

# What is living and what is dead in Swedish social democracy?

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Seeming to confirm that politics proceeds through contradiction, the essentials of a neoliberal project – the subordination of the social to market discipline – has been consolidated in Europe by social-democratic governments. As yet another political project which is referred to as ‘the Third Way’, this articulation of social democracy with economic liberalism sets high demands on ideology, understood in the Gramscian sense as a multi-levelled phenomenon that contains and fuses a wide range of more or less coherent discursive forms from ‘common sense’ to ‘philosophy’.

Ideology in this sense is a material practice, with the function to ‘cement’ (or, better, interpellate) multifarious, stratified and antagonistic segments of society into a broad political direction. Politicians and mass parties play a strategic role in this context as ‘organic intellectuals’, as it is they who take on the task of ensuring this coherence. In this practice they deploy a number of discursive techniques at different levels of civil and political society. These range from ‘spin-doctoring’ to internal party work and policy formulation, and assume different forms depending on what specific context of civil/political society they are directed at. In terms of content, provided that it is possible to achieve operational coherence at the policy level, heterogeneity in ‘the message’ and even factionalism are not necessarily a weakness, but rather a strength, since this increases the range of interests and identities that can be integrated into the political project. In other words, the successful mass party elaborates and mediates different and heterogeneous interpretations of ‘common sense’, with a coherent and operational political strategy within the state in a way that is also consistent with socio-economic developments. In this process, social scientists and philosophers may under certain conditions play a crucial role, providing ideological discourse with a special logical coherence, direction and authority. The cosmopolitan intellectual<sup>1</sup> of the

Third Way par excellence, Anthony Giddens, seeks to contribute to resolving the difficulties of the Third Way articulation by fusing neoliberal economics with more communitarian sentiments that draw on recent developments in ‘reflexive sociology’.

In this article I criticize the trajectory of Giddens’s *The Third Way: The Renewal of Social Democracy*<sup>2</sup> exactly at the level where Giddens seeks to pitch it: as a social-scientific/philosophical justification of a neoliberalization of social democracy. In this endeavour, I am joining a growing chorus of Left critics.<sup>3</sup> The distinct contribution of my critique is its reference to research on Swedish social democracy and its crisis in the wake of neoliberal globalization. Such a focus on the ‘Swedish model’ can be justified for two reasons. First, the Swedish model was for a long time a paradigmatic case for the European reformist Left, because of its perceived capacity to integrate economic and distributive rationality. Whilst there was a lot of simple-minded hubris associated with this, I argue that this has now resulted in an equally simple-minded disillusionment. My exposition seeks to demonstrate that there are many positive lessons for the Left to learn from the legacy of the Swedish model, which can help meet the urgent need of formulating concrete alternatives. The second reason for focusing on Sweden is because a closer reading of *The Third Way* makes it clear that crucial passages in Giddens’s dismissal of what he calls ‘traditional social democracy’ rest on a faulty interpretation of the crisis of the Swedish model in the 1990s.

The thesis I seek to defend is that Giddens’s attempt to reconcile radical democratic principles (‘no authority without democracy’) with neoliberal socio-economic discipline (‘no rights without responsibilities’) is flawed and cannot escape the essential limitations on democratic citizenship exerted by commodification. This is masked in the *Third Way* through a sleight-

of-hand through which very different types of risk – ecological, social and financial risk – are treated as if they were one and the same. This conflation of types of risk ignores not only that the incidence of risk is systematically unevenly distributed in capitalism, but also that the radical democratic citizenship which the challenge of ecological risk requires is undermined by the exposure to social and financial risk that the institutions of the Third Way imply. In short, radical democracy presupposes exactly the de-commodification strategies and social citizenship which Giddens would have the Left abandon.

It is for that reason that it is interesting to reconsider the structural reforms of the welfare state that the Swedish Left mobilized around, and partly implemented, in the 1970s and the 1980s. I argue that these reforms provide important clues for how one might, within the context of post-Fordist forces of production and late-modern patterns of societalization, plausibly construct a politics of ‘no authority without democracy’. Contrary to what Giddens implies, this Swedish model did not falter due to economic dysfunctions. Rather, the crisis was politically determined: the requisite power mobilization on the Left did not materialize because of the limitations and contradictions implied in the integration of the organizations of the reformist Left into the management of the capitalist state. This confirms the continued relevance of Poulantzas’s analysis in *State, Power, Socialism*.

### The conflation of risk

I will not argue against Giddens’s principle of ‘no authority without democracy’. The problem is rather that it is irreconcilable with ‘no rights without responsibilities’. Giddens does, to be sure, imply the contrary and links neoliberal economics with radical participatory politics. The link is made, via Beck, with reference to a generic conception of ‘risk’.

Providing citizens with security has long been a concern of social democrats. The welfare state has been seen as the vehicle of social security. One of the main lessons to be drawn from ecological questions is that just as much attention needs to be given to risk. The new prominence of risk connects individual autonomy on the one hand with the sweeping influence over scientific and technological change on the other. Risk draws attention to the dangers we face – the most important of which we have created for ourselves – but also to the opportunities that go along with them. Risk is not just a negative phenomenon – something to be avoided or minimized. It is at the same time the energizing principle of a society that has broken away from tradition and nature.<sup>4</sup>

This reading allows him to treat the imperative for democratic civic involvement in ecological risk-management as equivalent and synonymous with the risk that the individual faces in the management of his or her pension, unemployment and health. In this context ecological, social and financial risk are treated as if they had the same ontological quality: taking responsibility for the environment and one’s mutual fund become one and the same.

