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THE POLITICS OF PURPOSE

SWEDISH MACROECONOMIC POLICY
AFTER THE GOLDEN AGE

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ABBREVIATIONS

| | |
|------------|---|
| CPI | Consumer Price Index |
| EC | European Community |
| <i>ecu</i> | European Currency Unit |
| EMU | Economic and Monetary Union |
| ERM | European Exchange Rate Mechanism |
| EU | European Union |
| GDP | Gross Domestic Product |
| IIES | Institute for International Economic Studies at Stockholm University |
| IMF | International Monetary Fund |
| LO | Landsorganisationen i Sverige (The Swedish Confederation of Blue-Collar Employees) |
| OAPEC | Organization of Arab Petroleum Exporting Countries |
| OECD | Organization for Economic Cooperation and Development |
| OPEC | Organization of Petroleum Exporting Countries |
| RULC | Relative Unit Labor Cost |
| SACO | Sveriges akademikers centralorganisation (The Swedish Confederation of Professional Associations) |
| SAF | Svenska Arbetsgivareföreningen (The Swedish Employers Confederation) |
| SCB | Statistiska centralbyrån (Statistics Sweden) |
| SNS | Studieförbundet Näringsliv och Samhälle (The Center for Business and Policy Studies) |
| SOU | Statens offentliga utredningar (Government Commissions of Inquiry) |
| TCO | Tjänstemännens Centralorganisation (The Swedish Confederation of Professional Employees) |

I. THREE MODELS OF ECONOMIC POLICYMAKING

In the 1970s and 1980s, Swedish macroeconomic policies were different from economic policies in other advanced democracies. To a greater extent than governments elsewhere, Swedish governments used fiscal, monetary and exchange rate policy to prevent job loss. In the early 1990s, Swedish governments adopted disinflationary economic policies, and did not use macroeconomic policies to maintain full employment. Most other European governments, anxious to bring down inflation, had made similar choices ten to fifteen years earlier. One group of small countries, including Sweden's neighbor Denmark, saw rising unemployment already in the mid-1970s. The big European economies followed in the early 1980s. Finally, Austria, Norway, Sweden and Switzerland saw rising unemployment in the late 1980s and early 1990s (see *table 1*). In the 1980s, when many advanced countries suffered from mass unemployment, Sweden was the only country in Europe that used macroeconomic policy to sustain full employment.¹

TABLE I. THE APPEARANCE OF MASS UNEMPLOYMENT IN EUROPE

| | | |
|------------------------|----------------------|--------------------|
| Denmark (1975) | Great Britain (1980) | Austria (1987) |
| Ireland (1975) | France (1982) | Norway (1989) |
| Belgium (1976) | West Germany (1982) | Sweden (1992) |
| The Netherlands (1976) | Italy (1983) | Switzerland (1993) |
| Finland (1977) | | |

Note: The countries listed include all European countries with more than one million inhabitants that have been democracies between 1970 and 2000. The appearance of mass unemployment is defined as the point in time when the unemployment rate exceeded the 1970 level by more than 3 percentage points. *Data source:* OECD 2003.

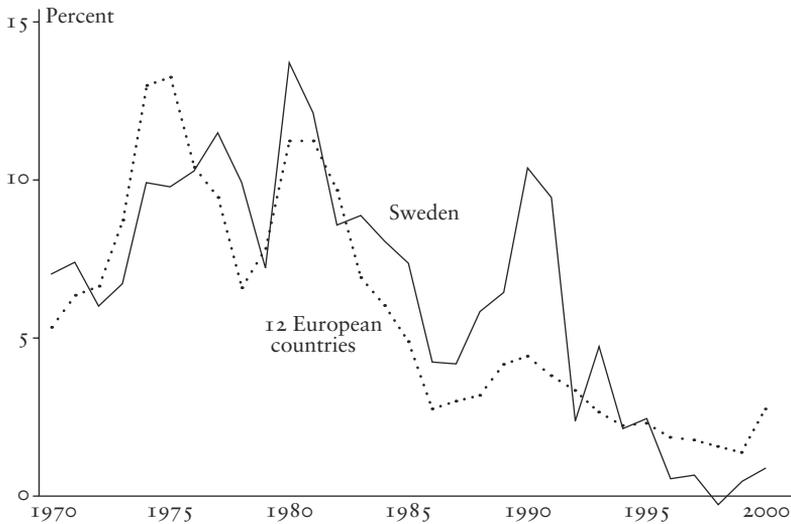
From the mid-1970s to the early 1990s, Swedish unemployment rates were considerably lower than the average for comparable European countries (see *figure 1*). Meanwhile, inflation was higher in Sweden from the mid-1970s onwards, especially in the 1980s, when it had decreased elsewhere (see *figure 2*). When Swedish governments eventually gave priority to low

FIGURE 1. UNEMPLOYMENT IN SWEDEN AND TWELVE EUROPEAN COUNTRIES, 1970-2000



Note: The reference sample includes Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Switzerland, and the United Kingdom. Source: OECD 2003.

FIGURE 2. INFLATION IN SWEDEN AND TWELVE EUROPEAN COUNTRIES, 1970-2000



Note: CPI inflation. The reference sample includes Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Switzerland, and the United Kingdom. Source: IMF.

and stable inflation, the effect was immediate and dramatic, since the disinflation coincided with a severe economic crisis. In the course of a few years, between 1990 and 1993, open unemployment increased from 1.7 to 8.2 percent.

The adoption of disinflationary policies, and the subsequent rise in unemployment, was a break with economic policies that Swedish governments had pursued for much of the twentieth century. From a comparative point of view, however, the puzzle is not why Sweden eventually gave up full employment, but why it took so long. Like other advanced economies, Sweden went through a number of phases in the 1970s, 1980s and 1990s: from generally expansionary policies in the aftermath of the first oil crisis to a mix of expansion and restraint to disinflation and high unemployment.² But the timing was different. Swedish governments gave priority to employment for a longer period of time than most other European governments.

Sweden's employment performance was a source of national pride, and a source of pride for the Social Democratic Party. The social democrats have ruled Sweden for all but nine years since 1932, and they have often claimed that their active macroeconomic management in the 1930s saved Sweden from the Great Depression, and that their economic strategy provided for Sweden's economic performance after the Second World War.³ It would be natural to assume that social democratic dominance in Swedish politics explains why it took so long for Sweden to make the transition to disinflationary policies. I argue, however, that norms in Swedish political culture, accepted by all major parties, removed policies that were inconsistent with full employment from the political agenda. For a long time, the Liberal Party and the Centre Party were just as committed to sustaining full employment by means of macroeconomic policy as the social democrats were. The policies that these parties pursued when they were in power between 1976 and 1982 testify to this.⁴

Previous studies have explained Sweden's late transition to disinflation with reference to structural and institutional characteristics of Sweden's political economy, or to the economic ideas that informed Swedish academic and public debate on economic policy. These explanations are incomplete. The main cause of the distinctive trajectory of Swedish economic policies in recent decades is that Swedish politics was characterized by a particular set of norms regarding the purpose of political authority—norms that no major party seriously questioned before the mid-1980s. There was agreement on what the state should do in response to social problems. Major policy changes, such as the adoption of low inflation as the primary target of economic policy, were inconceivable as long as these norms prevailed.

12 In developing this argument, this study makes two analytical moves. The first is to distinguish between three categories of policy change—first-, second-, and third-order changes. According to this distinction, which was introduced by Peter Hall, first-order changes involve the choice of settings for policy instruments, second-order changes involve the choice of instruments, and third-order changes involve the choice of objectives.⁵ I argue that Swedish governments made first-order changes in the mid-1970s, second-order changes in the early 1980s, and third-order changes in the early 1990s, and the aim of the empirical investigation is to explain this pattern. The reasoning behind this way of defining the outcomes to be explained is that an attempt to assess the impact of different explanatory factors on policy choice should not start from the assumption that all processes of policy change conform to one single model of policymaking. On the contrary, the causal mechanisms that produce policy shifts are likely to vary a great deal, depending on what kind of change is being considered.

The second analytical move is therefore to argue that different kinds of policy change should be explained with reference to different models of policymaking. I develop three models, which are based on a bounded rationality argument that provides for both rational and non-rational aspects of policymaking. Policymaking is *rational* in the sense that politicians choose the policies they think are best, given their preferences and the information available to them. Rationality is *bounded* in the sense that, quoting Herbert Simon, “choice takes place in an environment of ‘givens’—premises that are accepted by the subject as bases for his choice; and behavior is adaptive only within the limits set by these ‘givens.’”⁶ That is, policymaking rests on certain premises that are taken for granted and do not normally enter the strategic calculations of policymakers and other actors. Policymaking involves radical uncertainty, and actors cannot process all relevant information; they must construct simplified models of the real situations they find themselves in. Analyses of policymaking require a description of these simplified models, and of their premises.⁷

In economic policymaking, the most important premises are intellectual and normative. By intellectual premises, I refer to beliefs, or theories, about the economy. Second-order changes (when policymakers decide to use new instruments) presuppose that policymakers acquire a new theory about how the economy works. In these situations—and only in these situations—economic experts become agents of change. The analysis of second-order policy changes calls for a model that accounts for the transfer of economic ideas from experts to policymakers. Such a process took place in Sweden in the late 1970s and early 1980s, when policymakers

disaffected with the outcomes of expansionary fiscal policies in the mid-1970s started listening to economists who were informed by theoretical developments in the international economic literature in the 1970s: the crisis of Keynesian economics, or more accurately, the crisis of the kind of Keynesian economics that had become orthodoxy in parts of post-war Europe and North America.

By normative premises, I refer to norms regarding the purpose of political authority: what the state is expected to do in response to social problems. Third-order changes (when the objectives of policy are changed) require not only that policymakers question intellectual premises; they must also question normative premises. The reason is that third-order changes have far-reaching consequences for other policy areas. The most important, and controversial, claim of this study is that explanations of third-order policy changes call for a model that accounts for how political norms define the sets of options that policymakers consider. Normative changes of this kind occurred in Sweden in the mid- to late 1980s, which explains why the shift to disinflationary policies only took place in the early 1990s, and not earlier.

This chapter develops three models that are intended to explain first-, second-, and third-order policy changes. I call these models the politics of *bargaining*, the politics of *expertise* and the politics of *purpose*.

DECISION SITUATIONS, RATIONALITY, AND NORMS

Governments use macroeconomic policy to control the level of activity in the economy as a whole. The main macroeconomic instruments are fiscal policy, monetary policy, and exchange rate policy. Low unemployment, optimal economic growth and low inflation are the main objectives. There is widespread agreement on the desirability of all these goals; there is less agreement on their relative importance, and on the best instruments for attaining them.⁸

Consider the distinction between the settings of policy instruments, the policy instruments themselves, and the policy objectives. Suppose the government has decided to make low unemployment the primary objective of macroeconomic policy. Assume that to attain that objective the government may use either fiscal policy or monetary policy. Suppose the government decides that fiscal policy is the most appropriate instrument. The next step is to decide the settings of that instrument: the size of the budget deficit (or surplus) and the structure of taxation and spending. Given the distinction between objectives, instruments and settings, it is possible to make

14 a further distinction between three kinds of policy changes. First-order changes occur frequently, whenever the interest rate or the budget deficit, or the settings of any other monetary or fiscal instrument, are changed. Second-order changes occur more rarely, when one set of instruments replaces another. Finally, third-order policy changes take place when not only settings and instruments change, but also the entire hierarchy of policy objectives.⁹

As Peter Hall, who introduced the distinctions, has suggested, these three political events are so different that different models of policymaking are required for explaining them. According to Hall, first-order changes are likely to be characterized by “incrementalism, satisficing, and routinized decision making,” second-order policy changes “may move one step beyond in the direction of strategic action,” and third-order changes are similar to “paradigm shifts” in the history of science.¹⁰ The argument offered here is broadly similar, but it is based on different theoretical considerations: in order to clarify the theoretical premises of the argument, identify relevant explanatory variables, and specify the causal mechanisms, I start from simple assumptions about the mix of rational (outcome-oriented) action and non-rational (norm-oriented) action in policymaking.

By taking account of the rational as well as the non-rational—or extra-rational—this study draws on both of the two basic theories of action in the social sciences.¹¹ Economists and utilitarian philosophers in the eighteenth and nineteenth centuries developed the first theory. In political science, it is known as rational choice theory, and it assumes that actors try to predict the consequences of various alternatives and act in the way that they think is best, given their preferences. The second model emphasizes the meanings that actors attribute to actions as such, regardless of their consequences; it describes actors as rule-followers. In contemporary political science, there are several different versions of this second model: in studies of domestic politics, it is associated with the political culture approach; in organization research, it is known as sociological institutionalism; in studies of international relations, it is called constructivism.¹² These research traditions are different in many respects, but they share an emphasis on norms and culture, in contrast to models of politics that focus exclusively on strategic action and bargaining.¹³

The two theories of action are not mutually exclusive, but complementary—actors are both outcome-oriented and norm-oriented, and any general theory would have to encompass both the rational and the non-rational.¹⁴ As Max Weber showed, human action does not conform to one model—such as forward-looking, instrumental rationality—but to several.¹⁵

The problem with incorporating insights from different theoretical traditions is that it has often been an excuse for models that lack parsimony—“models” saying that “everything matters.” The question should therefore be framed in the following way: In what situations are actors future-oriented and strategic, acting on the basis of given beliefs and preferences, and in what situations are they norm-oriented, with unstable beliefs and preferences that are shaped by new ideas and norms?

In order to answer this question, I develop models of the decision situations that actors are in when they consider first-, second- and third-order changes. These situations are so different that the mix of rational and non-rational elements—and, by implication, the role of ideas and norms—vary between them. In his *Fights, Games, and Debates*, Anatol Rapoport observed that “no single framework of thought is adequate for dealing with such a complex class of phenomena as human conflict.”¹⁶ In this vein, I identify fundamental characteristics of the three decision situations, in order to reach conclusions about which intellectual tools are useful for analyzing them.¹⁷

The main difference between the three decision situations is that the decisions have different scope, which means that the uncertainty that policymakers face varies in both degree and kind. Big decisions, such as third-order changes, are hard to account for using rationalist models. Not only do they have far-reaching and unpredictable consequences; they are also transformative, in the sense that they alter the beliefs and preferences of actors, who would therefore not be able to evaluate their consequences even if they could predict them.¹⁸ Third-order changes are points of discontinuity, or, in terms more familiar to policy analysis, formative moments. In normal times, third-order changes are placed outside a normative boundary that restricts the set of choices that are seen as appropriate, and only when norms change do those boundaries shift. Inside the normative limits, a rationalist, consequentialist theory of action applies. While it does not apply to third-order changes, it works when modeling choices of instruments and, especially, instrument settings.¹⁹

EXPLAINING FIRST-ORDER CHANGES: THE POLITICS OF BARGAINING

Consider the situation that politicians are in when they make first-order changes. The objectives of policy are given. So are the instruments, and policy is likely to be guided by a well-defined theory about how the economy responds to these instruments. In short, policymakers and other actors have stable sets of preferences and beliefs. In these circumstances, the policyma-

16 king process should conform to a rationalist model of future- and consequence-oriented behavior, since rationalist approaches work best when identities and goals are stable, and rules of interaction are precise.²⁰

First-order changes therefore do not require changes to economic ideas and political norms. When policymakers have stable preferences and beliefs, policy shifts are best seen as responses to material changes in the economic and political environment. Policymakers are clear about what is in their interest, and act to secure outcomes that they think are best for their constituencies, given present constraints and opportunities. That is, they strive to fulfil ideological aims and succeed in elections.²¹ Since policy decisions in this model are outcomes of conflicts and bargains between well-defined, interest-based coalitions of actors, I call the first model of policy-making *the politics of bargaining*.

This is a model where policies are determined by economic structures, parties, and elections. There is a large literature on how economic policies are shaped by structural economic factors (such as the shares of economic sectors and the nature of production regimes) and political factors (such as voter preferences, government partisanship, institutions, and the influence of organized interests). When assessing the impact that these kinds of forces have had in Sweden, this study draws on the explanations that are most prominent in the existing literature. Earlier studies have tended to explain policy changes with reference to one of two economic and social trends: increased international interdependence on the one hand, and the structural transformation of the domestic economy—with its important consequences for wage bargaining—on the other.

Increasing interdependence has been an important feature of international economic affairs from the 1970s onwards. The integration of financial markets is of particular importance for developments in recent decades, since it has been known for a long time that trade openness (large volumes of imports and exports) complicate the pursuit of macroeconomic objectives, whereas the growth and integration of financial markets represent a more dramatic break with the past, especially in the small European countries, which have always been trade-dependent, but financially insulated.²² Even critics of the notion that international interdependence has made states powerless agree that financial market integration constrains certain macroeconomic policies.²³ The nature of this constraint is debated, however, and few scholars suggest that the integration of financial markets leaves no room for discretionary economic policy.²⁴ Whether a particular state, such as Sweden, has been constrained in this way is therefore open to empirical investigation.

At the domestic level, one broad process that has shaped advanced industrialized societies is a set of changes in the nature of production, from mass production to more flexible production systems. These changes have redefined the interests and redistributed the resources of economic actors, creating new conditions for economic policy. Firms in different economic sectors have different needs for access to markets and protection from exogenous shocks, and therefore different policy preferences. Furthermore, since different sectors and production systems require labor with different skills, these processes alter the composition of a country's labor force. Specifically the growth of the service economy in general and of the public sector in particular have had important consequences for the heterogeneity of labor, and therefore also for the behavior of trade unions—an important factor in the political economies of heavily unionized countries such as Sweden.²⁵

Chapter two shows that the first-order economic policy change that took place in Sweden in the mid-1970s can be seen as a response to these structural changes in the international and domestic economies. I do not explore the relationship between the various explanatory factors; my point is simply that the most important discontinuities in both trends mentioned above occurred in the early to mid-1970s. Therefore, other explanations must be introduced to account for policy changes in the 1980s and early 1990s. In the 1970s, politicians were not influenced by new economic ideas or by new norms regarding the purpose of political authority; they did what they thought that the new situation required within existing intellectual and normative boundaries. In a series of bargains, actors adjusted to new material conditions.

Many theories of political economy imply that politics is always and everywhere about strategic bargaining. In these models, structural changes and exogenous shocks explain not just first-order but also second- and third-order changes. All policy changes are attributed to tangible economic and social pressures, and cross-national policy variation is the result of varying exposure to these pressures, which in turn is a function of the institutional and structural characteristics of national political-economic regimes. Now, variation in economic structures and formal political institutions does explain much of the cross-national variation in economic policy choices—the empirical evidence that supports this claim is very strong.²⁶ However, economic and social pressures are not automatically translated into specific policy changes. The responses of policymakers to external pressures are bounded—intellectually and normatively—and no satisfactory theory of macroeconomic policymaking can be derived from a theory of macroecono-

18 mic performance (that is, from a theory about the effects of policies). Policy-making is not simply a matter of reacting to external events.²⁷

The fact that structural and economic pressures are not sufficient explanations of second- and third-order policy changes does not mean that they are inconsequential: on the contrary, they are necessary for change to occur. But while economic and social pressures may bring about change, they do not determine the character of new policies.²⁸ Chapter two shows that many of the structural, economic challenges that Sweden faced in the 1980s and in the 1990s—when the turn to disinflationary economic policies took place—were in fact present already in the 1970s. The fact that they did not immediately lead to large policy shifts can be explained with reference to economic ideas and political norms.

EXPLAINING SECOND-ORDER CHANGES: THE POLITICS OF EXPERTISE

Consider the situation that politicians are in when they make second-order policy changes. The objectives of policy are still given, but since second-order changes include the use of new policy instruments, policymakers face far more uncertainty than in the first decision situation. Given this uncertainty, and the complexity of the economy, policymakers do not form beliefs independently about what policy choices would be in their interest. Interest-based, rationalist explanations are thus not sufficient: actors cannot make informed choices when they do not know the probability that different outcomes will occur.

In situations of uncertainty, ideas are cognitive short cuts.²⁹ As Hugh Heclo has put it, politics is often about “collectively wondering what to do.”³⁰ Explanations of policy choices thus call for a model that accounts for how belief formation is shaped by the dissemination of ideas. Specifically, policymakers need two things in order to cross the intellectual boundaries that are inherent in this decision-situation: old ideas must be made to lose their appeal, and new ideas must gain prominence. As Mark Blyth has pointed out, in processes of policy change, ideas are both *weapons* and *blueprints*.³¹ In studies of technical policy areas, such as economic policy, one common model of how ideas enter the policymaking process is the *epistemic community model*. Epistemic communities are small groups of professionals that offer advice regarding cause-effect relationships in the target area of a certain policy or set of policies.³² In the present case, the epistemic community consists of trained economists.³³ Since this account of the political process involves the transfer of causal beliefs from experts to policymakers, I call the second model *the politics of expertise*.

A large literature suggests that new economic theories influenced policymaking in the 1930s and in the period immediately after the Second World War, when different versions of Keynesianism guided economic policymaking in Sweden and elsewhere.³⁴ Chapter three describes the reversal of this process: the increasing disaffection with Keynesianism among economists in the second half of the 1970s, which de-legitimized the use of fiscal policy as a stabilization instrument and suggested new approaches to macroeconomic management. These developments had, I argue, important consequences for policymaking in Sweden from around 1980 onwards. Policymakers were unhappy with the results of policies pursued in the 1970s and therefore listened to those who had new ideas to offer. Policymakers did not, however, abandon the objective of full employment—they did not consider third-order policy change—although some advocates of new ideas were in favor of doing so.

The power of experts is real but limited.³⁵ Policymakers who rule complex societies always rely on expertise, but experts only become agents of change in cases of second-order policy shifts. The argument of this study thus goes against both those who argue that Keynesianism was more entrenched in Sweden than in other countries (Keynesianism was given up at about the same time in Sweden as elsewhere), *and* against those who argue that the third-order policy shift in the early 1990s was caused by the introduction of non-Keynesian economic ideas (this had already happened some ten years earlier). First-order changes do not require new ideas, and third-order policy changes involve, as I argue in the next section, a different kind of uncertainty; economists, whose expertise only concerns specific cause-effect relationships, can therefore offer little advice.

The epistemic community model was originally developed for studying international settings, and domestic politics differs from policymaking in international organizations and agencies in at least two related ways. This explains why, in studies of domestic politics, the model only applies to some policy changes and not to others. First, while international organizations and institutions have limited tasks, such as arms control or environmental protection, policies at the domestic level are nested with other policies, institutionally as well as ideologically.³⁶ Economic policy is just one element in a set of policies. For this reason, national governments are less open to the influence of experts, who can only offer advice on specific cause-effect relationships, than international organizations and institutions are. But they may be influential agents of change with regard to second-order changes, since new policy objectives affect other policies much more fundamentally than new instruments. For example, Sweden's system of soci-

20 al security required—and still requires—a high level of employment, but it does not depend on the use of any specific instrument for pursuing that objective.³⁷

Second, while international organizations are in many ways remote from society, domestic politics is shaped by the interaction of political elites and the public sphere.³⁸ Actors at the domestic level respond to, and participate in, an ongoing public debate. Policymakers defend their choices in public and their choices are shaped by this interaction. Developed public spheres, however, exist only at the national level. Even in advanced supranational entities, such as the European Union, there are as yet no public spheres.³⁹ At the international level, debate over ideas may be left to small groups of experts; at the domestic level, it is always and everywhere a public affair.⁴⁰ Again, however, this is less of a problem when it comes to second-order change. Debates over choices of policy instruments tend to be rather arcane, and are not likely to cause a public outcry.

Given these differences between domestic and international policymaking, there is a larger and more heterogeneous supply of experts at the national level. Among economists, there are at least five important subgroups. One group consists of academic economists. Another is made up of economists employed by policymaking institutions such as the Finance Ministry and central bank. A third consists of “policy entrepreneurs” that participate in the public debate and popularize and introduce ideas developed by others.⁴¹ A fourth category consists of economists employed at banks and other financial institutions. Finally, there are economists employed by the large interest organizations. Previous studies show that the influence of economic ideas on policymaking is conditioned by the corporate cultures of policymaking institutions and the way in which expertise is recruited.⁴² The development of the discipline and profession of economics is also conditioned by the nature of the linkage between economic expertise and the political system.⁴³ For the present purposes, however, these distinctions are not crucial. The main empirical task is to identify a chain of evidence that links epistemic communities to policymakers, and to their policy choices. This is the topic of chapter three.

EXPLAINING THIRD-ORDER CHANGES: THE POLITICS OF PURPOSE

The previous section defined ideas narrowly. Quoting Margaret Weir, an idea is a “programmatically set of statements about cause and effect relationships and a method for influencing those relationships,” expressed in “the technical or professional terminology of the expert.” Weir distinguish-

es these *programmatic ideas* from *public philosophies*, which are not products of expert knowledge but the stuff of political symbols and rhetoric.⁴⁴ Such phenomena—which I refer to as political norms—constitute a boundary that must shift before policymakers consider third-order changes.

Consider the situation that politicians are in when they make third-order changes. The judgments they must make are not limited to predicting the economic effects of macroeconomic policy change. Since macroeconomic policies are nested with other policies, a decision to change the objectives of macroeconomic policy has important implications for other policy areas. Social policies, for example, are often designed for an economy with a certain level of employment. For this reason, the role of macroeconomic policy is not just to attain objectives such as employment, price stability and output growth; economic policies also have effects on the government's capacity to pursue other policies. It is thus possible to distinguish between the *direct* effects of macroeconomic policy changes (for example, the levels of inflation and unemployment) and their *indirect* effects (for example, constraints on—or opportunities for—ambitious social policy).

The politics of third-order changes is all about indirect effects. The reason is that the indirect effects of such political events are particularly far-reaching.⁴⁵ Third-order changes are big decisions, as defined earlier. Actors do not only have great difficulties predicting their consequences; they cannot evaluate them, since society will change fundamentally once they occur, and there is no baseline for evaluations. Therefore, rationalist models do not work well, as actors do not know what the possible outcomes are, and epistemic community models do not work either, for reasons already discussed. In normal times, when actors conform to a given set of norms that simplify decision situations and coordinate social expectations, third-order changes are not considered at all. When they do consider third-order policy changes, politicians do not primarily ask, in the manner predicted by rationalist theories, what alternatives are in their interest; they ask what their interest is in the first place—should old norms be abandoned, and if so, by what new norms might they be replaced?

Norms restrict the sets of options that policymakers consider. Their effects are, in this sense, cognitive. The norms that constitute a political culture define a repertoire of appropriate actions that policymakers choose from.⁴⁶ Policymakers thus do not exclude certain options because they make active decisions that these options are inferior, but because they are not included in the simplified model of the decision situation. In times of norm change, the process is likely to feature learning, bargaining, and

22 ideology.⁴⁷ When they make third-order policy changes, politicians must make further changes in a wide range of policies, which means that they must first reconsider, and renegotiate, the norms that define the purpose of political authority.⁴⁸ I therefore refer to this third model of policymaking as *the politics of purpose*.

Jon Elster defines all actions that are not outcome-oriented as norm-oriented.⁴⁹ A more narrow definition is required for empirical inquiry. One social science classic that deals with what I have called the politics of purpose is Gunnar Myrdal's *An American Dilemma*. Myrdal explained the politics of race in the United States with reference to a conflict of value-systems at the collective, not the individual level, and suggested that a certain "cultural unity" is an "indispensable basis for discussion between persons and groups" and constitutes "the floor upon which the democratic process goes on."⁵⁰ In Ann Swidler's phrase, political norms can also be described as "the authorized beliefs of a society about itself." In every polity, Swidler writes, there are "constitutive rules" that "establish a public model of collective life," which is "the shared 'default option' for collective action in periods of uncertainty." Models of collective life often last long, but they may change "in the light of publicly authorized or validated historical experience."⁵¹ The expectations of actors in a polity are coordinated by norms that define how the state should respond to social events.

Consider also the taxonomy advanced by Georg Henrik von Wright in his study *Norm and Action*. The political norms that this study deals with belong to a category that von Wright calls "customs." Customs set the limits of normal behavior in a particular setting; they "determine, or as it were 'define,' ways of living which are characteristic of a certain community," and a member who does not live in accordance with custom "becomes a 'stranger' to his community."⁵² This is the kind of power that norms hold in politics: in a political culture, there is a shared understanding of the purpose of political authority, and actors who do not behave as expected risk becoming politically irrelevant.

Though uncommon in comparative political economy, the approach proposed here is not new.⁵³ I have already drawn on Margaret Weir's work on employment policy in the United States, which demonstrates that the historical development of this policy area has produced "boundaries" of policy innovation: "[S]ome questions are asked and others are left unspoken, some issues are defined as problems amenable to public action and others are regarded as natural or inevitable phenomena, and some lines of action are embarked upon with little controversy while others are not even broached."⁵⁴ Other examples of similar approaches to political eco-

nomy include Frank Dobbin's work on the differences between industrial policies in the large advanced economies, which he explains with reference to national political cultures, and Peter Katzenstein's work on democratic corporatism in the small European countries, where one often neglected element is an "ideology of social partnership" that Katzenstein found to distinguish these countries—a norm that sets the stage for political cooperation and conflict.⁵⁵

Two mistakes must be avoided when pursuing an argument about the effects of norms on policymaking. The first is to portray norms as monolithic, assuming that all citizens think in the same way about politics and have the same basic convictions and ideas. As Myrdal pointed out, "there are no homogeneous 'attitudes' behind human behavior but a mesh of struggling inclinations, interests, and ideals, some held conscious and some suppressed for long intervals but all active in bending behavior in their direction."⁵⁶ Similarly, Ann Swidler refers to culture as a "toolbox," a common frame of reference: actors do not assume that everyone thinks in the same way, but they assume that in any given situation, there are a number of patterns of thought that actors fall back on, and assume that others will fall back on as well.⁵⁷ That is, norms are not commonly held values, but shared expectations about standard modes of behavior.

The second mistake is the under-specification of the content of norms. It is never enough to say that the Swedes (or Americans, or Indonesians) behave in a certain manner because that is what Swedes (or Americans, or Indonesians) do—it is in their culture. Tautological reasoning of this kind has contributed to the disrepute that the political culture approach has acquired in the social sciences. This study sets up hypotheses regarding the content of norms that shaped economic policies in Sweden, formulated in such a way that it is reasonable to assume that if similar norms were present in some other country, policy outcomes would—all else being equal—be the same. In chapter four, I show that in the mid- to late 1980s (the period immediately preceding the third-order policy change when low inflation became the primary target of economic policy) there were substantial changes with regard to the norms that constituted Sweden's political culture.

The fundamental characteristic of that culture was that elites as well as the public assumed that the state could and should solve social problems. There was a drive of social reform that most parties participated in until the 1980s, and this drive led to the expansion of the government's sphere of activity. But the main concern of this study is not the sheer volume of the state; more importantly, norms concerned how the state should go about solving social problems. First, there was a norm of *social partnership*: po-

24 policies were developed in concert with major social interest organizations; Swedish corporatism rested on the premise that it was good for society as a whole if a strong state faced strong interest organizations.⁵⁸ Second, there was a norm of *centralization*: policies were made—if not implemented—by the central government, specifically by powerful state bureaucracies that were in charge of particular policy areas, such as education, social policy, housing, and labor market policy. There was also a centralized system of government commissions of inquiry that provided the intellectual foundations for policy programs. Third, there was a norm of *integration*: policies were supposed to pull in the same direction, reinforce one another, and be part of a coordinated, state-led social reform effort. In other words, Swedish political elites saw the political system as a coherent model, sometimes referred to explicitly as the *Swedish Model*, and not just a set of individual policies.

I refrain from using the term “The Swedish Model” as an analytical concept, since it has been defined so differently by different authors.⁵⁹ But in many ways, the norms just described add up to a social democratic image of society. The norm argument may be interpreted simply as an argument about the hegemonic ideological position of the social democrats. However, similar norms governed the policies of Sweden’s center-right parties when they were in power between 1976 and 1982; the center-right did not break with the policies of the social democrats, apart from the radical, socialist policies that the social democratic left had initiated in the 1970s.⁶⁰ The norms that constituted Swedish political culture were to some extent products of social democratic hegemony, but others subscribed to them too.⁶¹

HYPOTHESES

The three models suggest that first-, second-, and third-order policy changes are the outcomes of different causal processes, and the impact of material economic factors, partisan politics, economic ideas, and political norms varies, depending on the kind of policy change that politicians pursue. The three decision situations also vary with regard to the actors that initiate and implement policy change, and with regard to the sequences of events that link explanatory variables to policy choices. For a summary of the models, see *table 2*.

This summary shows that the theoretical argument has several implications that can be tested empirically. First of all, if the argument is correct, first-order shifts should be preceded by changes in structural constraints and opportunities, or in the electoral landscape, second-order shifts should

be preceded by the introduction of new economic ideas, and third-order changes should be associated with a point of discontinuity in the development of political norms. If such correlations are not observed, the argument lacks empirical support.

TABLE 2. THE THREE MODELS COMPARED

| <i>The Politics of Bargaining</i> | <i>The Politics of Expertise</i> | <i>The Politics of Purpose</i> |
|--|---|--|
| Explains first-order policy changes (new settings). | Explains second-order policy changes (new instruments). | Explains third-order policy changes (new objectives). |
| Sudden shocks, structural economic change, and/or electoral politics cause policy change. | Second-order changes may or may not coincide with structural change and sudden shocks. | Third-order changes may or may not coincide with structural changes and sudden shocks. |
| Dominant economic ideas shape the decision-situation by limiting the set of options that policymakers consider. | The introduction of new economic ideas, which delegitimize old policies and legitimize the new, causes policy change. | Third-order changes may or may not coincide with the introduction of new economic ideas. |
| Dominant norms regarding the purpose of politics shape the decision-situation by limiting the set of options that policymakers consider. | Dominant norms regarding the purpose of politics shape the decision-situation by limiting the set of options that policymakers consider. | Norm changes cause policy change. As previously dominant norms lose their hold over political life, politicians consider previously excluded options. |
| The process of change is initiated and implemented by politicians and civil servants within the government, the parliament, and the central bank. Party politics is important. | The process of change is initiated and implemented by experts within policymaking institutions, who receive ideas from epistemic communities and apply these ideas in policymaking. Party politics is not very important. | Change is the outcome of a broad crisis of faith in a whole policy model, not just in economic policy. Party politics is not important for economic policies as such, but it may be for associated changes in other areas; when old norms lose hold, parties compete to establish new norms. |

A second implication is that the political processes that produce first-, second-, and third-order change should have different characteristics. The politics of bargaining is “normal politics,” in the sense that politicians and civil servants develop policies, and political parties present alternative policy proposals. The politics of expertise is different, since policymakers allow small groups of experts—epistemic communities—to formulate policies. For that reason, party politics is less important than in the first case. Finally, the politics of purpose is a much broader process, where macroeconomic

26 policies in themselves are not likely to become politically contested, but associated policy changes in other areas—where third-order change would force politicians to initiate reform—are. If observations of actual processes that lead to first-, second-, and third-order change do not conform to these predictions, this would cast doubt on the theoretical argument, even if there is a correlation between explanatory variables and policy choices. For example, the second model—the politics of expertise—does not only predict that second-order policy changes are correlated with the introduction of new economic ideas; if the argument is valid, it should also be possible to identify a process through which ideas are transferred from epistemic communities to politicians, and applied in policymaking.⁶²

A third implication is that if the argument is correct, first-order changes should *not* be preceded by the introduction of new ideas or norms, and second-order changes should not be preceded by discontinuities in the development of norms regarding the purpose of political authority, since such changes in explanatory variables should produce changes of a higher order. On the other hand, the argument is indifferent with regard to whether, for example, not only norms but also economic ideas may change before third-order shifts. Therefore, if a second-order policy shift is preceded by economic-structural change or a third-order change is empirically associated with the introduction of new economic ideas, this would not prove the argument wrong. But such observations would of course complicate the empirical investigation, since they would make it difficult to ascertain whether norms and/or ideas had independent effects on policy. Similarly, if it can be shown that policy changes are correlated with entirely different variables in a manner consistent with the implications of an *alternative* theoretical argument, there would be no way of knowing, on empirical grounds, if the argument is valid.

A fourth feature of the argument is that idea changes and norm changes themselves are not explained. This may give rise to the suspicion that there is an endogeneity problem in the argument; policy failures and problems caused by structural changes and economic shocks may, over time, produce changes in the ideas that epistemic communities advocate, and, at a later stage, in political norms. If this endogeneity were total, ideas and norms would simply be intervening variables in a causal chain that starts with fundamental economic and social forces. There is reason to believe, however, that structural changes do not add up to intellectual and normative changes in some automatic fashion. Chapter five addresses these issues briefly by comparing the 1970–2000 period to earlier periods when Swedish economic policies underwent important changes: the 1930s and the 1950s.

ALTERNATIVE EXPLANATIONS

This study draws on comparative research and previous studies of Swedish economic policy, but departs from earlier research in important ways.

One influential group of scholars have claimed that Sweden's trajectory of policy changes can be explained with reference to the structural and institutional characteristics of Sweden's political economy, most importantly to developments in the Swedish labor market. Swedish wage bargaining institutions were centralized from the 1950s to the early 1980s. This meant that while tripartite coordination between unions, firms, and the government was feasible until the early 1980s, after the early 1980s it was not. Without institutional capacity for wage moderation, according to this argument, there was no room for macroeconomic policies consistent with full employment.⁶³ The underlying causes of decentralization appear to have been structural shifts in manufacturing production and other social and economic changes that increased the heterogeneity of the labor force, undermining centralized wage bargaining.⁶⁴ As chapter two shows, however, while Sweden's wage bargaining institutions were formally decentralized in the early 1980s, they were *de facto* decentralized already in the 1970s. Also, the problems that decentralization allegedly caused—unsustainably high wage increases and wage drift—were in fact present in the Swedish economy throughout the 1970s and 1980s, which raises the question why the objective of full employment was only abandoned around 1990.

Other scholars point to the constraints that have resulted from integrating capital and money markets in the 1970s and, above all, the 1980s. Sweden abandoned capital controls relatively late, in the 1980s. Meanwhile, volumes traded on financial markets rose dramatically, which created constraints that made interventionist economic policies difficult to sustain.⁶⁵ However, this was only a problem for Sweden in so far as Swedish governments wanted to maintain a fixed exchange rate, which raises the question why they were desperate to do so. This issue is addressed in chapter four. Chapter four also discusses other explanations that refer to the importance of the international environment and Sweden's position therein.⁶⁶ For example, one argument attributes economic policy changes in the early 1990s to European integration, which intensified in the second half of the 1980s. The opportunity costs for countries that were not members of the European Community increased, while at the same time the end of the Cold War enabled Sweden to join without compromising its policy of neutrality.⁶⁷ Chapter four argues, however, that the issue of European integration was decoupled from economic policy, at least to the extent that the

28 third-order change in the early 1990s would have occurred even if Sweden had not applied for membership in the European Community in 1991.

All the explanations above draw exclusively on the first model of policymaking presented earlier: the politics of bargaining. This is also true of explanations that are informed by learning models, although the authors that have proposed such explanations offer somewhat different analyses of how actors respond to developments in their environment.⁶⁸ In a Bayesian learning model, actors have imperfect information about the world and act on the basis of provisional beliefs. If the provisional beliefs prove to be incorrect, actors update them, and act differently next time even if objective parameters have not changed.⁶⁹ Given certain assumptions about initial beliefs, the model predicts a lag between changes in the economic and institutional underpinnings of economic policymaking on one hand, and policy change on the other. Policy change occurs when policymakers have learned how the (new) system operates. Structural challenges to the advanced economies in the 1970s, 1980s and 1990s were relatively similar. A learning-type explanation of Sweden's trajectory of policy change would therefore imply that the initial belief-sets of Swedish politicians were different from the belief-sets of politicians in other countries. However, the most plausible explanation of such idiosyncratic belief-sets among Swedish elites is norms, and this in turn means that a learning argument is consistent with my main argument.

A large literature in economics and political science deals with the effects of government partisanship on economic policy and economic performance.⁷⁰ The constituencies of parties on the political left and right have different interests when it comes to macroeconomic policy. There are strong reasons to believe, however, that disputes over macroeconomic policy are not politicized in Sweden. The social democrats were the first party that advocated Keynesian policies in the 1930s, but later on, Swedish political parties did not disagree on macroeconomic policy. After the Second World War, the debate over issues of economic policy concerned industrial policy, investments and capital formation, not macroeconomic management as such.⁷¹ This pattern appears to have persisted in the 1970s, 1980s and 1990s.⁷²

Partisan explanations also draw exclusively on the first model: the politics of bargaining. I argue that while partisan politics is important for conflicts over first-order changes—as I will show, macroeconomic policy was more politicized in the 1970s than in subsequent decades—it is not likely to affect second- and third-order changes. Since there are strong prior theoretical reasons to suspect partisan effects, however, both social demo-

cratic and center-left governments are included in each of the sub-periods covered in this study. The evidence I present indicates that the macroeconomic strategies of social democratic and center-right governments have been remarkably similar within each sub-period.

Finally, some students of Swedish economic policymaking have argued that the development of economic thought in Sweden followed a particular course that accounts for Sweden's trajectory of policy change, rather than just the second-order change in the early 1980s, as I argue.⁷³ This argument applies the second model—the politics of expertise—to all economic policy changes. Mark Blyth's studies of Swedish and American economic policy are the most comprehensive studies available of the role of economic ideas in domestic economic policymaking, and as I have already indicated, I draw on Blyth's argument that ideas are politically important because they help actors deal with (and exploit) uncertainty.⁷⁴ The present argument departs from Blyth's argument by distinguishing between different kinds of economic policy shifts, in an attempt to identify and account for the *limits* of the power of economic ideas. Economic ideas only help actors resolve some kinds of uncertainty, since they only concern specific cause-effect relationships. The politics of third-order policy change is also characterized by uncertainty, and the norms in my argument may have many of the functions that Blyth and other authors attribute to economic ideas, since their definition of ideas is more inclusive. I contend that it is helpful to distinguish between the political role of economic expertise and the role of political norms. Of course, economists also participate in the debate about decisions where their expertise does not apply, but they are then not influential by virtue of their expertise; they are only listened to when their views resonate with dominant norms in political society. In such situations, economists become ideological entrepreneurs.⁷⁵

Chapter three shows that while policies in the 1990s were influenced by the economic thinking that replaced Keynesianism as the dominant economic paradigm, this shift in the international and domestic economic debate took place already in the late 1970s and early 1980s, which raises the question why it took so long—well into the late 1980s—for economic policymakers to abandon interventionist macroeconomic management.

This is not an exhaustive list of attempts to explain Swedish economic policies in the 1970s, 1980s and 1990s, but these are arguably the most important explanations put forth in the literature.⁷⁶ Earlier studies are incomplete rather than wrong, and it is my hope that a case study of Sweden will show how the three models of economic policymaking that this study presents reconciles elements of other explanations and accounts satis-

30 factorily for the Swedish trajectory of change a whole. Since the Swedish case figures in so many studies of economic policymaking in advanced democracies, and studies of Sweden have been used as evidence in support of a wide range of theoretical arguments, a clearer and deeper analysis of Swedish macroeconomic policymaking is not only interesting in itself—it may also contribute to general debates about political economy.

EMPIRICAL STRATEGIES

This study combines three methodological strategies. The first is correlational: I compare three periods when Swedish economic policy underwent first-, second-, and third-order changes, and show that these changes are correlated, as hypothesized, with changes in explanatory variables (economic structures, economic ideas, and political norms). The second is process-oriented: I describe the political processes that preceded the three policy changes and demonstrate that they fit stylized descriptions of the three decision-situations. The third strategy is counterfactual: the empirical chapters discuss why policies did not develop in another fashion and whether they would have done so if the explanatory variables had behaved differently (for example, if norms had changed earlier than they did). Combining these three strategies offers a reliable way of assessing the explanatory power of theories in studies of one case or a small number of cases.

The empirical chapters compare three time periods when Swedish economic policies underwent important changes. The aim of the periodization is to identify three periods with different outcomes. In the first period (the mid-1970s), a first-order change took place, in the second period (the early 1980s), a second-order change took place, and in the third period (the early 1990s), a third-order change took place. These are the three most important economic policy changes that took place in Sweden between 1970 and today.⁷⁷ I compare the three time periods with regard to the structural constraints and opportunities that policymakers faced, the economic ideas that prevailed, and the norms regarding the purpose of politics that governed political society. The aim is to determine whether discontinuities in policy development (i.e. first-, second- and third-order policy changes) are correlated with observed discontinuities in explanatory variables (structures, ideas, and norms) in a manner consistent with the theoretical argument.⁷⁸

The main methodological problem is that there may be rival hypotheses according to which the observed policy changes are not produced by the causal processes that the theoretical argument suggests are important, but by simultaneous events. The empirical analysis must rule out such rival hy-

potheses.⁷⁹ In the present case, there are two different possibilities: first, factors that are included in the three models might present discontinuities in other periods than the ones hypothesized; second, variables not included in the models may have had effects on the dependent variable. The empirical investigation therefore accounts both for the development of explanatory factors in the models—structures, ideas and norms—throughout the thirty-year period, and for other potential explanatory variables, such as the party composition of government.

Another potential problem is the issue of lags between changes in explanatory variables and observed discontinuities in policy development. To avoid post-hoc theorizing, one should specify in advance how long it is expected to take before changes in the explanatory variables produce the hypothesized effects.⁸⁰ Since the sub-periods all encompass several years, however, lags are not likely to be a major concern. I assume that all changes in the independent variables have effects on policy in the same period, or—if they take place between periods—in the subsequent period. For example, if there is a major change in economic thinking between periods 1 and 2 (as I argue that there was), it should have effects on policy in period 2 for the hypothesis to be confirmed (or, more accurately, not rejected).

In methodological terms, comparing periods rather than units—such as countries, political parties, or individuals—offers certain advantages, but also involves particular problems.⁸¹ The main problem is that when processes evolve over time the dependent variable at one point in time is likely to have a causal effect on the dependent variable at a later point in time.⁸² Statistical methods offer technical solutions to such problems, but technical solutions are not available in case-study research; the problem must be dealt with theoretically, by considering what causal mechanisms could plausibly make the dependent variable at t have an effect on the dependent variable at $t+1$, and then taking these mechanisms into account when specifying the empirical model.⁸³ The most obvious such mechanisms are the learning mechanisms that I have already discussed in the previous section.

Comparisons between periods involve the division of a longer, continuous period into shorter sub-periods, which are then treated as discrete observations. This periodization can either be based on the values of explanatory variables or on the values of the dependent variable. The reason why I choose the second option is that the outcomes are well known, whereas the timing of changes in the explanatory variables in the model requires further investigation. Some scholars argue that this approach to case-selection (or periodization) is to be avoided, or at least that it is a priori inferior to the alternative approach of selecting cases from a range of values on

32 an explanatory variable.⁸⁴ However, if a broad range of values on the dependent variable is represented, the bias decreases, and if the entire theoretically possible variation is included there is in principle no reason why selecting from a range of values on the dependent variable should be avoided.⁸⁵ The three decades between 1970 and 2000 were a dramatic period in Swedish macroeconomic policymaking, and several policy shifts occurred, in contrast to the period between the end of the Second World War and the early 1970s.⁸⁶ This does not mean that the full variance of the dependent variable is included in the sample, but the Swedish experience does offer a great deal of variation—“Sweden stands out,” one scholar reminds us, “as one of the most clear-cut cases of ‘regime-change’ in advanced capitalism.”⁸⁷

Comparisons over time are also sensitive to the choice of starting point for the larger time-period (in this case, 1970–2000). The reason why the period before 1970 is not included is that subsequent decades were very different from the first quarter-century after the Second World War. As chapter two demonstrates, a series of structural shifts and supply shocks in the early 1970s created a considerably harsher international climate with regard to prospects for economic growth and prosperity. This meant that the conditions of macroeconomic policy changed dramatically. The period before 1970—the “Golden Age” of capitalism—belongs, in this sense, to another theoretical universe.

The methodological problems discussed so far concern how to make inferences from correlations between explanatory variables and policy decisions. Such correlation analysis is insufficient, since it does not consider the processes through which changes in background conditions produce their effects on policy choice. Many scholars therefore advocate a combination of correlation strategies and more process-oriented approaches, especially for purposes of evaluating theories in comparative politics, which often involve complex interaction effects and therefore require attention to timing and sequence.⁸⁸ In a combined strategy, theories are used to predict how processes will unfold and these predictions are compared with observations, paying attention to the process as a whole. The point is, quoting Peter Hall, “to see if the multiple actions and statements of the actors at each stage of the causal process are consistent with the image of the world implied by each theory.”⁸⁹ The analysis thus goes beyond considering the explanatory variables—it also considers the processes that lead from variables to outcomes.⁹⁰

The empirical chapters therefore discuss whether the processes that link explanatory variables—economic structures, economic ideas and political norms—to policy choices (first-, second-, and third-order changes) re-

semble stylized descriptions of the three decision situations. Arguments about the effects of structural change involve not only accounts of those changes as such, but also accounts of how policymakers perceived and responded to them. Arguments about the role of ideas and epistemic communities are not only based on evidence of how ideas as such have changed, but also on evidence of processes by which ideas have been picked up by actors within policymaking institutions and applied in policymaking. Arguments about the role of norms are based not only on accounts of how norms changed in a broader sense, but also on evidence of how they structured the decision situations of economic policymakers.

Finally, I use counterfactual arguments, and I do so in two ways. First of all, the empirical chapters describe how policymakers have responded to ideas about how to change policy that were put forth but not acted on, such as the suggestion that the *krona* should be revalued in the mid-1970s. That is, I discuss why the dependent variable did not take on other values in each of the three time-periods. The justification for this strategy is that arguments against alternative strategies are sometimes just as revealing as arguments in favor of strategies that were actually pursued.⁹² Second, at the end of each chapter, I discuss what would have happened if explanatory variables had behaved in a different manner.

SOURCES

This study relies on a wide range of sources, and each source is chosen to shed light on particular parts of the empirical argument. The ability to draw on different sources is one of the strengths of case studies: different sources possess specific strengths and weaknesses.⁹³

The empirical chapters begin by establishing whether policy changes in the mid-1970s, early 1980s, and early 1990s can be characterized as first-, second- or third-order changes, and by describing the political processes that produced them. Establishing whether a particular policy change is of the first, second, or third order is often difficult. It can not be inferred from outcomes, since many other factors, apart from policy, contribute to these outcomes. Nor can it be inferred from the government's overall ideological aims, since it is possible, for example, that a government considers low unemployment very desirable, but chooses to pursue that objective by other means. The concepts of first-, second- and third-order change are characterizations of what a government attempts to accomplish in a particular policy area. Describing this empirically is difficult, since it involves inferring intentions from stated objectives.⁹⁴

34 The categorization of policy changes deals with the relative weight governments have given to low unemployment and low inflation (objectives), whether they chiefly used fiscal or monetary policy—including exchange rate policy—to meet these objectives (instruments), and whether policies were expansionary or contractionary (settings). The arguments are primarily based on an analysis of official documents, but also on interviews, memoirs, and other accounts by politicians and civil servants. Apart from establishing what kinds of policy changes politicians made in the three periods, these sources also reveal the reasoning behind policy choices and show whether the way in which changes came about conforms to the models. Government bills are the most important sources, since they offer detailed, contemporary statements of the thinking behind policies. Official documents are often vague, however, since they must please many audiences at once. Interviews compensate for this. Since most interviews were made long after the events they dealt with, they revealed information that was absent in official documents.

