, this number had increased to over 30 days, despite advancements in workplace safety and environmental conditions. This rise in compensated sick leave resulted in high costs related to insurance payments and lost productivity, affecting economic growth (Jonh, 2000).

Swedish Tax System:

Sweden is noted for its transparent tax system, which includes personal income tax, business tax, and consumption tax such as VAT. The high cost of Swedish policies, including government-funded college education, paid parental leave, and universal healthcare, necessitates higher taxes. As with other Scandinavian countries, Sweden relies heavily on taxes for revenue. The country has a high income tax rate of 56.4 percent and a corporate tax rate of 22 percent, focusing primarily on labor and consumption taxes (Lind, 1997).

Critical Review

In the early 1990s, Sweden experienced its most significant economic downturn since the 1930s. This period was marked by three years of declining economic output, a surge in unemployment, a ballooning budget deficit, and severe reductions and alterations in income benefits and services. These changes were initiated by a conservative-led coalition and continued under the social democrats. Critics contend that the welfare state had become unsustainable, with its high costs exacerbating the budget deficit. However, it's worth noting that just before this crisis, Sweden enjoyed full employment, a strong welfare system, and a substantial budget surplus (Gould, 1999).

During this time, critics argued that globalization pressures and frequent policy reversals could negatively impact the Swedish economy. The focus shifted towards free-market policies, deregulation, and privatization. Consequently, the national government began shifting responsibilities for health and social services to local authorities. Tax reforms that heavily favored the wealthy also

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significantly reduced government revenues (Baldwin, 1990).

The deregulation of the financial sector led to a speculative real estate boom and nearly caused the collapse of the banking system. This scenario required an expensive government bailout and involved a costly, ultimately ineffective defense of an overvalued krona, which briefly pushed interest rates to 500 percent and exacerbated the recession into a depression (Caiden & Wildey, 1974).

Additionally, recent concerns have emerged about a rise in terrorist activities in Sweden. A Swedish woman shared her growing sense of insecurity with Fox News, reflecting on how her once-safe and cherished country has changed. She reminisced about a time when Sweden was a place of deep care and solidarity, where national tragedies were widely mourned. Today, she expressed distress over the frequent occurrences of fires, murders, and serious crimes, which have eroded her sense of safety. She lamented that she no longer feels comfortable going out or participating in public events, blaming government policies for transforming her once-safe homeland into a place where she no longer feels secure (Galbraith, 1993).

Models for developing countries.

Developing countries and indeed Africa can draw practical lessons from Sweden's welfare model, although it should not necessarily adopt Sweden's ideological framework. The Swedish approach to state-driven policies, particularly in areas like taxation and income generation, offers valuable insights that could be adapted. Key components such as welfare provisions, elder care, educational support, pensions, and insurance present opportunities for developing countries to implement similar strategies. However, before doing so, Africa must address persistent issues like corruption and ethnically motivated politics, which have impeded progress for years. Additionally, despite the importance of capital formation for development, many developing nations have struggled with below-average capital accumulation.

Sweden's achievements are largely due to its emphasis on education and human resource development. Unfortunately, many developing countries have not sufficiently prioritized these areas. To foster development, most third world countries need to focus on reducing illiteracy and improving access to job training.

For developing countries to progress, leaders must show greater dedication and political will. The objective should be more than mere economic growth; it requires a fundamental restructuring and transformation of political economies from dependency to self-reliance (Adebayo, 1989).

Another significant lesson from Sweden is the role of state-directed capitalism in driving rapid development. The successful implementation of mercantilist trade policies in Scandinavian countries underscores the importance of an active state in the development process. Sweden's ability to access both the American and global markets was crucial to its success.

Sweden tackled market challenges through an export-oriented strategy, which emphasized leveraging the country's comparative advantages and promoting exports from key sectors (Kukreja, 1996). African states should understand that primary products are increasingly less competitive in the global market and should consider state intervention to promote and support export efforts.

CONCLUSION

Recent developments suggest that the distinctiveness of the Swedish welfare model may be eroding. A significant factor in this shift is the changing dynamics within the Social Democratic Workers' Party, which played a crucial role in shaping the welfare system. Originally, this system was created democratically and deeply integrated into Swedish society, akin to mobilization strategies in one-party states. However, the rise of the conservative party and newer political movements, driven by younger members, are gradually undermining this ideological foundation.

The younger generation's detachment from the Social Democratic Party and reduced involvement in collective union activities have impacted the party's electoral success, leading to compromises and a dilution of its core identity. The Swedish welfare model was historically known for combining social security and income equality with robust economic growth. Social changes, such as the early inclusion of married women in the workforce, initially supported this growth. Yet, since the early 1970s, Sweden's GDP per capita has been growing at a much slower pace compared to other Scandinavian countries.

As Swedes increasingly feel a decline in their living standards compared to other nations, Sweden's integration into a revitalized European economy has altered its economic landscape. This has required Sweden to harmonize its policies to maintain market access. The country has even had to abandon foreign exchange controls after fifty years due to the globalization of its economy. This has led to increased capital mobility and signs of industrial decline within Sweden.

The paper argues that the earlier dominance of the Social Democratic Party, a strong industrial base, and relative national isolation were essential for the development of the Swedish planning and welfare system. With the diminishing influence of the SAP, declining economic performance, and the pressures of globalization, there are indications that these changes may lead to modifications in the Swedish welfare system and a potential loss of its unique distinctiveness.

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