From the point of view of political and ideological practice this conflation is cunning, because it reconciles within the neoliberal social-democratic project conflicting economic demands with demands for legitimacy, social representation and civic participation. As a result it justifies on a philosophical-theoretical level a broad alliance of interests that otherwise would not be reconcilable. This parallels the practical politics of ‘New Labour’ in Britain, and its aim to be all-inclusive and construct a ‘politics without enemies’, but ignores real and concrete political cleavages and antagonisms in an unequal society.

[New Labour] speaks as if there are no longer any conflicting interests which cannot be reconciled. It therefore envisages a ‘politics without adversaries’. This suggests that by some miracle of transcendence the interests represented by, say, the ban on tobacco advertising and ‘Formula One’, ... ethical foreign policy and the sale of arms to Indonesia, media diversity and the concentrated drive-to-global-power of Rupert Murdoch’s media empire have been effortlessly ‘harmonised’ on a Higher Plane, above politics.<sup>5</sup>

Of course, one cannot deny that ‘positive-sum games’ and social compromises are possible. Indeed, it is difficult to envisage any social-democratic politics, past, present or future, without it, and indeed the ‘Fordist compromise’ was essentially about this.<sup>6</sup> But such positive-sum games are based on particular conditions. Giddens’s conflation of risk obscures rather than clarifies an analysis of these conditions, and pretends that there is scope for positive-sum solutions where there is none. It is far-fetched indeed to suggest that Beck’s conception of ecological risk is of the same ontological quality as the kind of risk that is associated with the management of financial assets, which so severely constrain welfare states through globalized financial markets. The same goes for the kind of risk that wage-labour faces on the labour market. Furthermore, the ‘human energies’ required in the pursuit of a job and in the choice of a mutual fund, on the one hand, and in civic involvement and in the reasonable consideration of our actions in light

of ecological risk, on the other hand, are hardly one and the same. In fact one can reasonably follow the classical works by Marx and Polanyi on the nature of alienation in the capitalist wage relation to argue that these 'human energies' stand in a relation of mutual conflict and contradiction to one another. This is especially the case for the socially unprotected worker without 'human capital', who enters the labour market under subordinate conditions. Moreover, if it is at all possible to reconcile them, it requires a continued commitment to the 'traditional' social-democratic project of humanization of capitalism – that is, the decommodification that Giddens rejects in his moral-hazard argument.

The fundamental point was already made by Aristotle.<sup>7</sup> According to him *leisure* is required for civic involvement and ethical deliberation in the polity. This means that 'free and equal' citizens must be certain that the satisfaction of their basic human needs are guaranteed and hence are not dependent upon success in the marketplace. But, furthermore, capacities for practical reason, affiliation with fellow human beings, and relatedness to nature must also be fully encouraged and nurtured, and the autonomy of humans as individual must be respected. Only when these needs are satisfied can humans leave the 'realm of necessity' and enter the 'realm of freedom' as citizens capable of civic involvement in a democratic polity. What is more, in a democratic society these needs must be secured for *all* citizens to organize themselves democratically and ethically in society. In the *Economic and Philosophical Manuscripts* of 1844 it was Marx's point exactly that the leisure required, and these 'architectonic functions', could not be adequately produced for the possessive individualist of capitalist society. Adequate amounts of leisure and 'security' are certainly not granted to the wage labourer. Furthermore, though, those who are affluent in capitalist society are also constantly compelled to face the risks and competition of the market. As a result, all their energies have to be concentrated on the reproduction of the conditions necessary for their existence, and the development of the architectonic functions are thus neglected. And, indeed, social welfare reform constituted exactly a response to this Marxist challenge to bourgeois society.

The problem with Giddens's conflated extension of Beck's management of ecological risk to the management of risk in the labour and financial markets is that the latter type of risk corresponds exactly to the kind of commodification of human life that undermines the architectonic functions. The result of this is that

Giddens sets utterly unreasonable demands on the citizen. One wonders where one might find Giddens's heroic competitive, flexible and mobile individual who at the same time is a nurturing parent, rooted in a community, in which s/he has time and energy to invest civic involvement, and who in this context would refrain from engaging in power-charged strategic language games driven on by economic interests imposed by necessities as defined by the terms of market participation. It is as if the entire weight of the social contradictions of modern capitalism is to be borne by the individual, who has no social rights at all to claim 'without responsibilities'. The highly unequally distributed incidence of this weight, which stems from the unequal terms on which individuals participate in the labour and capital markets, is too obvious to require further elaboration.