Among the government's economic policy bills, the most important are the fiscal plans (*finansplanerna*). They are published twice yearly, as supplements to budget bills and revised budget bills. The fiscal plans present the government's overall economic strategy, along with an analysis of the situation in the domestic and international economies.⁹⁵ Previous studies have proven these documents to be reliable sources of information.⁹⁶ Apart from the fiscal plans, the argument draws on all other government bills between the early 1970s and the 1990s that have dealt primarily with economic policy.

As I have already mentioned, the argument is also based on interviews with forty-five former and present prime ministers, ministers of finance, senior civil servants, and central bank governors. Interviews are unreliable in many ways, not because people lie deliberately, but because memory fails us, in many different ways.⁹⁷ However, interviews are useful as a complement to other sources. The interviews were made between December 2000 and September 2003, most of them in October and November 2001 and in the spring of 2002. With few exceptions, they were recorded. Most were face-to-face interviews, but two interviews and one follow-up interview were made over the telephone, and four persons answered my questions in writing. Interviewees have been given the opportunity to check all quotes, but the changes they have requested have not altered the meaning of the quotes. No one has declined to participate. (Some important actors, however, are no longer alive.) I also draw on the large supply of memoirs and other accounts by politicians who were involved in eco-

conomic policymaking in the 1970s, 1980s and 1990s.⁹⁸ Furthermore, some archives and collections of personal papers are open to scholars.⁹⁹

Another important aim of the empirical investigation, apart from categorizing policy changes and describing the processes that have led to them, is to characterise the norms regarding the purpose of political authority that have dominated in each period. The bulk of this argument can be found in chapter four. The main challenge in any study of norms is to avoid confusing them with the outcomes they are supposed to explain.¹⁰⁰ This is made all the more difficult by the fact that norms are not directly observable. It is therefore necessary to study them through an analysis of the actions they bring about.¹⁰¹ This study describes norms by means of an analysis of developments in policy areas other than economic policy. The three policy areas that receive the most attention are education, social policy and housing, since these were important areas of social reform for much of the twentieth century. The description of developments in these areas is based on secondary sources. Apart from describing the norms as such, the empirical chapters also provide evidence of how the resilience of norms (in the two first periods) and norm change (in the third period) defined the decision situations that economic policymakers were in. The main sources for this analysis are personal accounts and interviews.

The second explanatory factor is economic ideas. The empirical chapters describe the ideas that dominated the economic debate in each period. The point of discontinuity that they try to pinpoint is the crisis of Keynesian economics and the introduction of clearly stated alternative theories. Keynesianism is defined as a theory saying that there is a trade-off between inflation and unemployment, and that governments can steer the economy through the management of aggregate demand. When it comes to ideas about the macroeconomy that were influential among—and disseminated by—Swedish economists, the main source is articles in *Ekonomisk Debatt*, the journal of the Swedish Economics Association, in particular articles that belong to the category “macroeconomics and the theory of money” (according to the journal’s own classification). Another source is the yearly reports of the SNS Economic Policy Group (*Konjunkturådet*). The organization SNS has been an important actor in the economic policy debate from the mid-1970s onwards, and like *Ekonomisk Debatt*, their reports are directed not only at economists but also at policymakers. A third important source is OECD country reports. To validate conclusions based on the sources already mentioned, I also present evidence from interviews with prominent Swedish economists—both academic economists and economists affiliated with interest organizations and policymaking insti-

36 tutions.¹⁰² The empirical chapters also show whether policymakers and their advisors were affected by trends in economic thinking, and whether Keynesian or non-Keynesian ideas informed the analyses in fiscal plans and other government bills.

The third explanatory variable—or set of explanatory variables—includes the constraints and opportunities that policymakers faced as a result of structural economic conditions. When it comes to identifying changes in the economic and institutional environment, this study relies heavily on previous research. My main argument is that most of the essential structural changes took place already in the 1970s, which demonstrates the need to consider other factors when accounting for the trajectory of policy change as a whole. Since my arguments are based on an analysis of timing, I sometimes use primary data, to identify points of discontinuity. These analyses use the indicators and measures that are commonly used in the literature—mainly macroeconomic aggregates such as unemployment, inflation, labor costs, wages, and output. The primary data consists of descriptive statistics produced by international agencies, mainly the OECD, and by domestic institutions, mainly SCB (Statistics Sweden). Chapters two, three and four also show whether and how structural changes were perceived and addressed by policymakers. This analysis is based on government bills, archival material, and interviews.

Finally, the empirical chapters describes the role of partisan politics. The theoretical argument implies that there should be few differences between political parties when it comes to overall macroeconomic strategies. Specifically, governments on the left should not seek change of a different order than governments on the right, and vice versa. Partisan differences are described by means of a comparison between the policies of governments on the left and on the right within each of the three periods, and the results of this comparison are validated through other evidence, especially interviews. The theoretical argument also predicts that the degree to which economic policies become politically contested should vary, depending on what kinds of policy changes are considered. To test this argument, I use data on the salience of economic policy issues in election campaigns.

2. THE POLITICS OF BARGAINING

On the evening of December 11, 1973, Pierre Vinde, the Swedish Finance Ministry's budget director, telephoned a source within the British Treasury to learn how the British government assessed the economic effects of the first oil crisis. In his diary, Mr. Vinde wrote, "[M]y English source in Whitehall tells me that 'we are very frightened.'"¹ Since late November, senior civil servants in the Finance Ministry had tried to convince the minister, Gunnar Sträng, that the oil crisis would have important consequences for economic policy, but Sträng "didn't *want* to see that the oil crisis could be serious and could affect our economy in 1974."² But the oil crisis would soon shape economic policy. In January, the government stated that the economic situation was so unclear and hazardous that no regular budget bill would be sent to parliament, and the government later decided to respond to the oil crisis with a program of ambitious, expansionary economic policy, to shelter Sweden from the expected international recession.

The early 1970s confronted the advanced economies with challenges that threatened to undermine the economic and institutional order that had produced growth and prosperity in the first decades after the Second World War. The breakdown of the Bretton Woods system of exchange rate cooperation in 1971–1973 was one of these challenges; the first oil crisis in the autumn of 1973 was another. Sweden's initial response was fiscal expansion. Already in 1972 and 1973, policies became more expansionary, and in 1974, the social democratic government and the center-right opposition agreed on new stimulus packages. The government was well aware that many of the larger OECD countries gave priority to low inflation and external balance, but Sweden still accepted temporary inflation and current account deficits in order to avoid the international recession and maintain full employment, which was at this time seen as a fundamental requirement that could not be compromised.³

Economists and policymakers generally assumed that the economic difficulties haunting the rich countries in the mid-1970s were temporary, demand-side problems. In a certain sense, the mid-1970s was the first time after the Second World War that "Keynesian" policies were adopted in Sweden. But this response to the international crisis was shaped by the legacy

of policies adopted during the depression in the 1930s, and it was consistent with economic ideas that had informed policymaking for decades.⁴ Policies adopted in the mid-1970s were also consistent with a regime where fiscal policy was the favored instrument of macroeconomic stabilization. Policy changes were therefore examples of first-order change, and the strategy that governments followed can be called *domestic expansion*.

The means of attaining full employment were twofold. First, the government used expansionary policies with general effects on aggregate demand, such as tax cuts. These policies were favored by the center-right opposition. Second, the government pursued selective, targeted policies, such as stock support schemes and support for investment and production, policies that were more favored by the social democrats. Taken together, these policies were called “bridging policies” (*överbryggningspolitik*), since the idea was to keep economic activity high while the rest of the world suffered from recession. They were pursued until the late 1970s, when the center-right government that gained power in 1976 initiated a gradual second-order policy change.

This chapter argues that the choice of a strategy of domestic expansion can be categorized as a first-order policy change, and that it should primarily be seen as a response to structural economic change. It was not preceded by the introduction of new economic ideas or by changing norms regarding the purpose of political authority. With regard to ideas and norms, the mid-1970s was a period of continuity. There were important political conflicts over nuclear power and over the radical policies for collective ownership that the social democrats proposed, but there was general agreement on fundamental norms regarding the purpose of political authority. The structural conditions of economic policy changed a great deal, however. Indeed, many of the economic problems that Swedish governments struggled with in subsequent decades were present already in the 1970s.

THE POST-WAR MODEL (1945–1973)

In the first decades after the Second World War, Sweden—like most advanced economies—experienced high growth and unprecedented prosperity. In the aftermath of the war, the social democratic leadership expected economic crisis and unemployment. Instead, the main macroeconomic problem in the 1950s and 1960s turned out to be the maintenance of price stability in an economy where full employment could be taken for granted. In his memoirs, Tage Erlander, prime minister from 1946 to 1969, describes the long and tortuous process of adapting to this new and unexpected situation.⁵

In the 1950s, economic policies were increasingly influenced by ideas developed by trade union economists in the late 1940s and presented most clearly in a report to the 1951 LO congress. The idea of the “Rehn-Meidner Model,” named after LO economists Gösta Rehn and Rudolf Meidner, was to keep fiscal policy tight, in order to fight inflation, using labor market programs to relocate and train workers that were temporarily stranded on the “islands of unemployment” that fiscal austerity would produce in the economy. Tage Erlander has written that the Rehn-Meidner model guided the government’s economic policies from the late 1950s onwards; he was himself converted after a falling-out between the LO and the government over wages in 1955.⁶

Politically, the point of the Rehn-Meidner model was that it solved, temporarily, a problem that characterized Swedish society both during and after the Golden Age: the fact that Sweden’s trade union movement, the most powerful in the world, coexisted with a strong social democratic government. Rehn and Meidner argued that the LO—the main union confederation—could not guarantee wage moderation if wage increases were not held back by employers. Firms must resist wage demands. Tight fiscal policies would force them to. The Rehn-Meidner model was thus not only a theoretical innovation; it also provided the solution to a problem of political power. In the 1970s, this solution proved obsolete, which was one important feature of Sweden’s political economy throughout the 1970s, 1980s and 1990s, when the performance of wage bargaining institutions was a recurring threat to economic stability.

Contrary to popular belief, then, Keynesian policies aiming for general increases in private consumption were not pursued in Sweden in the first twenty-five years after the war. The economic situation did not call for such measures, since full employment could be taken for granted.⁷ Gösta Rehn and Rudolf Meidner explicitly opposed the use of expansionary fiscal policies in the economic situation that Sweden was in.⁸ Unemployment was seen as the result of regional or sectoral ups and downs, not of general economic disturbances. In this sense, the economic policy model that developed in Sweden in the 1950s and 1960s was a supply side, not a demand side model.⁹ In the early 1970s, the social democratic finance minister, Gunnar Sträng, was criticized for favoring “selective” over “general” economic policies, but in terms of the social democratic model of the 1950s and 1960s, which Sträng helped to fashion, this was the appropriate stance.¹⁰ Social democrats favored interventionist labor market and investment policies, not the general, macroeconomic measures that are associated with Keynes’s name—although Keynesian ideas were always an un-

40 derlying theoretical framework in debates about economic policy.¹¹ Ideological conflict over economic policy in the first decades after the Second World War was not a matter of being for or against Keynesianism—the major parties agreed that the state should manage aggregate demand in times of economic adversity. They disagreed on other issues: investment, labor market regulation, and public ownership.¹²

The debate on economic policy changed in the early 1970s. In 1971 and in 1972 the government pursued austere economic policies. Consequently, there was a noticeable increase in unemployment—from 1.5 percent in 1970 to on average 2.6 percent in 1971–1973.¹³ The main reason for these policies was that policymakers feared that Sweden's external balance was deteriorating: imports were larger than exports.¹⁴ Kjell-Olof Feldt—Gunnar Sträng's state secretary until 1970 who went on to become minister for international trade—describes the frame of mind that policymakers were in around 1970: "There were some worrying signs that Swedish export firms were losing market shares. In the 60s, there had been this tremendous expansion, and we were naturally quite concerned that it would stop."¹⁵ These concerns were, Mr. Feldt says, the reason for the government's policies in 1971 and 1972: "We started to run current account deficits and Sträng hated deficits; for him to be pleased, everything should preferably be in surplus. He believed—correctly—that aggregate demand in Sweden was increasing too quickly."¹⁶

The economic policies of the social democratic government became politically contested. In the elections of 1970 and 1973, economic policy dominated election campaigns.¹⁷ In October 1971 the leaders of the Centre Party, The Moderate Party, and the Liberal Party—Thorbjörn Fällin, Gösta Bohman, and Gunnar Helén—presented a joint fiscal policy program that included lower consumption taxes. Having benefited from division on the right for decades, the social democrats found the prospect of a unified center-right opposition menacing, and younger government members—notably Kjell-Olof Feldt, Ingvar Carlsson, the future prime minister, and the prime minister, Olof Palme—questioned the wisdom of Gunnar Sträng's policies. Conflicts within the government were serious, especially the conflict between the finance minister and the prime minister. In 1972, Gunnar Sträng even threatened to resign, as he refused to pursue more expansionary policies.¹⁸ From 1972 onwards, however, the government did change its fiscal stance, and presented three packages of expansionary fiscal policies in the autumn of 1972 and one in October 1973. The origins of the Swedish response to the first oil crisis should be sought in these policies, which were initiated before the oil price increases.¹⁹

Economists criticized the government's economic policies heavily in the early 1970s, arguing that the situation called for expansion. In 1973, Professor Lars Matthiessen summarized the views of many economists in an article in *Ekonomisk Debatt*, where he wrote that an economic downturn like the one in the early 1970s could not be overcome by means of selective measures, as Gunnar Sträng preferred; general, expansionary measures were necessary.²⁰ Another influential economist who criticized the government was Assar Lindbeck. He says that the government "tried to compensate for having pursued too expansionary policies earlier. But in my opinion that led to mistaken policies throughout the business cycle: policies were too expansionary in 1969–1970 and too restrictive in 1971–1972."²¹ Bengt Pettersson, an economist at the National Institute of Economic Research (*Konjunkturinstitutet*), recalls being summoned to Kjell-Olof Feldt in the fall of 1972. "He wanted to hear how much economic stimulus we thought was required, and we of course advocated stimulus," Mr. Pettersson says. "Later, in the autumn of 73, Palme summoned me—I think this was in August—and wanted me to assess the economic situation. At this time, we economists still thought that there was an economic downturn. [...] Therefore, we advocated expansionary policies."²² There is little evidence of economists advocating restraint. In the 1980s, economists critical of Keynesianism would point to Gunnar Sträng's policies in the early 1970s as an example of prudence.²³ Few such voices were heard at the time.

The 1973 election resulted in a hung parliament: 175 social democrats and communists faced 175 representatives of the three center-right parties. Gunnar Sträng's position was gradually weakened after the election.²⁴ Kjell-Olof Feldt recalls that many people blamed the poor showing of the social democrats in the election on the austere economic policies, and "Sträng took this very seriously; he also blamed himself very much." After the election, "Sträng was somehow not what he had been. After 73 there really should have been restraint, but that didn't happen." Carl Johan Åberg, assistant state secretary in the Finance Ministry in the mid-1970s, observes that "Sträng was more and more sidelined."²⁵ When the first oil crisis struck in the autumn of 1973, the social democratic finance minister and his advisors were reluctant to pursue generally expansionary fiscal policies, and they had been for some time. Because of this policy stance, a united center-right opposition had criticized the Finance Ministry. So had leading economists and prominent groups within the social democratic party itself. The stage was set for Sweden's response to the oil price increases.

BRIDGING POLICIES (1973-1976)

During the war between Israel, Egypt and Syria in the autumn of 1973, Arab oil producing countries decided to reduce the production of crude oil in order to put pressure on governments supporting Israel. At a meeting in Kuwait on October 17-18, 1973, the organization OAPEC decided to make monthly 5 percent reductions of oil production, and on November 4, OAPEC decided upon an immediate 25 percent reduction. This enabled oil exporting countries in general—represented by OPEC—to raise oil prices.²⁶

Swedish policymakers were initially very uncertain about the economic consequences of the oil crisis. Carl Johan Åberg, assistant state secretary (*planeringschef*) in the Finance Ministry, says that there was “genuine” uncertainty, and Kjell-Olof Feldt points out that “it was very hard to make prognoses—and prognoses were considered very important at that time—since we didn’t know which way the world economy was heading.”²⁷ Uncertainty was also a consequence of the fact that the international political situation were difficult to predict. Bengt Pettersson points out that the oil crisis was “a political event that many thought would simply go away,” and this, he suggests, “was probably the main source of doubt.”²⁸ Finance Minister Gunnar Sträng at first did not think that the oil crisis would have any consequences at all. He told his advisors that the Americans would march in anyway, and would not consider any changes to the national budget, which was supposed to be presented in January 1974, although his advisors tried to persuade him that changes were necessary.²⁹

On December 11, 1973 there was a meeting between Gunnar Sträng, Olof Palme and Kjell-Olof Feldt, where Mr. Feldt suggested that the Finance Ministry should not present a specified budget.³⁰ This suggestion was followed. The budget bill presented in January 1974 said that the situation was so unclear with regard to the oil crisis that “the aim for stabilization policy in the budget for 1974/75, whether it should stimulate aggregate demand in the economy or hold it back, cannot be decided before that period draws nearer and we have a better grasp of economic conditions.”³¹ The government promised to return with more specific proposals later.

In a minor bill sent to parliament in February 1974, the government stated that the situation was now clearer, and made a general appraisal of the situation. The analysis presented here would inform economic policies in the next few years: “The price increases that follow from the large adjustment upwards of crude oil prices will have a dampening effect on our econo-

my,” the government stated. “The drop in domestic demand that is likely to follow in the wake of price increases should be counteracted with further expansionary measures.”³² That is, the government intended to keep domestic demand high, to prevent oil price increases from reducing domestic economic activity. Fiscal policy was expected to be very expansionary in fiscal years 1973–74 and 1974–75, and this was, the government argued, the proper response in the situation that had arisen.³³

The inspiration for these economic policies came from the OECD. Soon after the large oil price increases in the autumn of 1973, the OECD secretariat argued that since the oil crisis would result in a global increase in savings (as oil-producing countries could not be expected to spend their oil revenue), oil-consuming countries should pursue expansionary policies, to counteract the deflationary effects of this sudden savings increase. An OECD memo in December 1973 said, for example, that if governments wished “to take explicit policy action to offset the oil price rise and its subsequent effects, the simplest method would be to neutralize it by an equivalent reduction in taxation.”³⁴ The ideas behind Swedish policies were very similar. Consequently, the OECD secretariat was enthusiastic about Sweden’s policies after the oil crisis: the 1974 country survey encouraged the Swedish government to pursue even more expansionary policies—“for obvious domestic reasons, but also from the international point of view”—and the 1975 survey praised Sweden’s approach in the previous year (although it did warn that “wage developments may get out of line with international trends”).³⁵

Carl Johan Åberg claims that the OECD recommendations were important for Swedish policies: the OECD, he says, “had concluded—and the analysis was in itself not so strange—that the oil price increases had the effect of an enormous exogenous shock, almost like a kind of taxation, with contractionary effects on the oil consuming countries. They were drained of purchasing power, which was distributed to the oil producing countries. What is more natural than meeting this contractionary shock with expansionary economic policies.”³⁶ Kjell-Olof Feldt confirms this. “I went to Paris—to the OECD’s meeting for ministers—in early spring. We agreed that the rising, or high, oil prices led to lower real incomes in the industrialized world. The deal was to compensate for falling real income by pursuing more expansionary economic policies.”³⁷ Nils Åsling, the Centre Party chairman of the parliament’s standing committee on finance—which was unusually powerful due to the hung parliament—also says that the OECD recommendations were important. “The OECD,” he points out, “was consulted about economic developments more often than any other interna-

44 tional economic organization.”³⁸ Inspired by the OECD—and, as I will soon show, by the domestic economic debate—politicians, who had at first been very uncertain about how to respond to the oil crisis, made an appraisal of the situation that was inspired by Keynesian thinking, with its focus on the link between aggregate demand and economic activity. The conclusion, accepted by almost everybody, was that expansionary fiscal policies were necessary.

The center-right parties wanted even more expansion than the social democrats, and in the spring of 1974 proposed a temporary lowering of consumption taxes. Lower consumption taxes had been center-right policy since 1971. In February 1974, the parliament’s finance committee negotiated the temporary tax cut, and the social democrats, the liberals and the Centre Party reached a compromise on February 25: consumption taxes were lowered from 15 to 12 percent for a period of five and a half months. The social democrats opposed the tax cut, since they thought that the economy was already recovering as a result of expansionary measures in 1973. But in the end they compromised. Since the parliament was hung, the social democrats attempted to seek broad political support for economic policies.³⁹ The conflict between government and opposition in the spring of 1974 was similar to the pattern that had developed in the early 1970s, when a united center-right consistently demanded more expansion through policies with general economic effects. The center-right’s position in the spring of 1974 was a way for the opposition to “demonstrate that the effects of this oil crisis must be met with some kinds of policies,” Nils Åsling says. “Our attempt to use consumption taxes as a specific, temporary stimulus was more of a political manifestation than a real economic effort, but at the time this was seen as a matter of principle.”⁴⁰ The social democrats preferred, as before, selective policies. “We were much more selective,” Kjell-Olof Feldt says. “One should support this or that and one should keep the private sector going in a lot of different ways, with tax changes, and special tax breaks, and investment funds.”⁴¹

But there was agreement on the overall strategy. The expansionary policies that were pursued until 1977 were supported by both the social democrats and the center-right parties.⁴² In 1974, there was an economic upturn in Sweden, but policies were still expansionary in 1974 and 1975. The reason was, the government argued, that the international economic situation was “more difficult than expected.”⁴³ That is, foreign demand was not enough to keep domestic economic activity sufficiently high. The government claimed that expansionary policies protected the Swedish economy from problems that other advanced economies faced in the

mid-1970s: unemployment in Sweden was low, growth was high and inflation, although high, was not much higher than elsewhere.⁴⁴ In the autumn of 1975, the government stated that domestic demand “has played a big role in both 1974 and 1975 for keeping the level of economic activity high in our country, at a time when demand for our exports is low.”⁴⁵ Inflation and current account deficits were problematic, but this price must be paid: “Fighting inflation and the current account deficit through the forced decrease in demand that unemployment and economic stagnation would entail”—that is, a strategy of domestic adjustment, similar to the strategy governments would later pursue in the 1990s—was simply not an option.⁴⁶

In 1974–1975, the government, the liberals, the trade unions, and in one case the Centre Party, reached two major agreements on tax policy. Known as the “Haga accords,” they included income tax reductions that provided consumers with purchasing power through tax cuts, boosting domestic demand. Carl Johan Åberg points out that one important explanation of the difficult economic situation Sweden ended up in a few years later was that the Haga accords “were supposed to be both budget-neutral and cost-neutral—direct taxes were lowered, and the government budget was compensated with increased payroll taxes. The idea was that these increases would be deducted from future wage increases. [...] But there was no deduction.”⁴⁷ Wage costs increased rapidly in the mid-1970s, as I will soon show, and one explanation appears to have been that the increased payroll taxes were expected to correspond to lower rates of nominal wage increases, but they were not. The first accord in 1974, Haga I, was followed by Haga II in 1975, and by Haga III, an agreement between the government and the main union confederations, in 1976.⁴⁸

Gunnar Sträng’s Finance Ministry kept trying to pursue more selective policies, favoring support for investment and production rather than higher private consumption.⁴⁹ One important new program was a stock-support scheme that was introduced in June 1975. The idea was that the government would subsidize firms that kept production going, as long as they did not lay off workers. This program was later expanded and extended.⁵⁰ It would prove to have negative consequences: industrial production and overall output decreased in 1976–1977, and one of the reasons appears to have been that firms had to reduce their stock when the upturn came.⁵¹ In sum, the bridging policies in the mid-1970s were a mix of many different programs.⁵² The specific mix of selective and general policies was a result of bargaining between the social democrats and the center-right, and in this sense, partisan politics was important. But there was agreement on

- 46 overall strategy: economic policies were consistently expansionary in the mid-1970s, and it was taken for granted that the government must shelter the Swedish economy from the international crisis.

DEVALUATIONS AND SUBSIDIES (1976–1979)

The three center-right parties won the election of 1976 and for the first time in forty years, the Swedish prime minister—Centre Party leader Thorbjörn Fälldin—was not a social democrat. Between 1976 and 1982, Sweden was ruled by three different center-right coalition governments and one liberal minority government. From the 1976 election until the autumn of 1978, the three center-right parties formed a majority government, which broke down over the issue of nuclear power. A liberal minority government then ruled until 1979. After the 1979 election, the three parties ruled together again, until the spring of 1981, when the conservatives left because of disagreements over tax policy. The Centre Party and the liberals then formed a minority government which remained in power until the 1982 election. The center-right governments split the Finance Ministry and created two new ministries: the Ministry of Economic Affairs, headed by the conservative party leader, Gösta Bohman, and the Budget Ministry, headed by the liberal Ingemar Mundebo. The Ministry of Economic Affairs was responsible for the overall economic strategy (including monetary policy), while the Budget Ministry was responsible for taxes, budgeting, and wages.⁵³

Soon after the general election in 1976, the new government found that Sweden was in a difficult economic situation that threatened to get out of hand. This came as a surprise to leading politicians. Thorbjörn Fälldin and the Liberal Party leader, Per Ahlmark, have both testified to their great surprise when they met with managers of big manufacturing firms at Stockholm Grand Hotel and were informed that Swedish firms had increasing problems competing in international markets.⁵⁴ The “cost crisis”—the fact that Swedish firms were losing market shares because of labor cost increases in the mid-1970s—soon became the government’s main concern.

The government’s first budget demonstrates that it was aware of this problem already in December 1976: the fiscal plan said that there were a number of issues that had to be dealt with, mainly the current account deficit and inflation, which had led to lost competitiveness for Swedish firms.⁵⁵ But the government declared its continued support for the expansionary fiscal policies that were adopted with broad political backing after the oil crisis. That is, the bill testifies to the government’s growing unease with the economic situation, but there were no new policies: fiscal policy was still expansionary.⁵⁶

Leading policymakers still believed in bridging policies. Thorbjörn Fälldin says that he was still “convinced that this was a temporary downturn, a slump. That was the big analytical mistake we made. In 1976, we were still optimists, we thought that we would be able to get over this hurdle.”⁵⁷ Ingemar Mundebo, the budget minister, also says that the government at first “held on to the bridging policies,” although “they were abandoned quite soon.” The reason was that the government initially “believed that our problems were caused by a temporary downturn—we were at a low point in the business cycle—and then bridging policies were not unreasonable. Later it became clear, however, that it wasn’t only, or even primarily, a downturn; there were big structural problems in the Swedish economy.”⁵⁸ The state secretary in the Ministry of Economic Affairs, Lars Wohlin, says that he was convinced early on that policies must change. In his opinion, a big devaluation of the Swedish *krona* was necessary: “I was convinced that we needed to devalue by twenty percent, because I had made calculations regarding the costs in the industrial sector.”⁵⁹ This analysis, however, was not yet generally accepted in the government.

Eventually, however, there were several devaluations in 1976–1977. At this time, there had only been one exchange rate adjustments in the period after the major devaluation against the US *dollar* in 1949—on February 15, 1973, as the Bretton Woods system was finally breaking down, Sweden devalued by 5 percent against gold, while other European countries kept their rates (the *dollar* devalued even more).⁶⁰ A month later—on March 18, 1973—Sweden joined the European exchange rate cooperation, the “Snake,” and pegged the *krona* to the rates of the French, West German, Benelux and Danish currencies.⁶¹ In practice, the *krona* was pegged to the West German *Mark*. Just a few weeks after the 1976 election, Sweden renegotiated the rate of the *krona* within the Snake, in an adjustment of all exchange rates within the system. This led to a 3 percent devaluation against the German *Mark* on October 18, 1976.⁶² This was a purely administrative measure, which internal Riksbank memos show that the Swedish government actually tried to avoid; there is some truth, therefore, to Lars Wohlin’s statement that it “shouldn’t really count as a devaluation.”⁶³

On April 4, 1977, there was a 6 percent devaluation. Sweden asked for special consultations with the other Snake countries, originally seeking 8 percent, but the other Nordic countries persuaded Sweden to accept 6, since a larger devaluation would put too much pressure on the Snake system.⁶⁴ According to the revised budget bill in April, the reason for the devaluation was that Sweden’s effective exchange rate had *de facto* appreciated in

48 1976, when Sweden was pegged, through the Snake, to the German *Mark*. At this stage, the government explicitly stated that the devaluation did not take care of the relative cost situation for export-oriented firms; this problem would have to be solved “internally.”⁶⁵

Although the government wrote that the wage cost problems must be solved internally (that is, through moderate wage agreements), many actors did not think this was feasible. In the late spring and summer of 1977, there were intense discussions about yet another, larger devaluation, which in effect would force Sweden to leave the Snake. Especially the Ministry of economic affairs, and its state secretary, Lars Wohlin, favored this solution. Some actors, notably the prime minister, Thorbjörn Fälldin, opposed devaluation. Judging from Mr. Fälldin’s own account, his objections were intuitive, almost moral: he didn’t think it right to devalue. But in the end, he didn’t see any other option.⁶⁶ “I thought that one should be able to see that moderate wage demands would give the same result for the individual wage earner, but it would be better for the country. But they did not trust one another,” Mr. Fälldin says.⁶⁷

Per Ahlmark, the liberal leader, was more positive. He thought that economic hardship would haunt the government for a long time, and “was therefore much more positive than the two other parties to improving Sweden’s international competitiveness by means of a big devaluation.”⁶⁸ Ingegar Mundebo, the budget minister, and Nils Åsling, the minister for industry, also advocated devaluation. “There weren’t that many other options,” Mr. Mundebo says. “Devaluations have many disadvantages and most economists and politicians talk a lot about those, yet you do devalue from time to time.”⁶⁹ Mr. Åsling points out that as minister for industry, he saw devaluation as a way “to ease the pressure on export-oriented firms” in a time of deep industrial crisis.⁷⁰ The state secretaries in the two economic ministries were also in favor—Sten Westerberg says that he “was very happy with the devaluation in 77,” thinking that “something was finally happening,” and Lars Wohlin had, as I noted earlier, been convinced that a big devaluation was necessary ever since the autumn of 1976.⁷¹

On August 29, 1977, Sweden devalued by 10 percent against the *Mark*. A devaluation of this size was not acceptable to the other Snake countries. The central bank’s board of governors therefore decided, after consultation with the government, to withdraw from European exchange rate cooperation. From August 1977 to May 1991, the Swedish *krona* was pegged to an exchange rate index, which was trade-weighted and contained the currencies of all countries that accounted for more than one percent of Sweden’s foreign trade, 15 countries in all (for an overview of Swedish ex-

change rate arrangements between 1970 and today, see *table 3*).⁷² The reasons for the devaluation were, according to the government, that Sweden could not expect to profit from international economic recovery, and an internal adjustment of the Swedish economy was “entirely unrealistic” since it would have led to high unemployment.⁷³ To further improve competitiveness, payroll taxes—which had been increased in early 1977, as a result of the Haga accords—were decreased.⁷⁴

TABLE 3. SWEDISH EXCHANGE RATE REGIMES, 1970–2000

| | |
|-----------|--|
| –1973 | Bretton Woods, where Sweden has been a member for most of the post-war period, breaks down in 1971. Temporary arrangements and attempts to salvage a system of fixed rates in 1971–1973. |
| 1973–1977 | Sweden member of the Snake from March 19, 1973. |
| 1977–1991 | The <i>krona</i> is pegged to a trade-weighted currency index consisting of Sweden’s 15 largest trading partners from August 29, 1977. |
| 1991–1992 | The <i>krona</i> is pegged to the <i>ecu</i> from May 17, 1991. |
| 1992– | Free float from November 19, 1992. |

Source: Jonung 1999, p. 242 f.

While exchange rate policies became looser, fiscal policies got somewhat more austere.⁷⁵ But there were big differences between the policies that center-right governments pursued in the late 1970s and the policies that they would pursue after 1980, when there was a much clearer break with earlier policy, for as the government pointed out in 1977, it did not only rely on exchange rate policy to keep unemployment low—fiscal policy was not consistently austere, and spending on labor market policy and industrial subsidies was high.⁷⁶

The center-right governments between 1976 and 1982 relied on subsidies and loans to firms and to entire economic sectors, in order to prevent further economic decline.⁷⁷ This was Sweden’s deepest economic crisis in many decades. Entire sectors of the Swedish economy were scaled back very quickly: production at the shipyards halved in the mid-1970s, and steel production went down thirty percent.⁷⁸ The fall in industrial production was exceptionally steep; production growth went from being considerably higher than the average for European OECD countries in 1975 to being almost eight percent lower in 1976–1977.⁷⁹ The Ministry of Economic Affairs was skeptical of ambitious industrial policies, arguing that there was a general macroeconomic crisis, not a crisis limited to specific branch-

50 es or sectors of the economy. The industry minister in the late 1970s and early 1980s, Nils Åsling, however, saw himself as engaged in crisis management, and was not primarily concerned with how industrial policy fit into the government's overall economic strategy: "We had to emphasize industrial policy, because that was our job," he says.⁸⁰ Many industrial programs were launched, and many new government agencies were established to implement these ambitious programs.⁸¹ The main aim of these subsidies was to preserve full employment.⁸² That is, there was not yet, as in the 1980s, an idea that full employment could be maintained by means of a radical adjustment of Sweden's competitiveness, without using fiscal policy to manage domestic economic affairs.

Government bills in the late 1970s did not say that the government should stop using fiscal policy as an instrument of macroeconomic stabilization. In the budget bill for 1978/79, the government said that while the budget may seem expansionary from a "fiscal" point of view, it wasn't "economically," but it also said that the budget must not be so restrictive as to interfere with the objective of full employment.⁸³ Little more than a year after the 10 percent devaluation in 1977, the government went back to pursuing expansionary fiscal policies. In the autumn of 1978, after cooperation had broken down between the three center-right coalition parties because of disagreements over nuclear power policy, a liberal minority government took over, with Ola Ullsten as prime minister and Ingemar Mundebo as minister of economic affairs and the budget, and this government pursued expansionary policies.⁸⁴ Mr. Mundebo says that in 1978, the government "could pause for breath; then things got worse again in 1979 and 1989." He also points out that "there was an election in September [1979], which may have affected the language a little. Such things are easy to criticize, but they belong to the rules of political life."⁸⁵ After the 1979 election, a new three-party center-right coalition government took office, and policies changed in important ways, as chapter three will show.

THE STRATEGY OF DOMESTIC EXPANSION

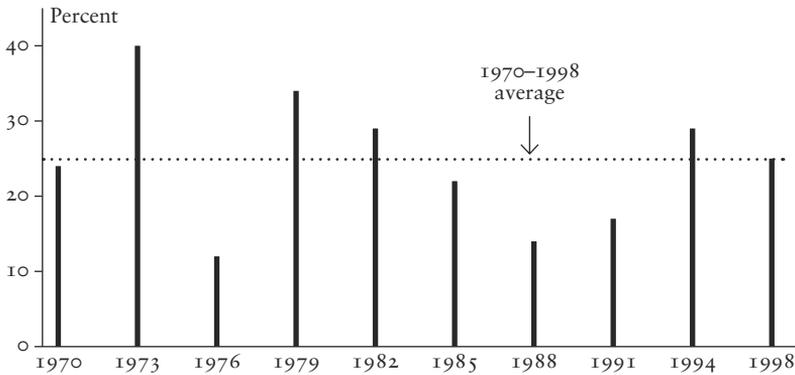
In the mid-1970s, the social democratic government and the center-right opposition agreed on expansionary fiscal policies. The idea was to avoid the international recession, by keeping domestic economic activity high. The overarching objective was to maintain full employment. ("The absolutely dominant objective of economic policy was full employment," Kjell-Olof Feldt says. "That was it. Other objectives came much further down the list."⁸⁶) This policy shift was a first-order change: from the cautious

and austere fiscal policies in the early 1970s, the government switched to expansionary policies. The objective was the same (full employment), the instrument was the same (fiscal policy), but instrument settings were different.

The expansionary “bridging” policies were pursued until 1977, when the new center-right government devalued twice (not counting a minor adjustment in the autumn of 1976). The reason was that negative effects of the bridging policies had become apparent: the competitiveness of Swedish firms had deteriorated, as a result of wage cost increases in the mid-1970s. Although the government now used devaluations, an instrument that had not been used much previously, the policy shift can not be characterized as a full-fledged second-order change: fiscal policy was also used, and there was faith in fiscal policy as an instrument of macroeconomic stabilization. Policy changes in 1977 were not products of a consistent plan: they were desperate measures in hard times. After the election, “everything popped up at once,” Ingemar Mundebo, the budget minister, says.⁸⁷ Lars Wohlin, who was state secretary in the Ministry of Economic Affairs, also says that the situation “got out of hand quickly. It is fair to say that the last two or three months of 76, after the government took office, were characterized by a crisis that hit us with enormous force. The government was not well prepared for this.” Mr. Wohlin concludes that the “there was no strategic thinking—no plan to give up the bridging policy.”⁸⁸ The devaluations in 1977 were *defensive* devaluations, forced upon Sweden because of deteriorating economic balance and currency outflows.⁸⁹

Political parties disagreed on the mix of general and selective policies, and, at least in the early 1970s, on how much stimulus was required. These conflicts should not be underestimated, and they were of great importance politically; as *figure 3* shows, the election in 1973 was the election in recent decades when employment and economic policy received most attention in debates between party leaders. But by 1973, there was already broad agreement on the overall strategy of domestic expansion. My explanation of the choice of strategy, and the broad political agreement, is that Keynesian economics and the norms regarding the purpose of politics that had developed after the war shaped the initial Swedish response to the crisis in the early 1970s. The policies of the center-right parties were not very different from those of the social democrats when it came to issues of employment, to which the center-right governments gave just as much priority as the social democrats. Unemployment, which rose from 1.6 percent in 1975 and 1976 to 1.8 in 1977 and 2.3 in 1978 (not that much, given the severity of the economic crisis) was a major concern for the center-right government.⁹⁰

FIGURE 3. PROPORTIONS OF ELECTION DEBATES BETWEEN PARTY LEADERS DEVOTED TO EMPLOYMENT OR THE ECONOMY, 1970–1998



Note: Dotted line equals the average for the entire 1970–1998 period. Sources: Brandorf et al. 1995, p. 36 (1970–1994). 1998 data from the POP project provided by Peter Esaiasson and Nicklas Håkansson.

My argument would have less appeal if—as some scholars and politicians have suggested—the center-right parties only pursued policies consistent with full employment for tactical reasons. Their behavior would then be a result of strategic action, not shaped by norms at all. Center-right politicians knew that since the 1930s, the social democrats had consistently argued that center-right parties did not care about employment, and if the social democrats were proven right just when the center-right returned to power for the first time in more than forty years, social democratic hegemony would be reaffirmed.⁹¹ Nils Åsling, the minister for industry, says that for governments in the late 1970s, employment had top priority; as “the first center-right government in many, many years, we did not want to seem worse—in terms of the labor market—than the social democrats.”⁹² Ingemar Mundebo, the budget minister, points out that in “less sophisticated political debates, people said that the center-right parties wanted high unemployment. Elsewhere, people said that the center-right parties lacked the necessary competence and skill to deal with employment.” Unemployment dominated the agenda, and therefore “a lot of what the textbooks said that should be done wasn’t done.” Specifically, “that’s why the ‘bridging’ policy was continued until we realized that it didn’t work. That’s why we devalued, since we thought that it would help the economy and employment, although we knew that the devaluation instrument was tricky.”⁹³

But there is also evidence that the policies of the center-right were not simply about election tactics. Government bills all say that full employ-

ment was a very important objective in its own right, and Thorbjörn Fälldin, the prime minister, says that it was a matter of principle that “every person must be offered—or have the right to—a job, so he or she can support him- or herself. Looking around the world today, we know that leaving this to markets is not a good idea.”⁹⁴ Mr. Fälldin also describes the center-right position in terms suggesting that government policies were shaped by expectations: “It was quite normal for Sweden to have practically full employment. If you’ve gotten used to that, it’s hard to change. People asked, ‘Why should we give up a society that works so well? Should we not do something to make sure society keeps working like this in the future?’”⁹⁵ Nils Åsling claims that “[w]hen it came to employment, the Centre Party was a party for low-income earners—still is, by the way—and no less concerned than the social democrats with creating employment for the many.” He concludes that “[f]or Fälldin in particular, and for me as well, this was very much an ideological issue.”⁹⁶ Although Per Ahlmark, the labor market minister and Liberal Party leader until 1978, says that one important reason for ambitious employment policies was that “for decades, social democratic propaganda had said that center-right governments produce mass unemployment,” he also says that the first reason was the “human suffering, on many levels, that follows from high unemployment.”⁹⁷ Sten Westerberg, the state secretary in the Budget Ministry, notes that “unemployment was seen as something incredibly evil—so evil that you couldn’t even write about open unemployment in the fiscal plans. This was a matter of ideological conviction.”⁹⁸

It is doubtful, then, whether the ambitious full employment policies of center-right parties in the 1970s can be interpreted as simple electoral tactics: the Centre Party and the Liberal Party were committed to full employment for ideological reasons, and pursued policies consistent with that objective because they wanted to, not because they had to. The fact that there was bipartisan agreement on the overall economic strategy in the mid-1970s, as in subsequent periods, was not simply because the center-right parties attempted to resemble the social democrats. They were genuinely committed to similar objectives.

The mid-1970s economic strategy was based exclusively on fiscal policy, and this chapter presents evidence suggesting that the model I have called *the politics of bargaining* explains this choice of strategy. Another piece of evidence concerns why politicians did not follow the advice of economists who advocated revaluation in order to prevent world inflation from reaching Sweden in the mid-1970s.⁹⁹ For natural reasons, economists in the early to mid-1970s took an interest in exchange rate policy, since this was the

54 period immediately following the breakdown of the Bretton Woods system.¹⁰⁰ All suggestions about revaluation were resisted by policymakers, however. Carl-Johan Åberg points out that “at this time the current account deficit was still the big problem in Swedish economic policy,” and therefore, “Sträng never believed in this. He assumed that the Swedish economy wouldn’t be able to handle the increasing costs that this would entail.”¹⁰¹

My interpretation of the fact that the revaluation option was not considered is that policymakers—and economists—still believed that fiscal policy was useful as an instrument of macroeconomic management and therefore resorted to this more familiar option when they faced economic hardship. Kjell-Olof Feldt (who himself favored revaluation) says that Swedish policymakers “had lived in Bretton Woods for so long that it was quite far-fetched, at least in political debates, to discuss exchange rate policy as an active part of monetary policy.”¹⁰² Economists criticized the government for not considering other instruments than those they were familiar with, but this type of criticism did not have effect until later, and the reason was, I suggest, that a consistent theoretical critique of Keynesianism had by then discredited fiscal policy.¹⁰³ Chapter three will show that when the economic debate changed in the late 1970s, and Keynesianism came into disrepute, policymakers were more willing to consider exchange rate policy as a means of managing the economy.

THE END OF THE GOLDEN AGE

The shift from cautious fiscal policy in the early 1970s to expansionary policy in the mid-1970s was a response to structural shifts in the economy.

As is well known, the first part of the 1970s was characterized by structural changes and sudden, exogenous shocks in the international economy, which altered the conditions of economic policymaking. The period between 1945 and 1973 has been called the “Golden Age” of twentieth century capitalism.¹⁰⁴ The end of this Golden Age can be attributed to a number of factors. The oil crises in 1973 and 1979, which led to spiraling inflation, unemployment, and distributive conflict in rich Western democracies, have become symbols for a number of changes in the international economy in the 1970s. Their influence was considerable—this chapter has already demonstrated the effect that the first oil crisis had on Swedish economic policy—but there were many other developments in this period that were equally important: the oil crises were but parts of a wider process of change.¹⁰⁵

At the international level, the Vietnam War produced inflation that spread through the world economy, and led, eventually, to the disintegration of the Bretton Woods system and the post-war economic order. Inflation came on top of the agenda.¹⁰⁶ The Nixon administration decoupled the *dollar* from gold in November 1971, and two years later the Bretton Woods system had broken down entirely. The United States went from being a stabilizing force in the global economy to being a destabilizing one. The breakdown of the Bretton Woods system meant that external balance and the relationship between the Swedish *krona* and other currencies became a concern for policymakers for the first time in several decades.¹⁰⁷ There were also a number of domestic events and trends that destabilized the situation in Sweden in particular.¹⁰⁸ Productivity growth declined, and there was labor unrest, as a miners' strike in 1969 and the many wildcat strikes that took place in this period demonstrated. Sweden also lost a number of advantages that its economy had previously enjoyed: for example, terms of trade deteriorated, since the prices of raw materials increased more than the prices of technologically sophisticated goods manufactured by Swedish firms.¹⁰⁹

These structural changes and shocks to the economy presented policymakers with a new set of problems that macroeconomic policies had to address. Supply shocks and declining productivity growth in the 1970s made it necessary to adjust real labor costs, so as to avoid macroeconomic imbalances, something that had not been an issue previously.¹¹⁰ At the Riksbank, the late 1960s was the first time in many decades that external balance became an issue for monetary policy, and Bengt Pettersson, who worked at the National Institute of Economic Research (*Konjunkturinstitutet*) between 1949 and 1989, says that big changes took place in the 1970s, with regard to the parameters that economic analysts included in their prognoses: "Developments in the 1960s were astounding. There were never any current account problems, because there were no problems with regard to relative costs." After Bretton Woods, and the inflationary tendencies in the international system in the early 1970s, the National Institute of Economic Research "had to follow the development of relative prices."¹¹¹ The government itself recognized that adapting to international interdependence was important: "In the ever more internationally integrated economy," the fiscal plan noted in January 1973, "the need for balance with the outside world becomes a more decisive, strategic issue every year."¹¹² In Sweden, as in similar economies, there were thus a number of ways in which the post-1970 period was different from the first decades after the Second World War, both with regard to internal dynamics, and with regard to the need for adjustment to international economic interdependence.

56 One important consequence of the end of the Golden Age was a slowdown in output growth (see *figure 4*). In the 1950s, the average yearly real GDP growth rate in Sweden was 3.3 percent and in the 1960s, it was 4.4. Since then, average growth has been little more than 2 percent per year: 2.4 in the 1970s, 2.2 in the 1980s, and 2.0 in the 1990s.¹¹³ (The 2.4 percent average for the 1970s would be lower if it weren't for the exceptional 6.5 percent growth rate in 1970.) Apart from its obvious welfare effects, a slowdown in output growth has important political consequences. Since there are smaller welfare increases to distribute, distributive conflicts are aggravated. This is especially troublesome in countries such as Sweden, where bargaining structures for wages—and sometimes taxes and social benefits as well—are predicated on a certain growth rate. Much of Swedish politics in recent decades has revolved around distributive conflict, and arguably many of Sweden's present social and economic problems stem from the inability of Swedish political institutions to resolve them.

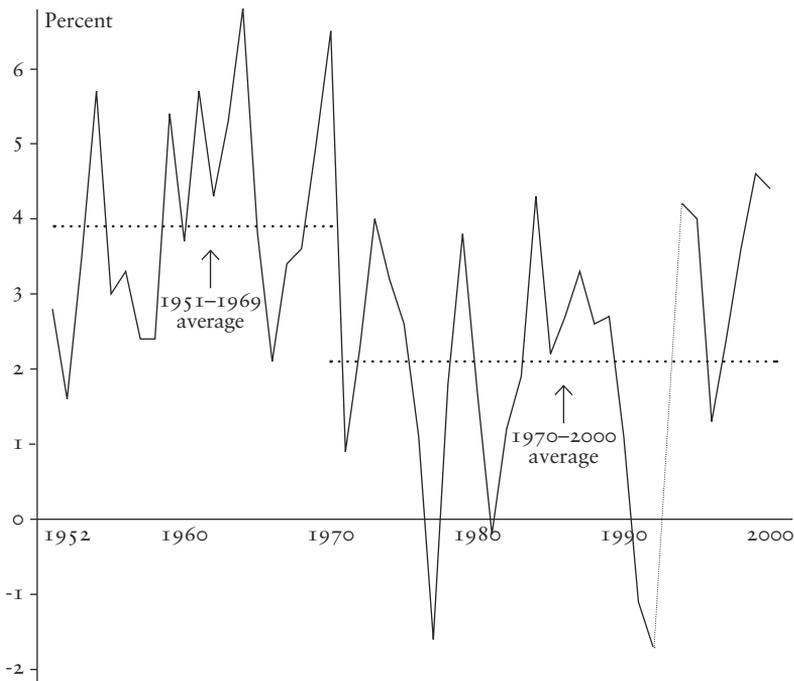
Going from the exceptional growth of the 1960s to the sluggish growth of the 1970s, 1980s and 1990s has put pressure on the Swedish political economy. Perhaps most importantly, diminished productivity growth is one important cause of the poor performance of wage bargaining institutions from the mid-1970s to the 1990s. In the 1960s and early 1970s, wage increases were moderate, and the Swedish wage bargaining system was generally seen as a success story—wage formation was not a serious macroeconomic problem. This changed in the mid-1970s.¹¹⁴ Between 1974 and 1976, labor cost increases were very high, and while payroll tax increases account for some of these costs, simultaneous income tax cuts were—as we saw earlier—supposed to be discounted from nominal wage increases, but this did not happen. Devaluations in 1977, 1981 and 1982 restored competitiveness, and nominal wage increases in this period did not offset the effects of the devaluations, at least not immediately. In the early 1980s, however, the rate of wage increases picked up again.¹¹⁵

Thus, for much of the period from the mid-1970s to the early 1990s, labor cost increases were unsustainably high, in the sense that they were incompatible with preserved international competitiveness for Swedish firms. There were also institutional changes in this period—between the 1950s and the early 1980s the wage bargaining system was highly centralized, but in 1983 the metal workers' union, *Metallarbetareförbundet*, struck a separate wage deal with its counterpart *Verkstadsföreningen*.¹¹⁶ This was the first non-central wage agreement in 28 years. In the mid- to late 1980s the LO and SAF—the blue-collar union confederation and the confederation of employers—at times struck centralized deals while at other times individual unions struck separate deals with individual employer organi-

zations.¹¹⁷ (In the mid-1980s, for example, there was relatively more stability: in the wake of the murder of Prime Minister Olof Palme, the LO and SAF reached a two-year wage agreement in April 1986.¹¹⁸) Many scholars have argued that the breakdown of Sweden's centralized wage bargaining system explains the timing of Sweden's turn to disinflationary policies. According to this argument, centralized wage bargaining made it possible for firms and unions to contain wage inflation, which in turn enabled governments to pursue macroeconomic policies that were consistent with full employment. When centralized bargaining broke down, there was no longer institutional capacity for full employment policy. This is probably the dominant explanation of Sweden's trajectory of macroeconomic policy change in the international literature.¹¹⁹

But unsustainable wage increases were a problem already in the 1970s, and Swedish politicians struggled with similar problems both before and after 1983. In the mid-1970s, there was a *de facto* decentralization of Swedish wage setting. Agreements between the LO and SAF no longer determi-

FIGURE 4. GDP GROWTH, 1951-2000



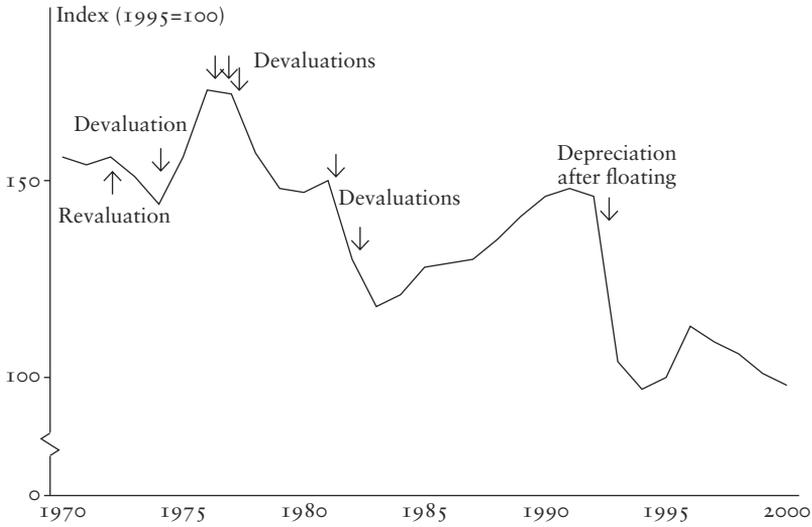
Note: Data for 1993 missing. Yearly increases in real GDP. Dotted lines represent the 1951-1969 average (left) and the 1970-2000 average (right). Source: SCB.

58 ned wage increases across the board, since wage setting involved many actors and the LO and SAF could no longer exercise authority over all workers and employers in the labor market.¹²⁰ The main reason for this was the increasing heterogeneity in the labor force: white-collar unions—TCO and SACO—grew in prominence, as did public sector unions, since the public sector (especially social services) expanded in the 1970s. White-collar employees had organized much later than blue-collar workers, but in the early 1970s, they had become a strong force in the Swedish corporatist system. Public sector workers were given the same rights to organize as private sector employees in 1965, and since then, they have been responsible for the majority of strikes and other labor market conflicts in Sweden.¹²¹ Apart from the growing prominence of white-collar employees and the service sector, changes in the organization of industrial production have increased the heterogeneity in the manufacturing sector as such.¹²²

There is no evidence that formal decentralization, as such, had any effects on the sustainability of wage bargains.¹²³ Wage bargaining institutions did not deliver more moderate wage increases in the period before 1983 than after. The OECD measures the “overall competitiveness” of an economy in terms of *relative unit labor costs* (wages and salaries, including employer contributions to social security, per unit of output, relative to other countries). Relative unit labor cost increases between 1975 and 1978 were higher than any such increases in the 1980s, and even if the large wage increases in the mid 1970s can be seen as special cases—for example, because Swedish wages were lagging behind in the early 1970s—the decentralization argument does not account for the fact that devaluations in 1981 and 1982 were the main reasons why labor costs did not increase more rapidly in the early 1980s.¹²⁴ As *figure 5* shows, not only have relative unit labor costs *decreased* in the period from the early 1970s until today; developments in the 1980s, after the decentralization of wage bargaining, appear to have been quite similar to those in the 1970s: an increase in the second half of the decade compared to the first. In fact, it has only been in the period with a floating exchange rate—after 1992—that relative unit labor costs have decreased or remained at the same level without deliberate exchange rate adjustments.

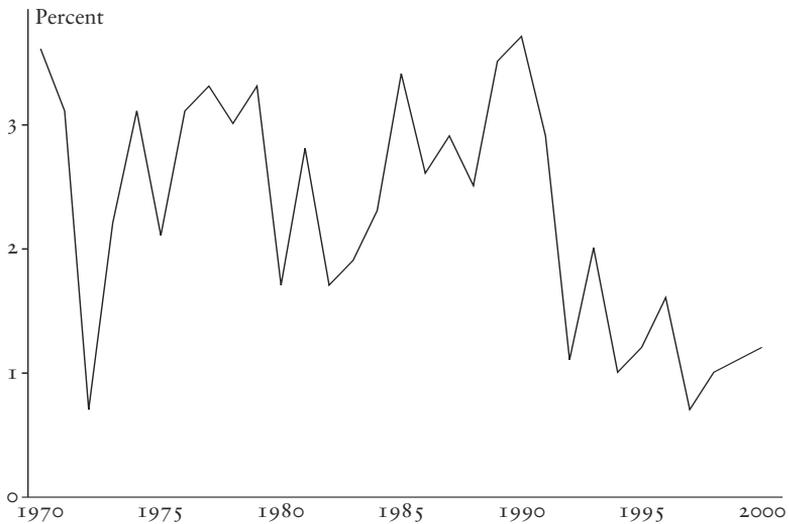
Some scholars have claimed that wage drift—extra wage increases awarded at the firm level—became a major problem in the 1980s, but wage drift was not new to the Swedish political economy. As *figure 6* shows, wage drift was substantial throughout the 1970s and 1980s, and only diminished in the early 1990s—after, and most likely as a consequence of, the turn to disinflationary economic policies. Average yearly wage drift between 1969

FIGURE 5. RELATIVE UNIT LABOR COSTS IN MANUFACTURING, 1970–2000



Sources: OECD 2003 (RULCs), and Konjunkturinstitutet (nominal wage increases).

FIGURE 6. WAGE DRIFT, 1970–2000



Wage drift in the labor market as a whole. The National Mediation Office (Medlingsinstitutet) no longer uses the term “wage drift” (“löneglidning”) since the structure of wage agreements has changed. *Source:* Konjunkturinstitutet.

60 and 1982 was 2.6 percent, while between 1983 and 2000 it was 2.1.¹²⁵ In fact, it was lower after the formal decentralization of the labor market than it had been before (which is probably explained by the fact that the top level of bargaining had disappeared, which meant that the pressures for wage drift had diminished.) Trade unions recognized the problems that wage drift in the Swedish labor market posed for economic policymaking already in the early 1950s.¹²⁶ Employers had also been concerned about wage drift for a long time. In fact, wage drift and large wage increases in the mid-1970s made *Verkstadsföreningen*—the largest member organization of SAF—seek defection from centralized wage bargaining in the early 1980s.¹²⁷

The importance of wage bargaining institutions for the distinctive trajectory of Swedish economic policies in the 1970s and 1980s appears to have been overstated. More precisely, the disintegration of the wage bargaining system was one of the several structural changes that set the stage for economic policymaking in the entire post-Golden Age period, throughout the 1970s, 1980s and 1990s, but it does not explain the timing of disinflation. As I will show in the next chapter, what did change over time were the beliefs and attitudes of policymakers regarding wage bargaining, and their trust in the labor market partners. In the 1970s and early 1980s, this trust was still there, even if the performance of wage bargaining institutions was poor. With hindsight, some policymakers believe that the system stopped working earlier. Kjell-Olof Feldt says that by the mid-1970s, “local, business-level agreements were struck under the umbrella of the central agreements, and in time, they made system collapse.”¹²⁸ Stig Malm, who became LO chairman in 1983, thinks that the formal decentralization was but one part of a long process. “Both before my time, after my time, and during my time, the problem with the coordination within the LO has always been that some people think that they deserve more than others and some feel that they are being fooled,” Mr. Malm says. “Such conflicts are there, and have always been there. But they increased.” Mr. Malm concludes that decentralization as such was not the problem, “the problem was to make it all stick together.”¹²⁹

WE WERE ALL KEYNESIANS

Swedish economists in the early and mid-1970s almost without exception advocated expansionary policies. Their criticism of the government’s policies rested on Keynesian premises. Indeed, it was common in the 1970s to accuse the social democrats of betraying their Keynesian heritage. Econo-

mists also supported the expansionary policies after the first oil crisis—one author even writes that economists competed over who could come up with more new ideas for expansionary programs.¹³⁰ This could be interpreted as a resurgence of Keynesianism, since the Rehn-Meidner model was in a sense an anti-Keynesian theory.¹³¹ But the Rehn-Meidner model was originally designed for and adopted to a full employment society, very unlike Europe in the 1970s, where mass unemployment had returned. Underneath the discussion about the Rehn-Meidner model, there was a conviction in Sweden that if there was ever a threat of a general increase in unemployment, Keynesian policy was the appropriate response. Unemployment levels in the early 1970s were higher than at any point previously in the post-war period. Therefore, the undercurrent of Keynesian economic thinking, and memories of the crisis in the 1930s, rushed to the surface. Even Gösta Rehn himself favored expansionary policies, although his approach was more selective and cautious than that of many other economists.¹³²

In 1974, the think-tank SNS formed an Economic Policy Group (*Konjunkturrådet*), which has published influential yearly reports on the Swedish economy since then. Erik Lundberg, one of the most influential Swedish economists from the 1930s until his death in 1987, chaired the group in the first decade of its existence (1974–1983). In the early 1970s, he had become very critical of the way in which the National Institute for Economic Research (*Konjunkturinstitutet*)—which he had headed some two decades earlier—had become too dependent on the Finance Ministry. He therefore called for independent prognoses, to improve public debate on economic policy. This inspired the SNS, which formed the Economic Policy Group with the intention of publishing independent analyses and policy recommendations.¹³³

The Economic Policy Group soon became an important advocate of expansionary policies, basing its analyses on Keynesian thinking. This is not so surprising: Erik Lundberg was a prominent Keynesian.¹³⁴ The SNS economists supported expansionary economic policies from the mid-to late 1970s.¹³⁵ In the 1974–75 report, the group advocated expansionary policies to meet the looming crisis, and the underlying analysis was very similar to that of the OECD (and the government): “The responsible way of meeting the difficulties associated with the new oil price levels is thus to maintain full employment and finance the current account deficits in the coming years with foreign borrowing.”¹³⁶ The group also advocated revaluation in order to keep foreign inflation out. In 1975–76, the group again advocated expansionary policies, this time in combination

62 with a *devaluation*, since a sufficiently expansionary policy was not possible without one, considering the current account deficit (the budget deficit, however, was not seen as a constraint).¹³⁷ In 1976–77, the group again favored general, expansionary policies, supporting the government’s approach in the preceding year.¹³⁸

It was not until the 1980s that Keynesian thinking stopped dominating the SNS reports, although there were some tensions already in the 1970s.¹³⁹ The 1976–77 report was consistent with the earlier ones, advocating expansion, and the 1977–78 report said that the situation was very serious, and incomes policies and radical cost-adjustment were necessary, but otherwise stuck to the same message.¹⁴⁰ The two next reports were mixed: the expansionary policies in the mid-1970s were now criticized, and the reports instead called for incomes policies and “social contracts”—deals between government and the social partners that would facilitate balanced economic development.¹⁴¹

In 1978, Erik Lundberg and two other prominent Swedish economists—Assar Lindbeck and Bertil Ohlin—wrote a letter to the government, arguing for more expansionary economic policy.¹⁴² Ingemar Mundebo says, jokingly, that the letter “wasn’t of much use for a budget minister, if I put it like that.”¹⁴³ Sten Westerberg, the state secretary, who opposed the analysis offered by the three economists, says that the letter illustrates the influence of Keynesianism, and that it “mattered, but didn’t make much of an impression on me intellectually” since it was “old school.”¹⁴⁴ Assar Lindbeck says that he is “not very proud of it, since we were too late and didn’t see that better times were around the corner.” But, he says, “Sweden faced a very serious economic crisis—at the time, it was the deepest we had experienced since the Second World War.”¹⁴⁵ In any event, the letter indicates that Keynesian thinking was still influential in Sweden in the late 1970s.¹⁴⁶ This would change very soon, however. As chapter three will show, economists such as Erik Lundberg and Mr. Lindbeck themselves would change their ways of thinking—although they would not go as far as some of the younger economists who advocated the ideas that influenced macroeconomic policy in the 1980s.

As I noted earlier, some of the inspiration for expansionary economic policies in the mid-1970s came from international agencies, especially the OECD, but the OECD did not persuade the government to do something that Swedish economists opposed; the kind of analysis that the OECD offered came naturally at the time. Swedish economists, such as the SNS group, made similar arguments, and some of Sweden’s most prominent economists wrote newspaper articles based on the same analysis.¹⁴⁷ The most

important explanation of policy choices in the mid-1970s was that these ideas “did not meet any opposition at all back home,” Carl Johan Åberg says.¹⁴⁸ The reasons were both intellectual and political, in his opinion. He points out that with a hung parliament, “it is easier to reach agreement on expansionary policies than on contractionary policies,” but “policies could also be backed up with a clear Keynesian analysis.”¹⁴⁹

There were few other voices among economists at this time. One reason was probably that economic policy was thought to have been very successful in the 1950s and 1960s, and there was great optimism and faith in the instruments of economic management.¹⁵⁰ In a book published in 1970, As-sar Lindbeck remarked that there are “means by which monetary and fiscal policy can be used to maintain any desired level of aggregate demand.”¹⁵¹ Policy optimism was strong in. The former Centre Party leader and prime minister Thorbjörn Fälldin has noted that “most economists advised us to stimulate the economy and make sure that people got purchasing power, in order to put the economy in motion again. For a long time, this had been the classical method, ever since Keynes’s ideas were accepted in the 1930s. Initially, it seemed like a natural way to address the problem.”¹⁵² Nils Åsling, chairman of the parliament’s standing committee on finance between 1974 and 1976, says: “We were all Keynesians.”¹⁵³

STRONG SOCIETY, STRONG STATE

In the 1970s, economic policymaking took place in a political environment that was shaped by norms that made it the state’s role to solve social problems through the creation of political programs in concert with major interest organizations. Chapter four accounts for how these norms changed from the 1970s to the 1990s. Here, I will simply point out that the 1970s were in many ways the apogee of the political culture that these norms constituted. Just as economic thinking in the 1970s was shaped by the perceived triumphs of economic management in the 1950s and 1960s, norms regarding the purpose of political authority were shaped by the growth and expansion of government involvement in society in the 1960s and earlier. The 1970s were an expansive phase for the Swedish social model. Indeed, this was when Sweden’s economic and social policies began to deviate the most from policies in other rich countries.¹⁵⁴ Faith in Sweden’s distinctive approach to social affairs was strong among political elites.

Sweden had been governed by the social democrats in the 1950s and 1960s, and this political culture was their making, although the center-right participated in the general drive for social reform. A report to the

64 social democratic party congress in 1964 shows how social democrats thought about social reform and the role of the state in the period that preceded the decades covered in the present study. The report noted that the transformation of Swedish society was not yet complete: “When democracy was won in politics, through universal suffrage and equal representation, we started to create democracy in everyday life: education for everyone, universal insurance for security in all turns of life, classless housing, democratic workplaces, a society with access for everyone to the fruits of culture. This was an enormous task. [...] We are therefore far from finishing.”¹⁵⁵ It was the state’s role to reform society, in order to improve life for citizens. In short, if there was a social problem, it was taken for granted that the state could, and should, solve it.

These views found their clearest expression in the prime minister’s, Tage Erlander’s, ideas about the “strong society.” Erlander expected citizens to demand more and more from the government, as overall welfare increased. He envisioned a government that would satisfy these demands, and reshape society through research and development, education and investment. Although his name for such a government was “the strong society” (*det starka samhället*) he clearly referred to a strong *state*. More precisely, he did not make a clear distinction between the two: “The concept of the strong society,” one student of Swedish social democracy remarks, “is not merely a case for the expansion of the public sector; it is a mystical merging and identification of state and society.”¹⁵⁶ This was the social democratic interpretation of the norms that constituted Swedish political culture in the post-war years.

There were of course ideological differences between the social democrats and the parties to their right, but the center-right parties appear to have been carried by a similar vision of progress and social reform. Political conflicts in the 1970s did not concern social reform, but nuclear power and radicalized social democratic policies, such as the program for collective capital formation (the “wage earner funds”) that the LO proposed in the mid-1970s. Thorbjörn Fälldin says that as far as he is concerned, it is “hard to see any difference between the Centre Party and the Liberal Party on the one hand and the social democrats on the other, when it comes to social responsibility for people. The difference lies in the socialist elements in social democratic policy, and they were not as pronounced in the 50s and 60s as they were in the 70s and 80s—and still are today.”¹⁵⁷ Ingemar Mundebo has noted that economic policy in the mid-1970s and when he was budget minister—in 1976–1980—was complicated by the fact that major political reforms, backed by both left and right, had already been ap-

proved, and everyone expected that “the welfare state should be perfected.”¹⁵⁸ Sten Westerberg, the state secretary in the Budget Ministry, claims that when the center-right government was formed in 1976, “Swedish self-esteem was at its peak. The Swedish welfare state was somehow the Hegelian end of history. My own party, the Liberal Party, campaigned under the slogan ‘social reform without socialism.’ [...] It was self-evident that there was going to be social reform.”¹⁵⁹ The political vision of an ambitious state intervening in social life was not only a social democratic phenomenon, and the ambitious industrial policy programs that the center-right parties launched indicate that they were in some respects prepared to go even further.

The political style of the mid-1970s—for example, the Haga accords—also testifies to the power of the ideology of social partnership: the government attributed an important political role to employers and unions. When the center-right came into office in 1976, they acted in a similar manner, and negotiated with the unions (including the LO). Ingemar Mundebo points out that there was “a long tradition of close cooperation between the Liberal Party and TCO, but also with SACO—less, for natural reasons, with the LO.” Therefore, “in the Liberal Party, we had much faith in the unions: we thought well of them, we spoke well of them, and we were serious when we said that the unions had an important part to play. [...] This faith was somewhat undermined by the wage bargains in 1974–1976, which were made at levels that, with hindsight, must be called insane. When the Liberal Party came into government, however, we still thought that the unions possessed a great deal of social responsibility.”¹⁶⁰ To some extent, center-right governments would think and act differently in the 1980s, after the major labor market conflict in 1980. Some economic experts within the ministries—such as Sten Westerberg, the state secretary in the Budget Ministry—believed that “ideas about what could be achieved by ‘talking’ to the social partners” were “naïve.” But in the mid-1970s, this view was as yet uncommon.¹⁶¹

THE POLITICS OF BARGAINING

Sweden’s initial reaction to economic challenges in the 1970s has been characterized as *business as usual*—in a series of deals with opposition parties and interest organizations, the social democratic government made policies that sheltered Swedish economy and society from the effects of these structural changes, at least temporarily.¹⁶² My analysis is quite similar. After the first oil-crisis and simultaneous changes in the domestic and international

66 economies, Swedish governments faced a situation where the objective of full employment was threatened, but they still subscribed to the norms that constituted political culture as it had developed in the post-war period, and Keynesianism remained influential among economic experts.¹⁶³ Policymakers therefore made a first-order policy change: while full employment remained the primary objective of economic policy, and the same macroeconomic instrument—fiscal policy—was used, instrument settings changed very much, as the government switched from austere to expansionary policies.

These observations are all consistent with the theoretical argument: the mid-1970s were characterized by the politics of bargaining. Policymakers were not persuaded to change economic policies because of new ideas or norms—they relied on old ideas and norms, and adapted within these parameters. Structural change was the key event. If there had been no such shocks, there would probably have been few economic policy changes—rising unemployment made it possible for the center-right parties to come after the government and attack its economic policy, and growing macroeconomic imbalances led economists to advocate expansionary economic policies. If faith in Keynesian economics had not been so strong—if there had been a clearly articulated *critique* of Keynesianism at the time—other options than generally expansionary policies might have been considered, including second-order changes, such as active exchange rate management. If norm change and a crisis of faith in the Swedish social model had already developed, still more options might have been considered: perhaps even the employment imperative would not have been taken for granted. But these intellectual and normative changes had not taken place in Sweden in the 1970s.

3. THE POLITICS OF EXPERTISE

On March 19, 1981, a social democratic party official wrote a letter to the members of a social democratic economic club that had been formed three years earlier. He suggested that the social democratic economists should study “the new economic doctrines from the United States.”¹ A meeting on “neo-liberalism studies” was held two months later, and a seminar on the same topic was arranged in the fall. Before the May meeting, Erik Åsbrink, who would later devise the economic strategy that the social democrats implemented after the 1982 election, wrote to the members that the purpose of the meeting was “to discover in what respects we must, for ideological reasons, distance ourselves from these new doctrines, and in what respects they contain thoughts and ideas that may be useful for social democratic policy.”² The early 1980s were, I argue, a period when the Keynesian ideas that had influenced economic policymaking in the 1970s were abandoned, and policymaking was shaped by new economic thinking that developed in the late 1970s—even the social democrats incorporated some of these ideas, although one might have expected them to oppose them on ideological grounds.

In the late 1970s and early 1980s, the Swedish *krona* was devalued four times (or five, including the minor adjustment in the autumn of 1976)—twice in 1977, first by 6 and then by 10 percent; once in 1981, by 10 percent; and on October 8, 1982, Olof Palme’s new social democratic government began its term in office with a 16 percent devaluation known internally as the “Big Bang.” In 1976, a US *dollar* cost on average 4.36 Swedish *kronor*; in 1983, it cost 7.67.³ Meanwhile, fiscal policy was increasingly austere: the center-right government changed fiscal policies from 1980 onwards, presenting a series of austerity packages, and although the social democrats cancelled some of these cuts, they made other cuts and also pursued tight fiscal policies, at least in comparison with the 1970s. Policies did become expansionary, particularly in the second half of the 1980s, but there is reason to believe that the credit expansion that followed financial deregulations in the mid-1980s fuelled the overheating economy in the late 1980s.

From 1980 onwards, then, the only macroeconomic instrument that governments used to maintain full employment was exchange rate policy. The

68 two devaluations in 1981 and 1982 were different from the 1977 devaluations: the earlier devaluations were strictly defensive—they were responses to developments in labor markets and money markets, and were used to regain lost competitiveness. The devaluations in 1981 and 1982 were more offensive, in the sense that they were parts of sets of new policies. Most importantly, policymakers had now given up on active fiscal policy; this they had not done earlier. A full-fledged second-order change took place, as Swedish governments stopped expanding the public sector, refrained from active fiscal management and instead used active exchange rate policies in an attempt to maintain full employment and regain economic balance. New instruments were used, but the main objective was still full employment. The idea was to lower relative wages and accomplish economic reform without suffering the costs of a purely domestic adjustment—that is, higher unemployment. The economic strategy of Swedish governments in the early to mid-1980s was a strategy of *external adjustment*.⁴

My hypothesis regarding second-order changes is that they are made possible by the introduction and proliferation of new economic ideas. The economic debate in Sweden in the late 1970s and early 1980s was indeed characterized by declining faith in Keynesian economics, and by the introduction—through Swedish economists and international organizations such as the OECD—of new ideas. These new ideas grew out of the theoretical critique of Keynesianism that had developed in the 1970s. Their adoption contributed to the general disaffection with fiscal policy as an instrument of macroeconomic stabilization. Since policymakers did not consider abandoning full employment, they turned to another instrument: the exchange rate. The devaluations were supposed to provide governments with an opportunity to undertake reform without accepting high unemployment.

TOUGHER POLICIES (1979–1982)

The economic policies of the center-right governments that were formed after the 1979 election were different from those pursued by the center-right in 1976–1979. It is commonly argued that the change occurred some time in 1980.⁵ Fiscal policy got tighter in that year, and more importantly for the present purposes, it was no longer seen as an instrument of macroeconomic stabilization. Instead, exchange rate policy was used to keep unemployment low and the economy going: there was a 10 percent devaluation in September 1981. These developments, and the policies of the subsequent social democratic government, which were fairly similar, amounted to a second-order policy change.

After the second oil crisis in the autumn of 1979, the government declared that this time, there would be no domestic economic expansion. "We have learned, at a high price, that our international competitiveness will be lost if we attempt to maintain considerably higher domestic demand in Sweden than in the rest of the world," the government declared in December 1979.⁶ The most important fiscal policy changes took place in 1980 and 1981—the government believed that fiscal consolidation was required to halt the accumulation of public debt and the expansion of the public sector. The consequence of these policy changes was that the public sector in fact ceased to grow, after steady growth in the 1970s: general government employment stopped increasing (it hovered around 37 percent of the total number of employed throughout the 1980s and decreased in the 1990s—the proportion was 32 percent in 2000), and so did public social expenditures, which fluctuated between 29.8 and 32.0 percent of GDP in that decade.⁷

Instead of adopting bridging policies, the center-right government argued in the early 1980s that trade and budget deficits must be brought down, and that high economic activity high could not be achieved through public expenditure, only through increased international competitiveness for exporting firms.⁸ From 1980 to 1982, all fiscal plans and economic policy bills presented by center-right governments contained sections on the need for decreased public spending.⁹ A first major budget-cutting bill was sent to parliament in October 1980.¹⁰ For the purposes of the present argument, the most important change was that government bills no longer discussed fiscal policy in terms of macroeconomic stabilization. There were some exceptions, and the government hesitated to accept a deflation of the domestic economy through overly tight fiscal policies—the 1981 devaluation was complemented by fiscal measures, and the budget for 1982/83 said that fiscal policy could only be tightened when the effects of the devaluation kicked in.¹¹ But overall, the aim of fiscal policy was now to reduce the budget deficit and reduce government expenditures—not to stabilize the real economy.

According to Sten Westerberg, who had now become state secretary in the Ministry of Economic Affairs, an attack on the currency in January 1981 contributed to policymakers' resolve in fiscal matters. The government had hesitated to make extensive cuts, but "there was a substantial exchange rate crisis in January 81. The interest rate was raised by 2 percent. At the time, this was a dramatic increase. After that, they went from sounds to things in terms of concrete policies."¹² About two weeks later, the government presented an economic program that included further cuts, and measures to improve the efficiency of the Swedish economy.¹³

70 On September 14, 1981, the government devalued the *krona* by 10 percent, and on the same day, it presented an economic package that contained, among other things, lower consumption taxes and further cuts in public spending. The main reason for the devaluation was, according to government bills, once more the labor cost situation—it would have been unrealistic, the government argued, to wait for the labor market partners to strike moderate wage deals: in the short term, this would have led to large increases in unemployment.¹⁴ The government at first failed to find support for the consumption tax cut, but reached a compromise with the Moderate Party (which was now in opposition) in October.¹⁵

Lars Wohlin, Riksbank governor in 1979–1982, has written that the devaluation was a “pure central bank devaluation.” That is, the idea came from the Riksbank, although it was approved by the government.¹⁶ Mr. Wohlin says that “Sweden still had a relative competitiveness problem. *De facto* we didn’t devalue by more than 15 percent before we went over to the basket.”¹⁷ High wage costs in 1978–81 were not the main problem—the problem was that the devaluations in 1977 had not been enough: “We had not gained enough competitiveness. There were terms of trade losses after the large oil price increases and the changes in relative energy prices led to structural problems in steel and shipyards. Sweden was in a difficult situation.”¹⁸ This broader view of what Sweden’s competitiveness required—not just moderate wage increases—was, interestingly, embraced by the social democrats also, as I will soon show.¹⁹

By the time of the 1981 devaluation, Rolf Wirtén had become both budget minister and minister for economic affairs, and in his opinion, the devaluation and indeed, the entire policy package presented in the early autumn of 1981 was an important step: “It initiated more offensive policies, while retaining the insight that we had to get rid of the budget deficit.”²⁰ Describing the ideas behind the policy package, he says: “Somehow we had to both work and save. [...] The 10 percent devaluation improved our competitiveness in relation to the outside world. [...] But the devaluation could go overboard very quickly, as they did, to some extent, in 77. We had to follow it up—and we did, by means of cuts. But we also had to make sure that people were motivated to work. [...] First, we started to lower marginal tax rates, so that people could see the point in working. [...] The other thing was that we lowered consumption taxes.”²¹ In a similar vein, Sten Westerberg, one of Rolf Wirtén’s state secretaries, points out the devaluation was a way of following up the cost-cutting, austere fiscal policies adopted previously: “There was a wish to follow up the cost-cutting policies, which were seen as defensive, with a real ‘offensive’ measure,”

he says. “If the public sector could not be the economic engine anymore, you needed something else. [...] The devaluation was supposed to create a pull, and it would be complemented by supply-side measures, like tax policy, which were supposed to lead to increased supply and expansion in the non-sheltered sector.”²²

The devaluations in 1977 had been defensive; they were about handling an acute crisis by compensating for lost competitiveness, but the devaluation in 1981 was, as the evidence just presented shows, more offensive; it was combined with measures in other areas, especially fiscal policy. Ulf Jakobsson, who was assistant state secretary in the Ministry of Economic Affairs, emphasizes the similarities between the 1981 devaluation and those in 1977: “There were cost crises at both times—deeper in 76 and 77 than in 81,” he says. “The devaluations were defensive; in both cases, the aim was to regain competitiveness.”²³ Sten Westerberg, on the other hand, claims that the devaluation in 1981 was “much more offensive.” He continues: “It was partly about lowering relative costs, partly about going on the offensive politically.”²⁴ In conclusion, the 1981 devaluation was different from those in 1977: it was not brought about by an immediate crisis, and it was accompanied by more consistent fiscal policies than those presented in 1977. On the other hand, the big social democratic devaluation in 1982 was even more offensive, as the *krona* became undervalued.

The proximate reason for policy changes in 1980–1982 was the budget deficit. Prime Minister Fälldin says that “policies got tougher” since “we couldn’t have growing budget deficits for ever; you can not live with an accumulating deficit.”²⁵ Bengt Westerberg, state secretary in the Budget Ministry, was an important advocate of fiscal restraint. “For a long time,” he says, “the budget deficit was seen as something transitory, something that would go away when the economic situation improved, but around 1980, the government and people near the government and the parliament realized that there was a structural deficit.”²⁶ (A structural deficit is a deficit that is not associated with a downturn in the economy, but a more permanent feature of the government’s finances.) Economic experts in the finance ministries had tried to put an end to the increase in public expenditures for some time, but they had not managed to find support for this in the first center-right administrations, in 1976–1979: “Both the liberals and the Centre Party (in rhetoric as well as practice) and the conservatives (if not in rhetoric then at least in practice) were in favor of various forms of spending, and it was very hard to find support for the idea that we should save in any other sense than to halt increased spending,” Sten Westerberg says.²⁷

72 The government's medium-term survey of the Swedish economy in 1980 dealt with the increase in public spending and the growing deficit. Ulf Jakobsson, who was responsible for the survey, wrote that the problems of the 1970s were not effects of sudden disturbances; the problem was that production was stagnating while consumption kept growing, and there had to be a break in the trend, a halt to the expansion of the public sector, as well as relative price and wage changes.²⁸ "The enormous public spending increases had to stop," Mr. Jakobsson says. "I think that the medium-term survey in 1980 contributed to this insight."²⁹ Mr. Jakobsson also points out, however, that while the medium-term survey may have led to tighter fiscal policy, the time was also ripe for these ideas: "We had high inflation and macroeconomic instability. International organizations such as the IMF and the OECD pointed out that we had to do something about this—so it wasn't as if we had figured out something that no one else understood."³⁰ Plans for long-term economic policy prepared within the Ministry of Economic Affairs in late 1980 was based on the medium-term survey.³¹ The budget situation remained the government's main concern—a February 1981 memo discussing long-term budget policy lamented the fact that spending seemed to increase according to a logic of its own—"automatically"—and proposed to cut one sixth of total government expenditures over a four-year period.³²

But policies were not only shaped by the sheer fact of mounting deficits. They were also shaped by the introduction of non-Keynesian economic ideas, which—as I show later on in this chapter—took place over the late 1970s and early 1980s. These ideas led to increased skepticism regarding the usefulness of fiscal policy as an instrument of macroeconomic stabilization, and, in general terms, shifted attention away from macroeconomic policy, toward long-term, "structural" issues related to the supply side and overall economic efficiency. Later on, I will present evidence that leading advisors to the center-right government were in fact influenced by such ideas in the early 1980s. For now, I will present evidence that policy changes at that time were to some extent shaped by a new understanding of the role of and room for macroeconomic management. The clearest evidence that the government was not simply prevented from pursuing expansionary policies by the big budget deficit, but was persuaded that active fiscal policy was not useful, is that a government bill in the spring of 1981 contained a long, principled argument about why fiscal policy could no longer be used for purposes of macroeconomic stabilization, an argument that did not only bring up the budget deficit, but other factors as well.³³ Rolf Wirtén, budget minister from 1980 and minister of econom-

ic affairs from 1981, also thinks that policy changes were at least partly a matter of declining faith in Keynesianism: “We believed that the bridging policy in the early to mid- 1970s, which was very much in Keynes’s spirit, was overexploited,” he says.³⁴

Some advisors to the government suggest that new economic ideas were not very important for policymaking—Bengt Westerberg, who was state secretary, says that there were “doubts, in the 70s, especially in the late 70s, about fine tuning as a principle,” but “stabilization policy wasn’t abandoned.”³⁵ And Ulf Jakobsson, the assistant state secretary, says that he does not think that “ideas according to which fiscal policy should be non-interventionist had become generally accepted within the government. [...] There were some important events with regard to ideas around 80, but the main thing [that is, the main reason for policy changes from 1980 onwards] was a purely fiscal insight.”³⁶ On the other hand, Sten Westerberg says that both the structural budget deficit and decreasing faith in the usefulness of discretionary macroeconomic policy were important.³⁷ On balance, the evidence suggests that new ways of thinking about the role of macroeconomic policy had at least some effect in 1980–1981. The idea that the deficit had to be reduced is in itself evidence that the kind of Keynesianism that had dominated the economic debate in the 1970s was losing hold—as chapter two showed, many economists in the 1970s had argued that the budget deficit was not a restriction at all on the pursuit of macroeconomic objectives, such as full employment: all that mattered was the real economy.

As the 1982 election drew nearer, opinion polls showed that a social democratic victory was likely.³⁸ One reason for the 1981 devaluation, apart from those already mentioned, was that the central bank and the government sought to preempt a social democratic devaluation in 1982. Lars Wohlin, the central bank governor, inferred from policy documents that the social democrats released in 1981 that they planned to devalue after the election. “You could tell from their rhetoric that they were planning a big devaluation,” he says. “There was a risk that these ideas would affect confidence in the *krona*, which was one reason for not postponing a devaluation.”³⁹ Sten Westerberg, the state secretary in the ministry for economic affairs, points out that the aim of that devaluation was twofold: “First, it would put the cost situation back in order and improve the situation before the election; second, it would rob the social democrats of the opportunity to start off with a big devaluation.”⁴⁰ Mr. Wohlin remarks that when the social democrats approached him after the election he was “very surprised to find that they wanted to add twenty percent to the previous ten. I didn’t think they would. It turned out I was wrong.”⁴¹

THE THIRD WAY (1982–1985)

On October 8, 1982, its first day in office, Olof Palme's new social democratic government devalued the Swedish *krona* by 16 percent. The devaluation was originally supposed to be 20 percent. (In a last-minute memo, one of the architects of the economic program, Michael Sohlman, even suggested that it should be 25 percent.⁴²) The end result, 16 percent, was the outcome of the incoming finance minister Kjell-Olof Feldt's consultations with his Nordic colleagues. Three days later, the government announced a series of fiscal policy changes: some of the cuts in social spending that the center-right parties had made in 1980 and 1981 were retracted, and so were the cuts in consumption taxes that the previous government had made in the autumn of 1981.⁴³

Social democratic policies after 1982 were in many ways different from the policies that social democratic governments had pursued in the 1970s. Yet, while policies changed in important ways, they were carried by a determination not to make the kinds of concessions that social democrats in other countries had made in the 1970s and early 1980s. The government was well aware that Sweden was special, with policies that were different from those pursued elsewhere: "We felt that bourgeois forces—business—were on the march for the first time in many years," Ingvar Carlsson, who would become prime minister in 1986, says. "But we did not want to give up, as they did in some other countries."⁴⁴ The sense of going against the wind comes out in an internal memo from 1982, written by Michael Sohlman, one of the architects of the social democratic strategy. "Conservative forces in the world," Mr. Sohlman pointed out, "use the international economic crisis as a pretext for a broad campaign against welfare societies of the social democratic (USA: liberal) kind. Since Mitterrand has run into considerable difficulties after the first year's policies, the eyes of the world will turn to Sweden." A failure in Sweden would solidify conservative predominance. On the other hand, "If we succeed, that would be a major blow to conservative parties in Europe."⁴⁵ By reforming, it was hoped, Swedish social democrats would remain a viable political alternative while preserving its core values.

The new government argued that allowing unemployment to rise and fighting inflation through austere policies was unacceptable. The welfare costs would be large, and yet it was not certain that balance would return to the economy.⁴⁶ Expansionary policies like the ones pursued in the mid-1970s were not considered either; they would, it was thought, make economic imbalances even worse.⁴⁷ Instead, the government opted for a strategy that consisted of a big devaluation, followed by austere fiscal poli-

cies that would lead to a transfer of resources from sheltered economic sectors—including the public sector—to the competitive, export-oriented sector.⁴⁸ The social democrats intended to keep domestic demand low enough for the transfer of resources to the non-sheltered sector to take place. Fiscal policy would therefore have to be austere for a number of years.⁴⁹

The strategy seemed to work in the first few years and for most of the 1980s, the government followed it: all fiscal plans contained summaries of the initial strategy, and the summaries did not change much.⁵⁰ But the Finance Ministry was also concerned about some economic trends already in the first half of the 1980s. This anxiety is evident in a series of special economic policy bills that address some of the problems that the government's strategy entailed, especially the failure to reduce inflation as much as desired.⁵¹ In the spring of 1983 the government announced that it would pursue a "forceful anti-inflationary policy," aiming to bring down inflation to 4 percent in 1984, and in the spring of 1984 the government announced a series of measures to keep inflation below 4 percent in 1984 and below 3 percent in 1985 (the outcomes were 8.0 percent in 1984 and 7.4 percent in 1985).⁵² Wage agreements had been moderate in the early 1980s, but from 1984 onwards they caused a great deal of concern, and in the second half of the 1980s the Swedish economy showed more and more signs of overheating.⁵³

To understand social democratic policies in the 1980s more fully, it is necessary to consider the origins of the strategy adopted in 1982, which guided policies throughout the 1980s. Other scholars have discussed the preparations for the social democratic return to power in 1982 extensively, and I limit my own discussion to parts of the story that are particularly relevant for the present argument.⁵⁴ I also present some new empirical evidence: the memos that Mr. Sohlman and Mr. Åsbrink wrote concerning the economic program in 1982 have to my knowledge not been studied by scholars before, and since they reveal many of the ideas behind crucial policy choices in the early 1980s, there is reason to discuss their content in some detail.⁵⁵

In 1980 and 1981, a group within the social democratic party developed a program called *Framtid för Sverige*—"Future for Sweden"—which advocated policies that differed from traditional social democratic policy in many ways. One significant change was that the program recognized that labor costs had to decrease. In the late 1970s, the social democrats argued that Sweden did not have a "cost problem."⁵⁶ Another change concerned corporate profits. Ingvar Carlsson, who chaired the committee that

76 wrote *Framtid för Sverige*, points out that this was a big change compared to earlier social democratic policy—and the analysis led to a new economic program: “We had to bring down inflation if firms were to retain competitiveness, but we also had to stimulate parts of the economy, and corporate profits.”⁵⁷ This also had consequences for the room for government spending: there would have to be a halt in spending, and even cuts in programs that the social democrats had initiated themselves.⁵⁸

Framtid för Sverige was the platform, but the details of the policy changes that were enacted by the new government in 1982—including the big devaluation—were prepared in the spring of 1982 by two economic advisors to the social democratic party: Michael Sohlman and Erik Åsbrink. The group that wrote *Framtid för Sverige*—which included not only Ingvar Carlsson but also Kjell-Olof Feldt—had in fact already discussed devaluation. Per-Olof Edin, who represented the LO, says that the *Framtid för Sverige* group discussed two things in particular. The first was inflation. “We couldn’t go on living with a 10–12 percent inflation rate and still believe that our economy would develop well; it must be halved at least,” was the conclusion. The other problem was that “we had to get a platform for substantial increases in growth—that is, a beneficial cost situation. This led to one clear conclusion: a first step would be to devalue.”⁵⁹ Ingvar Carlsson also says that there were such discussions, but they were “academic.”⁶⁰

Michael Sohlman and Erik Åsbrink operated independently, without a clear mandate. Their plan was to make one big, final devaluation that would increase the competitiveness of the non-sheltered sector of the Swedish economy, and then follow up with austere fiscal policies that would contain inflation and free resources for the non-sheltered sector. A third element in their strategy was a “hard currency policy.” By pegging the *krona* to the German *Mark*, they hoped to stabilize inflation expectations.⁶¹ Mr. Sohlman’s and Mr. Åsbrink’s ideas drew from *Framtid för Sverige*, and they were in favor of many of its core ideas—Mr. Sohlman says that the report “was an attempt at reorientation and there were hints that the public sector could not grow infinitely, it must be financed”—but their ideas were more radical.⁶² In the summer of 1982, Mr. Sohlman and Mr. Åsbrink presented their ideas to a small group of people, including Kjell-Olof Feldt and Ingvar Carlsson. They seem to have had no difficulties selling their ideas to the party leadership. “The remarkable thing was that we were allowed to act so freely—we developed this strategy without a real mandate, then we presented it, and then they bought most of it,” Mr. Åsbrink says. “They did not accept the idea about this currency peg [as I will discuss extensively later on, Mr. Sohlman and Mr. Åsbrink wanted to peg the *krona* to the

West German *Mark*], but apart from that, they bought the whole package.” The explanation was, he thinks, that in the party “nobody had a clear idea of what the economic strategy after the election should be, so you could get things done if you said ‘let’s do it this way.’”⁶³

The most important variable for Mr. Sohlman and Mr. Åsbrink was *competitiveness*. The main indicator of competitiveness was, according to Mr. Sohlman, external balance under conditions of full employment.⁶⁴ This is a very inclusive definition of competitiveness. Mr. Sohlman wrote that Sweden’s competitiveness was not restored just because relative unit labor costs were back at the 1970 level, since Sweden’s terms of trade had deteriorated since that year. To return to the earlier level, he noted, Sweden would have to have lower labor costs than other countries for some time.⁶⁵ Mr. Sohlman says that “you only had to look at the current account” if you wanted to see that the Swedish economy was seriously out of balance. The problem was that “Sweden suffered from terms of trade losses and no one was going to compensate us for that—we had to adjust real wages.”⁶⁶

Mr. Sohlman noted that there were four possible ways to restore competitiveness. The best thing would be for firms and unions to adjust costs. This was, in Mr. Sohlman’s opinion, how the “Swedish wage bargaining model worked in its golden age in the 1950s and 60s.”⁶⁷ However, this model was gone, and in any event the required cost adjustments in the early 1980s were too big. Another method was open unemployment (that is, third-order change). But this would take time, and the costs would be high.⁶⁸ A third option was an internal devaluation—a simultaneous reduction of payroll taxes and increase of consumption taxes—but this method had important drawbacks: it would require a high rise in consumption taxes, it would take time, and the effects would come slowly.⁶⁹ Mr. Sohlman therefore advocated devaluation. “We had to improve our competitiveness,” Mr. Sohlman says. “The question was if this would happen quickly, or over a long period of time, when the weakest members of society would suffer, and the profitability, and therefore also investments, of firms would remain low.”⁷⁰ In his memos, Mr. Sohlman noted that while Ronald Reagan’s and Margaret Thatcher’s austere policies in the United States and Great Britain had succeeded in lowering inflation somewhat, this had come at the price of “unemployment on 1930s levels,” while Mitterrand’s policies had failed, Mr. Sohlman argued, because expansionary policies soon led to inflation and a current account deficit.⁷¹

Although Michael Sohlman and Erik Åsbrink advocated an economic strategy that was very different from previous social democratic policy, the whole idea was to achieve the traditional goal of social democratic

78 economic policy: full employment. The premise of the program, Mr. Sohlman says, was that full employment was “the purpose and soul of social democracy.”⁷²

DEREGULATIONS AND OVERHEATING (1985–1989)

In the second half of the 1980s, the government kept referring and adhering to the strategy presented in 1982. The most important new elements of economic policy were deregulations of financial markets. There was also, as chapter four will discuss more fully, a new emphasis on “structural problems.” This concept had a somewhat different meaning in the 1980s than in the 1970s. When the center-right governments in the late 1970s spoke of structural problems, they primarily referred to industrial crises, in sectors such as shipyards and steel. In the late 1980s, on the other hand, structural problems concerned the size of the public sector, taxation, and other ways in which the government misallocated resources (or so many economists and policymakers argued).

Fiscal plans in the second half of the 1980s repeated the message that the strategy of the “third way” had successfully dealt with some of Sweden’s problems, but not all: inflation and wage costs, and toward the late 1980s, an increasingly overheated economy, were major concerns.⁷³ “Now, the most important task is to hold back price and wage increases,” the government stated in 1987. “In many other countries, this has been achieved by means of increasing unemployment. The Swedish government does not want to use that method, and instead wants to find other ways of improving economic performance, increasing savings, and breaking inflation expectations.”⁷⁴ As the end of the 1980s drew nearer, the problems were described as more and more acute. The fiscal plan for 1988–89 said that the “third way” had reached a “critical moment,” due to overheating in the labor market and other markets.⁷⁵

One factor that appears to have contributed to the overheating was the deregulation of the domestic credit market in late 1985. On November 21 of that year, the lending limits of Swedish banks and other financial institutions were abolished. The Riksbank had advocated this reform for several years, but it was only implemented after Erik Åsbrink was appointed chairman of the Riksbank’s governing board in the autumn of 1985: “In the first three years only minor changes could be made, since Gunnar Sträng was chairman of the governing board at that time, and he opposed all deregulations,” Mr. Åsbrink says.⁷⁶ This policy change has been studied thoroughly by other scholars.⁷⁷ The reason why it has received so much attention is

that many actors argue—indeed, it appears to be the received wisdom today—that credit market deregulation contributed to the overheating in the Swedish economy in the late 1980s and early 1990s, which led to the deep recession in the early 1990s. Households were led to take big loans, using real estate as security, and spending it on consumption.

Former prime minister Ingvar Carlsson has argued that the deregulation was ruinous for economic policy in the second half of the 1980s.⁷⁸ It was not the failure to find political support for tighter fiscal policies that led to economic crisis in the early 1990s, Mr. Carlsson argues: fiscal policy would have had no chance to stop the overheating when loose monetary policy liquidified the economy.⁷⁹ Leif Pagrotsky, who headed the unit in the Finance Ministry that dealt with financial markets, also believes that the deregulation had profound consequences, which no one realized at the time. “The increase was real and it was a real increase that led to big problems, but nothing was done because in the beginning it was just seen as a statistical artifact. It was not until consumption started rising, real estate prices started rising, house prices started rising—and this had been going on for quite a while—that one started to understand how it all worked.”⁸⁰ Economists disagree on the deregulation’s effects on consumption and aggregate demand in the economy. Most economists agree, however, that the deregulation had some effects—directly, or indirectly through effects on asset prices.⁸¹

The Riksbank governor, Bengt Dennis, says that he made clear to close aides of the finance minister that if the deregulation were to result in credit expansion, the only available instrument of macroeconomic stabilization would be fiscal policy, since monetary policy was restricted to defending the exchange rate. The Riksbank’s policy, Mr. Dennis says, “was that if there were macroeconomic problems as a consequence of abandoning lending limits, [...] there was only one option, and that was to deal with them by means of fiscal policy.” The Riksbank “warned the Finance Ministry, and said very clearly that we think there will not be any problems, but if there are—we can never be sure—you have to be ready with fiscal policy.”⁸² Thomas Franzén, one of the leading economists in the Riksbank, says that “if there had been decent fiscal policies, the interest rate could have been effective whether there had been deregulation or not.”⁸³ The finance minister, Kjell-Olof Feldt, on the other hand, claims that the central bank’s position was that it had instruments for dealing with a potential credit expansion. “Of course, we had long discussions about what this meant for credit expansion and for aggregate demand in the economy,” Mr. Feldt says. “The Riksbank explained that they had an excellent

80 instrument, the so-called ‘interest rate ladder,’ [...] which could be used to stop credit expansion quickly. We expected some pressure, but we also expected that monetary policy would work. It didn’t.”⁸⁴ Mr. Feldt argues that there was no talk of fiscal policy facing new and difficult problems as a result of credit market deregulation.

It appears that Bengt Dennis expected Michael Sohlman and Erik Åsbrink to act as go-betweens between the Riksbank and the Finance Ministry. Mr. Åsbrink says that in conversation, Bengt Dennis did bring up the need for tighter fiscal policies, but this was a recurring theme in conversations, not specifically related to the issue of deregulation: “Of course Bengt Dennis said this, and I also said this, not just because the Riksbank said it but because I believed it myself.” The core problem was that Mr. Dennis and Mr. Feldt “communicated too little with one another,” Mr. Åsbrink says. “It is sad that they did not interact more directly, but relied on go-betweens.”⁸⁵ Mr. Sohlman claims to have insufficient knowledge of interaction between the finance minister and the central bank governor, “but it is clear that Bengt Dennis often talked about the need for fiscal restraint.”⁸⁶ The Riksbank made all the preparations. Leif Pagrotsky says that the Finance Ministry did not produce any prognoses concerning the macroeconomic effects of deregulation: “Nothing.”⁸⁷ He was told that “the regulations were so ineffective that everyone who wanted to get a loan got a loan; there was no unsatisfied demand for credit,” and indeed, what ultimately seems to have decided matters in the deregulation discussion was that no one thought that there would be any credit expansion, since it was widely believed that firms—and individuals—had found loopholes in the existing regulatory system.⁸⁸

The lifting of capital controls—specifically, the deregulation of cross-border portfolio investment—took place gradually over the late 1980s.⁸⁹ When the last capital controls were lifted on July 1, 1989, the governor of the central bank and his chief aides, as well as the finance minister, believed that they were altogether ineffective, at least in terms of protecting domestic macroeconomic policies from having to deal with the effects of cross-border capital flows. Capital controls were “quite pointless, if you look at the flows,” Bengt Dennis says. “The flows were so big that in spite of the regulations, there were problems for stabilization policy.”⁹⁰ This was the position at the Finance Ministry too.⁹¹ Both in the case of the domestic credit market and in the case of capital controls, policymakers believed that regulations simply didn’t work, since actors had found ways of circumventing them.

Whether credit market deregulation caused the overheating or not, the fact was that the Swedish economy was overheating in the late 1980s, and

this overheating produced economic, social and political tensions. The end result would be a third-order economic policy change around 1990, as I show in the next chapter.