Symptomatically, it is on issues such as these that Giddens draws back from Habermas and Offe. In contrast to Giddens, however, Habermas and Offe continue in this context to be concerned with the dangers of the commodity logic of the capitalist economic system and its 'colonization' of these communal networks. In recent work, Offe is particularly concerned with the threat of social marginalization that is inherent in private insurance. Such insurance gives powerful incentives to those with purchasing and market power to exclude others, in order to reduce risks and costs on premiums. More generally, neoliberal deregulation promotes residual measures, where only 'those in need' will be protected. This, however, tends to constitute different welfare constituencies as fragmented and marginal groups, who can easily be targeted as minority 'special interests' when further cutbacks are called for, or as neoliberal political constituencies call for 'tax cuts'. This perpetuates rather than mitigates the fragmentary tendencies of post-traditional societies.<sup>8</sup> Whilst Giddens claims that the 'Third Way' is committed to prevent such social exclusion, he does not provide any reasonable evidence that it is up to this task.

### **The Swedish model**

It is in this context that I make the case for reconsidering the legacy of the Swedish model. My argument should not be seen as an apology for postwar Swedish social democracy. Sweden has been riddled with the tendential accumulation, rationality and legitimation crises of Fordist welfare capitalism, and its original foundation in a homogenous industrial working-class project is, as Giddens suggests, anachronistic. Nevertheless, as neo-institutionalism argues, different welfare state regimes

do generate different trajectories of socio-political development and the universal welfare state regime of the Swedish model provides a more propitious framework for realizing a politics of 'no authority without democracy' than Giddens's Third Way.<sup>9</sup> Moreover, contrary to what Giddens's and Lindbeck's moral hazard thesis suggests, such a reconstitution of the universal welfare state can be made compatible with post-Fordist economic rationality. We do not need to succumb to 'no rights without responsibilities'. When considered dialectically, the Swedish model can continue to serve as a guide for the Left, because within it is an immanent logic of decommodification that also reflexively considers *ex ante* the terms of its economic reproduction.

Giddens's characterization of social democracy as having no conception of 'the supply side' and productivity is a caricature, probably based on the comparatively unsuccessful experience of British Labourism. Social-democratic doctrines have indeed emphasized the idea of a progressive humanization of industrial capitalism. But these doctrines were also simultaneously concerned with the development of the productive forces, and hence with the 'supply side', as well as 'demand side' planning measures that would achieve productivity growth and socially reflexive rationalization. This is, for example, the case with the 'expansive wage policy' of the metalworkers' union in Germany.<sup>10</sup> The same principle appears in a more developed form in the Swedish 'Rehn–Meidner model', a theoretical elaboration of thoughts on 'solidaristic wage policy' that the Swedish trade union began to develop in the 1930s.<sup>11</sup>

The Rehn–Meidner model sought to make a 'humanization' of capitalism compatible with economic rationalization, through mutually reinforcing policies that modified the capitalist wage relation. The key ingredient is an unconditional commitment by the government to ensure full employment and universal social programmes based on 'social citizenship' principles. In this context, trade unions pool their bargaining power in centralized negotiations with employers and seek to maximize the wage share for workers in the economy as a whole. Wage negotiations generate only one central wage bargain for the entire economy, based on the principle 'equal pay for equal work'. This means that low-productivity firms cannot afford the going rates and are forced out of business. But firms with high-productiv-

ity growth are rewarded with lower wage increases than they would have to pay in a 'free' labour market at full employment, where the labour supply would be scarce. The effect of this solidaristic wage policy is a stimulation of the structural transformation of the economy and a diffusion of core technologies and employment. Resources are more rapidly transformed from the low-productivity firms to the high-productivity firms through the 'transformation pressure' that negotiated wages exert.<sup>12</sup> The transformation is further enhanced by public investments in selective labour market policy, which ensures that the labour force is trained according to the new labour demand. Grants are also provided for the relocation to new jobs. This is the 'supply side' of the model that minimizes structural and 'frictional' unemployment. On the demand side, macroeconomic policies are pursued to prevent cyclical unemployment. When labour demand in industry is saturated because of increased capital intensity, the state expands welfare state services (especially in childcare, health care, education and the care of the elderly) and employment. Solidaristic wage policy





between the public and private sectors and increased taxes then partially take over the function of exerting transformation pressure. Alternatively (or in combination with the latter) work-time is reduced: 'solidaristic work policy'.<sup>13</sup>

Apart from this rationale for productivity, the Rehn–Meidner model also implies a rationale of redistribution and decommodification. This is because work becomes a citizenship right and solidaristic wage policy eliminates low-wage and precarious employment. The conception of 'equal pay' is not determined by the market here, but by the subjective conception of a 'just wage' of the wage-earner collective, as defined and organized from within encompassing trade unions.<sup>14</sup> This moral economy defines the terms of legitimacy for trade unions in wage bargaining. It provides an incentive for unions to set the macro-wage high, so that the room for manoeuvre of market-determined wages ('wage drift') is minimized. As long as an appropriate macroeconomic stance is kept, this is productive because it facilitates transformation pressure. It should be noted that the model ought to be an instance of 'moral hazard'. Wages are not contingent on the performance of individuals. The state is unconditionally committed to pursue full employment. Should an individual nevertheless not obtain a job, or should wage-labour be insufficient to meet the publicly defined 'income norms' (caused by health problems or child-rearing expenses, for example), then universal social insurance payments are available. This model provided the chief policy paradigm for Swedish post-

war politico-economic development, and was remarkably successful in ensuring a combination of economic growth, equality and social security.<sup>15</sup>

From the economic point of view, the Achilles heel of the Rehn–Meidner model can be located at the nexus of finance and investment. The imperatives of the moral economy implied a general profits squeeze as wage drift had to be avoided. In this context, there is no guarantee that capitalists would be motivated to reinvest on a level sufficient to maintain full employment. To redress this problem, the government pursued a deliberate low-interest-rate policy, which in the context of a full-employment economy in the postwar period required heavy controls and regulation on the financial and foreign exchange market. As a result of increased concentration of capital, internationalization of production, and increased demand for finance in the twilight of the Fordist period, incentives and capacities to evade capital controls and find alternative investment opportunities correspondingly increased. As a result, Swedish trade unions demanded a progressive socialization of the finance and investment function.