THE STRATEGY OF EXTERNAL ADJUSTMENT

The outgoing center-right government and the incoming social democrats had similar ideas about general economic strategy in the early 1980s. Neither side believed in the usefulness of interventionist fiscal policy for steering the macroeconomy and reducing unemployment. A strategy of domestic expansion was not considered. Neither side, however, was prepared to give less priority to full employment. Instead, they used another instrument—exchange rate policy. This was a clear instance of second-order change: same objectives, new instruments.

The two governments used the same rhetoric: both center-right politicians and social democrats declared that Sweden had to “work” as well as “save.”⁹² The Moderate Party leader and minister for economic affairs, Gösta Bohman, wrote in 1981 that the government’s strategy was one of “export-led growth,” not “traditional austerity”—a rhetoric similar to that of the incoming social democratic government.⁹³ The social democratic finance minister, Kjell-Olof Feldt, noted in 1984 that it was possible that “the previous government aimed, in 1981–1982, a strategy similar to ours—that is, they wanted to give the private sector a big push, through increased exports and decreased imports, and at the same time get an opportunity to tighten fiscal policy. But if this was the plan, it failed.”⁹⁴ Bengt Westerberg says that the differences between the Fälldin government and the new social democratic government “were not very big,” since the social democrats “cut as much as a center-right government would have done in the 1980s. A center-right government would probably also have been forced to combine cuts with tax increases in order to address budgetary concerns.”⁹⁵ Also, the central bank governor Lars Wohlin has written that although he thought that the social democratic devaluation in 1982 was too big, he planned to devalue by 8–10 percent if the center-right had won the election.⁹⁶ The center-right parties criticized the social democratic devaluation in 1982 because of its size, but in terms of overall strategy, there were few partisan differences in the early 1980s (just as in the mid-1970s).

To shed some more light on the reasons for this economic strategy, consider how policymakers responded to suggestions about alternative strategies. The most important example is Michael Sohlman’s and Erik Åsbrink’s idea of a “hard currency policy,” which in their opinion was an in-

82 tegral component of the economic strategy that they advocated. Their memos suggested exchange rate policy changes after the devaluation, whereby the *krona* should be pegged to the West German *Mark* instead of the exchange rate index that was defined in 1977. The idea was to bring Swedish inflation down to the German level, and to turn the fixed exchange rate into an “overarching rule for economic policy.”⁹⁷

Switching from the exchange rate index to the *Mark* would have several beneficial consequences, Michael Sohlman and Erik Åsbrink believed. Their main concern with Sweden’s exchange rate regime was that the composition of the index meant that an appreciating *dollar* led to the deterioration of Swedish competitiveness in international markets.⁹⁸ Moreover, given the aim of reducing inflation, pegging the *krona* to the *Mark* was motivated by the fact that German inflation was low. Finally, the new peg would signal the government’s commitment to low inflation: “Most people will know by now that West Germany is the strongest and in many ways the most successful economy in Europe,” Mr. Åsbrink wrote. “A [hard currency policy] linking us to the [*Mark*] is therefore easy to explain to the public. A basket composed of several currencies will never be possible to explain in a way that makes the general public understand its meaning. The rule would be fuzzier and therefore probably less compelling.”⁹⁹ The *Mark* peg was supposed to provide an anchor for economic policy. As I will argue later, this was a clear example of how ideas about rules-based economic policies had found their way into policymaking.

The *krona* was never pegged to the *Mark*. The immediate reason was that when Kjell-Olof Feldt telephoned the director of the Bundesbank, Karl-Otto Pöhl, to discuss the peg, Mr. Pöhl said that the Germans would not accept it. But many other European countries were pegged to the *Mark* without seeking German approval, and a *Mark* peg could be instated unilaterally.¹⁰⁰ However, Mr. Feldt used Mr. Pöhl’s response as an excuse to avoid the issue, even if he did think that a *Mark* peg would have been an effective political demonstration: “Germany seemed unique at the time, since they had avoided inflation in the seventies. Practically all other European countries—and the United States—had experienced increasing inflation in the seventies, but Germany had not.”¹⁰¹ A *Mark* peg “was part of my thinking too,” Mr. Feldt says, “but only until I confronted the LO leadership, and some other people in the party, with the idea that after the devaluation, we would turn the *krona* into a hard currency by pegging it to the *Mark*. In these groups, that was seen as accepting German employment policies.”¹⁰² Erik Åsbrink also says that Michael Sohlman and he were “more focused on anti-inflation policies—that was one of the most important ele-

ments in this strategy, according to the theoretical design that we created. Kjell-Olof Feldt belonged, after all, to an older generation.”¹⁰³

For Kjell-Olof Feldt, the matter was settled, but Michael Sohlman and Erik Åsbrink attempted to persuade the Riksbank to advocate a change of exchange rate policy. They did so without a mandate from the finance minister, and Kjell-Olof Feldt seems to have been unaware of these contacts—“We had no discussions with the Riksbank about this,” he says.¹⁰⁴ The fact that the finance minister was not behind Mr. Sohlman and Mr. Åsbrink was not clear to the Riksbank at the time—Bengt Dennis says that he “did not ask, at the time, if Feldt supported this.”¹⁰⁵ His impression was that Mr. Sohlman and Mr. Åsbrink felt strongly about the issue: “They thought this was important—it was their baby.”¹⁰⁶ At the Riksbank, the issue was discussed at seminars in 1982 and 1983. The Riksbank did not accept the idea that a *Mark* peg might be a rule, or anchor, for economic policy, and overall, it seems that the Riksbank did not think along the same lines as Mr. Sohlman and Mr. Åsbrink: Thomas Franzén and Irma Rosenberg wrote memos on behalf of the Riksbank, where they assumed that the role of a *Mark* peg would be to produce an appreciation of the *krona* that would shut out international inflation (which was, as the previous chapter showed, how many economists in the 1970s thought that the exchange rate could be used to fight inflation). Mr. Franzén says today that his objection was that “it was not obvious that the German *Mark* would be strong in the way that was presupposed. If you devalue and then peg the *krona* to a currency that may be weak for a long time, you make matters worse.”¹⁰⁷ Mr. Sohlman and Mr. Åsbrink, however, were not primarily concerned with the direct effects on inflation and the exchange rate as such, but the role that a “hard currency policy” would have as a rule for economic policy.¹⁰⁸ They thought, like Mr. Franzén, that the *Mark* was likely to depreciate against the *dollar*, but believed that it could still discipline wage- and price-setting.

The Riksbank, and its governor, Bengt Dennis, do not appear to have believed in establishing an exchange rate rule, at least not as envisioned by Mr. Sohlman and Mr. Åsbrink (the fact that the word “No!” is written in the margin of Bengt Dennis’s personal copy of a memo written by Erik Åsbrink, right next to the sentence arguing that the exchange rate should be used to establish “hard currency policy” as an “overarching rule for economic policy” suggests this).¹⁰⁹ This is also Mr. Åsbrink’s impression—he says that Bengt Dennis “did not think that it would be possible to find political support for a policy that backed up a hard currency policy. I believed that if you created such a rule, then this might bring about suffi-

84 ciently austere policies. I admit that this was more faith than knowledge. The Riksbank did not believe in this rule argument.”¹¹⁰ Irma Rosenberg says that the Riksbank “didn’t believe that a *Mark* peg would work as a nominal anchor in an efficient manner.”¹¹¹

In conclusion, one important part of the plans drawn up by Michael Sohlman and Erik Åsbrink was not implemented. The main conclusion I draw from this episode is that while politicians in the early 1980s were prepared to listen to new ideas, they were not prepared to accept all that their economic advisors offered them. Specifically, they were not ready to take steps that might be interpreted as leading towards a society where full employment could not be guaranteed.

The ideas about how to contain inflation that *actually* shaped policies in the 1980s were more attuned to prevailing norms. The plan was “state-led incomes policy, but in the form of political solidarity,” Kjell-Olof Feldt says. Solidarity “rested on common goals. One crucial condition for attaining these goals was that the devaluation had effects on real wages, and that Sweden didn’t get rising costs that destroyed the improved competitiveness. The government counted on this solidarity; it was the linchpin.”¹¹² In other words, unions would be responsible for seeking moderate wage increases. This matter was discussed when *Framtid för Sverige* was written, according to LO economist Per-Olof Edin: “The LO’s responsibility was important,” he says. “Not least, there was a technical explanation for this: we had built in instruments in the centralized wage bargaining system [...] that made it difficult to end up below 6–7 percent. This made it possible, within the existing bargaining structure, to reach a 5–6 percent inflation rate, and that is approximately what we aimed for.”¹¹³ Senior advisors like Erik Åsbrink were very critical of “this idea that you should talk to the unions, and convince them to exercise restraint with moral arguments,” Mr. Åsbrink says. “Here, I differed from Kjell-Olof Feldt, who actually believed in all that.”¹¹⁴ In the early 1980s, key social democratic decisionmakers still conformed to the norm that policymaking should involve cooperation with major interest organizations.

Other groups within the social democratic party advocated a return to more traditional social democratic policy, favoring more selective, active fiscal policies. Gösta Rehn, the former LO economist, advocated “marginal employment subsidies” (selective fiscal policy measures that would give firms an incentive to hire that Rehn had written about since the 1970s).¹¹⁵ Carl Johan Åberg, who was chief economic advisor to the social democrats until 1980, also advocated selective fiscal policies and incomes policies.¹¹⁶ “It was a fundamental problem for us to find an anti-inflationary ex-

pansionary policy,” Mr. Åberg says. “One keyword was selective fiscal policy: to stimulate where it was needed, but not where it was not needed.” He points out, however, that these ideas had little support among the leading economic policymakers at the time: “Feldt didn’t believe in this at all.”¹¹⁷ Neither did Erik Åsbrink (although there was a minor section on marginal employment subsidies in his 1982 memo on post-election economic strategy): “I think that he [Carl Johan Åberg] pushed this further than we did. For him, it was elevated to the level of overall political strategy. You can’t say that it was for [Michael Sohlman] and me. We believed in generally austere fiscal policy, and not just in the initial period, but as a permanent feature of economic policy.”¹¹⁸

While ideas about selective fiscal policies were discussed in *Framtid för Sverige*, they were not prominent in Michael Sohlman’s and Erik Åsbrink’s memos, the basis of the economic policies of the “third way.” Ingvar Carlsson says that Mr. Sohlman’s and Mr. Åsbrink’s ideas added up to “one big thing: the Big Bang. To the extent that we had specific ideas [about selective fiscal policy], they were in the crisis report [*Framtid för Sverige*].” Mr. Carlsson further adds that a lot of the ideas about selective policies “weren’t actually implemented” after 1982: “In a situation that turned out to be partly worse, we let some things go.”¹¹⁹ In conclusion, the social democratic economic strategy in the 1980s was neither quite what the young economic advisors that designed it wanted, nor quite what more traditional social democrats wanted: it was something in between. Leading policymakers were persuaded that previously accepted ways of making economic policy had to be abandoned, but they were not persuaded to accept the new ideas wholesale. They were not persuaded to risk rising unemployment. Arguably, this mix of ideas built in contradictions in the social democratic economic strategy in the 1980s. To account for these developments, we must consider the political consequences of the introduction of non-Keynesian economic ideas in the late 1970s and early 1980s.

THE NEW SKEPTICISM

After the Second World War, Keynesian economics became the orthodoxy of economic analysis in the West. Economists in the 1950s and 1960s perfected models that drew on Keynes’s *General Theory* and provided politicians with evermore efficient ways of steering the macroeconomy. It was generally thought that there was a simple trade-off between unemployment and inflation, as empirical observations reported by the British economist William Phillips in 1958 seemed to show; Phillips had identi-

86 fied a curvilinear relationship between money wage increases and unemployment in Britain, and for a long time the “Phillips Curve” was a common point of reference in discussions about economic policy. It appeared that if a country chose a somewhat higher level of inflation, it could obtain low unemployment, and vice versa.¹²⁰

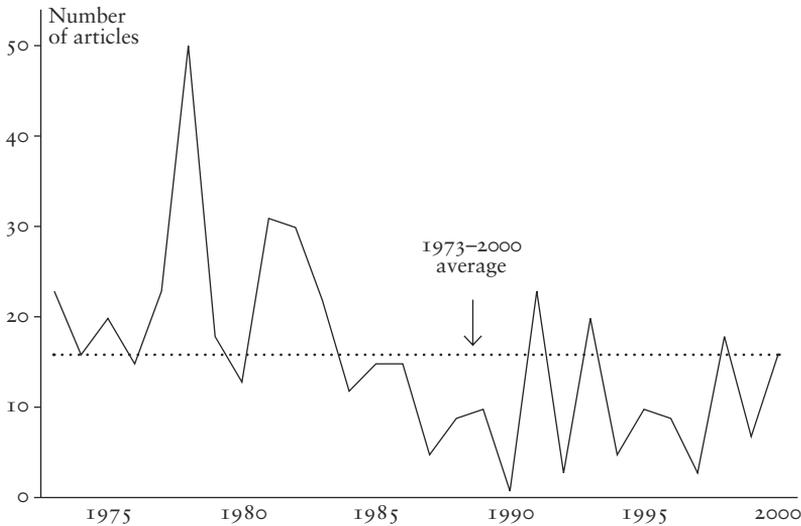
In the 1960s, and particularly in the 1970s, Keynesianism came under attack. In his presidential address to the American Economic Association in 1968, Milton Friedman argued that in the long run, the Phillips Curve was vertical. There was, Friedman claimed, a “natural rate” of unemployment in an economy. When unemployment was below this rate, inflation would accelerate. In the long run, governments therefore could not use macroeconomic policy to keep unemployment below the natural rate.¹²¹ In the 1970s, other economists—loosely referred to as “neoclassical”—presented a more abstract, theoretical criticism of Keynesianism and discretionary fiscal and monetary policies. Introducing the concept of “rational expectations,” these economists argued that macroeconomic policy could not even contribute to economic stabilization in the short run.¹²² Robert Lucas and Thomas Sargent summarized much of this critique in their 1978 manifesto “After Keynesian Macroeconomics.”¹²³

The main theoretical difference between these schools on the one hand and Keynesianism on the other concerned the role of expectations in models of the macroeconomy. Friedman claimed that expectations were adaptive, and suggested that actors in the economy would raise wages and prices when governments pursued expansionary macroeconomic policies, offsetting the effects on aggregate demand. Neoclassical economists argued that actors predict the choices of governments before those choices are even made, which again negates the potential benefits of active economic policy for aggregate demand in the economy. In more practical discussions about policy, advocates of non-interventionism and rules-based policies gradually replaced those who advocated interventionist, discretionary policies. Many economists came to believe that policymakers could not use macroeconomic policy to achieve full employment; low and stable inflation was the only plausible objective of macroeconomic management. Milton Friedman’s idea was that the government and central bank should commit to a predictable rate of growth in the supply of money. While influential elsewhere, this specific idea was never embraced by Swedish economists; in Sweden, the critique of Keynesianism was instead framed in terms of “rules” versus “discretion.” From the late 1970s onwards, economists increasingly argued that governments should commit to following a certain set of rules, such as defending a fixed exchange rate, rather

than using macroeconomic policy instruments actively, on a discretionary basis.¹²⁴

As chapter two showed, the economic debate in Sweden in the early to mid-1970s was dominated by Keynesianism. In the second half of the 1970s and in the early 1980s, the situation changed. Keynesianism came under attack from within the economics profession, both in Sweden and internationally. The years around 1980 was a time of intense macroeconomic debates, and consequently, the late 1970s and early 1980s saw large numbers of articles on macroeconomics in *Ekonomisk Debatt*, the journal of the Swedish Economic Association (see figure 7). After the early 1980s, macroeconomic issues have been discussed much more rarely; only in three individual years (1983, 1991 and 1993) have there been more than twenty articles. The debate flared up briefly, and then subsided, at least among economists.¹²⁵

FIGURE 7. ARTICLES ON MACROECONOMICS AND THE THEORY OF MONEY IN *EKONOMISK DEBATT*, 1973–2000



Note: Based on a categorization made by the editors of *Ekonomisk debatt*. The dotted line represents the average for the entire 1973–2000 period.

The introduction and eventual triumph of non-Keynesian ideas in Sweden was a gradual process, but it took place over a fairly short period of time. First, ideas that had been developed within the non-Keynesian approaches, concerning, for example, the role of expectations, were discussed in artic-

88 les that dealt with particular empirical or theoretical problems without formulating attacks on Keynesianism as such. Second, articles challenged Keynesianism more broadly, describing the problems of Keynesianism as so serious that Keynesian analyses were in fact inferior to alternative approaches to the macroeconomy. Third, articles started describing alternative approaches as common wisdom, and the crisis of Keynesianism as a historical fact, an event that had already occurred. For the purposes of the present study, the important point is that all this—and the integration of these ideas in policymaking—had already happened by the early 1980s. That is, the fact that Sweden’s economic policies in the 1980s were different from policies elsewhere in Europe was not a consequence of the resilience and predominance of Keynesian economics in Sweden at that time, for Keynesianism dominated no more.

Most economists taking active part in debates in the first part of the 1970s criticized the government from a Keynesian standpoint, but there were exceptions. Johan Myhrman, an associate professor at the Institute for International Economic Studies (IIES) at Stockholm University, introduced non-Keynesian ideas in the Swedish macroeconomic debate early on. In 1973, Myhrman wrote that Swedish monetary policy was not sufficiently attuned to the modern theories of money, and a similar article in 1975 again referred to the “modern” approach to monetary policy.¹²⁶ Other economists testify to Myhrman’s importance for the introduction of new ideas in the 1970s. Myhrman followed the international discussion and made colleagues interested in the growing literature. Hans Tson Söderström, an economist at the IIES in the 1970s who would go on to head the influential organization SNS, says that Myhrman “picked up much of what was new in public choice, in monetarism, and in the discussion about the collapse of the Phillips curve; others learned of this through him.”¹²⁷

Another economist who picked up new ideas early on was Lars Calmfors, a young economist, also at the IIES, who in 1974 had co-authored a book with Erik Lundberg, advocating revaluation in order to shelter Sweden from world inflation.¹²⁸ In an article in 1976, Mr. Calmfors discussed the slope of the long run Phillips curve, and argued that theoretically, it was vertical, and empirically the evidence indicated that it was “in any event very steep.”¹²⁹ Therefore, in Mr. Calmfors’s view, macroeconomic policy had no effect on the unemployment level in the long run. The distinction between the short run and long run Phillips curves was, as I have already pointed out, central to the criticism of Keynesianism that Milton Friedman advanced in the 1960s and the rational expectations school elaborated in the 1970s.

In the following years, several economists wrote programmatic, anti-Keynesian articles, although in the first issue of *Ekonomisk Debatt* in 1977 the American economist James Tobin argued against monetarism, and, more generally, against the adoption of low inflation as the primary objective of economic policy.¹³⁰ The same issue included an article by Milton Friedman, who received the Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel in 1976. The fact that Friedman was awarded the prize can itself be seen as evidence that Keynesianism was losing ground.¹³¹ In another issue, Johan Myhrman again wrote that Sweden was slow to pick up and apply new economic theories, and extended the arguments that he had earlier made about monetary policy to macroeconomic policy in general. He pointed to some policy conclusions of the new ideas, such as the problems with fine-tuning and the need for rules-based policies.¹³² 1977 also saw the publication of the OECD's McCracken report.¹³³ The Swedish economist Assar Lindbeck co-authored the report, which defended a position in between old and new perspectives on macroeconomics, advocating rules, yet preserving some room for discretionary policy. Mr. Lindbeck discussed the report with the LO's chief economist, Clas-Erik Odhner, in *Ekonomisk Debatt* in 1978.¹³⁴ In 1978, the economist Lars Jonung summarized much of the theoretical criticism of Keynesianism and advocated a "radical" alternative to discretionary stabilization policy: a price stability rule.¹³⁵ Hans Tson Söderström wrote an editorial that also summarized much of the theoretical criticism; the editorial was titled "The New Skepticism" (*Den nya skepticisemen*).¹³⁶

The reception—indeed, adoption—of these new economic ideas took place very quickly in the last years of the 1970s, and with remarkably little opposition, considering the predominance of Keynesianism just a few years earlier. Keynesianism still had advocates, however. In the late 1970s, Sven Grassman, also an economist at the IIES, was the most outspoken Keynesian economist in Sweden. His arguments were based on a criticism of Swedish balance of payments statistics. As Sweden's current account deficits were consistently exaggerated, he said, restrictions on active, expansionary fiscal policies were much less prohibitive than they appeared.¹³⁷ Erik Lundberg, who was still influential by virtue of heading the SNS Economic Policy Group, also continued to defend Keynesianism. In 1979–1980, he debated Lars Calmfors in *Ekonomisk Debatt*. Mr. Calmfors advocated rules-based policies, suggesting that the crises of the late 1970s demonstrated that the appropriate role of economic policy in a modern economy was very limited.¹³⁸ Lundberg responded that he was not prepared to go as far as Mr. Calmfors, but it seems clear that he was at this time changing

90 his way of thinking about economic policy, much because of the perceived failures of economic policies in the 1970s.¹³⁹ However, Lundberg did not, and would never, give up his basic faith in Keynesianism, as the title of one of his articles in the Swedish daily *Dagens Nyheter* in 1985 shows: “Keynes Will Be Back!” (*Keynes kommer igen!*).¹⁴⁰

But Keynesianism’s defenders were remarkably few, considering the solid support that active, discretionary policies had enjoyed a few years earlier. Judging from articles published in the early 1980s, criticism of Keynesianism was by then well established. When the editor of *Ekonomisk Debatt* summarized criticism of Keynesianism in 1980, he said that the “critique of Keynesian stabilization policy is important and must be taken seriously,” although it was not necessary to pursue “policy à la Milton Friedman, where the steering ambitions are reduced to a minimum.”¹⁴¹ This was a common view in the early 1980s: we must learn from theoretical innovations, but we do not have to go as far as their advocates say, in terms of policy choices. By 1982, views skeptical of Keynesianism and interventionist policies had become the received wisdom among economists.¹⁴² An entire issue of *Ekonomisk Debatt* dealt with “the need for new strategies in stabilization policy.” In his introduction, Lars Calmfors pointed out that an “intense debate,” similar to debates in the 1930s, was taking place in economics, and he noted that the idea of rules-based policies was gaining in popularity.¹⁴³

Assar Lindbeck, who had earlier defended Keynesian views, wrote that there were a number of problems with traditional Keynesianism that had to be addressed, such as the problematic assumption of a closed economy, the role of expectations, endogenous politicians, and the importance of the supply side. Many of the more fundamental issues, Lindbeck argued, were at heart about the nature of the political system.¹⁴⁴ Mr. Lindbeck says that in his opinion, criticism of previously dominant theories about the macroeconomy developed in two directions: “One group that caught on to this was the SNS group in the 80s, which was headed by Hans Söderström and where Johan Myhrman and Lars Jonung also played important parts. They meant that there should be rules for policy. But it was somewhat meaningless to say that politicians should follow a rule, for why should they do that? Another group of economists dug a little deeper, saying that what was required was institutions that would enable politicians to resist short-term temptations.”¹⁴⁵ This focus on the need for institutional reform to prevent the political system from interfering with efficient macroeconomic management also existed among economists that explicitly advocated rules-based economic policies in the 1980s, but it is fair to say

that the breakthrough for the institutional view came *after* the economic crisis in the early 1990s—this perspective is apparent in the report of the government commission of inquiry that Mr. Lindbeck led in 1992–1993, when politicians had already pursuing disinflationary policies for some time.¹⁴⁶

As I have already noted, there were few examples of articles that opposed ideas that prescribed a limited role for discretionary macroeconomic policy. Those reluctant to accept the policy implications of new approaches tended to engage in discussions about how to improve economic policy while maintaining the opportunity to pursue discretionary policies and preserve full employment. One discussion dealt with incomes policies—efforts to limit wage and price increases by means of deals and agreements between the government, firms and unions—an option that was in fact explored by the social democrats in the 1980s.¹⁴⁷ Another discussion dealt with the possibility of developing a more selective approach to fiscal policy, in an attempt to keep engaging in active fiscal management of the economy. Older social democratic economists often held this view, such as the LO economist Clas-Erik Odhner.¹⁴⁸ Carl Johan Åberg, who resigned as chief economist of the social democrats in 1980 to become the editor of the newspaper *Aftonbladet*, wrote books about selective fiscal policies.¹⁴⁹ He saw such policies as a way of rescuing Keynesianism: “I, and some others, believed that Keynesianism could be refined, and some fundamental ideas could be kept, even if simple, almost vulgar applications of Keynesianism were no longer reasonable,” Mr. Åberg says. “The tragedy with Keynes was the way in which he was misused.”¹⁵⁰

In conclusion, ideas that were first introduced by a few younger economists in the mid-1970s gradually gained influence until, in the early 1980s—a period when center-right and social democratic governments made important policy changes—economic ideas that ran contrary to the Keynesian consensus had become the received wisdom. This all took place over a fairly short period of time. After the early 1980s, macroeconomic issues were given less room in *Ekonomisk Debatt* than in the late 1970s and early 1980s. The reason was most likely that the skeptics had won. At least temporarily. Since then, Keynesianism has recovered, but that recovery, and its political consequences, falls outside the scope of the present study.¹⁵¹

Turning to evidence from interviews, it broadly confirms the account offered so far, although some Swedish economists suggest that the breakthrough of new theories took place later than articles in *Ekonomisk Debatt* indicate. Ulf Jakobsson, who worked for the center-right governments in 1976–1982, says, for example, that “Swedish economists were very inter-

92 ventionist” and he thinks that “Swedish economists kept a low profile for a long time” in the debate about rational expectations.¹⁵² Villy Bergström, a social democratic economist, suggests that contributions by young, non-Keynesian economists in the 1970s were read and discussed widely, but had little influence; these ideas only gained momentum when the authors of these articles entered the SNS Economic Policy Group in the mid-1980s and gained access to a wider audience.¹⁵³ In Mr. Bergström’s view, “no country has been as genuinely Keynesian as Sweden.”¹⁵⁴

Other economists do think that important changes in how Swedish academic economists thought about the economy took place around 1980, and that it occurred no later than elsewhere in the world. “My guess,” Lars Jonung says, “is that this happened equally quickly in all countries—we are all open economies, intellectually too. [...] Over time, more and more economists, especially the younger, acquired a critical approach to Keynesianism.”¹⁵⁵ Economics professor Nils Lundgren says that young graduate students and scholars that were influenced by monetarism and other new theories appeared at Swedish economics departments in the late 1960s and early 1970s. In the 1970s, he says, it was common for economists to discuss the shape of the long run Phillips curve and the role of expectations. “This was normal at the time. [...] You didn’t seem weird if you had such ideas.”¹⁵⁶ Assar Lindbeck’s view is that “Lucas’s rational expectations broke through very quickly,” especially among younger economists, and although there was no consensus in this theoretical matter, many economists came to believe that “the organizations that set prices and wages must somehow learn that if they cross certain limits, there would be a punishment, they would have to take the consequences. [...] There was probably broad agreement in the late 1970s or early 1980s that something must be done about that.”¹⁵⁷

Hans Tson Söderström, who headed the SNS Economic Policy Group from 1985 onwards, also believes that the turn from Keynesianism did not occur later in Sweden than in other countries, at least not on the theoretical level: “We were not very late, intellectually,” he says.¹⁵⁸ From the late 1970s onwards Mr. Söderström thinks that macroeconomists were basically in agreement in these matters.¹⁵⁹ He cannot recall that there was much of a debate between Keynesians and non-Keynesians, and claims that he “never felt that we were a school of our own and belonged to some separate group. What would distinguish us later was that we advocated our ideas on the policy level, but intellectually, it never seemed to me that we believed in certain models that others did not believe in.”¹⁶⁰

Johan Myhrman and Mr. Söderström became members of the SNS Economic Policy Group in 1980, alongside the older economists Ragnar Bent-

zel and Erik Lundberg—and the head of the SNS, Bengt Rydén. The 1980–81 report also reveals the increasing influence of non-Keynesian ideas in Sweden at this time, as it advocated a program of rules-based policies. The report reached the conclusion that as soon as the economy found itself on an acceptable trajectory the aim should be to identify rules for policy.¹⁶¹ This would have to be preceded by a “leap,” such as a big devaluation.¹⁶² After this “running start,” however, the government should secure a stable development by means of establishing rules.¹⁶³ Bengt Rydén, the head of SNS at the time, also sees the 1980–81 report as a sign that new ideas were finding their way into the Swedish debate: “It was a result of new thinking in economics breaking through,” he says. “Both Hans Tson Söderström and Johan Myhrman, who participated in the group for the first time, had contacts among American academics and were inspired by theories about—for example—rational expectations.”¹⁶⁴ While reports in 1981–84 were not as programmatic as the one in 1980–81, they did not retract the argument about rules-based policies.¹⁶⁵ The language was cautious, though. For example, in 1981–1982 the Group called for “a new spirit of consensus between political parties, interest organizations, business and government—a recreated Swedish Model.”¹⁶⁶

Not everyone agrees that SNS reports in the early 1980s contained non-Keynesian economic ideas. Villy Bergström, who participated in 1975–78 and in 1982–84, claims that neither of these reports were influenced by new theoretical perspectives in economics: “The members of the Economic Policy Group kept their faith in Keynesianism and interventionism,” he says.¹⁶⁷ According to him, the reports from 1985 onwards were where new ideas became influential. However, Mr. Bergström was not a member of the group in 1980–81, and the evidence suggests that these ideas were expressed in that report, and—if not as strongly—in some other reports in the first half of the 1980s as well.

The 1985 report advocated rules-based economic policies in a more programmatic way, and I will return to this report in the next chapter. Many students of Swedish economic policymaking, notably Villy Bergström, have suggested that the Economic Policy Group had its main impact in the late 1980s, because of the 1985 report and those that followed. Lars Calmfors also says that new ideas were “generally accepted among economists” in 1985.¹⁶⁸ But ideas about rules-based policies were already present in the early 1980s—in the economic discussion generally, and in the SNS reports.¹⁶⁹ Hans Tson Söderström points out that the message that would later appear in the 1985 report “was actually included already in the 1980–81 report, and some of it was still there in 81–82.”¹⁷⁰ The fact that econo-

94 mists who were skeptical of non-Keynesian economic ideas made a bigger impression in the late 1980s is, I would argue, a result of norm changes in Swedish political society. Differences between SNS reports in the early 1980s and the late 1980s did not concern theory so much as the way in which the message could be delivered. In the late 1980s, the group did not seek a “new spirit of consensus” and “a recreated Swedish Model,” because at that time, due to changing norms regarding the government’s role in society, such notions were no longer kept sacred.

IDEAS AND POLITICIANS

Thus far, I have dealt with the academic economic debate, which changed in the 1970s, influenced by developments in international—especially American—economics. Before concluding that policy changes in the early 1980s were in fact shaped by these idea changes, it must also be established that new ideas had an effect on how policymakers perceived economic problems and defended their choices. I argue that the new economic thinking took hold quickly at the policymaking level.

Between 1980 and 1982, two center-right coalition governments were in power, and in this period, interviews indicate that four men—apart from the leading politicians—had a lot of influence over policy: Lars Wohlin, the central bank governor, Bengt Westerberg and Sten Westerberg, state secretaries in the two economic ministries, and Ulf Jakobsson, assistant state secretary in the Ministry of Economic Affairs. Rolf Wirtén, budget minister in 1980–1982 and minister of economic affairs in 1981–1982, says that the policy package in 1981 was developed in close cooperation with the Riksbank—above all with its governor, Lars Wohlin: “As soon as I became minister for economic affairs we started to meet for lunch every Wednesday,” he says. “Often, by the way, Bengt Westerberg and Sten Westerberg came along, and possibly some others—Ulf Jakobsson, for example. The economic thinkers at the ministry. That’s really where this entire package in September 1981 was put together.”¹⁷¹ The new policies adopted by the center-right government in 1980 and 1981 were developed by this small group of men, and if criticism against Keynesianism and the appearance of other ways of thinking about the macroeconomy influenced policy in the early 1980s, they should know.

Bengt Westerberg and Sten Westerberg have written that “Keynesian doctrine” was one of the reasons why the center-right governments did not make radical changes to economic policy before 1980.¹⁷² Presumably, that means Keynesianism was less influential after 1980. According to Sten Wes-

terberg, the late 1970s and early 1980s was an important period when it came to the development and application of new economic ideas: “Impulses from the international debate, especially the OECD, reached civil servants like me and through us the government.”¹⁷³ The international debate was thus important. “I was often down at the OECD,” he says, “and there this type of thinking gained more and more influence, especially in Reagan’s time. The shift in American monetary policy made a strong impression, intellectually as well.”¹⁷⁴ As for Swedish contributions, specifically the SNS-reports, he says that they “had an impact,” but “were part of a discussion that at the time was seen as very international.”¹⁷⁵ Lars Wohlin, the central bank governor, also indicates that the international discussion was important, and it was fuelled by the Federal Reserve’s monetary policy change in 1979. “The American shift was the crucial thing, but it was in itself inspired by the monetarist school. The meetings of central bank governors in Basel and the discussions there were quite important.” Mr. Wohlin adds that “the international theoretical debate also influences institutions like OECD and the IMF and their comments on the Swedish economy, and it influences Swedish economists.”¹⁷⁶ Mr. Wohlin further points out that the OECD criticized fine-tuning already in the 70s, and he agrees with that criticism.¹⁷⁷

As I have already noted, Ulf Jakobsson does not think that the economic discussion changed much before the mid-1980s, although he says that “interventionism had become much less pronounced already earlier.”¹⁷⁸ He thinks that “it would be more accurate to describe what happened as decreasing faith in interventionism, not as the active espousal of rules-based policies.”¹⁷⁹ As I also noted earlier, Bengt Westerberg’s version is similar: faith in fine tuning decreased, but it was not given up entirely. In conclusion, Lars Wohlin and Sten Westerberg say that policies were influenced by new ideas about economic policymaking. Ulf Jakobsson and Bengt Westerberg were critical of the attempts to steer the domestic economy by means of fiscal policy that had characterized the 1970s. On balance, the evidence suggests that ideas were important to some extent. Another observation indicating that center-right policy in 1980–1982 was inspired by “new” economic ideas is that prominent Swedish economists, advocating rules-based policies, were quite enthusiastic about the economic policies of center-right governments in the early 1980s.¹⁸⁰

In the late 1970s and early 1980s, the social democrats, who were in opposition, also involved economists more in policy discussions and sought inspiration from new economic ideas.¹⁸¹ In 1979, Carl Johan Åberg, the social democratic chief economist, suggested that the party should form

96 an economic advisory group. The aim was twofold: first, to discuss the concrete formulation of economic policy with economists that were loyal to the party's basic values and goals, and second, to make sure that some economists argued in favor of social democratic policy, breaking the perceived center-right hegemony in this field.¹⁸²

The effects of forming such a group would not be unequivocally beneficial, Mr. Åberg warned. The situation was different from the 1930s, when there was an affinity between social democratic ideas and the proto-Keynesian ideas of the Stockholm School: "Economics today does not have, as far as I know, anything corresponding to Keynesian theory. Instead, even economists on the left believe that the efficiency of markets must be improved and that there are limits to how much we can realize our redistributive goals." The social democrats therefore had to prepare for some "hard truths." But Mr. Åberg also hoped that the "present stagnation in economics" wouldn't last, and the social democrats should then stand ready to pick up new ideas and apply them in politics.¹⁸³ Ingvar Carlsson—for whom the "old Keynesian theories" did not give answers to the questions of the times—also hoped for a new economic theory, more consistent with social democratic ideology, saying that "we need a new economic theory," hoping that "at least some economists don't turn to the right."¹⁸⁴ In the situation Sweden and the social democrats were in, they relied on ideas and expertise, and they allowed small groups of idea entrepreneurs to shape policy, even if they were not entirely happy, for ideological reasons, with the ideas that dominated the international economic debate.

Meanwhile, in the late 1970s economists at the Stockholm School of Economics, and elsewhere, formed a social democratic economic club, with the aim of exorcising old-fashioned economic ideas that the party had, in their opinion, not yet freed itself from. This group took upon itself to "reconcile modern macroeconomic theory and rationality with social democratic ideology," as Klas Eklund, one of the group's more well-known members, puts it.¹⁸⁵ The present governor of the Riksbank, Lars Heikensten, another member, says that in the late 1970s, "market liberal ideas—if I put it like that—and monetarist thinking, in the true meaning of the word, started to break through in the Swedish debate. [...] One reason why we got involved was that we wanted to initiate a discussion about these new ideas."¹⁸⁶ Many of the members were recruited to the ministry of finance after the social democratic victory in the election in 1982. The club was most active in the first years of the 1980s, when it held quite open discussions about economic ideas and policy. There were, as I mentioned earlier, meetings on "neoliberalism" in 1981. The fact that such meetings were even held

demonstrates in itself that there was a great deal of curiosity about new economic ideas in the social democratic party at this time.

Klas Eklund points out that the influence of the new economic ideas was a consequence of the perception that in the late 1970s, there were no established truths. “The reason why politicians were prepared to listen to new ideas was that they had seen for themselves that the old instruments didn’t work and Sweden was heading for a crisis. That’s what mattered. If the party hadn’t been in opposition, if Sweden hadn’t been heading for a deep economic crisis, with an industrial crisis and mounting budget problems, no one would have cared.”¹⁸⁷ Mr. Eklund’s own writings from the early 1980s demonstrate quite clearly that he was personally persuaded by theories that active macroeconomic policies were no longer viable.¹⁸⁸

Most likely, discussions in the economic club did not influence economic policy directly, but the formation of the economic club can be seen as evidence that the years around 1980 were a time when the social democrats, like the center-right parties, were open to new economic ideas. New ideas also reached policymakers through many other channels. Erik Åsbrink says that the club’s role was “diffuse: a forum for coming up with ideas and bringing people together.”¹⁸⁹ In a similar vein, Lars Heikensten claims that he would be “surprised if the discussions in this group had much substantial political importance in themselves.”¹⁹⁰ There is reason to believe that, for example, the international economic debate was important—the memos written by Michael Sohlman in preparation for the strategy adopted after the 1982 election clearly had an international perspective. But the fact that the social democrats, through the economic club, were so receptive to new economic ideas does testify to a certain openness and readiness to embrace new economic ideas in the Social Democratic Party at this time. In a letter to the members of the economic club in 1981, Erik Åsbrink wrote: “Will the 1980s be characterized by successful social democratic policies for taking the country out of economic crisis, inspired by the thinking of able economists?”¹⁹¹ It was taken for granted that economists could help the party—and the country.

There were differences of opinion between social democratic economists around 1980. In a seminar on inflation in 1981, for example, younger economists advocated rules-based economic policies, while older social democratic economists favored selective policies and incomes policies.¹⁹² Debates between social democratic economists went public in the early 1980s. In 1981, there was a discussion in a leading social democratic newspaper between two groups of social democratic economists. One group wrote an article that argued for economic policy reorientation, suggesting

98 that the social democrats needed to give up its traditional instruments in order to keep pursuing traditional goals.¹⁹³ Another group of social democratic economists opposed this line of reasoning.¹⁹⁴ Policies after the victory of the social democrats in 1982 were more akin to the ideas of the iconoclasts than to the ideas of their opponents. But it is important to note that the iconoclasts did not argue in favor of adopting new objectives—they only wanted to change instruments. Economic ideas persuaded social democratic economists that policies must change, but they did not conclude that the primary objective of macroeconomic policy—full employment—should be given up in favor of price stability. That sea change took another ten years. Ingvar Carlsson, who became deputy prime minister after the 1982 election, says that the election defeat in 1979 persuaded him and others that change was necessary, but this didn't go as far as considering new objectives: "We had to think through, thoroughly, the situation we were in and how we should apply our ideas. Not with the intention of giving up something like full employment, that was never considered, but some of us realized that new means, a new thinking, were necessary to achieve that objective, and other objectives."¹⁹⁵ Second-order changes were considered, even seen as necessary; third-order changes were not.

The strongest evidence that new, non-Keynesian economic ideas had an effect on social democratic policies in the early 1980s is that Michael Sohlman's and Erik Åsbrink's arguments in favor of the set of policies they advocated in 1982—specifically the *Mark* peg—were consistent with ideas about rules-based economic policies, and even, as we have seen, formulated in that very language. "I believed in rules-based economic policies, and the idea of pegging the *krona* to the German *Mark*, which didn't happen, was an obvious example of a rules-based policy," Mr. Åsbrink says, and adds that "there was some intellectual stimulus or influence coming from that direction."¹⁹⁶ Kjell-Olof Feldt himself says, regarding the idea of a *Mark* peg, that rational expectations "had become part of our world-view too."¹⁹⁷ Hans Tson Söderström points out that the devaluation in 1982 was consistent with ideas advocated by the SNS Economic Policy Group. "The 1980–81 report advocated a big cost adjustment, as the starting point for rules-based policies. [...] We argued that you can't starve yourself into rules-based economic policies; you have to start from a good cost-situation if it is to be politically possible."¹⁹⁸ In this regard, Mr. Söderström thought that the SNS group was of the same opinion as these social democratic economists—the rhetoric was different, but the message was the same.¹⁹⁹

In conclusion, not only did second-order policy changes in the 1980s coincide with a major shift in economic thinking internationally and do-

mestically; there is also evidence that key advisors and policymakers were affected by these ideas in the late 1970s and early 1980s. One interesting consequence of this was that Sweden became a net importer of ideas, having been a net exporter in previous decades. Swedes no longer said, as Pericles did about Athens, that “we are rather a pattern to others than imitators ourselves.”²⁰⁰

The point about importing ideas raises an important issue, which I have discussed briefly earlier. The discussion so far has only dealt with the domestic debate, and it is likely that it had some role in presenting new ideas to policymakers. The new finance minister, Kjell-Olof Feldt, was, for instance, an often-seen guest at SNS seminars while the social democrats were in opposition, according to Bengt Rydén, the head of SNS at the time.²⁰¹ Mr. Åsbrink also says that he and others “read what they wrote and found some interesting ideas in them.”²⁰²

But the effects of the domestic economic debate should not be overstated. Policymakers had, and have, many contacts with international organizations and institutions, and a new consensus was developing in organizations like the OECD and the IMF around 1980. For example, a recent official history of the International Monetary Fund attributes the “silent revolution” in international economic affairs in the 1980s to “a shift in economic philosophy toward a new classical synthesis” that grew out of the experiences of the 1970s.²⁰³ OECD country surveys show that while the 1978 and 1979 reports dealt extensively with demand management, and the 1979 report was quite enthusiastic about Sweden’s policy of following up its 1977 devaluation with expansionary fiscal policies, the 1980 report, and subsequent reports, did not advocate active macroeconomic policies at all.²⁰⁴ Instead, there was much more of a focus on structural problems, on the need for overall economic adjustment and for an expansion of the non-sheltered sector of the economy.²⁰⁵ Regarding macroeconomic policy the 1980 report said that “authorities would seem to have little realistic choice but to put the emphasis of policy on avoiding a price/wage spiral and a squeeze of profits” and concluded that there was “little room—in terms of either price or balance-of-payments performance—for a ‘bridging’ policy such as was adopted in 1974–1975.”²⁰⁶ Active fiscal policies were now blamed for Sweden’s, and other countries’, economic problems: the Swedish bridging policies were called “particularly detrimental” in the 1982 report.²⁰⁷ Devaluations seem to have been acceptable, however—the 1984 report was enthusiastic about the devaluation and the social democratic government’s macroeconomic strategy after 1982.²⁰⁸

100 Reports from Swedish participants in OECD meetings also testify to the changing climate of ideas at this time. Michael Sohlman was Sweden's attaché to the OECD in the late 1970s, and in a 1979 memo to the Ministry of Economic Affairs, he noted that the OECD's official policy was that anti-inflationary policies came first, and there was broad agreement that expansionary policies could not be pursued.²⁰⁹ Sten Westerberg, who represented the ministry at OECD meetings, noted after the second oil crisis that the OECD Secretariat recommended "non-accommodating monetary policy and neutral fiscal policy," and his impression was that the "general opinion" in the OECD was that "the fight against inflation must be given priority even at the expense of growth and employment."²¹⁰ Gunnar Lund was an attaché in the early 1980s. The OECD "played a prominent role," he says. "It was an important analytical agency, when it came to finding out what was happening in economies, and what should be done."²¹¹ In the early 1980s, Mr. Lund says, "a more distinct monetarist school started to form" and this "inspired the content of economic policy in many ways, as did the fact that one broke with a Keynesian tradition."²¹² Leif Pagrotsky, who worked at the OECD secretariat at the same time, says that this "was a time of transition. Keynesianism had not succeeded and there was unhappiness with the results of recent economic development and the economic-political views that had shaped policy were very much blamed for this: economic-political activism and attempts to stabilize the economy with fiscal policy."²¹³

Whether the sources were primarily domestic and international, from 1980 onwards, economic policies were shaped by new economic ideas, although both the center-right government and the social democrats that took over in 1982 were reluctant to draw the most radical conclusion—that disinflation had to be given priority over full employment

WAGES AND INFLATION IN THE 1980S

As I showed in chapter two, there is little evidence that wage bargaining institutions performed worse in the 1980s than in the 1970s. Wage increases in the 1970s were just as unsustainable as wage increases in the 1980s, and at times, they were more so. The fact that wage bargaining institutions were only formally decentralized in 1983 can therefore not explain why it took longer for Sweden to adopt disinflationary policies. It is a fact, however, that the social democrats in the early 1980s still believed in the capacity of wage bargaining institutions. In one memo written before the social democratic takeover in 1982, Erik Åsbrink wrote that he expected unions

to restrain wage increases, and that the centralization of wage bargaining was a condition for this.²¹⁴ Mr. Åsbrink says that at the time, “people still believed—so did I—in centralized, coordinated wage bargains. They still mattered. The LO exercised authority at the central level; it was lost, piece by piece, during the 80s. You cannot say that it was lost in 82.”²¹⁵ He adds: “Of course we were aware that there had been a few failed years when there had been very large wage cost increases in Sweden—we lost competitiveness and this led to a series of small devaluations.”²¹⁶

Kjell-Olof Feldt, the finance minister between 1982 and 1990, also says that it was simply taken for granted, in 1982, that inflation would be kept in check by means of “political solidarity” between the unions and the social democratic party. He now believes that the wage-setting model had in fact disintegrated already in the mid-1970s, but this was not his view before the 1982 election: “We thought, after the devaluation in 82, that the LO, above all, would have enough power over wage formation to back up this idea that we would make a devaluation that gave more money to the export industry without having wage increases that erased the devaluation.” But “the centralized wage bargains that we had in the early 1970s and which fell apart more and more after that were just a memory in the 80s.”²¹⁷

Ingvar Carlsson says that centralized wage bargaining was the only model that he and the other authors of *Framtid för Sverige* could envision in the early 1980s: “A discussion had begun among the employers, who said that we should have decentralized bargaining, preferably at the firm level, but in the labor movement no one accepted that. [...] We still believed in coordinated wage bargaining; we believed that it was the best—or least bad—model. But the problems were already there. The wage-setting model didn’t break down in the 80s; it had already broken down in the early 70s.”²¹⁸ Mr. Carlsson has later written that “it is obvious that the social democratic leadership tried for too long to maintain something that was already lost. Our inability to face this new reality probably had a negative effect on our ability to adjust and develop policies to the requirements of a new age.”²¹⁹ At the time, despite the worrying tendencies, Mr. Carlsson thought that there was no other option.

In the mid-1980s, the Finance Ministry made many efforts to restore some coordination and achieve wage moderation through incomes policy trade offs between wage bargains and taxes or benefits.²²⁰ There were also discussions about this at the Nordic level, where Klas Eklund represented the Swedish Finance Ministry.²²¹ As Ingvar Carlsson points out, this shows that there was still hope that harsh policies could be avoided: “We

thought that we would be able to find a model.”²²² Michael Sohlman and Erik Åsbrink—the architects of the social democratic economic strategy—believed throughout the 1980s that the primary instrument for reducing inflation must be austere fiscal policy: “The catastrophic mistake,” Mr. Sohlman said, “was that we kept talking to unions and employers when we—that is, the government—were at the same time pursuing policies that were too expansive. [...] The members of the LO do not pay their membership dues to have their leaders tell them that they have to lower their wages. There must be balance in the labor market.”²²³

But while the leadership of the social democratic party recognized that the wage bargaining system did not function as well as it had in the heyday of the Swedish Model in the 1960s, they still thought that wages could be contained and hoped that a new model would develop through cooperation between employer organizations and unions. There were some attempts in the 1980s to create some kind of new model through incomes policies, but this objective was not achieved.

Some social democrats were more pessimistic. At a seminar organized by the social democratic economic club in November 1980, Gösta Rehn, one of the architects of the economic policy model of the 1950s and 1960s, responded to a statement from the young economist Klas Eklund, who had said that there was need for wage restraint and lower inflation. “I would like to quarrel with Klas Eklund,” Gösta Rehn stated, “because you are just saying that we must stop inflation, without discussing under which conditions the LO might become anti-inflationary. That’s what I have been trying to discuss, and I would like to suggest that you gentlemen go on—and you ladies go on—discussing this on the bus, because I think that this is a central problem. [...] Just saying that we should have a wage freeze or that the LO should behave well and live up to its social responsibilities etc., when we know that if the LO were to try this in the present situation, even if there were a social democratic government, everything would just fall apart out in the work-places, as it already does in the kind of economy we have, the kind of inflation-infected economy that we have.”²²⁴ History would prove Rehn right. In 1982, however, social democratic leaders half-thought, half-hoped that wage bargaining institutions would perform better in the 1980s than they had in the 1970s.

THE CENTER HOLDS

Chapter four will show that there was a norm-shift with regard to the purpose of political authority in the late 1980s and early 1990s. No such

shift took place in the early 1980s. What did happen in the early 1980s was that first the center-right government and then—in particular—the social democrats undertook some reforms of the Swedish social model—steps that can be seen as evidence that they sensed a need for minor adjustments, in order to preserve the core features of the model. It must be made more efficient, since it could not expand financially: it had, in the opinion of the social democratic leadership, grown to limits. Public social expenditures as a percentage of GDP was 29.8 percent in 1980 and that figure did not rise above 32 in the 1980s. It did get higher later—for example, the ratio was 36.9 in 1993—but this is mainly a statistical artifact (real GDP growth was negative in 1991–1993).²²⁵

The minor reforms that the social democrats made in the first part of the 1980s had been foreshadowed in the program *Framtid för Sverige*. After the 1982 election the new social democratic government took some steps in the direction of reform. Ingvar Carlsson, the deputy prime minister, was in charge of “questions of the future,” both internally in the party and in the government.²²⁶ Another government minister, Bo Holmberg, was given the task of reforming the public sector, to “defend the good things in the Swedish Model, but also to try and come up with improvements, in a self-critical manner.”²²⁷ What the social democrats were trying to accomplish after the 1982 election, then, was not an end to the “Swedish Model.” In that sense, there was no break with old norms regarding the purpose of political authority, and no grounds for third-order economic policy change. The social democrats wanted to defend the model by changing it. The late 1980s and early 1990s saw much more fundamental changes, both to policies and to the way in which policymakers thought about the role of the state.

Ingvar Carlsson writes that the thinking behind reforms in the early 1980s was that the public sector did not provide enough freedom of choice. In the build-up phase of programs for education, child care, health care and care for the elderly in the 1950s and 60s, a certain lack of flexibility had to be accepted. But in the 1980s the programs had to be modernized.²²⁸ There was also a fiscal aspect: “We had built a very good welfare society, but now there was no obvious way forward—the pile didn’t grow any bigger, and we had to adjust the systems so that we could pay for our expenses.”²²⁹ Initially, these thoughts were accepted widely, but when Mr. Carlsson presented some of his ideas to the party congress in 1984, there was much more opposition than before in the party.²³⁰

As for the ideology of social partnership, the analysis of wage bargaining earlier in this chapter demonstrates that this norm was strong. The social democrats were still confident that they could solve problems in con-

cert with unions and employers. Overall, the early 1980s was also a period of relative harmony between the social democratic party and the unions, at least in comparison with clashes in the late 1980s and early 1990s. Stig Malm says that when the LO agreed to the 1982 devaluation, he was “convinced that what we said in the program would be implemented. I could go tell my members that we would accept lower real wages, because we’d get higher employment and other things. The problem with the social democrats in the last ten years has been that the unions have not trusted the social democrats—it is therefore hard to do such things.”²³¹

As I noted in the previous chapter, the center-right parties had a positive attitude to corporatist arrangements in the 1970s. This attitude was undermined by a major strike in the spring of 1980, the most serious labor market conflict in many decades. But the government still tried to manage the strike by means of tripartite bargaining and incomes policies. On March 27 the government announced that it intended to implement tax cuts if wage agreements were moderate.²³² This did not help, however: close to a million workers were on strike in May, 1980. The strike only ended (on May 11) when the prime minister, Thorbjörn Fälldin, and his labor market minister (and future budget minister), Rolf Wirtén, personally asked the leaders of the employers’ confederation to accept the final bid, which the chairman of the SAF, Curt Nicolin, considered far too expensive.²³³

This conflict made a strong impression on center-right politicians. Sten Westerberg says that the views with regard to the possibility of communicating with the social partners changed over time: “At the outset, there was a ‘Haga spirit’ and all that stuff. [...] There should be agreements and so on. Fälldin himself believed in this. Later, there was much more skepticism.”²³⁴ The most dramatic change took place in 1980, when the government attempted to provide for moderate wage agreements by means of tax changes. “It had no effect at all: on the contrary, we got the worst conflict in many decades. At that point, I think the illusions were destroyed. [...] That was the most important period—important also for me, but above all for those actually making decisions.”²³⁵ According to Rolf Wirtén, the labor market conflict was one of the reasons why the center-right government changed its economic policies in 1980–81. Wage increases turned out to be higher than the most pessimistic prognoses of the Ministry of Economic Affairs. Mr. Wirtén says that the bill that was introduced in the autumn of 1981 “was consistent with what we had done before, but there was a backlash in the 1980 bargaining round,” which “created new problems for the government.”²³⁶ Essentially, however, there was still adherence to prevailing norms—not only among social democrats but also in other parties—in

the early 1980s. It is not obvious what would have happened if the center-right parties had carried the election in 1982—before 1982, no fundamental changes had occurred.

THE POLITICS OF EXPERTISE

In the 1980s, especially in the early part of that decade, politicians followed a strategy of external adjustment. Both center-right and social democratic governments believed that there were serious imbalances in the Swedish economy, and refrained from using the expansionary fiscal policies that they had used in the 1970s. But rather than accepting higher unemployment, forcing actors in the economy to adapt, governments used exchange rate policy to achieve adjustment without accepting the great social costs that almost always result from taking a country through a period of disinflation.

The background to these policy changes was that a new economic thinking was introduced in the Swedish debate in the late 70s and early 80s, and gained influence at the policymaking level.²³⁷ Meanwhile, faith in a state that intervened in social life was strong. For that reason, the center-right coalition in power between 1976 and 1982 did not dismantle the Swedish welfare system, or challenge corporatist institutions, although it recognized that developments in the international economy made the Swedish Model difficult to sustain.²³⁸ Some students of the Swedish case argue that the big idea changes took place only later, in the course of the 1980s, and that the strong position of Keynesian economics explains the “delay” of the Swedish turn to disinflation. The evidence that I have presented indicates otherwise.

If there had been no new economic ideas at this time, it is likely that governments would probably have continued to pursue some kind of fiscal activism. Perhaps policy changes in line with what some social democratic economists were advocating—a more selective approach to fiscal policy—would have been considered. Eventually, if the budget deficits had continued to rise, expansionary fiscal policies would have been entirely implausible, but this would most likely have taken longer: fiscal deficits were not seen as inherently problematic in the extreme Keynesian frame of mind that Swedish economists and policymakers were in for much of the 1970s. If, on the other hand, norms regarding the role of government had changed dramatically, as they did in the late 1980s and early 1990s, it is reasonable to assume that there would have been a quicker adjustment of Swedish economic policy to what was normal in the rest of Eu-

106 rope in the 1980s. Economic policies in the early 1980s, with the radical devaluations, should be seen as attempts to protect the Swedish way of doing politics from a hostile environment; there is a strong sense of Swedish exceptionalism in political documents, especially in bills from the social democratic government. There were steps toward reform of social programs and policies, but as the next chapter will show, they were not as drastic as changes in the late 1980s and early 1990s.

4. THE POLITICS OF PURPOSE

Gunnar Lund, one of the state secretaries in the Finance Ministry, spent one late evening in December 1990 persuading a reluctant social democratic chairman of the parliament's standing committee on finance—Hans Gustafsson—to accept a certain phrase that was to be included in the 1991 fiscal plan. The government intended to state that the aim of achieving a permanent reduction in inflation would henceforth “take priority over all other ambitions and demands.” Hans Gustafsson had doubts about the wording, and about the policies that it represented: “He knew what the words meant, and took issue with this phrase,” Mr. Lund says. “He believed that the phrase was too drastic and could be interpreted as giving up the primacy of the employment objective.” Mr. Lund, on the other hand, argued that “if we can't reduce inflation, we won't stand a chance of reaching full employment.”¹

In the early 1990s, Swedish governments made low inflation the primary objective of macroeconomic policy, and made few efforts to counteract rising unemployment with economic policy instruments. The phrase that a reduction in inflation would take priority over all other ambitions and demands first appeared in a bill presented to parliament in October 1990.² There is no evidence that this meant governments cared less about employment, but clearly, they responded to the recession in the 1990s differently than they had responded to earlier economic crises, and over a period of a few years in the late 1980s and early 1990s, a third-order policy change took place: full employment was no longer the primary objective of economic policy.

In order to make their commitment to low inflation credible, governments in the late 1980s and early 1990s declared that they would defend the fixed exchange rate of the Swedish *krona*, thereby—they hoped—breaking inflation expectations. The threat of rising unemployment would not be met with an expansion of the domestic economy, as in the 1970s, or with devaluations, as in the early 1980s. Unlike in 1981 and 1982, when first the center-right government and then the social democrats chose to adjust relative prices through devaluations, the government said that domestic actors—unions and firms—would have to accomplish the necessa-

108 ry adjustment on their own, or suffer the consequences: unemployment (workers), and lost market shares (firms). The macroeconomic strategy of the early 1990s was a strategy of *domestic adjustment*. The hard currency policy was pursued until November 19, 1992, when the central bank floated the *krona*. From 1993 onwards, the government and the central bank have resorted to other means of securing low inflation. Events in the autumn of 1992 were very dramatic, and they have commanded public attention. The focus of the present chapter, however, is not so much events in 1992 in themselves, but the commitment to the fixed exchange rate and the determination to reduce inflation even at the cost of increasing unemployment.

My main hypothesis regarding third-order changes is that unlike first- and second-order changes, they are linked to shifts in norms regarding the purpose of political authority. I present evidence from studies of other policy areas indicating that the late 1980s and early 1990s were in fact characterized by norm change, a widespread sense of failure and a perceived need for reorientation. For this reason, I argue, Swedish governments were less anxious than before to shelter existing institutions and policies.

REDUCING INFLATION (1989–1991)

By the end of the 1980s the Swedish economy was overheating, and inflation was considerably higher than in most other European countries. Experts and policymakers alike thought it necessary to pursue more austere policies.³ There was—and is—disagreement on the causes of overheating, as the memoirs of the finance minister, Kjell-Olof Feldt, and of the prime minister, Ingvar Carlsson, show. According to Mr. Feldt's memoirs, the main problem in the 1980s was that Finance Ministry failed to find political support for fiscal restraint, even within the government itself, and failed to persuade the trade unions to exercise wage restraint. Mr. Carlsson, on the other hand, argues that politicians were helpless, since the main cause of overheating was the expansion of credit that followed the deregulation of domestic financial markets in 1985.⁴ They both agree, however, that economic policymakers faced many difficulties when trying to build a coalition for austere fiscal policies. One factor that may have contributed to this is that in the election campaign in 1988, economic policy and issues of employment were discussed very little, since environmental issues dominated the electoral agenda.⁵

In the late 1980s and early 1990s, there was also an unprecedented level of conflict between the social democratic leadership and the blue-col-

lar union confederation, the LO, and between factions within the social democratic party. The LO and the social democratic left did not believe that the overheating should be met with decreased spending and tight fiscal policies in general, and instead favored targeted tax increases and cuts directed at specific sectors, regions and groups. Conflicts within the labor movement were, in this sense, distributive, and they were aggravated by the fact that corporate profits and capital gains were increasing. The LO and the social democratic left argued that low-income workers and the unemployed were paying for the excesses of upscale groups. That is, they saw that there was overheating, but believed that the government was handling it in the wrong way.⁶ As the 1980s drew to a close, some selective policies were actually implemented, but the main thrust of policies sought by the government was austerity across the board.⁷

In 1989, the Finance Ministry foresaw an economic downturn. The finance minister and his associates now believed that unemployment was inevitable. In order to fight inflation, higher unemployment had to be accepted. This prospect made fiscal restraint all the more important, in Kjell-Olof Feldt's opinion. He wrote in his memoirs that while it was "politically uncomfortable to bring about unemployment through a drop in domestic demand, as a result of economic policy," this was, from an economic point of view, "far better than achieving the same result by means of a drop in foreign trade."⁸ In 1989, the government therefore proposed austere fiscal policies, including an increase in consumption taxes, but this was struck down in parliament.⁹ One year later—in February 1990—the government attempted to pass legislation regulating prices, wages and strikes, the idea being to cool down the Swedish labor market and to prevent accelerating inflation.¹⁰ The parliament struck down this bill too. As a result, the government resigned (which was very unusual: no Swedish single-party government had resigned between elections for several decades). Since no other government coalition could be formed, however, the social democrats formed a new government in a few weeks. In the process, Mr. Feldt resigned.

The new government—with its new finance minister, Allan Larsson—achieved some fiscal restraint in the spring of 1990, when the social democrats initiated cooperation with the Liberal Party. In April, the parliament passed some spending cuts and tax increases.¹¹ The liberal leader, Bengt Westerberg, initially thought that cooperation with the social democrats might be developed, but after the summer, cooperation between the two parties broke down, since the liberals thought that the social democrats failed to live up to the promises they had made when cooperation had

110 started the spring before.¹² Cooperation was equally controversial in the social democratic party, as Ingvar Carlsson's memoirs demonstrate.¹³ The liberals instead approached the Moderate Party, and in the spring of 1991 the two parties presented a common economic platform—"A Fresh Start for Sweden" (*Ny start för Sverige*). This document informed economic policy after the center-right victory in the 1991 election.¹⁴

When Allan Larsson became finance minister, his main idea about how to deal with Sweden's economic problems was to achieve wage restraint through government intervention at an early stage in the wage bargaining process, assisting unions and employers in determining a reasonable level of nominal wage increases.¹⁵ A government commission—the so-called Rehnberg Commission, named after its chairman, Bertil Rehnberg—was formed in the spring of 1990, and reached an agreement between labor market partners on December 20, 1990, achieving a temporary recentralization of the wage formation process.¹⁶ This was, in Mr. Larsson's view, an important new element in economic policy, a necessary element in a strategy for low inflation. Inflation also decreased rapidly at this time.

The government's commitment to low inflation, and Allan Larsson's conviction that the way to decrease inflation was by means of a stabilization accord, explains why the government resisted all ideas about mitigating the economic crisis by means of changes to Sweden's exchange rate regime, or through fiscal policy. By 1990, some economists had started suggesting that the Swedish currency was overvalued and that something should be done to prevent a sharp economic downturn. Lars Calmfors, for example, advocated an internal devaluation—a simultaneous reduction of payroll taxes and increase of consumption taxes—which was supposed to increase the competitiveness of Swedish firms. This idea (which had also been considered by center-right governments in the late 1970s) was discussed within the Finance Ministry, but it was rejected since it was believed that it would simply result in further spirals of wage inflation. Lars Heikensten, the director of the Economic Affairs Department in the Finance Ministry, says that the Finance Ministry decided against, since "wage earners would immediately seek compensation through raising wages."¹⁷

The LO economists Dan Andersson and Per-Olof Edin suggested in their economic report in the spring of 1990—and in an article in the newspaper *Dagens Nyheter* in June—that the exchange rate regime should be changed. They argued that since other European countries, notably Germany, did not give priority to full employment, Sweden should either float the *krona* or peg it to a new currency index that comprised currencies with wage and price trends similar to Sweden's. This was the only way of safe-

guarding full employment, according to Mr. Andersson and Mr. Edin.¹⁸ Dan Andersson says that the LO had not criticized fixed exchange rates before, but they now believed that Sweden had come to a point where “all that remained was disaster.”¹⁹ The finance minister disagreed strongly with the ideas put forth in the article: “I had been under the impression that there was agreement on the need to reduce inflation, and I therefore considered it a provocation against these efforts,” he says.²⁰ Allan Larsson believed it necessary to respond forcefully, which is one explanation of the strong language in government bills in the autumn of 1990, and in early 1991, where the government’s commitment to the fixed exchange rate was reaffirmed in no uncertain terms.²¹

On October 26, 1990, in response to speculation against the Swedish currency, the government announced a number of anti-inflationary measures. Among other things, the government declared that it would seek membership in the European Community (as the EU was then called).²² It was at this time that the phrase about giving priority to disinflation over other objectives appeared for the first time in an economic policy document. It appeared in a minor bill in the autumn of 1990, and more importantly, it was repeated in the budget bill in January 1991.

Allan Larsson and other social democrats argue that the phrase “take priority over all other ambitions and demands” has been misinterpreted: it does not mean, they say, that the government cared less about employment.²³ The economic policy bill from October 1990 where the phrase appeared for the first time includes the following two sentences: “The price- and wage-cost development in the Swedish economy must be broken if we are to preserve welfare and employment. The fight against inflation must take priority over all other ambitions and demands.”²⁴ As Mr. Larsson points out, the document says that inflation must be reduced in order to preserve employment. “The misunderstanding arises from [...] disregarding the first part of the sentence, which says that the aim was to defend employment. By ‘other ambitions and demands,’ we meant increased public spending, and inflation-driving wage increases. Inflation was the big threat against employment, not our efforts to reduce inflation.”²⁵ In a similar vein, Ingvar Carlsson disagrees strongly with “those who say that it was a paradigm shift and that it was such a big thing.” His position was that “inflation threatened to put firm after firm out of business. Just talking about full employment and letting that inflation go on was entirely impossible. If you wanted full employment, the first thing you had to do was to reduce inflation.”²⁶ There is no evidence of an ideological shift: the government, and the social democratic party, did not suddenly care less about

112 unemployment.²⁷ Key policymakers came to believe, however, that optimal employment performance required low inflation.²⁸ And third-order policy changes, according to the definitions introduced in chapter one, do not imply that policymakers change their minds about how important certain political aims are, ideologically and morally. It is enough that the operative targets change, and economic policy bills in 1990 and 1991 do show that the government no longer regarded full employment as the primary operative target of economic policy. It is therefore accurate to classify the policy shift around 1990 as a third-order change, even if the social democrats still argued that full employment was a desirable state of affairs.

Unlike Ingvar Carlsson and Allan Larsson, economists in the Finance Ministry in the early 1990s do think that giving priority to low inflation was a policy change.²⁹ For example, the director of the Economic Affairs Department, Lars Heikensten, says that “*de facto*, the politicians had decided that they were prepared to accept a certain increase in unemployment, in order to secure a stable development in the future.”³⁰ In any event, the Swedish government had decided to put an end to high inflation, and as in every other country that had chosen to do so, an increase in unemployment would follow. The Rehnberg agreement should be seen as an effort to accomplish this transition as smoothly as possible.

On May 17, 1991, the Riksbank, supported by the government, changed Swedish exchange rate policy by pegging the *krona* to the European Currency Unit, the *ecu*. Since 1977, the Swedish *krona* had been pegged to a currency index that included the currencies of Sweden’s main trading partners. The aim of the new alignment was to reaffirm the government’s commitment to the fixed exchange rate, and to low inflation. Gunnar Lund, the state secretary—who was one of the *ecu* peg’s chief advocates—describes this policy change as a part of an overall economic policy shift: “We believed that we had finally changed economic policy thoroughly, recognized the fight against inflation as fundamental, initiated structural reforms, and we were on our way into Europe. What could be more natural than putting and to end to all that we thought had characterized economic policy for too long—devaluation cycles and general sloppiness? A final blow was pegging irreversibly to the *ecu*.”³¹ This particular policy change can also be seen as an attempt to affirm Sweden’s willingness to join the European Community. The peg was unilateral, and Sweden did not become a member of the European Monetary System. Still, when that system faced a deep crisis in little more than a year, Sweden was drawn into this wider European scenario.

DEFENDING THE HARD CURRENCY POLICY (1991–1992)

After the 1991 election, a minority coalition government consisting of the Moderate Party, the Liberal Party, the Christian Democrats and the Centre Party was formed, with Carl Bildt as prime minister, and Anne Wibble as finance minister. The general economic strategy of the new government was—in terms of fiscal, monetary and exchange rate policy—similar to the social democratic government's in 1990 and 1991. In so far as the center-right government pursued new economic policies, it did so in the areas of state ownership and taxation, not in the area of macroeconomic management. Olle Wästberg, Anne Wibble's state secretary, points out that the crucial macroeconomic changes, such as “the tax reform and new, improved fiscal policies,” took place in 1989–1990.³² Inspired by economists advocating rules-based policies, the center-right government also reaffirmed the commitment to the fixed exchange rate, in order to break inflation expectations.³³ In the summer and autumn of 1992, there was a crisis in the European exchange rate system, and the *krona* came under heavy pressure. Eventually, the Riksbank was forced to float the *krona*. This did not mean that attempts to contain inflation were given up, however. Instead, the lengths that the central bank, the government, and the social democratic opposition went to in their attempts to avoid abandoning the fixed exchange rate should be seen as evidence of a shared determination to reduce inflation once and for all.

These were eventful months, and developments in the summer and autumn of 1992 have been described by others³⁴ In 1990, the Riksbank had made its first major interventions in foreign exchange markets, in order to stop currency outflows (on October 16 and October 18, 1990, overnight interest rates were raised, first from 12 to 14 percent, and then to 17 percent).³⁵ As European currency markets became increasingly volatile in 1992, and central banks faced large speculative capital flows, the Riksbank continued to defend the *krona* by raising interest rates. In September, the interest rate was raised from 16 to 24 percent, then to 75 percent, then back to 20, and finally, when Britain and Italy floated their currencies in mid-September, the bank raised the overnight lending rate to 500 percent.³⁶ This was unprecedented, yet the bank's governor, Bengt Dennis, has written that the bank at one point considered going up to 4000 percent.³⁷

While the Riksbank used its main instrument—the interest rate—to attract foreign capital and take pressure off the *krona*, the government and the social democrats negotiated fiscal policy changes that were intended to

114 increase confidence in Sweden's commitment to its exchange rate regime.³⁸ Preliminary negotiations between the government and the social democrats took place in August, when two of the finance minister's advisors (Olle Wästberg and Carl B. Hamilton) met with two social democratic economic advisors (Leif Pagrotsky and Jan O. Karlsson). Judging from Mr. Hamilton's memos from these meetings, the discussions were friendly, but nothing specific came out of them.³⁹ They did, however, lead to higher-level negotiations. Such negotiations did take place in mid-September, and on September 20, 1992, Prime Minister Carl Bildt and Ingvar Carlsson, the social democratic leader, held a press conference where they presented a joint program for the stabilization of the Swedish economy.⁴⁰

There was another agreement between the government and the social democrats a few days later, on September 30.⁴¹ A bill based on both packages was sent to parliament on October 20.⁴² The premise of the first package was that the attacks on the *krona* were caused by the large budget deficit. In the period between the two packages, the competitiveness of Swedish firms—especially wage costs—suddenly became a top priority. According to Carl Bildt, “the issue of costs came to the forefront,” but this “did not mean that the structural budget deficit became less important.”⁴³ Bengt Westerberg says that initially, “[w]hen we started this process and Bengt Dennis made his appraisal of the situation, he pointed to public spending. When the market did not respond as expected to the savings package, he, and others, came back and said that the problem was relative costs.”⁴⁴ The premise was now that the speculation was a result of the overvaluation of the *krona*, and the second agreement between the government and the social democrats reflected this: the second package included an internal devaluation—a fiscally neutral tax policy adjustment, whereby payroll taxes were to be lowered and indirect taxes were to be increased.

After the second package, there was a period of relative calm, but in November, the problems returned. In mid-November, there were plans for a third package. On November 17, Anne Wibble sent a short note to Allan Larsson, in which she proposed three measures: continuing the “internal” cost adjustment initiated in the second package, discarding the rule that the state could not borrow abroad, and pegging the *krona* to the German *Mark* rather than to the *ecu*.⁴⁵ The reasoning behind these measures was developed in two memos from the head of the Economic Affairs Department in the Finance Ministry, Ingemar Hansson, on the evening of November 18.⁴⁶ But the *krona* was floated before any new decisions were made: on November 19, 1992, the governor of the Riksbank, Bengt Dennis, released a statement declaring that as of 2.28 PM the *krona* was no longer pegged to

the *ecu*. The exchange rate regime that both center-right and social democratic governments had invested so heavily in had failed.

In this brief period, Sweden closed ranks. It may therefore seem that there was consensus on how Sweden should respond to the crisis and defend the *krona*. Things are not so simple, however. First of all, there were partisan differences, although both the government and the social democrats agreed on the need to defend the *krona*. Leif Pagrotsky says that “a fundamental difference between the government and us was the analysis of the problems we had.” While the government believed that Sweden’s crisis was caused by long-term structural problems, the social democrats claimed that “we had failed in stabilization policy.”⁴⁷ Another point of disagreement that social democrats mention was how the crisis in the financial system should be addressed. On September 24, the government announced that it had reached an agreement with the social democrats that the public would not suffer from any bankruptcies in the banking sector, the so-called “bank guarantee.”⁴⁸ Many social democrats have claimed that they would have preferred to include this in the first package, but the government refused. Allan Larsson says, for example: “What we didn’t manage to include was agreement on measures to safeguard the banking system. Leif Pagrotsky and I had discussions with Urban Bäckström and Bo Lundgren, and we thought that they wanted to do something. But on Saturday evening [September 19], we were told by Carl Bildt that this was not necessary: there was no crisis in the banking system, there was just a crisis in Nordbanken [a government-owned bank].”⁴⁹ Bo Lundgren says that he would have liked to include the bank guarantee—“We would perhaps, from a ministerial point of view, have been interested in including this in the first package.”⁵⁰

Apart from these partisan conflicts, there were disagreements between policymaking institutions. One feature of the process in 1992 was that the Riksbank became very influential. As Ingemar Hansson, the head of the Economic Affairs Department in the Finance Ministry, puts it, the Riksbank “said that the crucial thing was the size of the budget deficit and that we had to make fiscal policy tighter to win market confidence. Since the Riksbank had this view, it became, in a sense, true.”⁵¹ Bengt Dennis says that this was not a situation he wanted: “The government asked the Riksbank and myself to write recipes for economic policy as a whole, which central bank governors should never have to do.” He concludes that a “normal” government “would have had that capacity and insight itself.”⁵² The central bank consistently argued that Sweden’s structural budget deficit must be lowered.⁵³ According to Bengt Dennis, the 1992 crisis was “a

116 crisis for fiscal policy, although it was manifested as an exchange rate crisis.”⁵⁴ The bank believed that other actors failed to see this. The deputy governor, Thomas Franzén, says, for example, that the Finance Ministry’s staff and the National Institute of Economic Research stood for “the usual, Keynesian analysis,” according to which “falling demand should be met with increased spending.”⁵⁵ Indeed, Ingemar Hansson and his associates were more focused on aggregate demand than the Riksbank—and more than Anne Wibble herself. Mr. Hansson says that he “was more concerned with aggregate demand than the government was.”⁵⁶ Mr. Hansson wrote many memos where he argued that keeping domestic demand reasonably high was an important objective, although he recognized that there were important restrictions.⁵⁷ As I noted earlier, the second crisis package was not based on the idea that the structural deficit was the sole cause of speculation against the *krona*. Ingemar Hansson says that the Economic Affairs Department in the finance ministry had come to believe that “Swedish relative costs were again unsustainably high and one reason for high interest rates and speculations about devaluation was unreasonably high costs.” An internal devaluation “was a way to decrease tension, in order to decrease the perceived likelihood for devaluation and thereby decrease interest rates.”⁵⁸ The different analyses that were made in the summer and autumn of 1992 testify to the fundamental uncertainty that characterized the situation in the early 1990s as a whole. To understand the reasoning behind policies, it is necessary to consider how appraisals of the economic situation changed in this period.

APPRAISALS OF THE SITUATION

In the period between 1989 and the mid-1990s, perceptions of Sweden’s main economic problems and ideas about how these problems should be addressed changed several times. When politicians made price stability the primary target of economic policy in the early 1990s, they foresaw rising unemployment—and in that sense implemented a third-order policy change—but they did not imagine that unemployment would increase as much as it did. The reason why they did not is that the most important cause of the dramatic increase in unemployment was not wage-cost increases—which both the social democratic and the center-right government saw as Sweden’s main economic problem—but a domestic economic collapse, which was the result of a large drop in domestic demand that occurred when a bubble in the real-estate market burst and interest rates increased.⁵⁹ These mechanisms were not well understood before 1992–1993,

when unemployment was already very high. When the decision to make a third-order change was made, policymakers believed that they were in a situation similar to earlier periods, when wage inflation was Sweden's key economic problem.

Allan Larsson, who was finance minister in 1990–1991, says that “what we didn't see clearly, and what Bildt's new government didn't see clearly, was what was happening with the German economy—overheating and monetary restraint, which affected the rest of Europe, and the consequences that this had. [...] This was not discussed much in Sweden.”⁶⁰ Lars Heikensten, who headed the Finance Ministry's Economic Affairs Department, describes the analyses made in the first years of the 1990s in the following terms. “We thought that the economy would slow down considerably,” he says, “and we thought that this would happen because costs were too high. In combination with a downturn in the international economy—exactly like a number of earlier events—this would lead to a downturn in the industrial sector, and this would have wider economic effects, just like before.” Mr. Heikensten claims that “what few people did understand before the spring of 92, or something like that, was the effect of the real interest rate situation, and the link to the real estate market.”⁶¹ Economic experts in the Finance Ministry thus believed that the early 1990s would amount to a repetition of earlier crises, but the economic situation turned out to be entirely different. “I think that the idea around 1990,” Mr. Heikensten says, “was to let the process work itself through just like in earlier downturns. But this time we would not devalue, but accept temporarily higher unemployment; say, an increase from 2 to 4 percent, and then the system would adjust.”⁶²

In the social democratic government, policymakers believed that the overheating was Sweden's main economic problem, and they thought that if only wage increases and price increases could be reduced, the system would self-heal.⁶³ Svante Öberg, another top advisor, also claims that the nature of the crisis in the early 1990s was not well understood: “I don't remember taking part in any discussions where the situation in the real estate market and potential problems there were linked to economic policy. The primary focus of stabilization policy was instead to reduce inflation. [...] We did see that the first financial company ran into big difficulties. [...] There were also analyses from the Financial Institutions and Markets Department [in the Finance Ministry], which indicated that the banks were in trouble. But none of this affected, as far as I know, the overall orientation of stabilization policy.”⁶⁴ Ingemar Hansson, who succeeded Lars Heikensten as director of the Economic Affairs Department in 1992, and

118 who worked in the Finance Ministry for both social democrats and the center-right, points out that “[n]o one imagined that we would get the unemployment figures that we got in 92–93–94. [...] There was a bubble in the real estate market. Neither the economists nor the banks realized the importance of that bubble.”⁶⁵

The economic policies of the center-right government were, like the social democratic policies, initially focused on the overheating, and on reducing inflation. Bo Lundgren—who was minister for taxation and financial markets, and therefore responsible for handling the financial crisis—says that the government did not realize the extent of the crisis at first: “We saw a general downturn, a cost crisis in the economy and the big structural problems, but we had no idea of the size of this, and how deep we might go. This was probably true for the rest of the government too.”⁶⁶

Some time in 1992–1993, mainly after the floating of the *krona*, economic advisors within the government and advisors to the social democrats started to make new appraisals of the situation. Leif Pagrotsky worked for the social democrats at this time, and he points out that before the election, the Finance Ministry’s prognoses “indicated that industrial production, which was the variable that we paid the most attention to as a leading variable, had turned. This was because exports never failed in this period; the domestic economy did, and the extent of that downturn was entirely underestimated.”⁶⁷ According to Mr. Pagrotsky, this domestic collapse was chiefly an effect of the deregulation of the credit market, which had led to the financial crisis. “The problems with the deregulation were not discussed,” he says. “No one was interested; it was the wrong focus.”⁶⁸ After the floating of the *krona*, the social democrats started to advocate policies explicitly designed to meet the collapse in aggregate domestic demand, as the next section will show.

Meanwhile, actors within the government—in particular Bo Lundgren and his state secretary Urban Bäckström—started to argue that the general economic crisis and the crisis in the financial system were two sides of the same coin. Urban Bäckström wrote an article in *Ekonomisk Debatt* in 1993, where he advocated a regime-change in economic policy. According to him, the recession was linked to falling asset prices in combination with a high level of indebtedness. Therefore, more expansionary monetary policy—lower interest rates—was the proper remedy.⁶⁹ However, it was only after the run on the Swedish currency and the floating of the *krona* that such ideas surfaced in the economic-political debate.

In conclusion, in the first two or three years of the 1990s, both the policies of the social democrats and those of the center-right government were

based on the premise that the economic situation was similar to that in earlier periods, such as the early 1980s. Again, high wage increases and inflation appeared to be the main macroeconomic problems, and politicians assumed that if only the major actors in the labor market could be persuaded that the government would not devalue again, they would seek moderate wage increases, inflation would be reduced, and while unemployment might rise somewhat, the situation would improve as soon as all actors had adjusted to the fact that the government and the central bank were serious about disinflation. And inflation was reduced quickly. But it would later become apparent that the deep economic crisis in the early 1990s was not produced by wage inflation at all, but by a domestic economic collapse. When the fixed exchange rate was abandoned—long after the crucial decisions to implement a third-order economic policy change had been made—politicians and their advisors could make new appraisals of the economic situation. Analyses developed in this period would shape debates on economic policy in the coming years, when the present macroeconomic regime was established.

THE PRESENT REGIME (1992–2000)

Sweden's present macroeconomic policy regime—with balanced budgets and inflation-targeting monetary policy—was *de facto* institutionalized soon after the floating of the *krona*, although the formal institutions that regulate this regime—central bank independence and legislation increasing the government's control over budgeting—were not introduced until the late 1990s.

After the floating of the *krona* in 1992, the government at first assumed that Sweden would return to a fixed exchange rate quite soon.⁷⁰ On November 20, Carl Bildt, the prime minister, wrote to the finance minister, Anne Wibble, that “the ‘next step’ is ERM-affiliation, and no intermediate steps are considered anymore. In my opinion, we should declare that it is our intention to peg to the ERM in order to become successful in the EMU. This gives long-term stability to economic policy.”⁷¹ Mr. Bildt says that this was an objective from the start, but it could only be done when the exchange rate stabilized, as well as the overall situation in Europe. This turned out to take longer than expected, however: the government initially thought that it would only be for a brief period.⁷² But Sweden's exchange rate has remained floating since November 19, 1992, and after the referendum in September, 2003—where those opposed to joining the third step of the EMU outnumbered those in favor by approximately three to two—

120 it appears that Sweden will stick to its floating exchange rate for some time.

In one sense, however, exchange rate policy has changed, since the central bank has changed its way of thinking about the exchange rate. In the first period after the floating of the *krona*, the exchange rate was still an important target for the bank. This was partly a consequence of the fact that the *krona* depreciated a great deal after floating: the US *dollar* went from on average 5.81 Swedish kronor in 1992 to on average 7.80 in 1993, and the German *Mark* went from 3.72 to 4.71.⁷³ In periods when the *krona* depreciated, the bank tended to raise interest rates. Later, the central bank has made low inflation the exclusive target of monetary policy; the exchange rate is a target no more.⁷⁴

In early 1993, a few months after the floating of the *krona*, a new monetary policy regime was introduced. The central bank—which acted independently, but had the support of Anne Wibble, the finance minister—set an inflation target of 2 ± 1 percent for monetary policy, which was the most important macroeconomic policy instrument after the turn to a floating exchange rate.⁷⁵ The inflation target adopted in early 1993 has guided monetary policy since, although the Riksbank's way of making monetary policy has developed further in the second half of the 1990s and in the early 2000s. The central bank measures inflation expectations and sets interest rates on the basis of prognoses that draw on these measurements. This method of setting interest rates is used by a growing number of central banks. New Zealand was first, in 1989, and since then more than twenty advanced and emerging economies have adopted inflation targeting.⁷⁶

Immediately after the floating of the *krona*, the Riksbank came under a great deal of pressure to lower interest rates. It was even criticized from within the government. One government minister, Bo Lundgren, and two state secretaries in the Finance Ministry, Olle Wästberg and Urban Bäckström, advocated lower interest rates, criticizing the central bank's policies.⁷⁷ Mr. Bäckström, who would succeed Bengt Dennis as Riksbank governor in January 1994, was particularly critical of the central bank's policies, as e-mail messages and memos that he sent to Carl Bildt in January 1993 indicate. According to Mr. Bäckström, the financial crisis was the main reason why the economy did not recover, which meant that the high interest rates were “bad for the economy, bad for the budget deficit, bad for the *krona*, and bad for the government.”⁷⁸ In another e-mail message, Mr. Bäckström wrote that the central bank was wrong to raise interest rates with reference to the depreciating currency: Sweden should not see the exchange rate as a target; instead, Sweden should use every op-

portunity to pursue economic policies that were “tailored to our domestic conditions,” which Mr. Bäckström summarized as “one of the world’s worst financial and debt crises, which appears to have created a drop in demand of 10 percent of GDP since 1989.”⁷⁹ The financial crisis and the general crisis in the Swedish economy were intrinsically linked, Mr. Bäckström argued.

According to Bengt Dennis, “the Riksbank’s philosophy was that we had to show that the price stability target remained, even if the fixed exchange rate had been given up. We therefore couldn’t act irresponsibly with regard to both the interest rate and the exchange rate. [...] We wanted to avoid a quick depreciation of the *krona*.”⁸¹ Thomas Franzén, the deputy governor, says that the Riksbank told the Finance Ministry that “if you do something real about the budget, it will be easier for us to lower interest rates.”⁸² In his opinion, however, the government did not do this, and “if we had lowered interest rates in a situation where the *krona* was not only floating but also sinking very much and the credibility of fiscal policy was zero, we would have risked making matters worse.”⁸³ Finance Minister Wibbelle did not side with the critics within the government. Her economic advisor, Carl B. Hamilton, says that they wished to “assert the Riksbank’s independence.”⁸⁴

One indication that this was a period when analyses of the economic situation shifted fast is that Prime Minister Carl Bildt’s economic advisor, Lars Jonung, changed his mind about the interest rate several times in the spring of 1993. In a memo dated February 9, 1993, Mr. Jonung was against expansionary monetary policies, given the objective of “keeping inflation low in the long run.” Two months later, on April 20, Mr. Jonung instead concluded that expansionary monetary policy was a “condition for higher economic activity and a stabilization of the financial crisis.”⁸⁵ Mr. Jonung says that Urban Bäckström and he “realized at about the same time that the crisis was linked to balance sheet problems. I saw how closely related both the financial crisis and the budget crisis were to the interest rate situation and the financial position of households and firms. In this perspective, it is the task of the government and the central bank to lower interest rates fast, in order to improve growth.”⁸⁶

When the social democrats took over in 1994, they also believed that the central bank had been too cautious. The prime minister, Ingvar Carlsson, thinks that interest rates should have been lowered soon after the floating of the *krona*. “If it should have been done, it should have been done then. When we took office there wasn’t very much to do. Our big problem was to find support for budget cuts and getting credibility and solid ground

122 under our feet, in order to bring down long-term interest rates. But it was frustrating that it took so long.”⁸⁷ Leif Pagrotsky—who was state secretary under the new finance minister, Göran Persson, between 1994 and 1996—is more critical of monetary policy after the election in 1994. In his opinion, the social democrats handled the fiscal situation well and there was room for lower interest rates: “The Riksbank pursued very strange policies,” he says. “They were based on flawed inflation projections and a failure to understand of the power of fiscal policy.”⁸⁸ In a similar vein, another state secretary in the Finance Ministry, Svante Öberg, says that the tight fiscal policy that the social democrats pursued were well-timed, since “there was a pull from exports, just like after a devaluation. There was a positive force, so we dared to implement a large program of fiscal consolidation. But it would have been better if monetary policy had become looser earlier on.” However, “the Riksbank was independent and did what it wanted to do.”⁸⁹ The social democrats were unwilling to face open conflict with the central bank, and set their minds on fiscal consolidation. This was what they had campaigned on in 1994, and like the center-right government before them, they believed that lower long-term interest rates were best achieved through a reduction of the budget deficit.

Both the center-right government before the 1994 election and the social democratic government that took over thereafter could theoretically have forced the central bank to lower interest rates, but this was something that neither the center-right government nor the incoming social democratic government in 1994 was prepared to do. In fact, when constitutional changes that became effective in 1999 made the central bank formally independent from the government, the central bank had been *de facto* independent for a long time. On November 24, 1993, the Finance Ministry prepared a memo on the relationship between the government and the central bank, which concluded that while the government could formally instruct the central bank, or at least exert pressure on it, doing so would “break with the praxis that has developed. Considering the objective of an independent central bank, and in view of the bank’s credibility, it would be a minor disaster.”⁹⁰ Open conflict with the central bank was inconceivable. The social democrats thought so too. “The Riksbank didn’t take orders from anyone,” Leif Pagrotsky says. “The Riksbank said what it wanted, and the government had to adjust.”⁹¹

Between 1994 and 1998, the Riksbank’s governing board was headed by Kjell-Olof Feldt and Bengt Westerberg. Although they represented different parties, their views regarding monetary policy in this period are very similar. Both of them thought that the Riksbank’s policies were based

on flawed projections, but they also believed that it was important to let the Riksbank assert itself after the change of exchange rate regime, and therefore accepted the tight monetary policies. Mr. Feldt says that the Riksbank's economists "had a clear political bias. They wanted to pursue tough policies. In their risk scenarios, it looked a lot worse if inflation got higher than two percent than if it got lower—which actually happened. Given the way the data were treated, I wasn't entirely comfortable accepting their analyses. On the other hand, [...] the main thing was to invest in long term confidence."⁹² Mr. Westerberg agrees: "It is possible," he says, "that interest rates stayed too high for too long, but I also think that the forcefulness and purpose of monetary policy in these years contributed to a quick dampening of inflation expectations."⁹³

In the 1990s, neither the center-right nor the social democrats have seen fiscal policy as an instrument of macroeconomic stabilization. In 1993 and 1994 the center-right government presented long-term plans for fiscal consolidation, and the center-right government committed itself to "abolishing the structural deficit in public finances," although they did not present specific plans for how to accomplish this.⁹⁴ The social democrats presented their first major cost-cutting program in November 1994, soon after their victory in the general election.⁹⁵ Just after the transition to a fixed exchange rate regime, in 1993, the social democrats had advocated different fiscal policies. As I noted earlier, in 1992 and 1993, leading social democrats had become convinced that Sweden's economic crisis was the result of a large drop in domestic demand, and therefore, the social democrats proposed expansionary fiscal policies—specifically lower consumption taxes—in the spring of 1993. The aim was to stimulate the domestic economy, the economic spokesperson, Allan Larsson, says: "In 1993, domestic demand had decreased more than expected, and Sweden was lagging behind other countries in economic development. [...] There would be stimulus for the export industry, but it would take some time before it had an impact. Domestic economic activity was thus low, and this was our own making. We asked: is there a way to limit damage to economic growth?"⁹⁶ When the social democrats returned to power in 1994, however, they launched an ambitious program of fiscal consolidation, and there were no attempts to use fiscal policy in the way envisioned in 1993. This was largely because of the new finance minister's skepticism. In a 1997 book, Göran Persson describes his "frustration" with the party's economic policies in 1993; for him, reducing the budget deficit was the main objective.⁹⁷

The LO had been enthusiastic about the economic policies that the social democrats pursued in the spring of 1993, but they were very critical of

124 the government's fiscal policies after the social democratic return to power. Dan Andersson, the LO's chief economist, says that the LO "would have accepted an 80 billion austerity package, but we ended up with 120 billion plus municipalities." Against the argument that the deficit had to be reduced to regain market confidence, Mr. Andersson says that according to the LO, "government debt was not the problem; the problem was the credibility of the inflation target. If we could bring down inflation and wage formation was working, interest rates would decline."⁹⁸

For the social democratic government, as for the center-right government that preceded it, the overriding goal of economic policy in this period was to bring down interest rates. With lower interest rates, economic activity would increase, and the costs of financing the budget deficit would decrease.⁹⁹ The finance minister, Göran Persson, says that the social democratic strategy "was to start fiscal consolidation fast, in order to regain market confidence and thereby achieve markedly lower interest rates."¹⁰⁰ The center-right government's analysis had been very similar. According to Lars Jonung, Prime Minister Bildt's economic advisor, "there was one overriding objective for fiscal policy after the fall of the *krona*: to reduce the budget deficit as quickly as possible. There was no room for the kind of discretionary stabilization policy that dominates textbooks."¹⁰¹ The analysis went that with a floating exchange rate, monetary policy becomes the most important instrument of stabilization, and fiscal policy supports monetary policy best when it maintains fiscal balance; it was believed that the high long-term interest rates were mainly caused by fundamental mistrust regarding the long-term fiscal standing of the Swedish government.

Although the primary strategy for economic recovery was budget consolidation, which was intended to allow for lower interest rates, the Finance Ministry's Economic Affairs Department did try to find ways of minimizing the effects on aggregate demand.¹⁰² Ingemar Hansson, the head of that department between 1992 and 1999, says that the overriding aim of fiscal policy in the mid-1990s was to have "sustainable finances in four to five years."¹⁰³ This was, according to Mr. Hansson, "a condition for lower interest rates—both long-term and short-term rates—and this, in turn, was a condition for good economic development." At the same time, "the net effect on economic activity had to be as beneficial as possible, especially in the short term."¹⁰⁴ Yet, these were marginal attempts to pursue demand-managing fiscal policies. The main aim of fiscal policy has been budget balance, and in recent years the government has run surpluses. In conclusion, then, there has been relative stability in economic policy after November 19, 1992. Low and stable inflation has been the

primary operative target of macroeconomic policy, and the central bank has been in charge of macroeconomic management. 125

THE STRATEGY OF DOMESTIC ADJUSTMENT

In the early 1990s, when the third-order economic policy change took place, efforts to defend the exchange rate regime dominated economic policymaking. This is not surprising. With capital mobility, a small country cannot maintain a fixed exchange rate without giving up the opportunity of using monetary policy to manage the domestic economy.¹⁰⁵ As the 1980s drew to a close, the interest rate had to be set at a level where balance in capital flows was obtained, since there would otherwise have been pressure on the exchange rate. There were a number of other reasons why Sweden found itself in a particularly difficult situation with regard to its exchange rate in the early 1990s. Not only was it necessary to use monetary policy to defend the exchange rate, it was necessary to use fiscal policy too.¹⁰⁶ Since governments were not prepared to either revalue, devalue, or float the *krona*, they had few means of actively pursuing economic balance, and maintaining full employment, by means of macroeconomic policy.

However, this only accounts for the immediate reason why Sweden underwent a third-order policy change in the early 1990s. The government would not consider a devaluation, which would have changed relative prices and therefore enabled Swedish firms to sell their products on international markets, as in earlier periods, and there is no evidence that they even considered floating the exchange rate, which would probably have led to depreciation, and thus a change in relative prices, and above all to improved opportunities to manage domestic demand by means of monetary policy. An “internal” devaluation through decreased payroll taxes was made in September 1992, but this was less than two months before the floating of the *krona* made further decreases in wage costs unnecessary. Neither of these moves were considered when—by 1989–1990—the Finance Ministry foresaw rising unemployment in the near future.¹⁰⁷ The crucial question is therefore why politicians—both social democratic and center-right—were committed to the fixed exchange rate in the first place. Why did policymakers stand by this commitment, effectively making a third-order policy change, when the social costs were so high?

In a way, the question is anachronistic. As for the exchange rate regime, it was simply taken for granted that small states must have fixed exchange rates.¹⁰⁸ As one leading social democrat (Erik Åsbrink) puts it, floating exchange rates were considered “almost immoral.”¹⁰⁹ As for the option

126 of devaluation, there was a widespread belief in the late 1980s that given Sweden's history of repeated devaluations, Sweden's "credibility" would be lost if there was another one. "To avoid new speculations against the *krona*, we had to create credibility internationally," former prime minister Ingvar Carlsson says. "There was much distrust in Sweden after all the devaluations and we had to rebuild that credibility again."¹¹⁰

In 1982 the social democrats had declared that there would be no more devaluations, and the evidence—including the internal memoranda discussed in the previous chapter—indicates that this was not just something they said; they meant it.¹¹¹ Ingvar Carlsson says, referring back to 1982, that the social democrats "wanted to shut that door, so union negotiators would be aware that this would not go on any longer." When the government decided to devalue, Mr. Carlsson points out, "we in fact made two decisions: we will devalue, but then we will pursue a fixed exchange rate policy."¹¹² Gunnar Lund, state secretary in the early 1980s, says, in a similar vein: "You have to remember what frame of mind we were in at this time. [...] Everyone responsible for economic policy had lived since 82 with the conviction that with one last, big devaluation we had put an end to the unfortunate pattern we had ended up in. And we were not going back to that."¹¹³ After the devaluation in 1982, the finance minister and other representatives of the Swedish government often asserted publicly that there would be no more devaluations.¹¹⁴

It is still worthwhile to ask why the fixed exchange rate policy was never seriously questioned in the late 1980s and early 1990s. For one thing, devaluation was not the only option—there was also the option of floating the currency. Floating exchange rates were uncommon in small countries in the 1970s and 1980s—unlike in the major currencies, which had floating rates from the breakdown of Bretton Woods onwards—but governments were of course aware of that option. As chapter two showed, the cases for and against fixed and floating rates were discussed in books, journals and newspapers in the 1970s and 1980s—especially in the early 1970s, after the collapse of the Bretton Woods system. There must therefore have been some reason why floating was never considered a practical political option. If economists and policymakers had wanted to, would they not eventually have thought of the option of floating the *krona* earlier than in November 1992, when this regime change was forced upon them? Why governments didn't consider devaluing is also a question without an obvious answer: the government had indeed promised to refrain from devaluations in 1982, but it had resolved to do many other things in 1982 that it did not do either.

Two specific reasons why the government and the central bank refrained from exchange rate regime shifts, devaluations, and other forms of external adjustment appeared frequently in government bills: one was Europe; the other was the need to contain wage inflation.

In the early 1990s, Swedish governments declared that they wanted Sweden to become a respectable European partner, with the aim of eventually joining the European Community. Low inflation and a fixed exchange rate were seen as prerequisites for membership.¹¹⁵ The state secretary in the center-right government between 1991 and 1993, Olle Wästberg, says that Europe had some impact. “The EU was a factor,” he says, “that is, the wish to present, before the EU, long-term exchange rate stability.”¹¹⁶ The central bank also took Europe into account. Its director, Bengt Dennis, says that within the central bank, this factor became increasingly important in the late 1980s and early 1990s: “Initiating the process of cooperating with the EC with an exchange rate regime change that would be seen as giving up, as a tacit depreciation policy, that was something that neither we nor any politician could stomach.”¹¹⁷ The deputy governor of the central bank, Thomas Franzén, says that the European dimension gradually entered deliberations on exchange rate policy, since devaluations were prohibited in the EC: this was the point of exchange rate cooperation. On the other hand, Mr. Franzén points out, “this was consistent with the predominant thinking [in Sweden at the time]—that we should stop the spiral of devaluations.”¹¹⁸ It is therefore likely that Sweden would have refrained from devaluation or floating anyway.

The other reason was that a fixed exchange rate was an intermediary goal in the fight against inflation. If the commitment to a fixed exchange rate was made credible, and unions and firms did not expect the government to use macroeconomic policy to maintain full employment in the event of deteriorating competitiveness, the fixed exchange rate would, policymakers and economists believed, serve as a nominal anchor, stabilizing expectations of further inflation.¹¹⁹ Representatives of both the social democrats and the center-right mentioned this factor in interviews. The finance minister in 1990–1991, Allan Larsson, asks, for example, “If we had said that now that we have problems, we will devalue, what pressure would there have been on labor market actors to make decent wage deals?”¹²⁰ Within the central bank the thinking was similar. Bengt Dennis says that wage formation “was a major concern. The problem was that actors in the labor market had high inflation expectations all the time.”¹²¹ Finally, similar ideas were present among leading policymakers in the center-right government after 1992. According to the liberal leader, Bengt West-

128 erberg, there was “an ambition to hold the employers and unions responsible. The devaluations had taken away the responsibility for wage formation from employers and unions.” In fact, Mr. Westerberg suggests that the “reason why the crisis negotiations and the deal between the government and the social democrats in 1992 were at all possible was the shared conviction that we couldn’t solve our balance problems by means of a devaluation once more.”¹²² Carl Bildt says that “in that situation [with high inflation], devaluations would entail the risk of increasing inflation with all the negative effects that this would have for wage formation as well. The exchange rate was and is an important anchor for economic policy.”¹²³

On balance, the second of these two reasons appears to have been the more important one. As I will soon demonstrate, the European dimension was less important for economic policy in the early 1990s than might be expected. The two processes were largely decoupled. In conclusion, from 1989–90 onwards, Swedish governments were determined to bring down inflation once and for all. They did this by using all available economic policy instruments in order to affirm their commitment to the fixed exchange rate, to discipline wage formation and prevent wage inflation. But as the previous discussions about wage bargaining in chapters two and three show, the centralized wage bargaining system had not produced wage restraint in earlier periods either. Swedish wage-cost increases had more or less consistently been higher than wage-cost increases in other advanced, market economies, and devaluations had been required to maintain the competitiveness of Swedish firms. The questions remain: What made the early 1990s different from earlier periods? Why were governments suddenly prepared to pay the heavy price that they did not want to pay in the 1970s and 1980s?