First, this took the form of publicly managed pension funds, financed by surcharges on capital. These pension funds would provide alternative source of finance, alternative to those of banks and shareholders. Later, it was argued that a more consistent solution of the problem required 'wage earner funds'. The basic idea here was that 'excess' profits that resulted from unions not seeking wage increases corresponding to productivity growth in high-productivity firms would be earmarked for the emission, or, in more moderate versions, purchase, of shares that would become the property of wage earners via trade unions. Hence, holding companies (owned by workers) would become the major investors in the economy and, in the most consistent applications, the result would be the transition to market socialism in Sweden.<sup>16</sup> The wage-earner-fund proposals were, however, defeated in political struggle, and the Swedish social-democratic party lost its nerve and retreated from the proposal.<sup>17</sup>

Underpinning the Rehn–Meidner model and its proposed extensions was a particular ideological–intellectual perspective that synthesized insights from Marxian and institutionalist political economy in order to redress capitalist 'mistrationalization'.<sup>18</sup> The latter notion was coined by Austro-Marxist Otto Bauer, who was invoked in debates on strategy in the Swedish

labour movement in the 1930s. According to Bauer, misrationalization occurs when there is a discrepancy between the reduction of private-economic costs generated by rationalization in individual enterprises and societal costs. The reduction of costs of production for the individual capitalist is not necessarily the same as the reduction of costs for society, and in advanced, functionally differentiated and organically complex capitalism the tendency is towards increased gap between these costs. This tendency is due to wage-labour being a commodity in capitalist society, which the capitalist purchases only for the limited duration under which s/he needs it, whilst the reproduction of wage-labour takes place outside this relation. Hence capitalists do not incur the costs of this reproduction, which rather is borne by society as a whole (and in the case of *laissez faire* the cost is distributed to each individual wage-labouring household). The discrepancy between private and social rationalization can only be bridged when economic production and social reproduction are unified within the same organizational meta-principle, with increasingly socialist traits.

In this ideological conception, rationalization as a principle is affirmed. However, the naive equation of rationalization with the unleashing of market forces is profoundly problematized. What Swedish social democrats took from Bauer as a guiding principle in their pragmatic search for appropriate welfare state mechanisms was the idea that economic and social rationalization had to be viewed from an integral perspective and that a common organizational meta-principle was needed ('planning'). This required an integral welfare state that had at its regulatory core institutions that could promote economic rationalization at the same time as this rationalization was checked for social concerns. Viewed from this perspective, Giddens does not so much infuse Left discourse with a conception of rationalization on the 'supply side', which previously was absent; rather, he loses the important distinction between private-individual and social rationalization and embraces the simple-minded and narrow market conception of rationalization. In contrast to an integral welfare state perspective, this results in a 'residual' welfare state perspective. Here, the market mechanism is not modified *ex ante* but is construed as the basic mechanism of social organization. Welfare state measures are merely used as 'correctives' *ex post* when people cannot for 'valid reasons' manage to make ends meet through market participation. This is the welfare state type that has characterized especially Anglo-Saxon societies.<sup>19</sup> If anything, Giddens has merely advocated a purer type of residualism, which is riddled

with contradictions. Though formally justified in terms of 'individual freedom', this type of welfare state is by necessity selective and intrusive, as it is forced to economize on scarce welfare state resources and to subject its clients to surveillance that restricts and violates their freedom.

The radical implications of Otto Bauer's reformism should not be underestimated, because it implies a highly conditional tolerance of capitalist social relations and a fundamental challenge to the absolute discretion of private ownership of the means of production. In the Swedish context, capital has continuously fought off the most radical and logically consistent political implications of this thinking, as in the case of the wage-earner funds as well as Gunnar Myrdal's notions of democratic planning in the immediate postwar period. Nevertheless, Swedish social democrats in the postwar period were sufficiently strong to maintain the integral welfare state principle in the form of the Rehn–Meidner model. In other countries, this control of the 'supply side' has been weaker – particularly in Britain, where Labour in the end only came to subscribe to a vulgar variant of demand-side Keynesianism, without any elements of integral planning. But this 'retreat to the demand side' was not due to a lack of an integral perspective in other countries. It rather expressed a compromise from the position of political weakness. What Giddens characterizes as the essence of 'traditional social democracy' is, then, *no such thing*. It is the dilution of social democracy in its postwar compromise with economic liberalism. His remedy for the crisis of this hybrid form is further hybridity.

I would maintain that the integral welfare state perspective, which centres on a decommodification of the wage-labour relation, is as relevant as it ever was. If we accept Giddens's contention of a more pluralist, heterogeneous and 'denaturalized' society in which social policy becomes more complex and difficult to implement, because norms must be discursively established, then it is *more* universal programmes and entitlements that are needed, combined with regulatory policies that prevent capitalist misrationalization *ex ante*.<sup>20</sup> It is a fallacy to think that cultural heterogeneity is antithetical to universalism. Only if social entitlements are formulated on a universal level can they be sufficiently abstract to include a multifarious range of identities and interests.<sup>21</sup> Only through abstract social policy norms can the welfare state 'do its job' without refraining from the impositional encoding of 'correct living' on social groups. Such general norms are also necessary in order to allow the

state to devolve the implementation of welfare policy to different groups, so that they can gear the general entitlements towards their particular needs and situation. Moreover, such a universal–abstract conception of social citizenship is needed to prevent social divisions and distributive conflicts between different groups.<sup>22</sup> It is only through decommodification and this broader conception of social citizenship that one can envisage adequate architectonic capacities emerging, which would allow citizens to cope, for example, with the environmental risks that Giddens raises by invoking Beck.<sup>23</sup> But to be meaningful at all in this context, universal entitlements need to be set at high levels, and services need to be of a high quality. This means that they are costly and that they require higher tax rates and rates of public consumption than Giddens is willing to contemplate.<sup>24</sup> Universalism, as opposed to redistribution through means-testing, also means that the prevention of poverty is best resolved *ex ante* at the level of the wage relation. Qua the Rehn–Meidner model, this requires a tight discipline on capital and in its most consistent application implies a socialization of finance and market socialism. In other words, social wage relations need to be modified before the capitalist labour market generates its external effects on the lifeworld.

This is why the Swedish New Left did not oppose the universal welfare state so much as seek to extend it in the 1970s and 1980s and to fill it with democratic content, through reforms in the areas of workplace democracy and social service delivery. This project rested on a broad-based ‘wage-earner alliance’ which encompassed blue- and white-collar workers, and an increasingly heterogeneous welfare state constituency that nevertheless remained committed to universalism.<sup>25</sup> The workplace reforms centred on the Work Environment and Co-determination Acts, which extended considerable powers to local trade unions and shop stewards to shape workplace organization. Work-safety representatives were, for example, given authority to shut down unsafe work, and it was employers that carried the burden of proof in tripartite tribunals to show that work was safe and could be recommended. The relatively strong language of this legislation and of the Work Safety Laws, along with the strong local and central position of Swedish trade unions (with a unionization rate well above 80 per cent) and full employment, ensured that these local provisions indeed translated into real power to shape working life, at least to a degree, in terms of the adaptation of new technology and the organization of work time.<sup>26</sup> If wage-earner funds had been implemented, this power

would have become yet stronger. In terms of social provisions, ambitious proposals were put forward in the early 1980s to decentralize the administration of social services and to grant local clients influence over their administration. If they had been successfully combined with the co-determination reforms, this could have resulted in the freeing up of leisure time (through, for example, fully compensated reductions of the working week, and work sabbaticals), which would have resulted in real democratization of welfare state provision. In short, these reforms would have gone a long way towards realizing the principle of ‘no authority without democracy’.<sup>27</sup>

### **Viability and moral hazard**

If we accept that the Swedish model provided an adequate mode of economic regulation in the Fordist period, does it provide the basis for a viable mode in a ‘post-Fordist’ era where the terms of global capitalist competition have intensified, where there is less scope to tolerate ‘moral hazard’? The answer is yes.<sup>28</sup> First, Giddens’s and Lindbeck’s claims notwithstanding, there is no problem of ‘moral hazard’. If there were, then we would expect Sweden to have had a higher number of vacancies (unfilled jobs) at a given rate of economic activity and unemployment than other advanced capitalist countries in the 1970s and 1980s. According to OECD statistics, the exact opposite is the case.<sup>29</sup> Second, a modified Rehn–Meidner model demonstrably provides an appropriate framework for a progressive post-Fordism. As regulation theorists have argued, post-Fordism does not inherently require a ‘numerically flexible’ and commodified labour market. ‘Negotiated involvement’ constitutes an alternative post-Fordist trajectory. Here co-determination for labour on the shop floor, operating in tandem with a solidaristic wage policy and active labour market policy à la Rehn–Meidner model, provides an alternative form for functional flexibility.<sup>30</sup> This was verified in Swedish industrial experiments of the 1980s.<sup>31</sup> This in turn can underwrite high wage employment in a public social-service sector, which provides use values for social reproduction.<sup>32</sup> Hence, this model does not presuppose ‘the male-breadwinner model’ that Giddens attributes to ‘traditional social democracy’.