THE CENTER CANNOT HOLD

The third-order policy change in the early 1990s was possible because political norms changed in the course of the 1980s.

In the 1970s and early 1980s, politicians and other actors took for granted that the state should intervene in social life and solve problems that Swedish society and citizens faced, in concert with major interest organizations; these norms still constituted Swedish political culture. “If consensus is a formal norm of rule,” Cecilia Garne notes, “then the welfare state seems to have been the norm of rule concerning content: to produce welfare reforms of a certain kind became what a Swedish ruler was expected to do, his—or their—*raison d’être*.”¹²⁴ As long as Swedish governments took for granted

that policies should conform to these norms, active macroeconomic management was necessary, since the pursuit of other objectives required full employment. When norms changed in the 1980s, there was less reason to defend Sweden's distinctive policies and institutions, and therefore, the costs of maintaining full employment by means of macroeconomic policy appeared high, compared to the expected benefits. These policies had been costly for some time—in terms of inflation and economic instability—but in earlier periods, politicians had not considered the possibility that the state might withdraw from the maintenance of a full employment society.

The argument that Swedish politics underwent major changes in the late 1980s and early 1990s is not new. One important event in the public debate around 1990 was the publication of *Maktutredningen*—a major study of democracy and power in Sweden that the government commissioned in 1985. This was a unique government commission of inquiry, because of its size and scope, and the final report led to an intense debate, mainly because it said that many of Sweden's distinctive institutions and policy programs—the “Swedish Model”—had been weakened, and Sweden was undergoing a transition to a new kind of democracy, more individualistic and more similar to the political cultures of other countries.¹²⁵ The report concluded that a particular period in Swedish history, characterized by “strong public expansion, centralized bargaining based on a historical compromise between labor and capital, social engineering and centrally planned standard solutions” was over.¹²⁶ When the leaders of the major political parties commented on *Maktutredningen* in newspaper articles in the summer of 1990, they all accepted its overall conclusions, although with different emphases. Ingvar Carlsson, the prime minister, wrote that the Swedish Model needed reform, but he emphasized that “just because some elements are now weaker the entire idea of a unique Swedish way of governing does not have to be abandoned.”¹²⁷ The conservative and the liberal leaders were more radical: they saw *Maktutredningen* as evidence of the failure of social democratic policies.¹²⁸ The important point, however, is that neither of these actors denied that Sweden was changing.

This section presents two kinds of empirical evidence for norm change, and for its effects on economic policy in the late 1980s and early 1990s. It begins by reviewing developments in other policy areas, in order to show that norms regarding the purpose of political authority were in fact changing in this period. It then goes on to demonstrate that the relationship between economic policy and other areas and the way in which economic policymakers perceived policy problems are consistent with the explanatory models. The social democratic government that was in power until 1991

130 and the subsequent center-right government shifted their attention from short-term economic management to long-term economic reform. Meanwhile, and as a consequence of this shift, economic policy was decoupled from other policy areas.

In chapter one, I claimed that the most important of the norms that constituted Swedish political culture were that the state could and should solve social problems, an ideology of social partnership, a norm of centralization, and a norm of integration. These overarching norms regarding how the state should go about addressing social problems were weakened in the late 1980s and early 1990s. Sweden did not cease to be different from most other countries with regard to the level of taxation, the volume of public spending, or other indicators of welfare state policy. The Swedish government still taxes its citizens more than most other countries, social spending is still high, and so is the level of government employment. The defining characteristics of the Swedish welfare model still remain: it is generous, it is universal, and it relies heavily on public social service production.¹²⁹

But while Sweden is still exceptional, Swedish politics is no longer carried by the vision of the role of the state in society that characterized, for example, the 1950s and 1960s, when the pace of social reform was extraordinary, everything was moving forward, and nothing was allowed to stand in the way of the continuous, state-led transformation of Swedish society. The enterprise of continuously improving the central government's capacity for social problem solving was halted in the late 1980s. Not only did the social democrats and the other major parties believe that the Swedish social model had somehow reached a dead end—this had happened before, for example in the late 1950s.¹³⁰ But at other such historical junctures, governments had always chosen to proceed without accepting policy solutions that were inconsistent with underlying norms. In the late 1980s and early 1990s, the enterprise did not just come to a halt: the state's role diminished, due to decentralization and deregulation of programs that had previously been controlled by the central government.¹³¹

Social partnership broke down in the late 1980s and early 1990s. Ingvar Carlsson, who was prime minister in that period, has written that the failed attempts to coordinate Sweden's response to economic adversity in 1990 with interest organizations made him lose faith in the capacity of the social partners for concerted problem-solving; he remarks that the "famous Swedish labor market model was stone dead."¹³² But the ideology of social partnership was but one element in a larger set of norms, and if there was general norm change, policy changes in areas other than economic policy should also demonstrate the diminishing influence of these norms. Chap-

ter two quoted a report to the social democratic party congress in the mid-1960s that summarized progress in social reform with regard to “education for everyone,” “universal insurance for security in all turns of life,” and “classless housing.”¹³³ The following overview of these policy areas—education, social policy, and housing—will reveal, in all three, a similar pattern of expansion in the 1960s and 1970s, minor reforms in the 1980s, and a sense of failure and a perceived need for reorientation and institutional reform in the late 1980s and early 1990s.

Education is essential for social reproduction, and Swedish policymakers have seen education as an important area of public policy.¹³⁴ The build-up phase of national education policy was during the 1960s, when strong government control over primary and secondary education was established. In the 1970s and early 1980s, there were adjustments to this system, but changes were incremental, experiments with decentralization were tentative, and radical reform agendas were resisted. There was consensus on centrally directed schooling in the 1970s. Then things started to change. In the mid- to late 1980s, education policies were questioned more and more, and the central government’s management of primary and secondary education was seen as increasingly problematic. The social democrats and liberals started to change their stance from 1984 onwards, which was also when the overall debate on education policy turned to radical reform. These changes took place after the last burst of interventionist economic policy in the early 1980s.

Policy changes that were initiated in the 1980s accelerated around 1990, when far-reaching institutional reforms were implemented. In 1990, Göran Persson, the minister for primary and secondary education, announced that *Skolöverstyrelsen*—the state bureaucracy in charge of national school policy—would be dismantled. Indeed, Mr. Persson said, “many of the tasks that are today taken care of by *Skolöverstyrelsen* will disappear.”¹³⁵ Much of political responsibility for primary and secondary education was transferred to municipalities. Bo Lindensjö and Ulf P. Lundgren describe policy changes in the early 1990s as “probably the biggest in the history of primary and secondary education, and clearly the most rapid,” and judging from their account, school policy changes were linked to the kind of broad norm shifts that I have described: “School policy found itself in a new situation, characterized by low trust in the scientific basis of decisions and a low level of consensus. This led to a new, highly defensive social democratic management strategy. The strong position of the central bureaucracy was questioned and demands for local participation from concerned groups increased. The traditional social democratic doctrine—that the national government should decide the objectives, content and organization of schooling with a high level of con-

132 sensus and after consultations with organized interests—was in retreat.”¹³⁶ In the area of education policy, then, the late 1980s and early 1990s were characterized by the disintegration of established norms regarding the government’s role in society: centralization ended, consensus broke down, and major institutional reforms were undertaken.

For obvious reasons, *social policy* was seen as an important instrument of reform in Sweden in the 1950s and 1960s.¹³⁷ Social policy has many components, of which social insurance—such as unemployment insurance, sickness insurance, and pensions—is the largest in financial terms. The Swedish social security system had found its shape by the early 1980s, and in the remainder of that decade, there was some expansion, but the underlying model did not change much. The center-right government in 1991–1994 also left the system basically intact. Important changes did take place in the mid-to late 1990s, but they were implemented after the economic policy changes that I discussed earlier, and should primarily be seen as results of the economic crisis; they were driven by the need to cut public spending in order to deal with the budget deficits that appeared in the early 1990s. While many of these changes, such as the pension reform in the mid-1990s, can be seen as results of norm change, they occurred after the third-order policy change, and therefore do not lend support to the argument that third-order economic policy shifts are enabled by changing norms.¹³⁸

However, in the social policy area more broadly, important changes did occur before the economic policy shift in the early 1990s, at least with regard to the integration of social policy in a wider set of programs. In the 1950s and 1960s, social policy was included in a set of policies that reconciled—at least, so it was thought at the time—the objectives of economic growth and social protection. From the late 1960s, this idea of the role of social policy has been under attack. The left argued in the late 1960s and early 1970s that existing social policy programs were insufficient, since there was still poverty and other social ills in Swedish society. This criticism led to expanding and increasingly ambitious social policies in the 1970s (that is, Swedish social policy was even more ambitious in the crisis-ridden 1970s than in earlier periods). Later, in the late 1970s and in the 1980s, a new kind of criticism of social policy appeared, informed by economic analyses according to which welfare programs had become increasingly inefficient and ungovernable. This view became more and more influential, and one scholar dates its final breakthrough to the mid-1980s.¹³⁹ With regard to social policy, then, the picture is mixed: there has been a great deal of continuity, but some changes have occurred, and they do suggest an underlying norm shift.

Housing policy is, like education, an area where major changes occurred around 1990.¹⁴⁰ Governments have been very much involved in the housing sector from the inter-war years until quite recently; one author has even suggested that “[m]ore attention has probably been paid by politicians to housing than any other sector of the modern Swedish economy.”¹⁴¹ Housing policy entered a particularly expansive phase in the mid-1960s: in 1964, the government announced that it would make sure that one million new apartments were constructed in ten years.¹⁴² When that program finished in 1974, the pace of expansion got slower, and some more room was left for market mechanisms. Yet housing policy remained comparatively ambitious throughout the 1980s.

A few decades later, housing policy has essentially been dismantled. In the early 1990s, the incoming center-right government simply shut down the ministry of housing (something that center-right governments in 1976–1982 had not done). When the social democrats returned to power in 1994 they did not reinstate the ministry. Studies of housing policy show that, as one author puts it, “even if the retreat is not complete, deregulations and drastically diminished public programs in this area have meant that housing construction and administration have been depoliticized to an extent that makes it reasonable to speak of the end of an era.”¹⁴³ Again, the changes occurred around 1990, and again, it wasn’t just a matter of the center-right parties pursuing an ideological agenda when they were given the opportunity. When they changed policies in the early 1990s, they were in fact implementing policy changes already initiated by the social democrats, and as I just noted, the returning social democrats did not restore old institutions in 1994.

Evidence from the areas of education, social policy and housing indicate that while changes were not uniform, norms regarding the purpose of political authority were changing around 1990: the expansion of government programs was halted, central bureaucracies were dismantled, and policies were no longer seen as elements in a concerted effort to reform society. One possible argument against this characterization of politics in this period is that education, social policy, and housing are all old policy areas, and changes may have occurred because the government’s attention has shifted to new ones. If norms say that the state should respond to social problems in a certain manner, we should not expect the absence of change: we should expect the state to respond to *new* social problems in the same manner that it has dealt with the old—in the Swedish case, by means of forming central government bureaucracies, and integrating individual policies in a coordinated reform effort.

Three policy areas that might be expected to have become more important in recent decades, as a result of demographic and social changes, are family policies (such as childcare), policies for gender equality, and immigrant policy. Family policy has grown in prominence in recent decades, and important reforms are still under way, but the main elements of Swedish family policy were introduced in the 1960s and 1970s, when public daycare programs expanded.¹⁴⁴ In the other two areas, the main programs were also established in the 1970s, and modeled on existing programs in other areas.¹⁴⁵ That is, these policies are not so new after all; in any event, they have not developed and expanded in the way we would expect if changes in other areas could be explained by responses to demographic or other challenges. Also, the new government bureaucracies that have been established in recent years are different from more traditional state bureaucracies: they have less tangible steering instruments and are not integrated in an overall reform effort—on the contrary, many new government agencies appear to compete with one another.¹⁴⁶ To the extent that the state has moved into new areas, then, it is a state governed by other norms regarding the purpose of political authority than those governing Swedish politics in earlier decades.

Policy changes in the late 1980s and early 1990s were elite driven: they were not caused by changes in the general public's support for Sweden's generous system of transfers and public services. There was a sudden but temporary decline in the late 1980s and early 1990s in the electorate's support for public spending and public services, but after the deep economic crisis in 1992–1993, public support for these policies and institutions was again high, and reached even higher levels than in previous periods. Diminishing popular support for the welfare state thus proved to be a transient feature of Sweden's political landscape.¹⁴⁷ Possibly, however, norm changes at the elite level, and in the public sphere, coincided with transitory attitudinal changes at the mass level that offered a window of opportunity for policymakers who wanted to reform social policies, and other policies.

I now turn to evidence regarding the effects of norm changes on economic policymaking. One important development was that economic policy and economic institutions were increasingly decoupled from other policy areas. For example, the government permitted increasing *de facto* independence for the central bank. Formally, the central bank was not made independent from the government until the late 1990s, but in practice the central bank behaved very independently from the mid-1980s onwards. This did not necessarily mean that the central bank became more influential and powerful, but it acted more and more on its own, without consulting the government.¹⁴⁸

Another crucial difference between the early 1990s and earlier periods was a shift in priorities between long-term and short-term goals. In 1982, the new social democratic government emphasized that “economic policy cannot be guided by long-term goals only; it must also be adapted to the current economic situation.”¹⁴⁹ In the early 1990s, on the other hand, both the social democratic and the center-right government said that short-term macroeconomic stabilization must not be allowed to interfere with long-term structural reforms that were at this time considered necessary.

The emphasis on long-term goals was most pronounced by the center-right government that was formed after the 1991 election.¹⁵⁰ The government was aware that the costs of disinflation were going to be particularly high, since this process took place in the middle of a severe recession, but any suggestions about keeping demand up and the economy going were resisted: structural changes that had to be made, and short-term economic management was not allowed to interfere with the long-term agenda.¹⁵¹ By structural policies, the government meant “long-term tax cuts, industrial relations, deregulations of telecoms, and parts of the service sector and transports—with the aim of enhancing overall economic efficiency and improving growth,” says Olle Wästberg, state secretary in the Finance Ministry in 1991–1993.¹⁵² Mr. Wästberg’s successor, Carl B. Hamilton, also says that the government’s main agenda was about “long-term economic policy reforms, in the labor market area and in many other policy areas.”¹⁵³ The government feared that it might end up in permanent crisis management, losing the opportunity to implement reforms. Prime Minister Bildt says that “long-term reform policy was to have center-stage. We wanted to establish a more long-term way of thinking about economic problems and the aims of economic policy.”¹⁵⁴ The long-term agenda came first; short-term macroeconomic management came second. At least initially.

By the time the center-right parties came into power in 1991, however, the social democrats had been increasingly concerned with “structural” policies—policies meant to increase economic efficiency through deregulations and tax cuts—for a number of years. The most important policy change in those years was the major tax reform that was approved by the parliament in 1990. In his memoirs, the finance minister, Kjell-Olof Feldt, writes that although he believed that tighter fiscal policy was necessary, he chose to avoid conflicts over macroeconomic policy, since he thought it more important to push through the tax reform.¹⁵⁵ It was “politically impossible to lower taxes for the rich—which was what the tax reform *de facto* meant—and at the same time cut benefits for the sick, the poor, and the old,” Mr. Feldt explains.¹⁵⁶ He sought tax reform because he believed

136 that the existing tax system prevented productivity increases and the success of Swedish firms, and he thought it more important to address these long-term problems than to handle the immediate economic crisis.

Kjell-Olof Feldt's aides testify to the finance minister's—and the Finance Ministry's—increasing preoccupation, from the mid-1980s onwards, with structural policies, as opposed to macroeconomic stabilization. Michael Sohlman says that Mr. Feldt “argued that stabilization policy didn't work anymore, and we should engage in structural policy instead.” Personally, Mr. Sohlman saw this as a “compensating theory that would explain why we didn't do more” for macroeconomic stability.¹⁵⁷ Erik Åsbrink is of a similar opinion: “People rightly pointed to structural problems,” he says, “but it was a mistake to say that these problems were so important that stabilization policy could be disregarded.”¹⁵⁸ The head of the Economic Affairs Department—Lars Heikensten—says that “a lot of what the Finance Ministry did in the late 1980s had to do with structural policy, especially after the 1988 election.”¹⁵⁹ There was a long term reform agenda, not as radical as the subsequent center-right government's, but to some extent, it took precedence over macroeconomic policy in a similar manner. The prime minister welcomed reform. “[T]he period 90–91 is my best,” Ingvar Carlsson says, referring to events such as the tax reform, the deregulation of agriculture, the decentralization of primary and secondary education, the decision on EU-membership, and the Rehnberg accord. “It's incredible how much we accomplished in one single year: that's structural changes for you!”¹⁶⁰

The structural policies of the Finance Ministry was one important reason for conflicts between the government and the LO in the late 1980s. Dan Andersson, the LO economist, says that the government was “interested in structural policies, both when it came to liberalizing markets and when it came to shrinking the welfare state.” The finance minister was “too liberal for the social democrats,” Mr. Andersson's claims. “What occurred in the late 1980s was a substantial liberalization of economic policy and a distrust of the structure and logic of the welfare state.” For that reason, the Finance Ministry “lost the political legitimacy they would have needed to tighten fiscal policy.”¹⁶¹ Per-Olof Edin, the LO's chief economist for much of the 1980s, also suggests that differences over structural policy “made us [the LO] feel that the party didn't care about justice.”¹⁶²

Swedish politicians in the late 1980s and early 1990s had lost faith in the performance of a broad range of government programs, and saw no need to use macroeconomic policy to defend them, as they had done previously. Economic policy changes became possible because norms regarding the role of government changed. These norm changes shifted the attention of eco-

conomic policymakers from the management of immediate macroeconomic problems to long-term structural reform. There were some partisan differences. For example, when the major parties agreed on policies intended to take pressure off the *krona* in the autumn of 1992, the social democrats were inclined to regard the economic crisis as a result of macroeconomic failures, whereas the center-right saw it as a matter of long-term decline. Yet, while opinions differed on the kind of structural reform that was needed, all major parties argued, in the beginning of the 1990s, that structural reform was necessary, and the overriding imperative in earlier periods—that the “Swedish Model” must be defended—was no longer taken for granted.

THE ECONOMIC CONSENSUS

Several scholars have claimed that ideas propagated by economists were crucial in the period that led up to policy changes in the late 1980s and early 1990s.¹⁶³ In particular, these authors have pointed to SNS and its Economic Policy Group. In the mid-1980s, Erik Lundberg, who had chaired the Economic Policy Group for ten years, resigned, and the group was taken over and reformed by Hans Tson Söderström. From the publication of its 1985 report, *Sweden: The Road to Stability (Vägen till ett stabilare Sverige)* and onwards, the SNS economists argued consistently in favor of rules-based economic policies: policymakers, they argued, should commit to a set of rules, in order to achieve credibility and stability. If economic actors expected the government to pursue interventionist policies, they had no incentive to contain price and wage increases, and this would result in spiraling inflation.¹⁶⁴ The most important operative rule was, according to the SNS economists, the fixed exchange rate.¹⁶⁵

Similarities with the policies that were actually pursued in the late 1980s and early 1990s are striking. The center-right government openly argued for rules-based policies (Olle Wästberg says, for example, that “ideas about rules-based policies were crucial in the government’s first year”) and one of the authors of the SNS reports in the second half of the 1980s, Lars Jonung, was economic advisor to the prime minister.¹⁶⁶ But there is also a strong correlation between the ideas expressed in SNS reports and economic policy choices before the 1991 election, from the mid-1980s to the early 1990s.¹⁶⁷ Furthermore, the SNS economists themselves have argued that they were influential.¹⁶⁸ In fact, some of them think that they were too much so. Hans Tson Söderström says that he was surprised to find how the ideas “went straight into the fiscal plans,” and remarks that they were implemented “a little more quickly” and taken “a little more literally” than the SNS

138 economists had expected.¹⁶⁹ Lars Calmfors, another former member of the SNS group, regrets this influence, since he believes that rules-based policies were unsuitable in the economic situation of the early 1990s.¹⁷⁰

The SNS economists indeed met with little opposition from economists, although there were exceptions. Erik Lundberg was one of the more outspoken critics: he wrote in *Dagens Nyheter* that aggregate demand was still an important parameter, and predicted that the problems with rules-based policies would become apparent in case of a deep recession.¹⁷¹ Villy Bergström, who reviewed the 1986 report in *Ekonomisk Debatt*, suggested that the analysis was based on liberal ideas, not economic research, and claimed that rules-based policies would lead to high unemployment.¹⁷² The LO economists were also critical: Dan Andersson points out that they “fought enormously,” and Per-Olof Edin claims that the LO “questioned ideas about rules-based policies analytically, arguing against it as a political and economic idea.”¹⁷³ Furthermore, the 1987 SNS report—which was written by invited economists and political scientists representing the Brookings Institution, an American research institute—favored piecemeal devaluations, which they believed necessary if Sweden was to keep pursuing ambitious employment policies, as they thought that Sweden should.¹⁷⁴ In the early 1990s, when the crucial policy changes had already taken place, other economists presented arguments against rules-based economic policies in *Ekonomisk Debatt*.¹⁷⁵ Many of these articles were reprinted in a book edited by Villy Bergström in 1993: *Why Abandon the Swedish Model? (Varför överge den svenska modellen?)* As for why it took until the early 1990s for ideas about rules-based policies to become challenged, Mr. Bergström says that it was “only then that we started taking it seriously.”¹⁷⁶

Nevertheless, there are strong reasons to doubt that the reports of the SNS economists, and the development of economic ideas in the 1980s generally, explain why Sweden underwent a third-order change around 1990. As the previous chapter showed, the economic thinking that informed policies in the early 1990s—such as the idea that policymakers should commit to certain exchange rate policies in order to stabilize inflationary expectations—was not new to policymakers. In fact, the strategy of the social democrats in 1982 was based on economic ideas quite similar to the ideas that the SNS economists, and others, advocated in the late 1980s. These ideas entered the debate in the early 1980s through international organizations such as the IMF and the OECD, through earlier SNS-reports, and through economic networks within political parties.

According to Kjell-Olof Feldt, the SNS economists only influenced economic policy in 1990–1992—he says that they “did not have any such tan-

gible impact in my time.”¹⁷⁷ One explanation of this statement, which may seem odd, considering the correlation between ideas and policies, is that social democratic economic policies were already shaped by ideas about rules-based policies; they had been ten years earlier. The center-right government that took over from the social democrats was clearly inspired by ideas about rules-based economic policies. Economists advocated such ideas at seminars and meetings in 1991, where the center-right government’s economic strategy was developed, and Olle Wästberg says that reports from the SNS Economic Policy Group “mattered for the government’s way of thinking.”¹⁷⁸

In the 1980s, the SNS economists popularized ideas that had already entered the Swedish debate a few years earlier, and argued consistently for these ideas. But similar ideas appear to have made a strong impression on policymakers in the early 1980s, when policymakers were not persuaded to abandon the objective of full employment.¹⁷⁹ Economists may appear to have become more influential in the late 1980s and early 1990s, since what they were saying resonated with other trends in the Swedish public debate: the SNS reports around 1990 did not only welcome recent developments in macroeconomic policy, but went on to argue that other elements of the “Swedish Model” should be reformed. For example, they wrote that Sweden’s go-it-alone policy in the area of social protection should be discarded.¹⁸⁰ Reports in 1989–1992 were, in a sense, more political than reports in 1985–1988, and the report in 1994 went as far as advocating a “retreat” from the welfare state, in favor of a “welfare society,” since the welfare state was, according to the SNS economists, doomed anyway.¹⁸¹

The triumph of non-Keynesian economic thought was one element in the process of policy change in the 1990s, but Sweden was not a late developer in this regard—Keynesianism was already undermined around 1980—and these intellectual developments cannot explain why it took longer for low and stable inflation to become the main operative target in Sweden than in other countries.¹⁸²

CAPITAL MOBILITY AND EUROPEAN INTEGRATION

The 1980s witnessed a number of changes with regard to the material constraints that economic policymakers faced, but these changes can not explain the third-order shift in macroeconomic policy.

According to one argument, Sweden’s macroeconomic policies changed due to the deregulation of capital controls in the late 1980s, which in combination with the integration of capital and money markets in the

140 1980s restricted the options that policymakers had, and therefore complicated the pursuit of full employment.¹⁸³ This argument explains the resilience of full employment regimes in countries like Sweden and Austria with reference to the protection that these countries enjoyed against speculative financial capital.¹⁸⁴ As I have shown, Sweden's macroeconomic policy autonomy was indeed small when the exchange rate was fixed. But there are a number of reasons why capital controls are not likely to have been the reason why Sweden pursued policies that were different than those in other countries before the late 1980s.

The first reason is that the deregulation of capital controls was in itself a political choice. If regulations had in fact sheltered Sweden, and politicians had thought that this shelter was necessary for pursuing the macroeconomic objectives they gave priority to, they would have refrained from deregulating. The second reason is that if Swedish governments had been prepared to change its exchange rate regime—by floating the *krona* earlier—policy autonomy would have increased, which leaves unanswered the question why Swedish governments were so anxious to maintain a fixed rate in the first place. The third and most important reason is that the controls did not actually provide the kind of protection that would have been necessary for the maintenance of monetary policy autonomy, and they had not done so for many years. While the final step in capital control deregulation was taken in 1989, the process of deregulation had started already in the 1970s, when firms were allowed to take loans abroad, and capital market integration accelerated.¹⁸⁵ The Riksbank's opportunities to pursue autonomous monetary policies to meet domestic goals were therefore small in earlier periods as well. Consequently, the timing of capital control deregulation cannot explain why it took so long before Sweden adopted disinflationary policies.

An internal Riksbank memo from 1979 concerning capital controls notes, for example, that Sweden's "opportunities to have domestic aims for monetary policies are already limited."¹⁸⁶ Lars Wohlin says that when he was governor of the Riksbank, the regulations "slowed down big international capital flows," but "there were major changes after the first OPEC crisis [in 1974], when Swedish firms were allowed to take up loans abroad, in order to finance the current account deficit. In 1980, firms were also allowed to issue stock abroad. But capital flows were not as free as they became when cross-border portfolio investment was allowed [in 1989]. There were thus considerable currency flows on the trade balance and through loans. With a fixed exchange rate, the aim of monetary policy was to maintain balance in currency flows."¹⁸⁷ There was a big difference, then, between the early 1990s

and, say, the 1950s and 1960s, but the major changes with regard to international dependence arguably took place in the 1970s. Mr. Wohlin points out that when he headed the central bank, domestic demand for credit was still controlled—not through interest rates, but through domestic credit market regulations.¹⁸⁸ These were, as we have seen, removed in 1985, something that Mr. Wohlin was very critical of.¹⁸⁹

Another “internationalization” argument overemphasizes the importance of the Swedish government’s wish to join the European Community. In connection with a crisis package in October 1990, the government declared that it would seek “closer affiliation” with the EC. The declaration was unexpected, although the social democratic party’s policy on Europe had been softened at the party congress in 1990. The macroeconomic regime change in the early 1990s coincided, in time, with the policy change on Europe, which has led some scholars to suggest that macroeconomic policy choices were decided by new policies on European integration.¹⁹⁰

European economic and political cooperation intensified in the 1980s. The Single European Act established a single European market in 1986. The European Monetary System—which was initiated in 1979—proved more resilient than previous attempts at European monetary cooperation, which meant that exchange rate policy became increasingly interwoven with the political integration of Western Europe.¹⁹¹ The case has been made that Swedish—and, more broadly, Nordic—economic policy choices in the late 1980s and early 1990s were shaped by policy choices regarding Europe, and that, therefore, economic policy changes can be explained with reference to economic and political changes in the international environment. The 1991 pegging of the Swedish *krona* and other Nordic currencies to the European currency unit is allegedly one example of this trend.¹⁹² In more general terms, the government recognized that if Sweden wished to become a member of the EC, it was necessary to disinflate the Swedish economy and to maintain a stable exchange rate.

Large Swedish manufacturing firms advocated EC membership and their investments in member countries increased a great deal.¹⁹³ Sweden, where representatives of the leading manufacturing firms expected large gains from European cooperation, did join the EU, while countries such as Norway and Iceland, where representatives of the leading sectors (oil, fishing) did not advocate membership, did not join. But the main reason why the social democratic party changed its position on membership was that in 1990, when the government decided to apply for EC membership, the end of the Cold War had removed one important obstacle to Swedish EC

142 membership—Sweden’s policy of neutrality would now be less compromised by participation in the integration of NATO-dominated Western Europe.¹⁹⁴

The Swedish government’s decision to apply for membership in the EC was related to the macroeconomic regime change. The first section in the 1991 fiscal plan dealt with internationalization, and the argument was that the importance of the outside world had increased during the previous decade.¹⁹⁵ By the “outside world,” the government meant the EC, which was described as part of a wider process of international economic integration. Remaining outside the EC would prevent Sweden from reaping the benefits of that process. This seems to indicate that macroeconomic policy changes were indeed motivated by the wish to become a member of the EC.

Studies of the decision process suggests, however, that the wish to join the EC was in itself at least partly caused by disappointment with the performance of the domestic economy.¹⁹⁶ For Ingvar Carlsson, “the fundamental thing was that the Cold War ended. Neutrality, which had been an obstacle, wasn’t an obstacle anymore, which created the possibility for us of becoming members.” But “membership was also an element in the modernization of our economic policy.”¹⁹⁷ Furthermore Allan Larsson, the finance minister, says that the decision to apply for membership was an element in a strategy of economic stabilization. The application for EC membership was a “signal that Sweden was not going to go on with high inflation and then devalue,” he says.¹⁹⁸

Other representatives of the social democrats and the center-right parties also testify to the decoupling of macroeconomic issues on the one hand and issues related to Sweden’s policies on Europe on the other. Gunnar Lund says, “You can’t put the overall reorientation—the emphasis on fighting inflation and all that—on the EU account. It was so obvious that the Swedish economy needed this *so oder so*. It wasn’t like we were thinking ‘Oh, oh, oh—we’re going to join the EU, now we really have to adapt to the mainstream.’”¹⁹⁹ Center-right policymakers agree. Carl B. Hamilton, who represented the Finance Ministry in the negotiations with the EU on membership, says that “[t]here were surprisingly few links” between the discussion about economic policy and the discussion about European policy in the early 1990s, and they “actually followed separate tracks.”²⁰⁰ The defence of the fixed exchange rate specifically wasn’t an effect of Europe, Mr. Hamilton says: ideas about the need to defend the fixed exchange rate in 1989–1992 “were not motivated” by European concerns—“the problem was Swedish wage formation.”²⁰¹

Europe may have turned into a constraint on macroeconomic policymaking over time, especially after the Maastricht agreement was signed and the convergence criteria for membership in the EMU were formulated.²⁰² But in the early stages, in 1989, 1990, and 1991, when the crucial steps to change macroeconomic policy were taken, this was not the case. If the European perspective influenced economic policy it was because it offered an opportunity to provide legitimacy for a new macroeconomic regime that policymakers wanted to establish for other reasons. Allan Larsson, the finance minister in 1990 and 1991, says: “The desire to fight inflation didn’t suddenly appear on October 20, 1990. From the day I came into government, economic policy was very much about putting wage formation in order, to prevent inflation from destroying jobs. Both the EES agreement and EC membership were ways of demonstrating a commitment to this policy, and making it credible.”²⁰³

THE POLITICS OF PURPOSE

In the early 1990s, Swedish political elites had decided to put an end to discretionary macroeconomic policy. The strategy was to commit to a fixed exchange rate, which was to be defended at all costs, using all available economic policy instruments. The strategy failed, in the sense that Sweden could not maintain a fixed exchange rate when the entire European exchange rate system broke down in 1992. However, price stability became, and still is, the main objective of Swedish economic policy, and inflation did decline—in fact, it did as early as 1991–1992. As for why this reversal took place in the early 1990s and not, as in other advanced democracies, ten or fifteen years earlier, this study contends that the crucial difference between the early 1990s and preceding periods was not structural changes, and not new economic ideas: Swedish policymakers believed that they struggled with economic problems that were similar to the problems they struggled with earlier, and they were guided by economic ideas that had become influential some ten years before. In fact, the problems turned out to be quite different. The deep economic crisis was a consequence of a large drop in domestic aggregate demand. But policymakers were not aware of this when the crucial steps to initiate a third-order change were taken. The decision situation around 1990 was shaped by a widespread crisis of confidence in the performance of a wide set of policies. This crisis was brought about by changing norms regarding the role of the state in social life. If the norms that constituted Sweden’s political culture had been as strong as they were earlier, economic policymakers might have attempted to find different so-

144 lutions to the problems that Sweden faced. Perhaps they would have been prepared to pay the price of high inflation, as they had been for quite some time. In the political climate in Sweden in the early 1990s, however, the focus had shifted from defending the Swedish Model to reforming it.

5. CONCLUSIONS

In October 1945, Dag Hammarskjöld, the state secretary in the Swedish Finance Ministry who would one day become Secretary-General of the United Nations, gave a talk in Stockholm. The topic was “Bretton Woods and full employment.” Hammarskjöld discussed potential conflicts between the new international economic order and the aim of full employment, but concluded that the plans drawn up in Bretton Woods would, if realized, provide “the most powerful support ever conceived” for full employment policies.¹ It turned out he was right: in Sweden, as in many other countries, the institutional stability of the post-war decades provided for a “Golden Age” of economic expansion, prosperity, and full employment. This book has described Sweden’s attempts of economic-political adjustment to the far less stable international system that evolved after the final breakdown of the Bretton Woods order in the early 1970s. Eventually, all rich countries changed economic policies and gave up full employment. Sweden was one of the last to do so. The analysis that I have presented demonstrates that to understand such processes of adjustment and change, we must consider both structural economic constraints and opportunities, economic ideas, and norms regarding the purpose of political authority.

There are two reasons why models of economic policymaking should include economic ideas and political norms. The first reason is that political choices are often characterized by great uncertainty, and we must account for how policymakers deal with this uncertainty—that is, for what models of the economy they have in mind when they make decisions. The second reason is that conflicts over economic policy are often about more than the pursuit of macroeconomic objectives as such. This is well-known; for example, many authors have noted that distributive conflicts often compromise macroeconomic stabilization.² But the main claim of the present study is broader. It argues that due to the far-reaching consequences of big macroeconomic policy changes, such changes are in a sense about defending or giving up entire political models, and these models are linked to norms regarding the purpose of political authority.

I have developed three different models of policymaking, which apply to different kinds of policy changes—first-, second- and third-order changes.

146 First-order changes are caused by structural shifts in the economy, which change the opportunities and constraints that policymakers face. Second-order changes are driven by the introduction of new ideas about how the economy works. Third-order changes take place when political norms are transformed. The explanation for the trajectory of Swedish economic policy—and for the fact that Swedish governments delayed the transition from full employment policies to disinflation in comparison with other advanced economies—is that the norms that constituted Swedish political culture in the post-Second World War period remained strong until the late 1980s. According to these norms, the state should solve social problems in a certain way, and while they were honored, policymakers were not prepared to give up the defence of full employment, even if that policy was costly in terms of high inflation and economic instability.

MAIN FINDINGS

My analysis of economic policy changes in Sweden is consistent with the argument that three different models of policymaking—the politics of bargaining, the politics of expertise and the politics of purpose—apply to different kinds of policy changes. *Table 4* summarizes the main findings.

The first-order change in the mid-1970s, when Sweden went from austere to expansionary fiscal policies, appears to have been a result of material changes in the international economic system and in the domestic economy in the early 1970s. The Swedish economy was destabilized by structural changes and exogenous shocks, which created new and difficult problems for domestic economic management. Initially, the government, the opposition parties, and major interest organizations bargained over how to adjust to the new situation, without changing policy in any fundamental way: the same instrument (fiscal policy) was used to meet the same target (full employment). This response to the international crisis took place in an intellectual environment dominated by Keynesianism. Economists supported interventionism and encouraged policy activism. As for norms regarding the purpose of political authority, the pace of social reform was very high in the 1970s, and norms prescribing that the state should solve social problems were strong. These observations confirm the hypothesis that first-order changes are driven by material changes in the economy, not by changing ideas or norms.

The second-order change in the early 1980s, when policymakers gave up fiscal policy as an instrument of macroeconomic stabilization and instead used exchange rate policy to maintain full employment, was at least partly a result of the appearance and application of new ways of thinking

TABLE 4. MAIN FINDINGS

| <i>Mid-1970s</i> | <i>Early 1980s</i> | <i>Early 1990s</i> |
|---|--|--|
| First-order change: from cautious fiscal policy to active, interventionist fiscal policy and a strategy of general domestic expansion. | Second-order change: from active fiscal policy to active exchange rate policy and a strategy of external adjustment. | Third-order change: from the pursuit of full employment to the pursuit of low inflation and a strategy of domestic adjustment. |
| Structural changes in the world economy, such as the disintegration of the Bretton Woods system, and sudden shocks, such as the oil crisis, present policymakers with a new set of problems. | Opportunities and constraints are similar to those in the preceding period; wage inflation is seen as the main challenge to economic stability. | Policymakers address problems similar to those in the previous period, and wage inflation is seen as the major challenge to economic stability. With hindsight, it appears that the crisis in the early 1990s was in fact caused by a drop in domestic demand. This was not well understood until 1992–1993. |
| Keynesian economics dominate the Swedish debate, and fixes the attention of policymakers on fiscal policy and demand management. | Non-Keynesian economic thought influences the Swedish debate, reducing faith in fiscal policy as a stabilization instrument and promoting ideas about rules-based policies. | Ideas about rules-based policies are popularized and proliferated. |
| The norms regarding the state's role in society that dominated Swedish political culture in the Golden Age prevail. Expansion of the public sector. Strong faith in the government's capacity for social problem solving, and in corporatist decision making. | Continued dominance of similar norms regarding the state's role in society. Minor reforms in some policy areas. Halt in the expansion of the public sector. | Major changes in several policy areas, involving decentralization and administrative reform, although core elements of the Swedish model are preserved. Decreasing faith in corporatist decision making. |
| Broad political agreement on the change in macroeconomic strategy. Parties agree on domestic expansion, but disagree on the amount of fiscal stimulus needed and on the specific mix and design of expansionary policies. | Broad political agreement on the change in macroeconomic strategy. Both within the center-right government that ruled until 1982 and within the subsequent social democratic government, small groups of experts pick up new ideas and apply them in policy formation. | Broad political agreement on the change in macroeconomic strategy. Experts and key politicians agree that reform is necessary. Economic policy decoupled from other policy areas. |

148 about the macroeconomy—in particular the decline of Keynesian economics. Economic theories changed, as did the way in which economic experts analyzed the economy. Policymakers reformulated economic policies in accordance with new theories, and implemented a second-order policy shift, but they were not prepared to go as far as adopting new policy objectives, since policy choices were made in an environment where adherence to post-war norms regarding the purpose of political authority was still strong. There were, of course, important material differences between the mid-1970s and the early 1980s, which may have contributed to political reorientation (in particular, the budget deficit was very large), but there is enough evidence that the way in which policymakers thought about economic problems was influenced by new economic ideas. The hypothesis that second-order changes are made possible by the introduction of new ideas by epistemic communities has empirical support.

Finally, the third-order change in the early 1990s, when low inflation was given priority over full employment, came about as a result of changing norms regarding the purpose of political authority. The resilience of these norms explains why Sweden underwent the transition from full employment to disinflation ten to fifteen years later than other advanced, industrialized countries. Meanwhile, there was continuity with regard to economic ideas: the ideas about rules-based economic policies that dominated the Swedish economics discussion in the early 1990s were very similar to ideas that had already found their way into policymaking circles and shaped policies in the early 1980s. As in the previous period, structural changes had reshaped the decision situation that policymakers were in somewhat, but there is still support for the hypothesis that third-order policy changes are only possible when established norms are undermined and lose their power over political elites and the public sphere.

As expected, the role of partisan politics and the arenas where we would normally expect political conflicts to be resolved in a democratic society has been limited in all three sub-periods. This does not mean that there were no partisan differences. For example, in the early to mid-1970s, the center-right parties pushed the social democratic government to pursue more expansionary policies, and in the 1980s, the social democratic government's strategy of economic recovery involved a 16 percent devaluation, which was a far larger exchange rate adjustment than the center-right would have been likely to make if they had won the election in 1982. But in terms of overall economic strategies, the similarities are far more striking than the differences. Partisan differences appear to have been the smallest in the periods when the third-order economic policy change took place,

and as *figure 3* showed (see chapter two), the election campaigns in 1988 and 1991 were two of the three election campaigns in recent decades when economic policy was least politicized (the third campaign was the one in 1976). Furthermore, as in some other countries, the third-order change whereby low inflation was given priority over full employment as the primary objective of economic policy was initiated by the social democrats, not, as one might have expected, by the center-right.³

Material interests, economic ideas and political norms all shape economic policies, but it is possible to specify when—that is, in what decision situations—these factors become more or less important. The analytical device that I have used is a distinction between three different categories of economic policy change. While there may be other, more precise taxonomies, this one has been sufficiently precise to make sense of the complex sequence of economic changes that took place in Sweden in the decades after the Golden Age.

NORMS AND POLITICS

The most important implication of this analysis is that economic policy-making is structured by norms regarding the purpose of political authority. In other words, one important factor in politics is how people think about the state. Other scholars have demonstrated the power of government bureaucracies and the importance of state structures.⁴ My argument goes further: the state's involvement in social life also produces expectations, norms, regarding the state's role and purpose. The assumptions that political and economic elites, and the public, make about the role of the state in society have profound implications for public policy.

One student of politics who saw this dynamic early on was E. E. Schattschneider. When full employment policies first appeared in the first half of the twentieth century, Schattschneider argued that this would have profound consequences for the way citizens thought about politics and government: "What people do about the government depends on what they think the government is able to do. Therefore, the idea that the government is now able to protect people against the most dreaded of the manifestations of economic instability is almost certain to have a great impact on the political behavior of millions of people, many of whom have never before been drawn into the orbit of politics." Schattschneider concluded that "the launching of a new program for high-level employment implies that the political system will be made to work in ways in which it has never worked before."⁵ Policies for full employment did lead to new

ways of thinking about the state. In countries like Sweden, it may even be said that the objective of full employment became linked to the very idea of the modern state—it was taken for granted that the state should be a provider of full employment. This particular issue was removed from party politics and electoral competition.

Abandoning full employment policies in favor of disinflation was a process intimately linked to developments on the level of norms: just as full employment had led to new ways of thinking about the state, giving up that objective required a break with these norms. The third-order macroeconomic policy shift in the early 1990s took place in a period when there were major changes with regard to the state's role in society. These changes enabled the Finance Ministry and the central bank to address economic problems in a new way, decoupling economic policy from other policy areas. Before norms changed, this had not been possible.

If norms explain why the turn to disinflationary economic policies took place some ten to fifteen years later in Sweden than in other countries, then by implication, there must have been something about the norms that governed Swedish politics that was different from political norms in other countries: something made the Swedish norms last longer in a hostile economic environment. The research design of this study does not allow for systematic analysis of this issue, but it is likely that the resilience of Swedish norms regarding the role of the state had something to do with the complementarities of Sweden's institutions and policies. The more developments in one area depend on developments in others—or, to put it differently, the more a society thinks of itself as having a “model,” such as the “Swedish Model”—the more entrenched do norms get.

Norms are not all-powerful. If the costs of maintaining a certain policy stance become very high, norms will not sustain those policies indefinitely, no matter how well they fit the role attributed to the state in a particular political culture. In the long run, high costs—in terms of, for example, economic instability—will bring about the norm changes that are necessary for third-order policy change; perhaps, in a sense, this is what happened in Sweden in the 1980s. Still, the Swedish experience shows that at least for a while, strong norms can sustain policies that are abandoned in other, broadly similar countries. Ten to fifteen years is a long time in politics, and time matters—the fact that it took ten to fifteen years longer for Swedish governments than for the governments elsewhere to adopt disinflationary policies is likely to have had important political consequences. It is legitimate for political scientists to study transient, short-lived trends and developments—such phenomena still say something important about poli-

tics, and as one great social scientist once put it, “the *long run* is a misleading guide to current affairs. *In the long run* we are all dead.”⁶

IDEAS AND POLITICS

Economic ideas have real but limited effects on economic policy. Authors like Mark Blyth rightly point to the importance of economic ideas for policymaking, specifically for how politicians deal with uncertainty. But an analysis of changes at the level of economic ideas cannot tell us the whole story of why the Swedish case was special and why Swedish governments hesitated to adopt disinflationary policies. Economists did not say other things in the late 1980s and early 1990s than they had already said in the early 1980s, and the economic advisors who picked up new ideas and applied them in policymaking appear to have been thinking about the economy in roughly the same manner in these two periods—in fact, more or less the same persons held key positions in both periods. Economic ideas did not make the difference. Economists on the right attacked the Swedish Model with more self-confidence and radicalism in the early 1990s than ten years earlier, but this difference in rhetoric was an effect of changes in the political environment, not of economic idea changes as such.

It could be argued that economic ideas drive norm changes, but that is overstating the effects of ideas. The voices of economists and those disseminating and using economic ideas are only a few voices among many others in political debates. There is no reason to assume that they are privileged outside their own area of expertise. It is more plausible to argue that economic debates are structured by norms regarding the domain and purpose of political authority. Of course, economists on both left and right often become political advocates in a broader sense. In Sweden in the 1980s, for example, the economists and policy entrepreneurs that picked up new economic ideas came to believe that changes in the area of economic policy would not be enough in order to achieve the results they wanted. Therefore, they started to advocate not only more radical macroeconomic policy change but change in other areas too—they became ideological advocates, and ceased speaking as experts. No one would have listened if what they said was not consistent with broader political norm changes.

Economists are experts, and an expert, as Schattschneider reminds us, “chooses to be ignorant about many things so that he may know all about one.”⁷ The influence of the expert comes mainly from his or her expertise. In certain situations, experts acquire influence by being the ones that provide politicians with ideas about how to reform policy. Modern poli-

152 tics relies on expertise, but experts cannot decide which political aims are worthy and which are not. The proper role of the expert is to offer advice on the nature of cause-effect relationships in the social world. They are not more qualified than others to judge what ends are reasonable to pursue, and what political authority should be used for.

POLITICAL RESPONSES TO ECONOMIC CHANGE

Economic and structural changes are prime movers in processes of policy change, but economic ideas and political norms shape government responses to economic events. This study has shown that the series of policy changes that took place in Sweden in the 1970s, 1980s and 1990s started with the destabilization of the Golden Age social contract through developments in the domestic and international economies in the early 1970s. However, the subsequent trajectory of policy changes and the timing of the turn to disinflationary policies cannot be understood without considering political norms and economic ideas. The authors that have pointed to the importance of the structural and institutional characteristics of the Swedish political economy are right in the sense that these structural and institutional changes altered crucial parameters of policymaking. But in so far as we are concerned with the reasons why Sweden was different in the period after the Golden Age, and fought for full employment longer, it seems that explanations that refer only to material constraints and opportunities are insufficient.

Models where policy changes are analyzed in terms of rational responses to events in the economy explain first-order changes well, but fail to account for second- and third-order changes. The reason is that the assumptions of rationalist models are met reasonably well in studies of behavior within stable political-economic regimes, but not in studies of change and discontinuity. Contemporary research in comparative political economy often focuses on differences between national political-economic models, or *regimes*, with reference to equilibria that become established over time through various kinds of feedback mechanisms.⁸ In these models, all politics is about the politics of bargaining: actors conform to certain patterns of behavior because it is in their interest to do so. These equilibrium-oriented approaches are often criticized for not offering analyses of the initial steps in the establishment of political-economic models—the “formative moments.” The reason for that failure, I argue, is that in times of major (second- or third-order) political change, the beliefs and preferences of actors are unstable. Explanatory models must therefore account for how

and why beliefs and preferences change. The models presented in this study arguably offer a more realistic and comprehensive account of economic policymaking in times of uncertainty and reform.

ECONOMIC AND POLITICAL CHANGE IN THE TWENTIETH CENTURY

In historical perspective, the economic policy changes that took place in Sweden in the early 1990s were extraordinary. In 1946, in his first address to the parliament as prime minister, Tage Erlander, who would remain prime minister until 1969, described the overall aims of his government, and emphasized the role of full employment: “Employment policies,” he said, “have always, for as long as there has been a social democratic party, been our main concern. We believe it to be so important that no doctrines, no traditional ways of thinking, will prevent us from trying, without prejudice, to find the way to a society where employment is secure.”⁹ This vision was shared by later generations of social democrats, and by leaders of other parties. For about fifty years, from around 1940 to around 1990, employment was *the* political objective in Sweden. Indeed, the goal of full employment became intertwined with the very idea of the modern state. The story of the rise and fall of interventionist macroeconomic policy in Sweden is the story of the rise and fall of an ambitious state, expanding in the social world, acting in concert with the major interest organizations in Swedish society.

This study has treated the 1970–2000 period as a set of discrete observations. While this analytical approach has obvious advantages, it also has some important drawbacks. Most importantly, it makes it hard to discern how explanatory factors interact, and whether certain explanatory factors—such as ideas and norms—are endogenous, shaped by other factors in the models. To shed more light on these problems, this section compares the 1970–2000 period as a whole with earlier periods when Swedish economic policy underwent substantial changes: the 1930s and the 1950s. Obviously, this comparison does not amount to a proper investigation; it is only an illustration of some of the themes that this thesis has dealt with.

Like the 1990s, the 1930s witnessed a third-order economic policy change. In fact, the sequence of policy changes in the 1920s and 1930s resembled developments in the 1970s, 1980s and 1990s in many ways. Policy changes in the 1930s originated in structural economic changes and shocks, such as the world economic crisis (the Great Depression) and the appearance of mass unemployment. Much like in the 1970s, policymakers responded to economic events, and to material changes that created new constraints and opportunities for policymaking. Eventually, these material changes would produce

154 new coalitions and cleavages in Swedish society—a deal between workers and farmers, a compromise between labor and capital—but these did not come about immediately. In the 1920s, policymakers and other actors responded within the intellectual and normative boundaries that were drawn by dominant economic theories and shared understandings of the role of the state.