What, then, was the problem? Clearly there was one, because events between 1989 and 1994 shattered the Swedish model as a paradigm. They started with accelerating inflation 1989–90, fuelled by strikes and wage rivalry between different unions that fragmented wage bargaining coordination. This, in turn, led to a run on the Swedish currency, which compelled the

government, for the first time since the budget of 1932, to give up its full-employment commitment in favour of price stability. The austerity measures that ensued dovetailed with the world recession and a crisis of the financial system as borrowers defaulted on debt en masse. This exacerbated currency collapse further and forced overnight interest rates up to the unbelievable level of 500 per cent in late 1992. Subsequently, Sweden experienced negative growth rates through 1994. Whilst the economy recovered in the late 1990s, the policy routines of the Swedish model were abandoned: unemployment remained high, social insurance replacement ratios were reduced, and collective bargaining was decentralized along sectoral lines. Sweden's post-Fordist development shifted towards a neoliberal trajectory. Nothing symbolized this more than the shutdown of the Kalmar and Uddevalla plants in 1994, as Volvo eliminated spare capacity during the deep recession.

But, as argued above, contrary to the neoliberal thesis, the causes of the crisis cannot be reduced to microeconomic dysfunctions and moral hazard on the labour market. Rather, the propitious tendencies towards a progressive post-Fordism were not realized because of the failure to institutionalize a supporting mode of regulation based on the reforms of the 1970s discussed in the previous section. This failure was, in turn, an outcome of social struggle, where the wage-earner alliance associated with the latter reforms was divided and defeated by forces led by transnationally mobile Swedish capital. This resulted in a hybridic, unstable and contradictory regulation, with a crisis logic that progressively tended towards ever more neoliberal solutions. Critical in this context was the interpellation of strategically important state apparatuses and social-democratic personnel into the neoliberal hegemonic project – especially those located in the Ministry of Finance and the Central Bank. This pre-empted the progressive project primarily organized around the trade unions, the social policy complex and the Ministry of Labour. It would be overly voluntarist merely to conclude that 'the leaders betrayed us'. Rather, it underlines the importance of structural features of social relations of capitalist accumulation, including those of the state.

Increasing internationalization of production, the collapse of Bretton Woods, and the globalization of finance conspired to undermine the precarious relations between finance and investment that the Rehn–Meidner model presupposed.<sup>33</sup> This undermined the prospects to determine 'just wages' in accordance to the trade-union 'moral economy'. As a result the scope for

'responsible' coordinated bargaining was severely limited. At the same time, employers had in the 1980s adopted a neoliberal ideological orientation. Hence they had deliberately begun to insist on a decentralization of bargaining, and they resisted any attempt to maintain a solidaristic wage policy. Increasingly they took the view that wages should be a tool of individual managers. As a result, they used the increased structural power that transnational production implied and increased divisions within the wage-earner collective generated by procyclical economic policy and the ensuing wage drift to decentralize bargaining. This was the determining factor behind the unravelling of the public and private and white- and blue-collar factions of the wage-earner alliance.<sup>35</sup>

But these structural developments of 'globalization' and the deliberate actions of business must be actively constituted and enabled through the state. Here we find the most interesting part of the story of Swedish neoliberalism in the 1990s: the remarkable ease with which the Swedish social-democratic personnel in the Finance Ministry and Central Bank not only acted to pre-empt the implementation of wage-earner funds, but also deregulated financial markets and, especially, deliberately destabilized the terms of solidaristic wage policy through a monetary and borrowing policy that deliberately increased the sensitivity of Swedish interest rates to global financial markets.<sup>35</sup> The broader purpose of this so-called 'norms-based' monetary policy was to contain inflation by exerting market discipline on collective actors, such as unions and social-service agencies in wage and budget bargaining.<sup>36</sup> This is clearly a variant of 'disciplinary neoliberalism',<sup>37</sup> and it represents a redefinition by the Ministry of Finance and the Central Bank of the patterns of social representation in the state. In effect, the Ministry of Finance abandoned its support of solidaristic wage policy. The tendencies towards deeper commodification of the wage relation were thus enforced.

The structural power mobilized by this form of rule was effectively used to create a 'crisis consciousness' at strategic junctures. Previously inconceivable decisions 'to calm the market' were taken in the context of rapid capital flight, including the decision formally to abandon the full-employment commitment in 1990. The basic fallacy was that disciplinary neo-liberalism would enhance incomes policy. Short-termism and the speculative nature of international financial flows, however, totally undermined any predictability for bargaining in the late 1980s. Apart from the effect of economic overheating resulting from procyclical policy, the defensive distributive struggles of increas-



ingly fragmented trade unions generated wage-push inflation, which exacerbated the problem. Of course, this provided the basis for blaming the trade unions for the crisis, and it is in this context that one should consider Lindbeck's moral hazard argument. However, the largest source also of this conjunctural instability can be traced to financial capital. Bank lending was overextended as a result of deregulation. This resulted in bad loans and defaults in the deep recession of the early 1990s. Capital deregulation and the strategy to increase Sweden's interest rate sensitivity thus seriously backfired.

The policy of the Ministry of Finance is so anti-theoretical to our understanding of Swedish social-democratic economic rationality that it is tempting to invoke the term 'false consciousness'. The policy clearly contradicted the terms of solidaristic wage policy, which also has been critical to the continued electoral hegemony of Swedish social democracy, based as it is on a 'wage-earner alliance'.<sup>38</sup> The reasonable interpretation is that the Ministry of Finance acted according to its ideational convictions; this, then, would be a case of the permeation of transnational neoliberal hegemony in the practice of Swedish social-democratic elites.