Intellectual boundaries were shifted because of the introduction of Keynesian economic ideas. Some authors may have exaggerated the role of economic experts—underestimating the importance of purely political transformations in the 1930s—but in some sense, new economic ideas were necessary for policy shifts.¹⁰ Before Keynesianism, reform-minded policymakers lacked specific ideas about how to formulate new policies.¹¹ Political leaders like the finance minister, Ernst Wigforss, were inspired by Keynes's ideas and ideas advocated by members of the proto-Keynesian Stockholm School, and prominent Swedish economists participated in policymaking, arguing the case for countercyclical demand management.¹² The introduction of new economic ideas took place in the 1930s.

It would be a mistake, however, to interpret events in the 1930s only as effects of new bargains and new ideas about economic management. Political developments in the 1930s were also driven by the politics of purpose. The 1930s witnessed the development of new political norms, new ways of thinking about the role of the state in society, and these norms were consolidated in the late 1930s and during the Second World War. First of all, events in the early 1930s represented a breakthrough for the ideology of social partnership. Instead of attempting to weaken interest organizations, the government now attempted to strengthen them, to enable elite-level negotiations.¹³ The year 1932 therefore represents the breakthrough of Swedish corporatism. Over time, this mode of political problem solving became the default option in Swedish political interaction; both wartime planning and post-war economic rationalization were characterized by similar patterns of interaction.¹⁴

Norm changes were not limited to the role of organized interests. In a material and ideological sense, macroeconomic policy choices in the 1930s set the stage for the expansion of the welfare state. For the social democrats, the point of macroeconomic management was not just to lower unemployment in the short term, it was also to increase the political power of labor by maintaining full employment in the long term, and to amass resources that were necessary for increasing social protection through services and transfers. Also, on an ideological level, active macroeconomic management in the 1930s provided legitimacy for the further expansion of government and the

increasing economic role and influence of the state. By abandoning previous ideological positions, the labor movement and other progressives managed to transform the state into an instrument for social reform.¹⁵

This brief overview suggests that there were many similarities between the period from the late 1920s to the Second World War on the one hand and the post-Golden Age decades on the other. This suggests that the argument of the present study does not only apply to one particular case, but it may also lead to the suspicion that first-order changes always lead to second-order changes and second-order changes always lead to third-order changes, which as I noted in the first chapter would diminish the importance of analyzing the politics of expertise and purpose; they would just be mechanisms through which structural economic change produces policy shifts.

But a comparison with another crucial period in the history of Swedish economic policy—the 1950s—demonstrates that not all sequences of policy change are the same. After the second-order change that took place when the Rehn-Meidner model was institutionalized, there was no subsequent third-order change. In the late 1940s the government had tried to solve Sweden's problems by means of incomes policies, which had failed. Instead, the government turned to the ideas that Rehn and Meidner had developed. But full employment was still the overriding objective in that model. Arguably, the reason why the second-order change did not lead to third-order change was that the new policies were consistent with the norms that prevailed in the political system as a whole: second-order policy change did not produce inconsistencies that undermined the institutional order and its normative underpinnings, as economic policies in the 1980s did. The crucial policy change in the 1950s (the breakthrough of the Rehn-Meidner model) did not create pressure for more radical change. Indeed, Tage Erlander notes that the policies that came out of the application of the Rehn-Meidner model were “an extension of the ideas that the party fought for in Wigforss's and Möller's time.”¹⁶

KEYNES'S QUESTION

In the mid-1960s, Andrew Schonfield noted that the Swedish Government “has taken the policy of full employment more seriously than other Western countries.” He suggested that Sweden was “more firmly committed than other nations to the triple objective of full employment, rapid growth, and a very high level of social welfare.”¹⁷ Swedish governments were well aware of this Swedish exceptionalism, and took for granted

156 that Sweden should choose full employment over other objectives. In 1946, Tage Erlander had said that for the social democrats, nothing was more important than full employment. In the mid-1980s, Olof Palme, Erlander's disciple and successor, said that Sweden was drawn into an ideological battle, a struggle for welfare and full employment, which in the final analysis amounted to a defence of "the highest level of civilization that any society has ever attained."¹⁸ This image of how a decent society should be organized kept Swedish governments from accepting mass unemployment, until the late 1980s and early 1990s, when the spell was broken.

In the final passage of *General Theory*, Keynes asked, "Is the fulfilment of these ideas a visionary hope? Have they insufficient roots in the motives which govern political society? Are the interests which they thwart stronger and more obvious than those which they will serve?"¹⁹ This study has shown that all three shape economic policies: interests, ideas, and the norms that govern political society. But these forces become more or less potent depending on the character of the decision-situations that policymakers face. With hindsight, we know the answer to Keynes's question. The ideas of *General Theory* shaped economic policies in the first decades after the Second World War, in Sweden as in many other countries. With time, strong and obvious interests were mobilized against those policies, but change also required new, contending ideas about the economy, and not even that was enough: radical policy change required a norm change in political society. Economic policy decisions are not simply technical responses to material challenges; they are shaped by norms regarding the appropriate domain and aims of the modern state.

NOTES

I. THREE MODELS

- 1 See Scharpf & Schmidt 2000b, p. 321. On the importance of macroeconomic policy for Sweden's unemployment performance in the 1980s, see Calmfors 1993, pp. 44–53. Austria, Norway, and Switzerland also managed to achieve low unemployment until the late 1980s and early 1990s, but by other means. The Norwegian situation is special, due to the Norwegian oil wealth. On Austria and Switzerland, see Scharpf 2000, p. 57 ff., and Hemerijck & Schludi 2000, pp. 154–157, 176–180.
- 2 See Huber & Stephens 2001, p. 302.
- 3 See, for example, Lindeborg 2001, p. 353 ff., and Garne 2001, p. 134.
- 4 This observation is not new; see, for example, Pontusson 1992b, and Blyth 2002, p. 207 f. I translate the names of major Swedish political parties as follows. *Vänsterpartiet* (earlier *Vänsterpartiet kommunisterna*): The Left Party. *Socialdemokratiska arbetarepartiet*: The Social Democratic Party. *Moderata samlingspartiet*: The Moderate Party. *Folkpartiet liberalerna* (earlier *Folkpartiet*): The Liberal Party. *Centerpartiet*: The Centre Party. *Kristdemokraterna* (earlier *Kristen demokratisk samling*, *Kristdemokratiska samhällspartiet*): The Christian Democrats. *Miljöpartiet (de gröna)*: The Green Party.
- 5 For the distinction between first-, second-, and third-order policy changes, see Hall 1993 and the extensive discussion later in this chapter.
- 6 Simon 1947, p. 79. On the structure of rationalist explanations, see, for example, Elster 1986, p. 12–16.
- 7 Cf. Simon 1957, p. 199 ff.
- 8 See Friedman 1968, p. 1. Cf. Scharpf 1991, p. 25 ff.
- 9 See Hall 1993, p. 278 f.
- 10 Hall 1993, p. 280.
- 11 On the “extra-rational,” see Keohane 1996. James March and Johan Olsen (1989, p. 23 f.) has called these two theories of action “the logic of consequences” and “the logic of appropriateness.”
- 12 On political culture, see Eckstein 1988, 1997; on sociological institutionalism, see Powell & DiMaggio 1991; on constructivism, see Katzenstein 1996, Checkel 1998, and Finnemore & Sikkink 2001.
- 13 On the similarities between various approaches to norm-driven action, see DiMaggio & Powell 1991, p. 3, March 1994, p. 58, and Jepperson et al. 1996, pp. 37–52.
- 14 See Simon 1957, p. 1, Elster 1989, p. 97 f., and Elster 1990, p. 47. Cf. Scharpf 1997, p. 21 f. Mark Granovetter (1985) warns that human action should not be conceptualized in either “under-socialized” or “over-socialized” ways (p. 483).
- 15 See Weber 1978 [1921], p. 24 ff.
- 16 Rapoport 1960, p. 359.
- 17 Cf. Rapoport 1960, p. 12. For another argument where the nature of policy shapes the political process, see Lowi 1972, p. 299.
- 18 See Ullmann-Margalit 1986, p. 442 f. On the importance of the sizes of decisions, see also Elster 1986, p. 19 f., and Elster 1990, p. 40.
- 19 For similar arguments about combining rational and non-rational explanations, see Finnemore 1996, pp. 28–31, and March & Olsen 1998, p. 953.
- 20 See Tsebelis 1990, p. 32 f.
- 21 Cf. Alvarez et al. 1991, p. 540.
- 22 Cooper 1968, chapter 6, discusses the impact of increasing international openness on macroeconomic policy. On the openness of small, corporatist countries, and its effects on politics, see Katzenstein 1985.
- 23 See, for example, Garrett 1998, pp. 41–45.
- 24 See Milner & Keohane 1996, p. 247 ff., and Berger 1996, pp. 7–11.
- 25 See Iversen 1999, Swenson & Pontusson 2000, and Garrett & Way 1999.
- 26 For recent collections of papers, see Kitschelt et al. 1999, Iversen et al. 2000, Scharpf & Schmidt 2000a, vol. 1–2, and Hall & Soskice 2001.
- 27 Cf. Hall 1986, p. 4.
- 28 See Blyth 2001, p. 3.
- 29 See Goldstein & Keohane 1993, pp. 13–17, and Denzau & North 1994, pp. 5–9.
- 30 Hecló 1974, p. 305.

- 31 See Blyth 2002, p. 39 ff.
- 32 See Haas 1992, p. 2.
- 33 For recent studies of the role of economic ideas in policymaking, see McNamara 1998, Marcussen 2000, and Blyth 2002. For a general overview, see Nelson 1987. For an overview of literature about the effects of ideas on policy, see, for example, Yee 1996.
- 34 On the political impact of Keynesianism, see the contributions to Hall 1989. See also Przeworski 1985, pp. 207–211, and, regarding the Swedish case, Lewin 1967, pp. 59–80. The argument that Keynesianism had this role is controversial—in some countries, such as Sweden, policy changes predated the “Keynesian revolution,” and there are those who suggest that the notion of such a revolution is inaccurate in the first place (see Laidler 1999). For a critical analysis of the role of economic ideas in Swedish politics in the 1930s, see Unga 1976. Sandelin et al. 2000 call Sweden a country of policy-intensive economists and economist-intensive policymaking.
- 35 In this model, the effects of ideas are not primarily conditioned by social interest groups and/or institutions—as in Walsh 2000 and the contributions to Hall 1989—but by *decision situations*. Of course, there is in principle no contradiction between these two arguments.
- 36 On nesting, see Tsebelis 1990. I am grateful to Chris Way for advising me to use this term.
- 37 See Esping-Andersen 1990, p. 28.
- 38 For a discussion of the concept of a *public sphere*, see Habermas 1996, chapter 8. For an empirical application, see Lynch 1999.
- 39 See Jürgen Habermas, “Citizenship and National Identity” (reprinted in Habermas 1996, appendix 2). For studies of European monetary cooperation and the European Monetary Union that draw on epistemic community models, see McNamara 1998, and Marcussen 1999.
- 40 Cf. Hall 1993, p. 288 f. See also Schmidt 2000.
- 41 On policy entrepreneurs, see Checkel 1997, pp. 8–11.
- 42 See Johnson 1998, pp. 7–16.
- 43 See Fourcade-Gourinchas 2001. A similar point was made by the Swedish economist Erik Lundberg in his *Konjunkturer och ekonomisk politik*; see Lundberg 1953b, p. 235 f.
- 44 Weir 1992, p. 169. Cf. Berman 1998, p. 21 f., on “programmatically beliefs,” which Berman describes as a middle range of ideas, between “ideologies” and “policy positions.”
- 45 See Hemerijck & Schludi 2000, p. 134.
- 46 See, for example, Hall 1997, p. 194.
- 47 On norm change, see March 1994, pp. 76–100. Cf. Eckstein 1988, pp. 793–801.
- 48 For a discussion of the role of “purpose” in politics, see Abdelal 2001, pp. 26, 39 ff.
- 49 See Elster 1989, p. 98.
- 50 Myrdal 1944, p. lxii.
- 51 Swidler 2001, p. 212 f.
- 52 von Wright 1963, p. 9.
- 53 On the absence of constructivism in comparative political economy, see Finnemore & Sikkink 2001, pp. 404–407.
- 54 Weir 1992, p. 163.
- 55 See Dobbin 1994, pp. 19–26. and Katzenstein 1985, p. 87 ff.
- 56 Myrdal 1944, p. lxxii.
- 57 See Swidler 2001, p. 24.
- 58 See Rothstein 1991.
- 59 Premfors 2000, chapter 7, identifies four different definitions of the “Swedish Model.”
- 60 Voter concern with these radical policies appears to have been an important factor in the center-right victory in the 1976 election; see Petersson 1977, p. 201.
- 61 For a discussion about the role of the social democrats for social reform in Sweden, see Svensson 1994, pp. 12–17. According to Svensson, the social democrats have appropriated the advocacy of social reform, although there were non-social democratic traditions of social reform in earlier periods. See also Uddhamar 1993.
- 62 Cf. Berman 2001, pp. 241–244.
- 63 See Iversen 1998, p. 66, and Iversen 1999, pp. 120–151. Cf. Notermans 2000, p. 195–221, and Moene & Wallerstein 1999, p. 259 f. Cf. also Scharpf 1991, chapter 6.
- 64 See Swenson & Pontusson 2000. Cf. Elvander 1988, Pontusson 1992b, and for a different view, Wallerstein & Golden 1997.
- 65 See Moses 1994, p. 139 ff. Cf. Kurzer 1993, p. 22 f. For an analysis of the timing and determinants of capital control liberalization in advanced economies, see Goodman & Pauly 1993.
- 66 See, for example, Moses 1995, p. 81 ff.
- 67 See Ingebritsen 1998.
- 68 For a detailed study of the Swedish case that it based on a learning argument, see Jonung 1999.
- 69 For a discussion of Bayesian models and their applications in the social sciences, see Breen 1999.
- 70 See Hibbs 1977. For an overview of the relevant literature, see Franzese 2002b. For recent contributions by political scientists, see Garrett 1998, Boix 2000, and Franzese 2002a.
- 71 See Lewin 1967, p. 273 ff. For a study of in-

- vestment policies in the post-war period, see Pontusson 1992a.
- 72 See Löwdin 1998. See, however, Erlandsson (forthcoming).
- 73 See Blyth 2001, and Blyth 2002, chapter 7. See also, on Swedish economics and its effects on policy, V. Bergström 1993a, and Hugemark 1994.
- 74 See Blyth 2002, pp. 30–34.
- 75 See Andersson & Lindvall 2003.
- 76 See also A. Bergström 1995, who has analyzed macroeconomic policies in the 1970s. Mjøset 1987 discusses developments in the 1970s and early 1980s, focusing on the influence of key economic sectors. Jonung 1993 and Wihlborg 1993 study monetary and exchange rate policy. Benner 1997 and Ryner 2002 cover economic policies in general, not just macroeconomic policies. See also Heclo & Madsen 1987, chapter 2. Other studies of economic policy in recent decades deal with particular events, such as the deregulations of the credit market and capital controls in the 1980s: see OECD 1988, chapter 10, Pierre 1999, Strandberg 1999, Sundelius et al. 1997, chapter 5, and Telasuo 2000. There are many studies of earlier periods, such as the 1930s and the immediate post-war period. Lewin 1967 is a comprehensive study of Swedish macroeconomic policy from the 1920s to the mid-1960s. For studies of the policy development in the 1930s, see Landgren 1960, and Unga 1976. International contributions to the literature on the pre-war period include Weir & Skocpol 1985, and Gourevitch 1986, pp. 131–135. On the first post-war decades, see especially Lindbeck 1975.
- 77 They are, for example, included in the periodizations made in Lindbeck 1997, p. 1302 ff. (although Lindbeck dates the end of the “Keynesian,” demand-management regime to the mid-1970s, whereas I date its end to around 1980), and in Jonung 1999, pp. 24–32.
- 78 See Campbell & Stanley 1966, p. 37.
- 79 See Campbell & Stanley 1966, p. 39.
- 80 See Campbell & Stanley 1966, p. 41 f. Another problem pointed out by the same authors is that seasonal or cyclical variation in the dependent variable may be mistaken for changes induced by changes in independent variables (see p. 39 f.), but this is not likely to be a problem in the present study.
- 81 See Haydu 1998, p. 340.
- 82 See Lieberman 2001, p. 1014. Cf. King et al. 1994, p. 222.
- 83 See King et al. 1994, p. 222.
- 84 See King et al. 1994, pp. 129 ff., 141 f.
- 85 See Collier & Mahoney 1996, p. 62 f.
- 86 See Jonung 1999, pp. 19 f., 59.
- 87 Pontusson 1997, p. 55.
- 88 See especially Hall 2003. Cf., for example, George & McKeown 1985.
- 89 Hall 2003, p. 394.
- 90 See Hall 2003, p. 393 f.
- 91 Cf. Berman 2001, p. 241 ff. Cf. Checkel 1997, p. 8 ff.
- 92 James Fearon (1991, p. 193) advises scholars using counterfactual arguments to focus on options that were actually considered, in order to avoid counterfactual assertions that are inconsistent with the underlying theories.
- 93 Cf. Tosh 2002, p. 98.
- 94 See Hadenius 1984.
- 95 See Lane & Back 1989, p. 67. The fiscal plans are often included as appendix no. 1 in budget bills and supplementary budget bills. Page numbers refer to these appendices.
- 96 See Löwdin 1998, p. 17.
- 97 For an introduction to the psychology of memory that discusses various ways in which memory can fail us, see Schacter 2001.
- 98 See especially Feldt 1991, Dennis 1998, and Carlsson 2003.
- 99 One collection that deserves special mention is Anne Wibble’s papers, which I studied in 2001. Wibble, who was finance minister between 1991 and 1994, saved copies of much of her e-mail correspondence and in the dramatic autumn of 1992 made daily notes regarding conversations with—for example—the central bank governor. See Hamilton & Stuart 2003 for an overview of this archive.
- 100 See, for example, Jon Elster’s comments on this issue in Swedberg 1990, p. 245 f.
- 101 See Eckstein 1988, p. 32 ff.
- 102 Furthermore, I have studied articles from major Swedish daily newspapers, gathered in the two main Swedish collections of newspaper clippings in Sigtuna and Uppsala. I am grateful to *Sigunastiftelsen* for granting me access to its collections, and to Lars Jonung, who has allowed me to use his personal archive, which is based on the Uppsala collection. Another source is contributions by economists and policymakers who have themselves written about the role of economics in politics (of particular interest in this respect are the contributions to Jonung 1996).

NOTES TO CHAPTER 2

- 1 “[M]in engelska källa i Whitehall säger att ‘we are very frightened.’” Vindé 1973.
- 2 “... *ville* inte se att eljekrisen kunde vara

- allvarlig och påverka vår ekonomi 1974.” Vinde 1973. Author’s translation.
- 3 For a discussion concerning the policy stance of other OECD countries, see Prop. 1975:1, pp. 2, 16. Regarding the ideas behind Swedish policies, see p. 23 in the same document.
 - 4 See Notermans 2000, pp. 163, 195. Cf. Jonung 1999.
 - 5 See Erlander 1974, pp. 37 ff., 234 ff.
 - 6 For the report where the Rehn-Meidner model was formulated, see LO 1951. For discussions of the Rehn-Meidner model, see, for example, Lewin 1967, p. 367 ff., Pontusson 1992a, p. 59–68, and Erixon 2001. For Gösta Rehn’s own account of the development, see Rehn 1977. The term “island of unemployment” was used in a memorandum prepared by Gösta Rehn in the early 1950s; it is quoted in Erlander 1974, p. 234 ff. On Tage Erlander’s conversion to Rehn’s and Meidner’s ideas, see Erlander 1974, p. 240, and Erlander 1976, p. 37 ff.
 - 7 Cf. Notermans 2000, p. 163.
 - 8 See LO 1951, p. 147. See also Erixon 2003, p. 106 f., for a discussion.
 - 9 Cf. Huber & Stephens 2001, especially p. 101.
 - 10 On the reasoning behind policies in the early 1970s, see, for example, Prop. 1971:1, p. 20 ff. Regarding Gunnar Sträng’s overall approach to macroeconomic policy, and the reasons for his doubts regarding generally expansionary policies, see Sträng 1977, pp. 108–113.
 - 11 See Jonung 1999, chapter 6, for a description of macroeconomic thinking in Sweden around 1970. On the position of Keynesianism, see especially p. 132–136.
 - 12 See Lewin 1967, chapters 4 through 6, for a discussion of these policy debates in the 1950s and 1960s. See also the debate between Gösta Rehn and the more liberally oriented economist Erik Lundberg, from which it is clear that Lundberg’s main concern was that the government would be able to wield considerable financial power if given charge over the programs that Rehn and Meidner advocated. See Lundberg 1950, Rehn 1950, Lundberg 1953a, and Rehn 1953. For a discussion of this debate, see Lewin 1967, pp. 371–374.
 - 13 Source: OECD 2003.
 - 14 See, for example, Prop. 1970:1, p. 10, Prop. 1971:1, p. 15, and Prop. 1971:115, p. 9 ff. The latter bill said that policies would get somewhat easier, and in the fall, the government presented a new bill, which contained some fiscal stimulus due to the economic slowdown; see Prop. 1971:140, p. 3 ff. The emphasis was on selective policies, not policies with general effects in the economy; see Prop. 1971:140, p. 12 f. Current account deficits were forecast in the Finance Ministry’s medium-term survey in 1970.
 - 15 “Det fanns en del oroande tecken på att svensk export tappade marknadsandelar. Vi hade ju levt genom 60-talet med den här fantastiska expansionen och det är klart att vi var väldigt oroade inför tanken på att det inte skulle fortsätta.” Second interview with Kjell-Olof Feldt.
 - 16 “Bytesbalansen började gå med underskott och Sträng, han hatade underskott—allt skulle helst gå med överskott för att han skulle vara nöjd. Han ansåg då, med rätta, att den allmänna efterfrågan i Sverige ökade för snabbt.” Second interview with Kjell-Olof Feldt. For Gunnar Sträng’s own account of the situation around 1970, see Sträng 1977, p. 104.
 - 17 See Esaiasson 1990, pp. 255 ff., 259.
 - 18 For accounts of these events, see Carlsson 2003, pp. 161–166, and Peterson 2002, p. 157 ff.
 - 19 The budget bill in January 1972 was still restrictive, although the government was disappointed with economic developments in 1971—see Prop. 1972:1, pp. 8, 19. The supplementary budget bill also advocated restraint, since it still expected an upturn in 1972—see Prop. 1972:90, p. 16. The policy changes occurred later in the year (see Prop. 1973:1, p. 7 f.). For a discussion of events in 1972, see Jonung 1999, p. 152. The budget bill and supplementary budget bill suggested in 1973 that an economic upturn was around the corner (see Prop. 1973:125, p. 11) and that the most important objective was to limit inflation, but in the autumn of 1973, a special bill declared that while the economic development was promising, “there should be room for some more expansion, especially with regard to the public sector and private consumption.” Prop. 1973:165, p. 2. These apparent contradictions are probably best explained by tensions within the government, and the situation in parliament, where the center-right always demanded more expansion (for a detailed analysis of parliamentary debates on economic policy in the early to mid-1970s, see Metelius 1979). For the dates of the expansionary packages, see Konjunkturinstitutet 1981, pp. 193 f., 196. On the link between policies in 1972 and 1973 and policies after the oil crisis, see Jonung 1999, p. 166.
 - 20 See Matthiessen 1973a, p. 32. The director

- of Konjunkturinstitutet, the National Institute of Economic Research, Börje Kragh, defended the government in a subsequent issue; see Kragh 1973. See also Matthiessen 1973b, and Jacobsson 1973.
- 21 “Regeringen försökte att med en restriktiv finanspolitik 1971 och 1972 kompensera för den överdrivet expansiva politiken tidigare. Men då menade jag att det blev fel i båda konjunkturlägena: politiken blev alltför expansiv 1969–1970, och alltför restriktiv 1971–1972.” Interview with Assar Lindbeck. Sven Grassman, Assar Lindbeck’s colleague at the IIES, was another vocal critic of the government’s policies.
- 22 “Han ville höra andra hur mycket vi tyckte att man skulle stimulera konjunkturen och vi föreslog naturligtvis konjunkturstimulans. [...] Sedan, på hösten 73, kallade Palme upp mig—det var i augusti tror jag—och ville att jag skulle dra konjunkturläget. Fortfarande då var det en slack i ekonomin, tyckte vi ekonomer. Efterfrågetrycket var lägre än i våra konkurrentländer och bytesbalansen visade betydande överskott. Därför krävde vi fortsatt konjunkturstimulans.” Interview with Bengt Pettersson.
- 23 See, for example, Hansson et al. 1985, p. 130.
- 24 See Eklöf 1990b, p. 29.
- 25 “Det blev en väldigt allvarlig sak för Sträng, för han tog på sig väldigt mycket av skulden för att 73 års val gick såpass dåligt. [...] Sträng var på något vis inte riktigt vad han hade varit. Efter 73, då borde det verkligen ha stramats åt, men det skedde inte.” Second interview with Kjell-Olof Feldt. “Sträng blev mer och mer ställd åt sidan.” Interview with Carl Johan Åberg.
- 26 Prop. 1974:1, p. 10, describes the events leading up to the oil crisis as well as the Swedish government’s responses to these developments. This account is based on a memo prepared by the state secretary for foreign affairs, Sverker Åström (a draft of the memo can be found in Pierre Vinde’s personal papers at the National Archives of Sweden).
- 27 “Det var genuin osäkerhet.” Interview with Carl Johan Åberg. “Det var utomordentligt svårt att över huvud taget göra några prognoser (och på den tiden ansågs prognoser vara mycket viktiga) eftersom vi inte visste åt vilket håll världsekonomin skulle gå.” Second interview with Kjell-Olof Feldt.
- 28 “Det här var en politisk händelse som många trodde skulle blåsa över. [...] Det var förmodligen den främsta anledningen till att man tvekade.” Interview with Bengt Pettersson.
- 29 See Vinde 1973.
- 30 For an account of this meeting, see Vinde 1973.
- 31 Prop. 1974:1, p. 3. Author’s translation.
- 32 Prop. 1974:25, p. 3. Author’s translation.
- 33 See Prop. 1974:25, p. 5.
- 34 OECD 1973, p. 10.
- 35 First quote: OECD 1974, p. 37. Second quote: OECD 1975, p. 42.
- 36 “OECD hade kommit fram till—och den analysen var i och för sig inte så konstig—att oljeprischockerna hade fungerat som en jättelik extern chock, nästintill som en typ av beskattning, med kontraktiva effekter på de oljekonsumerande länderna. Man sög ut köpkraft från dessa och omfördelade till de oljeproducerande länderna. Vad är då mer naturligt än att man försöker motverka en sådan kontraktiv chock genom att föra en expansiv ekonomisk politik.” Interview with Carl Johan Åberg.
- 37 “Så reste jag till Paris—till OECD:s ministermöte—fram på västkanten. Där kom vi överens om att de stigande, eller höjda, oljepriserna innebar en allmän sänkning av realinkomsterna i den industrialiserade delen av världen. Överenskomsten var att vi skulle kompensera detta fall i realinkomsterna med en mer expansiv ekonomisk politik.” Second interview with Kjell-Olof Feldt.
- 38 “OECD var ju nästan mer än någon annan internationell ekonomisk organisation hörd när det gäller den ekonomiska utvecklingen.” Interview with Nils G. Åsling.
- 39 On the reasons for the social democrats’ resistance to expansionary policies, see Prop. 1974:100, p. 14; cf. Vinde 1974–1975, note from February 25, 1974. The results of the deal between the social democrats and the center-right were approved by parliament in March 1974; see Konjunkturinstitutet 1981, p. 197. On the government’s ambitions to seek broad support, see Carlsson 2003, p. 166 f.
- 40 “Det var ju ett sätt för den dåvarande oppositionen [...] att markera att man måste möta den här oljekrisens effekt med någon form av åtgärder. [...] Vårt försök att använda momsen som ett särskilt, temporärt stimulansmedel var mer av en politisk manifestation än en realekonomisk insats, men då var det en stor principfråga.” Interview with Nils G. Åsling.
- 41 “Vi var ju mycket mer selektivt inriktade. Man skulle stödja här och där och man skulle på olika sätt hålla igång näringslivet, med speciella skattefåvörer, investeringsfonder och allt vad vi hade.” Second interview with Kjell-Olof Feldt.

- 42 See, for example, Prop. 1974:100, p. 30. Cf. Prop. 1975:100, p. 11.
- 43 See Prop. 1975/76:100, p. 6 ff.
- 44 See Prop. 1975/76:100, pp. 13, 44 f.
- 45 Prop. 1975/76:65, p. 5. Author's translation.
- 46 Prop. 1975/76:100, p. 47. Author's translation. The supplementary budget bill—1975/76:150—said that an economic upturn was expected, and therefore, economic policy should become less focused on fiscal stimulus (p. 36).
- 47 “Det fördes också överläggningar med i första hand Folkpartiet om en omläggning av beskattningen. [...] En väsentlig förklaring till att vi senare hamnade i kostnadsproblem var att de fördes med utgångspunkt ifrån att de skulle vara både budgetneutrala och kostnadsneutrala: man sänkte olika direkta skatter och kompenserade statskassan i form av höjda arbetsgivareavgifter. Presumtionen var att dessa skulle räknas av från de kommande löneökningarna. Det gjordes en del högtidliga överenskommelser. [...] Men det blev aldrig någon löneavräkning.” Interview with Carl Johan Åberg.
- 48 See Konjunkturinstitutet 1981, pp. 200, 203. On the Haga accords, see H. Bergström 1984.
- 49 See Åberg 1981a, p. 27 f.
- 50 See Konjunkturinstitutet 1981, p. 201 ff. The government proposed extensions in, for example, October 1975, January 1976, and April 1976.
- 51 See Jonung 1999, p. 126, for evidence of the large fall in industrial production, relative to other countries.
- 52 Cf. Carlsson 2003, p. 166.
- 53 See Konjunkturinstitutet 1981, p. 205.
- 54 See Fällidin 1998, p. 192. Cf. Ahlmark 2001, p. 140 f.
- 55 Prop. 1976/77:100, p. 7 f.
- 56 Prop. 1976/77:100, p. 18. There was also a stimulus package in March 1977; see Prop. 1976/77:95.
- 57 “Att det var enighet om överbryggningspolitiken berodde på att vi levde i föreställningen att det var en mer tillfällig dopping, en svacka. Det var det stora misstaget vi gjorde i analysen. 1976 fanns fortfarande en optimism hos oss, vi trodde att vi skulle kunna komma över puckeln.” Interview with Thorbjörn Fällidin.
- 58 “Till att börja med höll man fast vid överbryggningspolitiken, men sedan övergavs den, och den övergavs nog ganska snart. Från början trodde vi att det väsentligen handlade om konjunkturproblem—att vi låg ogynnsamt i en konjunkturfas—och då var en överbryggningspolitik inte orimlig. Men ju mer tiden gick, desto klarare framstod det att det handlade inte enbart, kanske inte ens i första hand, om konjunkturproblem, utan det var stora strukturproblem i svensk ekonomi.” Interview with Ingemar Mundebo.
- 59 “Jag var klar över att vi behövde devalvera med 20 procent. För jag hade räknat på industrins kostnader.” (Interview with Lars Wohlin.)
- 60 See Konjunkturinstitutet 1981, p. 195. Kurt Eklöf (1990b, p. 27) claims that this devaluation was based on a “mercantilistic” view, and decided upon by a few export industry executives, the central bank governor, and the finance minister. In the supplementary budget bill in 1973, the government stated that “the need to create opportunities for preserving the competitiveness of Swedish industry through exchange rate policy was emphasized.” Prop. 1973:25, p. 13. My translation.
- 61 See Konjunkturinstitutet 1981, p. 195. For an account of European exchange rate cooperation in the early to mid-1970s, see McNamara 1998, chapter 5.
- 62 See Konjunkturinstitutet 1981, p. 204.
- 63 “Den skulle man aldrig räkna som en devalvering egentligen.” Interview with Lars Wohlin. As for Sweden's resistance to devaluation, notes from negotiations with the other snake countries in October show that both the minister of economic affairs, Gösta Bohman, and the central bank governor, Krister Wickman, argued against. See Rodebäck 1976, pp. 2, 5.
- 64 See Bohman 1977, and Memo with unidentified author 1977. The other Nordic countries devalued at the same time—Denmark and Norway by 3 percent and Finland by 5.7 percent; see Konjunkturinstitutet 1981, p. 206.
- 65 See Prop. 1976/77:150, p. 12. Cf. Eklöf 1990b, p. 46 f.
- 66 See Fällidin 1998, p. 193 f.
- 67 “Jag tyckte att man borde kunna inse att en återhållsamhet i lönekraven skulle ge samma resultat för den enskilde löntagaren, men det skulle vara bättre för nationen. Men man litade inte på varandra.” Interview with Thorbjörn Fällidin.
- 68 “Därför var jag mycket mer positiv än de båda andra partierna till en rejäl devalvering för att återställa svensk konkurrenskraft.” Letter from Per Ahlmark to the author.
- 69 “Det fanns inte så sabla mycket alternativ. [...] Devalveringar har nackdelar, det brukar ju praktiskt taget alla ekonomer och po-

- litiker tala om, likväl genomför man dem då och då.” Interview with Ingemar Mundebo.
- 70 “Mot bakgrund av den allvarliga industrikris vi befann oss i så var det för industriministern, som ändå inte kände sig ha förstahandsansvaret för samhällsekonomin totalt, ett sätt att lätta trycket på exportindustrin.” Interview with Nils G. Åsling.
- 71 “Jag var mycket nöjd med devalveringen 77 och tänkte att nu äntligen så händer det någonting.” Interview with Sten Westerberg.
- 72 For a discussion of the composition of the index, and the ideas behind it, see Franzén et al. 1980.
- 73 Prop. 1977/78:45, p. 6. A week earlier, the government presented the second half of the program that was linked to the devaluation; see Prop. 1977/78:32.
- 74 Prop. 1977/78:45, p. 8. Cf. 1977/78:54.
- 75 See, for example, Prop. 1976/77:150, p. 9, and Prop. 1977/78:45, p. 16.
- 76 See, for example, Prop. 1976/77:150, p. 8. Regarding labor market measures, see, for example, Konjunkturinstitutet 1981, pp. 207, 209.
- 77 For a discussion of these policies, see Henning 1984.
- 78 See Magnusson 2002, p. 476 f.
- 79 See Jonung 1999, p. 126.
- 80 “Vi måste försöka hålla fram industripolitiken, för det var vår uppgift.” Interview with Nils G. Åsling.
- 81 See, for example, Konjunkturinstitutet 1981, p. 205 ff., and Konjunkturinstitutet 1984, p. 202.
- 82 See Henning 1984, p. 62.
- 83 Prop. 1977/78:100, p. 34 ff. Similar language can be found in Prop. 1977/78:150, p. 20 ff.
- 84 See Prop. 1978/79:50, p. 12, Prop. 1978/79:100, p. 13, and Prop. 1978/79:150, pp. 13, 19. Cf. Jonung 1999, p. 168.
- 85 “1978 var lite av en andhämtningspaus, sedan tog problemen ny fart under 79 och 80. [...] Sedan får man naturligtvis medge att det var ett val i september som kan ha påverkat skrivningarna lite. Det är lätt att kritisera sådant men det tillhör ju det politiska livets regler.”
- 86 “Grundtanken var denna att vi inte skulle låta den inhemska efterfrågan gå ned, utan vi måste hålla den uppe. Man måste komma ihåg att den absolut dominerande målsättningen för den ekonomiska politiken, det var full sysselsättning. Sedan tog det slut. Sedan var det väldigt långt ned till något annat mål.” Second interview with Kjell-Olof Feldt.
- 87 “Så fort valet var avklarat [...] poppade allting upp.” Interview with Ingemar Mundebo.
- 88 “Det blev en ganska ohanterbar situation snabbt. Man kan säga att sista kvartalet 76, när regeringen kom in—eller de sista två månaderna—präglades av att krisen rasade in över oss med oerhörd kraft. På detta var regeringen inte särskilt väl beredd. [...] Det fanns inget strategiskt tänkande—någon plan för att överge överbrygningspolitiken fanns inte.” Interview with Lars Wohlin.
- 89 Cf. Eklöf 1990b, p. 50.
- 90 Source: OECD 2003. Interestingly, LO economist Rudolf Meidner (1984, p. 347) acknowledged the center-right’s commitment to full employment in a speech in 1978.
- 91 See, for example, Ahlmark 2001.
- 92 “I det läget vi hade då—vi var den första borgerliga regeringen efter många herrans år—ville vi inte vara sämre, sett ur arbetsmarknadens synpunkt, än socialdemokraterna.” Interview with Nils G. Åsling.
- 93 “I den politiska debatten i dess mer råa form hette det att de borgerliga partierna ville ha en hög arbetslöshet. I den lite mildare formen sades det att de borgerliga inte hade kompetens, inte hade förmåga att hantera sysselsättningen. [...] Mycket av det som stod i läroböckerna att man borde ha gjort, det gjordes inte, därför att arbetslösheten var det dominerande. [...] Därför startade man med att backa upp överbrygningspolitiken fram till dess att man insåg att det inte var någon klok politik. Därför devalverade man, för att man trodde att det kunde vara till nytta för ekonomin och sysselsättningen, trots att man egentligen var medveten om att en devalvering är ett svårt instrument att hantera.” Interview with Ingemar Mundebo.
- 94 “I botten ligger en värdering: att varje människa måste erbjudas—eller ha rätt till—ett arbete, så att han eller hon kan försörja sig. Vi vet ju om vi ser oss om i världen att det ger inga bra lösningar att överlämna detta åt marknaden.” Interview with Thorbjörn Fälldin.
- 95 “Det var ganska normalt att Sverige hade praktiskt taget full sysselsättning. Har man vant sig vid det så är det svårt att ändra sig. Man tänkte: ‘Varför skall vi överge ett samhälle som fungerar så bra? Skall vi inte vidta åtgärder som gör att det framtida samhället fungerar så här också?’” Interview with Thorbjörn Fälldin.
- 96 “När det gäller sysselsättningen var centern väldigt mycket låginkomsttagarnas parti—och är ju det fortfarande i och för sig—och inte mindre än socialdemokratin angelägna om att man skall skapa sysselsättning för de många. [...] För Fälldin i synnerhet, och för

- mig också, var det i hög grad en ideologisk fråga.” Interview with Nils G. Åsling.
- 97 “Det första gäller det mänskliga lidande på flera plan som följer av hög arbetslöshet. [...] I årtionden hade den socialdemokratiska propagandan gjort gällande att massarbetslöshet följer av en borgerlig regering.” Letter from Per Ahlmark to the author.
- 98 “Arbetslöshet sågs som någonting oerhört ont—så ont att man inte ens fick tala om öppen arbetslöshet i finansplanerna. Det var en fråga om ideologisk övertygelse.” Interview with Sten Westerberg.
- 99 See, for example, Calmfors & Lundberg 1974, and Lundgren 1974. Cf. Ohlin 1975. See also Herin 1973, and Lundgren 1973. For overviews of these discussions, see Dahlfors 1991, p. 391 f., Wihlberg 1993, p. 223 ff., and Jonung 1999, p. 173 f.
- 100 For more principled contributions to these debates about exchange rate policy, see, for example, Werin 1973, Johnson 1973, Jøge 1973, Lindström 1973, Grassman 1973, Lindbeck & Lundgren 1973, and Grassman 1975.
- 101 “Fortfarande var bristen på balans i utrikesbetalningarna det stora problemet i svensk ekonomisk politik. [...] Sträng trodde aldrig på detta. Skälet var att han utgick från att den svenska ekonomin inte tålde den ökning av kostnaderna som detta innebär.” Interview with Carl Johan Åberg. This information is consistent with information in a letter that Gösta Rehn (1974, p. 2) sent to Gunnar Sträng in October 1974.
- 102 “Vi hade levt så länge i Bretton Woods att det var nog ganska långsökt, i politiska sammanhang, att ta fram valutapolitiken som en mer aktiv del av penningpolitiken.” Second interview with Kjell-Olof Feldt.
- 103 Regarding the nature of economic criticism, see Jonung 1999, p. 157.
- 104 See Marglin 1990. Cf. Huber & Stephens 2001, p. 113, and Hobsbawm 1994, chapter 9.
- 105 See Marglin 1990, p. 23 ff. Cf. Magnusson 2002, p. 474.
- 106 See, for example *Inflation: The Present Problem* (OECD 1970).
- 107 For an account of developments in exchange rate regimes in the early 1970s, see Eklöf 1990b, p. 26 f.
- 108 See Magnusson 2002, p. 473 ff., for a summary.
- 109 For a discussion of structural economic changes in the early 1970s and their consequences for Sweden, see, for example, Heclö & Madsen 1987, p. 54 ff.
- 110 See Calmfors 1990, p. 11 f.
- 111 “Det skedde stora förändringar under 1970-talet. Under 1960-talet var utvecklingen förbluffande, eftersom man aldrig hade bytesbalansproblem, på grund av att man inte hade problem med kostnadsutvecklingen. Internationellt upplevde världen en ovanligt synkroniserad konjunkturuppgång 1972–1973 med påtagligt ökade inflationstendenser som följd. Efter Bretton Woods utbröt kaos på valutamarknaderna. Då var KI tvungna att följa relativprisutvecklingen.” Interview with Bengt Petersson. On the Riksbank, see Eklöf 1990a, p. 7.
- 112 Prop. 1973:1, p. 42.
- 113 Source: SCB.
- 114 See Calmfors & Forslund 1990, p. 64.
- 115 See Calmfors & Forslund 1990, p. 69.
- 116 See Konjunkturinstitutet 1984, p. 13.
- 117 For overviews, see Elvander 1988, Iversen 1999, and Swenson & Pontusson 2000.
- 118 See Konjunkturinstitutet 1986, p. 191.
- 119 See Iversen 1999, p. 120 ff., Notermans 2000, p. 195 ff., and Moene & Wallerstein 1999, p. 259 f.
- 120 See Calmfors & Forslund 1990, p. 79.
- 121 On these developments, see Elvander 1988, p. 36 ff. For an overview of developments in the labor market in the 1970s, see also Nylander 2002, pp. 156–162.
- 122 See Swenson & Pontusson 2000.
- 123 Cf. Hibbs & Locking 1996, p. 134 ff.
- 124 For the argument about wages lagging behind in the early 1970s, see Sverenius 1999, p. 217 ff.
- 125 Calculations are based on data from the National Institute of Economic Research (Konjunkturinstitutet).
- 126 See LO 1951, p. 110 ff.
- 127 See Lundqvist 2000.
- 128 “Framåt mitten på 70-talet gjorde man under det paraply som de centrala avtalen var lokala företagsmässiga uppgörelser som ledde till en löneglidning som så småningom drev systemet ur funktion.” Second interview with Kjell-Olof Feldt.
- 129 “Problemet med samordningen inom LO—både före min tid och efter min tid och under min tid—har hela tiden varit att vissa tycker de är mer värda än andra. Vissa tycker att de blir lurade av andra. [...] Den här typen av motsättningar finns, och har funnits under alla år. Men strävan att slita åt olika håll förstärktes. [...] Problemet var att hålla ihop eländet.” Interview with Stig Malm.
- 130 See Jonung 1999, p. 170. For overviews of the economic debate in the early 1970s, see Jonung 1999, section 7.2, and A. Bergström 1995, chapter 4.

- 131 See, regarding the Rehn-Meidner model and its relationship with Keynesianism, Erixon 2001, especially p. 15 ff.
- 132 See Erixon 2003, p. 140 n2.
- 133 See Ullenhag 1998, p. 104 f. For Lundberg's criticism of the "government monopoly" on prognoses, see, for example, Lundberg 1970, and Lundberg 1973a.
- 134 Joseph Schumpeter argued in his *History of Economic Analysis* that Lundberg's dissertation, *Studies in the Theory of Economic Expansion* (1937), resembled, but was superior to, Keynes's *General Theory*, which appeared only a year earlier. See Schumpeter 1954, p. 1173 f.
- 135 See Jonung 1999, p. 172.
- 136 Lundberg et al. 1974, p. 59. Author's translation.
- 137 On the reasons for devaluation and the need for expansionary policies, see V. Bergström et al. 1975, 108 f. On fiscal balance as a non-restriction, see p. 113.
- 138 See V. Bergström et al. 1976, p. 10, 90 ff.
- 139 The ideas about revaluation in the 1974 report to some extent represented new economic thinking, and in the third report, according to the economics professor Nils Lundgren, Erik Lundberg and younger members of the group had very different views. Johan Myhrman—who, as I demonstrate later, introduced much of the new theories about the economy in the Swedish debate—participated in 1976–77, and Mr. Lundgren says that although "Myhrman and I were not monetarists, we had a completely different view. [...] In the third report from the SNS Economic Policy Group, the divide is there." ("Myhrman och jag var inte monetarister, men med en helt annan syn. [...] I SNS Konjunkturråds tredje rapport, då har det spruckit." Interview with Nils Lundgren.
- 140 See V. Bergström et al. 1977, p. 103 ff. This report embraces Sven Grassman's criticism of the balance of payments-statistics; therefore, more expansionary policies were deemed possible.
- 141 See Grassman et al. 1978, and Bentzel et al. 1979.
- 142 For excerpts from the letter, see Jonung 1999, p. 176.
- 143 "De var ju inte till någon stor nytta för en budgetminister, om jag säger så." Interview with Ingemar Mundebo.
- 144 "Det brevet spelade en roll, men det gjorde inte rent intellektuellt något starkare intryck på mig. [...] Ett den gamla skolans dokument." Interview with Sten Westerberg.
- 145 "Det är ingenting som jag är speciellt stolt över, eftersom vi var för sent ute och inte såg att en uppgång var runt hörnet. [...] Men bakgrunden var att Sverige under åren 1976–78 upplevde den dittills djupaste kris som vi hade upplevt efter andra världskriget." Interview with Assar Lindbeck.
- 146 See Jonung 1999, p. 177.
- 147 See, for example, Lundberg 1973b, and Ohlin 1974. Cf. Pettersson 1974, p. 150.
- 148 "Den viktigaste förklaringen till detta var att det hemma inte mötte något motstånd alls, egentligen." Interview with Carl Johan Åberg.
- 149 "Skall man uppnå överenskommelser så är det lättare att göra det med en politik som är expansiv än med en politik som är kontraktiv. [...] Sedan kunde denna politik kläs i mycket tydliga keynesianska termer." Interview with Carl Johan Åberg.
- 150 See Lundberg 1985a, p. 4, on "national hubris." In the mid-1970s, Assar Lindbeck identified the period between 1955 and 1963 as particularly successful in terms of macroeconomic policy; see Lindbeck 1975, p. 90.
- 151 Lindbeck 1970, p. 20. Author's translation.
- 152 Fällidin 1998, p. 193. Author's translation.
- 153 "Vi var alla keynesianer." Interview with Nils G. Åsling.
- 154 On deviation in the 1970s, see Lindbeck 1997, p. 1275.
- 155 Socialdemokraterna 1964, p. 109. Author's translation.
- 156 Tilton 1990, p. 177. On the link between the "strong society" and ideas about the state, see especially Ruin 1986, pp. 233–240.
- 157 "När det gäller det sociala ansvaret för människor är det svårt att se någon skillnad mellan Centerpartiet och Folkpartiet å ena sidan och socialdemokraterna å andra sidan. Det som skiljer är de socialistiska inslagen i den socialdemokratiska politiken. De var inte så uttalade på 50- och 60-talet som de var på 70- och 80-talet—och är än idag." Interview with Thorbjörn Fällidin.
- 158 Mundebo 1983, p. 45.
- 159 "Det här var när den svenska självkänslan var på sin höjdpunkt. Den svenska välfärdsstaten var på något sätt den hegelianska slutpunkten. Mitt eget parti, Folkpartiet, gick till val på sloganen 'sociala reformer utan socialism.' [...] Det skulle vara sociala reformer, det var en självklarhet." Interview with Sten Westerberg.
- 160 "Det fanns en lång tradition av en betydande närhet mellan Folkpartiet och framför allt TCO, men också SACO—mindre, av förklarliga skäl, med LO. [...] Vi hade inom

- Folkpartiet en rätt stark tilltro till de fackliga organisationerna. Vi tänkte väl om dem, vi talade väl om dem, och menade allvar när vi sade att de fackliga organisationerna hade en betydelsefull roll. [...] Tilltron rubbades lite när de här jätteavtalen tillkom 1974–75–76, på—ja i efterhand får man väl använda det ordet—vansinniga nivåer. Fortfarande menade vi ändå, när vi kom i regeringsställning, att de fackliga organisationerna hade ett icke ringa mått av samhällsansvar.” Interview with Ingemar Mundebo.
- 161 “Här fanns det enligt mig en naiv uppfattning om vad som kunde åstadkommas genom att man talade med de olika parterna.” Interview with Sten Westerberg.
- 162 Heclø & Madsen 1987, p. 59.
- 163 These conclusions are broadly consistent with the analysis offered in A. Bergström 1995.
3. THE POLITICS OF EXPERTISE
- 1 “En idé som vi vill testa är att ekonomföreningen skulle fördjupa sig i de nya ekonomiska lärorna från USA.” Hjalmarsson 1981.
- 2 “... att utvärdera på vilka punkter vi av ideologiska skäl måste ta avstånd från de nya lärorens respektive på vilka grunder det finns tankegodis som kan vara användbart även i en socialdemokratisk politik.” Åsbrink 1981.
- 3 Source: OECD 2003.
- 4 I have borrowed the terms “external” and “internal” adjustment from Iversen & Thygesen 1998.
- 5 See Jonung 1999, pp. 187, 189. Jonung draws on accounts by center-right politicians, especially Westerberg & Westerberg 1983.
- 6 Prop. 1979/80:100, p. 26. Author’s translation.
- 7 Source for employment figures: SCB 2003. Percentages equal the total number of employed by the central government and municipalities, divided by the total number of employed in the economy as a whole. Source for spending figures: Scharpf & Schmidt 2000.
- 8 See Prop. 1979/80:100, p. 26 ff. Cf., for example, Prop. 1980/81:100, p. 3.
- 9 See, for example, Prop. 1979/80:150, p. 17 ff., Prop. 1980/81:20, p. 3, Prop. 1980/81:100, p. 20 ff., and Prop. 1980/81:118, p. 4.
- 10 See Prop. 1980/81:20.
- 11 See Prop. 1981/82:100, p. 28. The same strategy with regard to fiscal policy was reaffirmed later the same spring; see Prop. 1981/82:150, p. 11.
- 12 “Då kom i januari 1981 en rejäl valutakris. Räntan höjdes med 2 procent. Det var vid det här tillfället en dramatisk höjning. Då gick man from sounds to things när det gällde att vidta åtgärder.” Interview with Sten Westerberg. Regarding the measures taken by the central bank, see Konjunkturinstitutet 1984, p. 204.
- 13 See Konjunkturinstitutet 1984, p. 205. A bill with the same content—Prop. 1980/81:118—was sent to parliament on March 10. On the same day, a bill with measures to stop spending increases by municipalities was also sent to parliament.
- 14 Prop. 1981/82:30, p. 5.
- 15 See Konjunkturinstitutet 1984, p. 207 f.
- 16 Wohlin 1991, p. 313. Author’s translation.
- 17 “Sverige hade fortfarande ett relativt konkurrensproblem. Vi hade *de facto* inte devalverat mer än 15 procent innan vi gick över till korgen.” Interview with Lars Wohlin.
- 18 “Vi hade inte vunnit tillräcklig konkurrenskraft. Terms of trade-förluster var ganska kraftiga efter de våldsamma oljeprisstegen. Strukturförändringar som följde av relativprisförändringen på energi drabbade stål- och varvsindustrin hårt. Sverige var i ett utsatt läge.” Interview with Lars Wohlin. Regarding the absence of high wage increases after the 1977 devaluation, figure 5 showed that there was in fact only a slight increase in relative unit labor costs after the big drop when the effects of the devaluations in 1977 had kicked in.
- 19 On similarities between the ideas behind the 1981 devaluation and the social democratic strategy after 1982, see Wihlborg 1993, p. 232 f.
- 20 “Den gav start åt en mer offensiv politik—ändå kombinerad med det här att vi måste få bukt med budgetunderskottet.” Interview with Rolf Wirtén.
- 21 “På något sätt måste vi därför både arbeta och spara. [...] Devalveringen på 10 procent gav oss en bättre konkurrenskraft i förhållande till omvärlden. [...] Men devalveringen kunde ju gå över styr väldigt kvickt, vilket de delvis gjorde 77. Man måste alltså vårda det där, och det gjorde vi med hjälp av besparingar. Men man måste också se till att människor kände stimulans att arbeta. [...] Dels började vi jobba med det här att vi måste sänka marginalskatterna, så att folk tyckte att det var lönt att arbeta. [...] Det andra var att vi sänkte momsen.” Interview with Rolf Wirtén.
- 22 “Man ville komplettera besparingspolitiken, som uppfattades som defensiv, med ett ordentligt, offensivt, grepp. [...] Om inte den offentliga sektorn längre skulle vara drivkraften i ekonomin måste det finnas nå-