But why did social democrats at the 'commanding heights' of economic regulation become neoliberals? I have argued at greater length elsewhere that this receptiveness to neoliberalism was generated as a result of ideational developments within social-democratic circles during the golden age of Fordism itself.<sup>39</sup> Under the surface of policy continuity, the *way of arguing and justifying* the mode of regulation changed. It changed from the Marxian-institutionalist conception to a piecemeal social engineering conception. As a result of this, the crisis of the 1970s was not, as in the trade unions, interpreted as a crisis of capitalism, but as a falsification of Keynesian ideas, which verified the 'null hypothesis' of monetarism. This shift in the *epistemic form* of economic policy discourse, as opposed to *content*, corresponds to the period in which the Swedish social democrats established themselves as the managerial cadre of the capitalist state.

Thus there was an impasse in the traditional social-democratic project in Sweden. But the impasse does not pertain to the policy of decommodification, as Giddens suggests. Their decommodification strategies remain the lasting contributions of Swedish social democrats to socialist thought. It rather pertains, as Poulantzas suggests, to the 'institutional materiality' of the capitalist state *sui generis* and its attendant discourses, which tends to capture the reformist labour movement.<sup>40</sup>

As the implausibility of Giddens's discussion of risk shows, the politics without enemies 'beyond' left and right is a mirage. At best, and disregarding the threat of the extreme Right, we are faced with a struggle between capitalism and commodification on the one hand, and democracy and decommodification on the other, where the former has the upper hand. But this is not because of objective and intransitive realities. Pluralist and democratic market socialism is possible, and the Left does not have to reinvent the wheel in this endeavour.

The Swedish experience does, however, underline the difficulty of engaging in a war of position in the capitalist state. In my critique of Giddens I argued that when the real causes of the crisis of the Swedish model were understood, his argument amounted to a tautology: neoliberalism is necessary because of neoliberalism. This points to a powerful dialectic within the capitalist state: when the labour movement and the Left have managed to achieve a degree of decommodification and generated hybridic forms of regulation, 'scientific' analysis in the state finds ways arbitrarily to blame and purge the element of decommodification in moments of crisis. We can see this in the fact that the Left has been blamed for the crisis of the weak 'demand-side' variants of Keynesianism, when these were in fact creations of the Right. But we can also see it in the way that the economic elites of the comparatively strong Swedish labour movement were progressively interpellated by the institutional materiality of the capitalist state and rejected their own creation.

## Notes

I thank Mark Neocleous for comments on previous drafts.

1. *Pace Gramsci, Selections from the Prison Notebooks*, trans. and ed. Q. Hoare and G. Nowell-Smith, International Publishers, New York, 1971, pp. 56n and 374.
2. Anthony Giddens, *The Third Way: The Renewal of Social Democracy*, Polity Press, Cambridge, 1998 (henceforth *TW*).
3. E.g. Stuart Hall, 'The Great Moving Nowhere Show', *Marxism Today*, Special Issue, November/December 1998; Chantal Mouffe, 'The Radical Centre: Politics without Adversary', *Soundings* 9, 1998; Nikolas Rose, 'Inventiveness in Politics', *Economy and Society*, vol. 28, no. 3, 1999; Riccardo Petrella, 'Man nannte es den dritten Weg', *Le Monde Diplomatique* (German-language version), 6 October 1999; Alex Callinicos, *Against the Third Way*, Polity Press, Cambridge, 2001.
4. *TW*, pp. 62–3.
5. Hall, 'The Great Moving Nowhere Show', p. 10. See also Mouffe, 'The Radical Centre'.
6. E.g. Michel Aglietta, *A Theory of Capitalist Regulation*, New Left Books, London, 1979.
7. Martha Nussbaum, 'Aristotelean Social Democracy', in B.R. Douglas et al., *Liberalism and the Good*, Routledge,

- London, 1990,
8. Claus Offe, *Modernity and the State*, Polity Press, Cambridge, 1996, pp. 105–20; 147–200.
  9. See especially Ulf Himmelstrand et al. *Beyond the Welfare State*, Heineman, London, 1981.
  10. See Peter Swenson, *Fair Shares: Unions, Pay and Politics in Sweden and West Germany*, Cornell University Press, Ithaca, 1989.
  11. Anders L. Johansson, *Tillväxt och klass-samarbete*, Tiden, Stockholm, 1989; Gösta Rehn, 'Ekonomisk politik vid full sysselsättning', *Tiden* 3, 1948; Rudolf Meidner, 'Lönepolitikens dilemma vid full sysselsättning', *Tiden* 9, 1948; LO, *Fackföreningsrörelsen och den fulla sysselsättningen*, LO, Stockholm, 1951.
  12. Lennart Erixon, 'Rehn-Meidnermodellen: En tredje väg i den ekonomiska politiken', *Arbetslivscentrum. Research Report* 4, 1994.
  13. Anna Hedborg and Rudolf Meidner, *Folkhemsmodellen*, Rabén & Sjögren, Stockholm, 1984; Wallace Clement and Rianne Mahon, eds, *Swedish Social Democracy*, Canadian Scholars' Press, Toronto, 1994.
  14. Swenson, *Fair Shares*.
  15. Sven E. Olsson, 'Sweden', in Peter Flora, ed., *Growth to Limits*, De Gruyter, Berlin, 1987.
  16. Rudolf Meidner, 'Our Concept of the Third Way: Some Remarks on the Socio-Political Tenets of the Swedish Labour Movement', *Economic and Industrial Democracy*, vol. 1, no. 1, 1980; Jonas Pontusson, *The Limits of Social Democracy*, Cornell University Press, Ithaca, 1992.
  17. Jonas Pontusson, 'Radicalization and Retreat in Swedish Social Democracy', *New Left Review* 165, 1987.
  18. For an elaboration, see Magnus Ryner, *Capitalist Restructuring, Globalisation and the Third Way*, Routledge, London, 2002, chs 3 and 7.
  19. Gosta Esping-Andersen, *The Three Worlds of Welfare Capitalism*, Cambridge, Polity Press, 1990.
  20. Offe, *Modernity and the State*.
  21. Bo Rothstein, *Just Institutions Matter*, Cambridge University Press, Cambridge, 1997.
  22. On the integrative qualities of welfare universalism and the gender nexus, see Diane Sainsbury, *Gender, Equality and the Welfare State*, Cambridge University Press, Cambridge, 1996. I have advanced similar arguments pertaining to the welfare state and immigration, based on the research by Keith Banting. See *inter alia* Ryner, 'European Welfare State Transformation and Migration'; and Keith Banting, 'Looking in Three Directions: Migration and the European Welfare State', in Michael Bommers and Andrew Geddes, eds, *Immigration and Welfare: Challenging the Borders of the Welfare State*, Routledge, London, 2000.
  23. Offe, *Modernity and the State*.
  24. Rothstein, *Just Institutions Matter*.
  25. Himmelstrand et al., *Beyond the Welfare State*.
  26. Guy Standing, *Unemployment and Labour Market Flexibility: Sweden*, ILO, Geneva, 1988.
  27. There are, of course many potential pitfalls here and 'devil in the detail' that go beyond what is possible to discuss here. Especially recommended on this is the work of Bo Rothstein, whose overall conclusion is that as long as universalism and decommmodification can be maintained, these problems can be redressed. See, *inter alia*, *Just Institutions Matter*, and 'Social Capital in the Social Democratic Welfare State: The Swedish Model and Civil Society', Paper Presented at the 11th International Conference of Europeanists, Baltimore, 26 February–1 March 1998.
  28. See Ryner *Capitalist Restructuring*, ch. 2, for further elaboration.
  29. OECD *Employment Outlook*, OECD, Paris, 1992, pp. 62–6, cited in Bertil Holmlund, 'Arbetslösheten – konjunkturfenomen eller systemfel?', Swedish Ministry of Finance, *Nya villkor för ekonomi och politik*, SOU 1993:16 bilaga 1, pp. 419–21.
  30. Daniëlle Leborgne and Alain Lipietz, 'New Technologies, New Modes of Regulation: Some Spatial Implications', *Environment and Planning D: Society and Space* 6, 1988.
  31. Especially noteworthy are the Kalmar and Uddevalla plants of Volvo, to which Leborgne and Lipietz also refer. These plants combined a remarkable departure from conveyor belt technology, returned considerable elements of crafts production and decision making to individual workers in a framework of strong union negotiating power on the labour process and work environment, with exceptional productivity growth and high quality output. As similar experiences in other sectors show, these kind of experiments are not only viable in the automobile sector.
  32. See Esping-Andersen, *The Three Worlds of Welfare Capitalism*. Esping-Andersen has recently abandoned this position, but he does so on the basis of the faulty argument of 'moral hazard' which has been criticized here. See, for example, *Welfare States in Transition*, SAGE, London, 1996.
  33. Internationalization of production undermined the relationship between wage moderation in high productivity sectors and future domestic investments. The breakdown of Bretton Woods undermined the precarious balance between international demand and domestic macroeconomic balance. In particular, globalization of finance imposed higher, and above all more unstable, unpredictable interest and exchange rates.
  34. See especially my 'Economic Policy in the 1980s', in Clement and Mahon, *Swedish Social Democracy*.
  35. Together with a vow not to devalue again, the government declared it would no longer borrow abroad directly to finance the debt or cover balance-of-payments deficits, but would instead only borrow on the domestic market (i.e. only issue bonds in Swedish crowns). This meant that in order to maintain a balance of payments, the Swedish interest rate would have to increase to a level where private agents would hold bonds or other debt in Swedish crowns, despite the devaluation risk.
  36. Swedish Ministry of Finance, *Valutautflödena 1985 och den ekonomiska politiken*, Ds.Fi. 1985: 16.
  37. Stephen Gill, 'Reflections on Global Order and Socio-historical Time', *Alternatives* 16, 1991.
  38. Andrew Martin, *Wage Bargaining and Swedish Politics: The Political Implications of the End of Central Negotiations*, FIEF, Stockholm, 1993.
  39. *Capitalist Restructuring*, ch. 7.
  40. Nicos Poulantzas, *State, Power, Socialism*, New Left Books, London, 1978.



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Attendance by arrangement. Contact: Dr Ray Brassier ([r.brassier@mdx.ac.uk](mailto:r.brassier@mdx.ac.uk)) Research Associate, Centre for Research in Modern European Philosophy, Middlesex University, White Hart Lane, London N17 8HR, Tel. 020-8411-6220