- got annat som var drivkraften. [...] Det här suget skulle skapas av devalveringen, som skulle gå hand i hand med andra utbudsåtgärder, som skattepolitik, som också skulle leda till ökat utbud och ökad expansion i den konkurrensutsatta sektorn.” Interview with Sten Westerberg.
- 23 “Man hade en kostnadskris vid båda tillfällena, som var djupare 76 och 77 än vad den var 81. [...] Det var defensiva devalveringar. Målet var i båda fallen att återställa för-lorad konkurrenskraft.” Interview with Ulf Jakobsson.
- 24 “81 års devalvering var mycket mer offensiv. Delvis var det fråga om att återställa kostnads-läget, delvis om att gå på politisk offensiv.” Interview with Sten Westerberg. The devaluation was not expected on financial markets, which also indicates that it was not forced upon the government. See Wihlborg 1993, p. 232.
- 25 “Visst blev det en kärvare inställning – vi kunde inte ha växande underskott i statsbudgeten hur länge som helst. Ett ackumulerande underskott kan man inte leva med.” Interview with Thorbjörn Fälldin.
- 26 “Under lång tid betraktade man budgetunderskottet som ganska tillfälligt och trodde att det skulle gå över när konjunkturen förbättrades, men ungefär 1980 blev det en ganska utbredd insikt i regeringen och bland människor kring regeringen och i riksdagsgrupperna att det fanns ett strukturellt underskott.” Interview with Bengt Westerberg.
- 27 “Bägge mittenpartierna (i både retorik och praktik) och moderaterna (om inte i retorik så i alla fall i praktiken) var för utgifter i olika former. Själva idén om att spara i någon annan bemärkelse än att minska ökningstakten, den var oerhört svår att få gehör för.” Interview with Sten Westerberg.
- 28 For a summary, see Jakobsson 1981.
- 29 “Det måste sättas ett stopp för en ohämmad ökning av de offentliga utgifterna. Jag tror att Långtidsutredningen 1980 bidrog till den insikten.” Interview with Ulf Jakobsson.
- 30 “Vi hade hög inflation och makroekonomisk instabilitet. Att vi måste göra något åt detta påpekades av olika internationella organisationer som IMF och OECD—så det var ju inte så att vi hade upptäckt någonting som ingen annan hade begripit.” Interview with Ulf Jakobsson.
- 31 See Memo with unidentified author 1980. Carl Bildt, who was state secretary and advisor to the leader of the Moderate Party, Gösta Bohman, says: “One very important thing was the analysis that was developed in the medium-term survey [...] and the analysis that Lars Wohlin presented in *Ekonomisk Debatt*, showing that increases in public spending consumed more than the entire increase in GDP.” (“Av stor betydelse var den analys som togs fram i Långtidsutredningen [...] och den analys som redovisades i en artikel av Lars Wohlin i *Ekonomisk Debatt* som visade att de offentliga utgifternas ökning åt upp mer än hela ökningen av BNP.”) E-mail message from Carl Bildt to the author.
- 32 See Memo with unidentified author 1981.
- 33 See Prop. 1980/81:150, p. 4 ff.
- 34 “I varje fall ansåg vi att överbyggningspolitiken i sjuttioalets mitt och början, som ju verkligen låg i Keynes anda, det var överexploaterat.” Interview with Rolf Wirtén.
- 35 “Det fanns en misstänksamhet på 70-talet, speciellt på slutet av 70-talet, mot fine-tuning som princip. [...] Men det var inte så att man övergav stabiliseringspolitiska mål.” Interview with Bengt Westerberg.
- 36 “Däremot tror jag inte att några idéer om att finanspolitiken inte skulle vara interventionistisk hade satt sig i regeringskansliet. [...] Det skedde en del saker kring 80, idémässigt, som var betydelsefulla, men den stora saken var en rent kameral insikt.” Interview with Ulf Jakobsson.
- 37 “Det var både-och.” Interview with Sten Westerberg.
- 38 See Holmberg 1984, p. 16.
- 39 “Det var ganska tydligt, av deras retorik att döma, att man siktade på en stor devalvering. [...] Risken för att dessa tankegångar skulle påverka förtroendet för kronan blev ett argument för att inte skjuta upp beslutet om en devalvering.” Interview with Lars Wohlin. Cf. Jonung 1999, p. 190.
- 40 “Avsikten med den devalveringen var tvåfaldig. Det ena var att den skulle återställa kostnads-läget och därmed förbättra situationen fram till valet. Det andra var att det skulle beröva sossarna möjligheten att inleda sin bana med en stor devalvering.” Interview with Sten Westerberg. Westerberg also says that he was initially “skeptical to the idea of yet another devaluation, but I changed my mind when Åsling threatened to reopen his emergency room [that is, initiate new programs of industrial subsidies].” (“Jag var själv rätt skeptisk till tanken på ytterligare en devalvering, men jag svängde när Åsling hotade med att öppna sin akut igen.”) Interview with Sten Westerberg.)
- 41 “Det var med stor förvåning jag noterade att man ville lägga 20 procent ovanpå de 10 procenten. Jag trodde inte att man skul-

- le göra det. Men det var ju fel.” Interview with Lars Wohlin.
- 42 See Sohlman 1982a.
- 43 See Konjunkturinstitutet 1984, p. 210 ff.
- 44 “Vi upplevde att nu var borgerliga krafter, näringslivet, på marsch för första gången på länge. [...] [M]en [vi] ville inte ge upp, som man gjorde i en del andra länder.” Interview with Ingvar Carlsson.
- 45 “Den internationella ekonomiska krisen används av de konservativa krafterna i världen som drivkraft bakom en bred kampanj mot välfärdssamhället av socialdemokratiskt (USA: liberal) snitt. Efter det att Mitterrand efter det första årets politik hamnat i betydande svårigheter, kommer utlandets uppmärksamhet att i hög utsträckning riktas mot Sverige. [...] Lyckas vi skulle det innebära ett betydande slag mot de konservativa partierna i Europa.” Sohlman 1982c, p. 13. Cf. Sohlman 1982c, p. 7.
- 46 See Prop. 1982/83:50, p. 18.
- 47 See Prop. 1982/83:50, p. 16 f. For the prognoses that led to these conclusions, see Öberg 1982.
- 48 The phrase “the third way” appeared in Prop. 1982/83:100. The overall strategy was presented on p. 7 ff. in the same document.
- 49 See Prop. 1982/83:100, pp. 13 f., p. 17 ff. Cf., for example, Prop. 1982/83:150, p. 33, and Prop. 1983/84:40.
- 50 See, for example, Prop. 1983/84:100, p. 2 ff., Prop. 1983/84:150, p. 3 ff., Prop. 1984/85:40, p. 36 ff., Prop. 1984/85:100, p. 2 ff., Prop. 1984/85:150, p. 3 ff. For an account of developments in 1982–1985, see also Jonung 1999, p. 187 ff.
- 51 See, for example, Prop. 1983/84:200, Prop. 1984/85:45, Prop. 1984/85:217, and Prop. 1988/89:47.
- 52 See Prop. 1982/83:150, Konjunkturinstitutet 1984, p. 214, Prop. 1983/84:200, and Konjunkturinstitutet 1985, p. 173. For data on inflation, see Scharpf & Schmidt 2000a. These were not the only anti-inflation programs in the 1980s. On May 13, 1985, the government and the central bank announced that they would implement a number of austerity measures and tighten monetary policy, and on November 9, 1987, the government announced an anti-inflation program. On 1985, see Konjunkturinstitutet 1986, p. 187. On 1987, see Prop. 1987/88:60, and Konjunkturinstitutet 1988.
- 53 On the 1984 wage bargaining round, see Carlsson 2003, p. 196.
- 54 See H. Bergström 1987, especially chapter 5. See also the updated version in H. Bergström 1991. For Ingvar Carlsson’s account of these events, see Carlsson 2003, pp. 172–182.
- 55 Hans Bergström (1991) has done interviews where interviewees have drawn on the memos, but he has not had access to the memos themselves.
- 56 At least not publicly. In fact, Kjell-Olof Feldt argued already in 1976, in negotiations with ministers from the other Snake countries, that Sweden could not be expected to revalue since “our cost development, I can admit that in this group, has also been bad in 1975. [...] The Swedish discussion has rather dealt with devaluation.” (“[V]år kostnadsutveckling, det kan jag erkänna i den här kretsen, har också den varit dålig under 1975. [...] Den svenska diskussionen är snarast inriktad på en devalvering.” Memo with unidentified author 1976, p. 3. Cf. Lemme & Rodebäck 1976, p. 5.)
- 57 “Vi måste få ner inflationen om företagen skall vara konkurrenskraftiga, men vi måste också stimulera delar av ekonomin och också stimulera vinsterna i näringslivet.” Interview with Ingvar Carlsson. Cf. Carlsson 2003, p. 175 ff.
- 58 See Carlsson 2003, p. 176 f.
- 59 “Det var fullt klart att den budgetkris vi var i, den kunde bara lösas genom att få fart på Sverige, genom att sysselsättningen ökade. Någon tanke på att vi skulle klara budgetkrisen med stora besparingar och nedskärningar, det fanns inte. [...] Framför allt kom vi att diskutera två saker. Det ena var att vi måste få bukt med inflationen. Vi kan inte fortsätta att leva med en inflation på 10–12 procent och tro att det kommer att gå bra i vår ekonomi, utan vi måste halvera den, åtminstone. [...] Det andra problemet var att [...] vi måste skaffa oss en plattform som gör att vi får kraftigt skjuts på tillväxten—det vill säga skaffa oss ett kostnadsläge som var fördelaktigt. Det ledde fram till en bestämd slutsats: att en första åtgärd skulle vara att devalvera.” Interview with Per-Olof Edin.
- 60 “Vid något tillfälle hade vi en mer akademisk diskussion om det.” Interview with Ingvar Carlsson.
- 61 For a summary of Michael Sohlman’s and Erik Åsbrink’s plans, see Åsbrink 1982.
- 62 “Rapporten var ett försök till omprövning och det fanns antydningar: man kan inte ha oändlig tillväxt för den offentliga sektorn, den måste finansieras.” Interview with Michael Sohlman.
- 63 “Det som egentligen är märkligt är att vi fick agera såpass fritt—vi satt och utarbete-

- de den här strategin utan något egentligt mandat, sedan presenterade vi den, och sedan köpte de den, i stort sett. Visserligen hoppade de av den här växelkursanknytningen, men i övrigt så köpte de hela upplägget.” First interview with Erik Åsbrink. “Det fanns ingen klar uppfattning i partiet om hur den ekonomiska politiken skulle läggas upp efter valet, så det var lätt att få saker gjorda om man kom och sade ‘nu gör vi så här.’” First interview with Erik Åsbrink.
- 64 See Sohlman 1982b, p. 1.
- 65 See Sohlman 1982b, p. 6.
- 66 “Det är ju bara att titta på bytesbalansen. [...] Vi drabbades av stora terms of trade-förändringar och det var ingen som kunde kompensera oss för det, vi måste anpassa real-lönerna.” Interview with Michael Sohlman.
- 67 “Denna metod kan sägas ha symboliserats av den svenska löneförhandlingsmodellen under dess glansdagar på 1950- och 60-talen.” Sohlman 1982b, p. 10.
- 68 See Sohlman 1982b, p. 11.
- 69 See Sohlman 1982b, p. 11 f.
- 70 “Vår konkurrenskraft var vi tvungna att stärka. Frågan var bara: skulle det ske snabbt, eller skulle det ske över en lång period, då de svagaste i samhället slås ut och industrins lönsamhet och därmed investeringar ligger kvar på en låg nivå.” Interview with Michael Sohlman.
- 71 See Sohlman 1982c, p. 8.
- 72 “Utgångspunkten var att socialdemokraternas yttersta mål och själ var full sysselsättning.” Interview with Michael Sohlman.
- 73 See, for example, Prop. 1985/86:100, p. 7, Prop. 1985/86:150, pp. 1, 9, 14f., Prop. 1987/88:36, pp. 2, 7, Prop. 1987/88:60, p. 2 ff., Prop. 1987/88:100, p. 1 ff., Prop. 1987/88:150, p. 1 ff., Prop. 1988/89:47, p. 3 ff., Prop. 1988/89:100, p. 1 ff., and Prop. 1988/89:150, p. 2 ff.
- 74 Prop. 1986/87:150, pp. 1, 7.
- 75 Prop. 1987/88:100, p. 17.
- 76 “De första tre åren gick det inte att göra så mycket. Då var Gunnar Sträng ordförande i riksbanksfullmäktige och han var i princip helt emot avregleringar.” First interview with Erik Åsbrink.
- 77 For a detailed study of the credit market de-regulation, see Svensson 1996.
- 78 See Carlsson 2003, chapter 4, pp. 255–260, and chapter 11.
- 79 See Carlsson 2003, p. 464 f.
- 80 “Det var en verklig ökning och det var en verklig ökning som ställde till stora problem. Men man gjorde inget därför att man i början bara uppfattade det som en statistisk illusion. Det var inte förrän konsumtionen tog fart, fastighetspriserna tog fart, villapriserna tog fart, och det hade hållit på ett ganska bra tag, som man började förstå sammanhangen.” Interview with Leif Pagrotsky.
- 81 See Fregert & Jonung 2003, pp. 495–500. See also Agell & Berg 1996, Wohlin 1998, and Englund 1998.
- 82 “... om det skulle uppstå ett stabiliseringspolitiskt problem när vi släppte utlåningstaken [...], då fanns det bara en möjlighet, och det var att parera med finanspolitiska medel. [...] Riksbanken tyckte sig ha varnat finansdepartementet, sagt ifrån väldigt tydligt att vi tror att det här klarar sig, men klarar det sig inte—vi kan aldrig vara säkra—då måste ni vara beredda med finanspolitiken.” Interview with Bengt Dennis.
- 83 “Hade man fört en finanspolitik som vore anständig—oavsett avregleringen—så hade räntevapnet ändå kunnat bita.” Interview with Thomas Franzén.
- 84 “Vi hade naturligtvis långa diskussioner om vad det här betydde för kreditexpansion och för efterfrågetryck i ekonomin. [...] Riksbanken förklarade att de hade ett excellent instrument, nämligen den så kallade räntetrappan [...], vilken gjorde att de mycket snabbt kunde hindra en kreditexpansion. Vi väntade oss ett tryck, men vi väntade oss också att det här räntevapnet skulle fungera. Men det gjorde det inte.” First interview with Kjell-Olof Feldt.
- 85 “Det är klart att Bengt Dennis framförde det budskapet, och jag framförde också det budskapet, och egentligen inte bara för att Riksbanken framförde det budskapet utan för att jag tyckte så själv. [...] De kommunicerade för lite med varandra. [...] Det tror jag var synd, att de inte hade mer direktkontakt med varandra, utan förlitade sig på mellanhänder.” Second interview with Erik Åsbrink.
- 86 “Jag har otillräcklig insyn i de diskussioner som fördes beträffande penningpolitiken mellan ledningarna i Finansdepartementet och i Riksbanken, men klart är att Bengt Dennis många gånger framhöll behovet av finanspolitisk åtstramning.” Interview with Michael Sohlman.
- 87 “Ingenting.” Interview with Leif Pagrotsky.
- 88 “De besked som nådde mig var att regleringen var så ineffektiv att alla som ville ha lån fick lån. Det fanns ingen icke tillgodosedd kreditefterfrågan.” Interview with Leif Pagrotsky.
- 89 See Konjunkturinstitutet 1986, p. 191, Konjunkturinstitutet 1988, p. 32, and Konjunkt-

- turinstituet 1989, p. 35. The final changes took effect on July 1, 1989.
- 90 “Den [valutaregleringen] var ju ganska verkninglös, om man såg på flödena. [...] Flödena var så stora, trots regleringen, att det skapade stabiliseringspolitiska problem.” Interview with Bengt Dennis. Thomas Franzén says (interview): “The capital controls had become ineffective before then, because of exceptions, because of the large credit stocks, and because of the internationalization of firms.” (“Valutaregleringen hade blivit ineffektiv på vägen dit, genom undantag, genom uppbyggnaden av stora stockar, genom internationaliseringen av företagen.”)
- 91 “They [capital controls] were leaking so much by that time.” (“Den var så genomskjuten vid det laget.” First interview with Kjell-Olof Feldt.)
- 92 Compare, for example, Prop. 1980/81:150, p. 10, and Eklund 1981a, p. 50 f.
- 93 Bohman 1981. Author’s translation.
- 94 Feldt 1984. Author’s translation. Sten Westerberg says that there was no coincidence that there were similarities: “Michael Sohlman was our attaché in the OECD, and, moreover, he was smart, like the others. They saw this.” (“Michael Sohlman var finansdepartementets attaché i OECD och han var dessutom smart—det var de andra också—och de såg detta.” Interview with Sten Westerberg.)
- 95 “I verkligheten var skillnaderna inte så stora. De genomförde en stor devalvering, och hoppades att de skulle slippa skära i utgifter, men i själva verket skar de ner lika mycket som en borgerlig regering skulle ha gjort under 1980-talet. Och sannolikt hade även en borgerlig regering tvingats kombinera nedskärningar med skattehöjningar för att få bukt med budgetunderskottet.” Interview with Bengt Westerberg.
- 96 See Wohlin 1991, p. 313 f.
- 97 “HVP [hårdvalutapolitik] bör av regeringen förklaras vara överordnad norm för den ekonomiska politiken.” Åsbrink 1982, p. 12.
- 98 Åsbrink 1982, p. 14.
- 99 “De flesta människor torde vid det här laget ha klart för sig att Västtyskland är den starkaste och i många avseenden framgångsrikaste ekonomin i Europa. En HVP som anknyter till DM är därför lätt att göra begriplig för allmänheten. En korg sammansatt av ett flertal valutor kommer aldrig att kunna förklaras, så att den breda allmänheten förstår innebörden av densamma. Normen skulle bli otydligare och därför sannolikt också mindre betvingande.” Åsbrink 1982, p. 15.
- 100 See, for example, H. Bergström 1991, and Wohlin 1991.
- 101 “Det var mer av en politisk demonstration. Tyskland framstod då som det enda land som under 70-talet hade undgått inflation. Praktiskt taget alla andra europeiska länder—och USA—hade under 70-talet gradvis trappat upp inflationen, men Tyskland hade inte gjort det. Vi skulle knyta an till något som var fast och stabilt.” First interview with Kjell-Olof Feldt.
- 102 “Det där ingick också i mitt tänkande, till dess att vi konfronterade Landsorganisationens ledning och en del andra i partiledningen med tanken på att kronan efter devalveringen skulle bli en hårdvaluta genom anknytningen till D-marken. Det uppfattades då i de kretsarna som att vi accepterade Tysklands sysselsättningspolitik. [...] Jag kände att det där orkar jag inte med [...] så jag släppte den tanken.” First interview with Kjell-Olof Feldt.
- 103 “Mischa Sohlman och jag var, det vågar jag nog påstå, mer inriktade på antiinflationspolitik—det var ju en av grundbultarna i den här strategin, enligt den teoretiska uppläggningen som vi skapade. Kjell-Olof Feldt tillhörde trots allt en äldre generation.” First interview with Erik Åsbrink.
- 104 “Vi hade inga resonemang med Riksbanken om det här.” First interview with Kjell-Olof Feldt.
- 105 “Det är uppenbart att de inte hade stöd hos Feldt, men det framgick inte då, det har jag förstätt senare. [...] Jag frågade inte då om det var förankrat hos Feldt.” Interview with Bengt Dennis.
- 106 “Det var en klar irritation vid mötena över att vi var så passiva. [...] De tyckte att detta var en stor sak, det var deras baby.” Interview with Bengt Dennis.
- 107 See Franzén & Rosenbang 1983, p. 18 f.
- 108 “En viktig invändning mot att knyta till D-marken var att jag trodde att det inte var så självklart att D-marken skulle vara stark på det sätt som förutsattes. Om man gör en devalvering och knyter kronan till en valuta som kanske kommer att vara svag under en ganska lång period, då har man gjort ont värre.” Interview with Thomas Franzén.
- 109 See Åsbrink 1982, p. 12.
- 110 “Han trodde inte att man skulle kunna skapa politiskt stöd för en politik som understödde en hårdvalutapolitik. Min tanke var att om man lade fast den normen, då skulle det framtinga en tillräckligt stram ekonomisk politik. Jag medgar att detta byggde mera på tro än på vetande. Riksbanken köpte inte den normpolitiska komponenten.” Second interview with Erik Åsbrink.

- 111 “Vi trodde inte att en knytning till D-mark-
en skulle fungera som nominellt ankare på
något effektivt sätt.” Interview with Irma
Rosenberg.
- 112 “Statlig inkomstpöolitik, fast mer i form av
politisk solidaritet, det fanns gemensamma
mål. Avgörande för att nå de målen var att
devalveringen fick slå igenom ordentligt på
reallönerna och att vi inte fick en kostnads-
uppgång som sopade bort konsekvenserna
för konkurrenskraften. Denna solidaritet räk-
nade vi med, den var grundbulten.” First in-
terview with Kjell-Olof Feldt.
- 113 “Där var naturligtvis LO-sidans ansvar för
lönebildningen väldigt viktigt. Det var inte
minst tekniskt. Vi hade byggt in instrument i
det centrala förhandlingssystemet som gjorde
att det var jäkligt svårt att [...] hamna under
6–7 procent. Det var möjligt att inom ramen
för existerande förhandlingar och förhand-
lingskultur komma ned i en inflation på om-
kring 5–6 procent. Och det var ungefär det vi
satsade på.” Interview with Per-Olof Edin.
- 114 “Det var väldigt mycket, vilket jag hade svårt
för, inriktat på att man skulle prata med fack-
föreningarnas ledare om något slags mora-
lisk övertygelse få dem att hålla igen. [...] Där
hade jag en helt annan uppfattning än Kjell-
Olof Feldt; han trodde ju faktiskt på det
där.” First interview with Erik Åsbrink.
- 115 See Rehn 1975, and Rehn 1982, p. 1 ff.
- 116 See, for example, Åberg 1979a, p. 101 ff., and
especially Åberg 1981a, pp. 61 ff., 71 ff. Carl
Johan Åberg also advocated incomes policies
in this period, since “experience had shown
that the bargaining partners could not be trusted
with the task of reaching wage agreements that
were consistent with economic balance.” (“Erfarenheterna gav vid handen att avtalspar-
terna inte kunde anförtros uppgiften att träffa
avtal inom ramen för samhällsekonomisk ba-
lans.” Interview with Carl Johan Åberg.)
- 117 “Ett grundproblem för oss var att kunna hita
en antiinflationistisk expansionspolitik.
[...] Ett nyckelord var selektiv finanspolitik:
duscha där det behövdes, men inte på ställen
där det inte behövdes. [...] Feldt var inte alls
inne på de här tankarna.” Interview with Carl
Johan Åberg.
- 118 “Jag har en känsla av att han [Carl Johan
Åberg] drev det längre än vi. För honom var
det något som upphöjdes till ett överordnat
inslag i politiken. Det kan man inte säga att
det var för Misja Sohlman och mig. Vår upp-
fattning var en generell stram finanspolitik,
och det var inte bara inriktat på den initiala
fasen, utan det behövdes permanent.” Sec-
ond interview with Erik Åsbrink. For argu-
ments about marginal employment subsidies
in Åsbrink’s September 1982 memo, see Ås-
brink 1982, p. 40.
- 119 “Det var en stor grej, det var Big Bang. I den
mån vi hade sådana förslag—konkreta—så
låg de i krisrapportens förslag. Nu genom-
fördes inte allt det. [...] I en verklighet som
delvis var ännu värre släppte vi en del saker.”
Interview with Ingvar Carlsson. On the
prominence of arguments about selective
policies in *Framtid för Sverige*, see Carlsson
2003, p. 175.
- 120 See Phillips 1958, p. 299.
- 121 See Friedman 1968.
- 122 For a brief account of these developments,
see Blyth 2002, pp. 139–147. For the views
of one leading Swedish advocate of rules-
based policies in the 1970s and 1980s, see
Myhrman 1993, pp. 202–206. For an intro-
duction to the development of macroeconomic
thought in the post-war period, see Snow-
don et al. 1994. For a brief overview, from a
Swedish perspective, of the arguments against
discretion in macroeconomic policy, see Pers-
son 1990. For a critical overview of devel-
opments in economic thought in Sweden,
see also Lönnroth 1993.
- 123 See Lucas & Sargent 1978, especially p. 4 f.
- 124 For two articles that were very influential in
this discussion, see Kydland & Prescott 1977,
and Barro & Gordon 1983. I use the English
“rule” to translate the Swedish “norm,” in or-
der to avoid confusion. Hence, the Swedish
“normpolitik” becomes “rules-based poli-
cy.” Regarding the non-influence of moneta-
rism in Sweden, Assar Lindbeck said that
“Friedman’s version of monetarism has never
had much influence among Swedish econo-
mists.” (“Monetarismen i Friedmans tapp-
ning har aldrig fått någon större betydelse
bland svenska ekonomer.” Interview with As-
sar Lindbeck.) For a rare exception, see Axell
1981.
- 125 The analysis is based on the categorization
made by the editors of *Ekonomisk Debatt*.
- 126 See Myhrman 1973. (Author’s translation.)
In the following issue, Lars Hansson of the
central bank responded to Myhrman, argu-
ing that Myhrman’s argument was too moneta-
rist. Myhrman responded in the same issue
by stating that the debate should no longer
be a matter of “Keynes against the classics”
but about picking the best from each. The de-
bate continued in the following issues. See for
example contributions by Christina Jonung,
Lars Jonung and Johan Lybeck in *Ekono-
misk Debatt* 1973:7. For the 1975 article,
see Myhrman 1975, p. 258.

- 172 127 “Han var den som tog upp en hel del av det som var nytt i det här med public choice, med monetarism, med Phillipskurvans kollaps—våldigt mycket kom via honom.” Interview with Hans Tson Söderström.
- 128 See Calmfors & Lundberg 1974.
- 129 Calmfors 1976. Author’s translation.
- 130 See Tobin 1977.
- 131 See Lönnroth 1988, p. 127. For an overview of the infected Swedish debate on the Friedman prize, see Axell & Swedenborg 1977.
- 132 See Myhrman 1977a. In a following issue, after the devaluation in the spring of 1977, Johan Myhrman and the former deputy governor of the central bank, Sven Jøge, both suggested that analyses of the consequences of devaluations were flawed, due to the predominance of Keynesianism in Sweden; see Jøge 1977, and Myhrman 1977b. Cf., for a Keynesian response, V. Bergström 1977a.
- 133 See OECD 1977.
- 134 See Odhner 1978, and Lindbeck 1978. Odhner’s criticism was not Keynesian so much as based on ideas about selective intervention. Assar Lindbeck replied that the report tried to find a “path” between inflation and falling employment rates, and identified the political system as the primary threat to economic stability.
- 135 Jonung 1978. Author’s translation.
- 136 See Söderström 1978. In another article in 1978, Johan Myhrman again applied the “insights” of modern macroeconomic theory: the role of expectations and the restrictions of international dependence—see Myhrman 1978a. Myhrman’s article met with a response from the social democratic economist Carl Johan Åberg; see Åberg 1978. For Myhrman’s response, see Myhrman 1978b, and for a follow-up, see Grassman 1978b.
- 137 See Grassman 1977a. For another of Grassman’s comments on the policies of the center-right government, see Grassman 1978a. Cf. Åberg 1978. In 1977, Grassman debated the interpretation of balance of payments statistics with Lars Wohlin, state secretary in the Ministry of Economic Affairs. See Wohlin 1977, and Grassman 1977b. Wohlin responded in the following issue. Another Keynesian economist was Villy Bergström. See, for example, V. Bergström 1977b. There are those who argue that Sven Grassman was ostracized from the economics profession because of his controversial views; see, for example, Sverenius 1999, pp. 97–112.
- 138 Calmfors 1979, p. 548. For another article by Calmfors that advocates rules-based economic policies, see Calmfors 1981.
- 139 For Lundberg’s response to Calmfors, see Lundberg 1980. For Lundberg’s thoughts about the inadequacy of economists’ analyses of Sweden’s problems in the 1970s, see Lundberg 1996, p. 82 ff.
- 140 See Lundberg 1985b.
- 141 Viotti 1980, p. 180. (Author’s translation.) Viotti 1982 discusses rules-based policies.
- 142 Note, however, that in the first issue of *Ekonomisk Debatt* in 1981, James Tobin—who received the Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel in 1981—was again cast as Keynesianism’s defender, sharply criticizing the Reagan administration’s monetarist economic policies. See Tobin 1982. For an articles from 1981 advocating rules-based policies and addressing the role of expectations, see Calmfors 1982b. Articles in 1983 also indicate that new ideas about economic policy had become mainstream, and were generally accepted. The American economist Martin Feldstein had an article in *Ekonomisk Debatt* called “The Retreat From Keynesianism” (Reträtten från keynesianismen); see Feldstein 1983. The Swedish economist Mats Persson noted in his comment on Feldstein’s article that “[t]he general attitude to ambitious stabilization policy and to the opportunities for big decreases in unemployment by means of generally expansionary policies is definitely more pessimistic today than it was 5–10 years ago.” Persson 1983, p. 251. (Author’s translation.) Erik Lundberg wrote in his comment that the American economist’s article was one-sided and lacked nuance, and suggested that while primitive forms of Keynesianism were not valid, aggregate demand was still a very important factor. See Lundberg 1983, p. 245. Other articles from 1983 that advocate rules-based policies include Söderström 1983, and Myhrman 1983.
- 143 Calmfors 1982a, p. 155. (Author’s translation.) For another synthetic article suggesting that Keynesianism was in retreat, see Siven 1983.
- 144 See Lindbeck 1982, p. 162. Other contributions to the same issue include Bruno 1982, Feldstein 1982, and Matthews 1982.
- 145 “En grupp som tog upp det var SNS-gruppen på 80-talet, som leddes av Hans Söderström och där även Johan Myhrman och Lars Jonung spelade stor roll. De menade att man bör ställa upp normer för politiken. Men det var lite innehållslöst att säga att politikerna skall följa en norm, för varför skulle politikerna följa den? Det fanns en annan grupp ekonomer som gick lite djupare och

- sade att vad som fordras är institutioner som gör det möjligt för politikerna att motstå kortsiktiga frestelser.” Interview with Assar Lindbeck.
- 146 See SOU 1993:16. Assar Lindbeck wrote several other articles that had a very broad approach, emphasizing institutions and the performance of the political system; see, for example, Lindbeck 1983, and Lindbeck 1984.
- 147 See, for example, V. Bergström 1977b, and Skånland 1978. See also, for later articles, Ysander 1983, and Holmlund & Ysander 1983. For critical analyses of incomes policies in the 1980s, see, for example, Calmfors 1982b, Calmfors 1985, and Elvander 1988.
- 148 See Odhner 1981, which was written as a comment to the 1980 medium term survey. Erik Lundberg wrote in his comment that where the medium term survey advocated a “slow” way to the goal, he was in favor of a faster strategy: a big, one-shot devaluation (see Lundberg 1981).
- 149 See Åberg 1979a, and Åberg 1981a.
- 150 “Jag och en del andra hävdade att man kan raffinera keynesianismen och behålla en del grundidéer, men den här enkla, nästan vulgära tillämpningen av keynesianismen, den håller inte längre. [...] Det tragiska med Keynes var sättet han missbrukades på.” Interview with Carl Johan Åberg.
- 151 Some *Ekonomisk Debatt* articles in the mid-1980s can be categorized as neo-Keynesian (see, for example, Assarsson & Högfeldt 1983, and Johansson 1986) but they were few.
- 152 “Svenska ekonomer var mycket interventionistiska. Sedan kom det nya synsätt som vi förknippar med Robert Lucas och begreppet rationella förväntningar. Svenska ekonomer tog länge en låg profil i hela den debatten.” Interview with Ulf Jakobsson.
- 153 See V. Bergström 1993a, p. 159 ff.
- 154 “Inget land har varit så genuint keynesianskt som Sverige.” Interview with Villy Bergström. While this is probably true, it is not necessarily evidence that new ideas did not catch on already in the 1970s. Lars Jonung, another economist, even suggests that the fact that Keynesianism was traditionally very strong in Sweden led to a more violent and sudden turn from Keynesianism: “Perhaps the impact was greater in Sweden because we were so Keynesian in our approach in the 1970s. We turned quickly from one extreme to the other.” (“Kanske var genomslaget kraftigare i Sverige eftersom vi var så keynesianska i vår inställning under 1970-talet. Vi svängde så snabbt från en ståndpunkt till en annan.” Letter from Lars Jonung to the author.)
- 155 “Min gissning är att det gick ungefär lika snabbt i alla länder—vi är alla öppna ekonomier även intellektuellt. [...] [G]radvis svängde allt fler mest yngre ekonomer över till en kritisk inställning till keynesianismen.” Letter from Lars Jonung to the author.
- 156 “Det var ändå vardagsmat då. [...] Man framstod inte som en apart figur om man hade sådana idéer.” Interview with Nils Lundgren.
- 157 “Vad som slog igenom väldigt kraftigt och väldigt snabbt, det var Lucas rationella förväntningar. [...] Framför allt bland de yngre, de i doktorandutbildning, och bland nya doktorer—de hoppade på Lucasvägen mycket snabbare än andra. [...] Man kan inte säga att det fanns någon enhetlig uppfattning bland ekonomer om rationella förväntningar. Det var en del ekonomer i åldern 25 till 30 år som tog oerhört stort intryck av det där, men vi som var lite äldre tog inte fullt så stort intryck. För egen del betraktar jag rationella förväntningar som en användbar jämförelsenorm vid diskussioner av mer realistiska förväntningsmekanismer. Dessutom kom många till slutsatsen att man måste ha några slags begränsningar i förändringar i genomsnittliga priser och löner—organisationerna som sätter priser och löner måste på något sätt få klart för sig att om de överskrider vissa gränser så uppstår en bestraffning, de får ta konsekvenserna. Många aktörer räknade med att det skulle bli nya devalveringar vid snabba pris- och löneökningar, så man fick ingen broms på utvecklingen. Det var nog en enhetlig bedömning under slutet av 70-talet och under 80-talet att man måste göra någonting åt det där.” Interview with Assar Lindbeck.
- 158 “Där var vi inte så väldigt sena, i den intellektuella utvecklingen, utan där låg nog vi svenska forskare ungefär parallellt.” Interview with Hans Tson Söderström.
- 159 “From the time I started doing macro, it seemed to me that we who knew economics had this view, whereas many of the practitioners had not yet understood these ideas.” (“Jag uppfattade, från det att jag kom in i makro, att vi som kunde nationalekonomi, vi hade det här synsättet, medan många av praktikererna kanske ännu inte hade förstått de här sambanden.” Interview with Hans Tson Söderström.)
- 160 “Jag uppfattade det aldrig som någon skolbildning, att vi var en liten grupp som skilde ut oss. Det som så småningom kom att skilja ut oss var att vi policymässigt drev det här så hårt. Men rent intellektuellt såg jag

- det aldrig som att vi trodde på vissa modeller som inte andra trodde på.” Interview with Hans Tson Söderström.
- 161 See Bentzel et al. 1980, p. 92.
- 162 The options are discussed in Bentzel et al. 1980, p. 99 f.
- 163 Chapter 3 in Bentzel et al. 1980 is devoted to rules.
- 164 “Det var en följd av att ett nytt nationalekonomiskt tänkande hade börjat komma fram. Både Hans Tson Söderström och Johan Myhrman, som ingick i rådet för första gången, hade kontakter med amerikanska forskare och var inspirerade av teorier om exempelvis rationella förväntningar.” Interview with Bengt Rydén.
- 165 The 1982–1983 report argued the case for rules-based policies: “The government must declare that it has no intention, and in the long run no means, of dealing with the falling profits, and ultimately unemployment, that follow from accelerating costs.” Bentzel et al. 1982, p. 100. (Author’s translation.) Most of the reports dealing with rules-based policies in the 1980s reserved some room for traditional demand-side measures: “A price-stabilization policy does not entail abandoning normal countercyclical policies. It is necessary to distinguish between different kinds of disturbances. [...] [T]emporary demand-side disturbances like those in the 50s and 60s can be met with active stabilization policy measures.” Bentzel et al. 1982, p. 100. (Author’s translation.) The 1983–84 report—the last one headed by Erik Lundberg—took a broader view, prefiguring, interestingly, debates about the crisis of the “Swedish Model” in the late 1980s; see, for example, Bentzel et al. 1983, p. 7.
- 166 Hamilton et al. 1981, p. 114. Author’s translation.
- 167 “Medlemmarna i Konjunkturrådet höll fast vid keynesianismen och interventionismen.” Interview with Villy Bergström.
- 168 “Around 85, it becomes more generally accepted among economists.” (“Någon gång runt 85 blir det mer allmänt accepterat bland ekonomer.” Interview with Lars Calmfors.)
- 169 Cf. Söderström 2002, p. 513.
- 170 “Egentligen så fanns det ju redan i 80/81 års rapport—lite grand var kvar 81/82.” Interview with Hans Tson Söderström. Cf. Jonung 1999, p. 179.
- 171 “Så fick jag närkontakt med Riksbanken och dess chef, som jag ju också känner väl, han var ju folkpartist han med, det var Lars Wohlin. Så fort jag blev ekonomiminister träffades vi och åt lunch varje onsdag. [...] Ofta var för övrigt Bengt och Sten Westerberg med, kanske ytterligare någon—Ulf Jakobsson, exempelvis: de ekonomiska tänkarna på departementet. Det var där, egentligen, som hela det här paketet i september 1981 snickrades ihop.” Interview with Rolf Wirtén. Sten Westerberg says that a small group “played a quite important role for the thinking behind this: I, Bengt [Westerberg], Lars [Wohlin], and Ulf Jakobsson.” (“Vi var ett litet gäng som spelade rätt stor roll i tänkandet kring det här: det var jag, Bengt [Westerberg], Lars [Wohlin] och Ulf Jakobsson.” Interview with Sten Westerberg.)
- 172 See Westerberg & Westerberg 1983.
- 173 “Impulser från den internationella diskussionen, framför allt OECD, tog sig fram till tjänstemän, typ sådana som jag själv, och sedan från oss vidare till regeringen.” Interview with Sten Westerberg.
- 174 “Där skulle jag säga att den internationella debatten spelade roll, Friedman. [...] Jag var rätt mycket nere i OECD; där började det här komma fram i större och större utsträckning, den här typen av tänkande, inte minst under Reagans tid. Omläggningen av den amerikanska penningpolitiken gjorde intryck, också intellektuellt.” Interview with Sten Westerberg.
- 175 “Det var en del av en diskussion som då uppfattades som mycket internationell. Den påverkade, det gjorde den.” Interview with Sten Westerberg.
- 176 “Den största påverkan var när Volcker i oktober 1979 lade om den monetära politiken i Federal Reserve och använde räntan som en parameter för att styra penningmängden. Den gick i monetaristisk riktning. [...] Det var den amerikanska omläggningen som var avgörande, men den var i sin tur påverkad av den monetaristiska diskussionen. Riksbankschefernas möten i Basel och diskussionerna där spelade en viss roll. [...] Sedan är det klart att den internationella teoretiska debatten också påverkar institutioner som OECD och IMF och deras synpunkter på svensk ekonomi, liksom den påverkar svenska ekonomer.” Interview with Lars Wohlin. Note that Lars Wohlin was critical of monetarism—see, for example, Wohlin 1983.
- 177 “OECD kritiserade fine-tuning redan på 70-talet. [...] Jag instämmer i den kritiken.” Interview with Lars Wohlin.
- 178 “Det interventionistiska budskapet hade tonats ned ordentligt redan tidigare.” Interview with Ulf Jakobsson.
- 179 “Jag tror att man kan beskriva det mer som en ökad tveksamhet mot interventionism

- än att man var aktivt för en normpolitik.” Interview with Ulf Jakobsson.
- 180 See Söderström 1981, Jonung 1981, Söderström 1982, and Lundgren 1982. Nils Lundgren—a social democrat—was more inclined to advocate incomes policies and similar instruments. The conservatives left the center-right government in the spring of 1981 because of disagreements with the liberals and the Centre Party over tax policy. Interestingly, the conservative party also planned to involve economists more in policymaking at this time, while in opposition. “We might consider,” Carl Bildt wrote in a memo to the party leader, Gösta Bohman, in September, 1981, “summoning a conference of economists to discuss economic policy some time this fall. Independent economists would in all likelihood be interested in offering their opinions about the coming development in an informal setting and without public scrutiny. [...] Establishing contacts with economists on a large scale would also be of great value in the future.” Carl Bildt today comments that “it was natural to try to find support for and to get help with reformulating economic policy in broad groups of economists. I don’t think that we had organized this type of meetings before.” (“Det var en naturlig tanke att söka både förankra och få hjälp med en nyorientering av den ekonomiska politiken i bredare kretsar också av ekonomer. Jag tror inte att vi hade haft denna typ av sammandragningar förr.” Letter from Carl Bildt to the author.)
- 181 H. Bergström 1987, discusses these events at length. See also Feldt 1996, p. 196 ff.
- 182 See Åberg 1979b, p. 1 f.
- 183 “Nationalekonomin har nu inte någon mig veterlig motsvarighet till den keynesianska teoribildningen. Snarare ligger även vänsterekonomerna på en linje som innebär att man exempelvis måste få marknaderna att fungera bättre och att det finns gränser för de fördelningspolitiska ambitionernas förverkligande. Man måste med andra ord gå in i detta samarbete med ekonomerna i klart medvetande om att de kan komma att servera en del ’beska sanningar.’ Samtidigt måste vi tänka långsiktigt. Denna stagnation inom ekonomin kan ju inte rimligen fortsätta under många år utan det måste komma något nytt. Det är då viktigt för oss att på ett tidigt stadium fånga upp detta och inrätta politiken efter dessa ännu så länge ökända men förhoppningsvis kommande riktlinjer.” Åberg 1979b, p. 2.
- 184 “Jag sade [...] att vi nu har behov av en ny ekonomisk teori, och jag hoppas att det finns åtminstone några ekonomer som inte följer med svängen högerut.” Interview with Ingvar Carlsson. On “old Keynesian theories,” see Carlsson 2003, p. 174. Author’s translation.
- 185 “Vad vi skulle vilja göra vara att gifta ihop modern ekonomisk teori och rationalitet med socialdemokratisk ideologi.” Interview with Klas Eklund.
- 186 “Slutet av 1970-talet var en tid när marknadsliberala idéer—om jag uttrycker mig så—och monetaristiska tankegångar, i ordets verkliga bemärkelse, började slå igenom i den svenska diskussionen. [...] En orsak till att vi engagerade oss var att vi ville få till stånd en diskussion om de nya tankarna.” Interview with Lars Heikensten.
- 187 “Förutsättningen för att politikerna ville lyssna på den här diskussionen var att de själva hade sett att de gamla verktygen inte fungerade och Sverige var på väg in i kris. Det var det som var det viktiga. Hade inte partiet varit i opposition, hade Sverige inte varit på väg in i en djup ekonomisk kris med industrikris och växande budgetproblem, då hade ingen varit intresserad.” Interview with Klas Eklund.
- 188 See Eklund 1981b, and Eklund 1983. Eklund says today that he and other young economists were “inspired both by reality and by the new theories that we were studying and learning. The 70s was a period when the old Keynesianism was reformulated and challenged and finally, at the research level, more or less annihilated. Discussions about the vertical Phillips curve, rational expectations, the impotence of systematic stabilization policy.” (“Vi var dels influerade av verkligheten, dels av den nya teori som vi höll på att läsa och lära oss. 70-talet var en period när den gamla keynesianismen stöptes om och utmanades och till slut, på forskarnivå, mer eller mindre utplånades. Diskussionen om den vertikala Phillipskurvan, de rationella förväntningarna, den systematiska stabiliseringspolitikens impotens.” Interview with Klas Eklund.)
- 189 “... diffus: ett forum för idégivning och att människor kom samman.” Second interview with Erik Åsbrink.
- 190 “... förvånad om diskussionerna i den där gruppen i sig hade någon särskilt stor betydelse för politiken.” Interview with Lars Heikensten.
- 191 “Kommer 80-talet att präglas av en framgångsrik socialdemokratisk politik för att föra landet ur den ekonomiska krisen, inspirerad av tänkandet hos en rad duktiga ekonomer?” Åsbrink 1981.

- 176 192 For example, Carl Hamilton (1981), who would later join the Liberal Party, wrote a memo advocating rules-based economic policies, while Carl-Johan Åberg (1981c) advocated incomes policies.
- 193 See V. Bergström et al. 1981.
- 194 See Hedborg et al. 1981. Carl Johan Åberg 1981b was also skeptical.
- 195 “Vi måste fundera igenom ordentligt vad det är för situation vi har och hur skall vi tillämpa våra idéer. Fortfarande inte för att ge upp någonting som den fulla sysselsättningen—det var det aldrig tal om—men en del av oss insåg att nu krävdes nya medel, nu krävs nytt tänkande, för att nå bland annat det målet.” Interview with Ingvar Carlsson.
- 196 “Det där med normpolitik är något jag själv trodde på och man kan ju säga att det här som inte blev av, en D-marksanknytning, var ett typiskt exempel på normpolitik. [...] Så det fanns en viss intellektuell påverkan eller stimulans därifrån.” First interview with Erik Åsbrink. Lars Heikensten, who worked in Kjell-Olof Feldt’s Finance Ministry later on in the 1980s, points out that he did not see the 1982 devaluation as a Keynesian measure: “The idea was a forceful, one-time measure in a difficult situation, to kick-start the economy, and after that the plan was to tie oneself up and pursue rules-based policies.” (“Den stora devalveringen 1982 [...] uppfattar jag inte som keynesianism, den var tänkt som en kraftfull engångsåtgärd i ett svårt läge för att få fart på ekonomin. Därefter var tanken att låsa fast sig och driva normpolitik.” Interview with Lars Heikensten.)
- 197 “Rationella förväntningar hade blivit en del av vår världsbild också.” First interview with Kjell-Olof Feldt.
- 198 “Rapporten 80/81 föreslog en stor kostnadsanpassning, detta som en startpunkt på en normpolitik. [...] Vårt resonemang var att man inte kan svälta sig fram till en normpolitik, man måste starta från ett gynnsamt kostnadsläge, om det skall vara politiskt möjligt.” Interview with Hans Tson Söderström.
- 199 Hans Tson Söderström says: “I didn’t see much of a difference; they tried to deliver the same message, but their rhetoric was somewhat different.” (“Jag såg inte någon riktigt stor skillnad; det var mer en fråga om att de försökte lansera samma budskap med delvis annorlunda retorik.” Interview with Hans Tson Söderström.)
- 200 Thucydides 1910, 2:xxxvii.
- 201 Source: interview with Bengt Rydén.
- 202 “Jag och del andra läste vad de skrev och tyckte att det var en del intressanta saker.” First interview with Erik Åsbrink.
- 203 Boughton 2001, p. 3. On the OECD’s recommendations to another Nordic country, see Marcussen 2000, p. 184 ff.
- 204 See OECD 1978, p. 40 f., and OECD 1979, p. 44 f.
- 205 See OECD 1980, p. 59 f., OECD 1981, p. 45 f., and OECD 1982, p. 50.
- 206 OECD 1980, p. 58.
- 207 OECD 1982, p. 49.
- 208 See OECD 1984, p. 45 f.
- 209 See Sohlman 1979.
- 210 “Samtidigt var den allmänna uppfattningen att inflationsbekämpningen måste ges prioritet även på bekostnad av tillväxt och sysselsättning.” S. Westerberg 1980.
- 211 “... spelade en framträdande roll. [...] Det var en viktig analytisk instans, när det gällde att reda ut vad som hände i ekonomierna och vad som borde göras.” Interview with Gunnar Lund.
- 212 “... en mer utpräglad monetaristisk skola dök upp. [...] Det var den som i en hel del avseenden inspirerade innehållet i den ekonomiska politiken, och att man bröt med en keynesiansk tradition.” Interview with Gunnar Lund.
- 213 “Visst var det en brytningstid. Keynesianismen hade inte lyckats och man var missnöjd med resultaten av den ekonomiska utvecklingen som man hade haft och det tillskrev man i hög grad den ekonomisk-politiska syn som hade präglat politiken, nämligen ekonomisk-politisk aktivism och försök att stabilisera ekonomin med finanspolitik.” Interview with Leif Pagrotsky.
- 214 See Åsbrink 1982.
- 215 “... fanns fortfarande en tro, som även jag omfattade, på centrala och samordnade avtalsförhandlingar. De spelade fortfarande en roll, LO hade makt över lönebildningen, den gick förlorad successivt under 80-talet. Man kan inte säga att den var förlorad 82.” Second interview with Erik Åsbrink.
- 216 “Den insikten fanns naturligtvis, att det var några misslyckade år när vi hade väldigt höga kostnadsökningar i Sverige och tappade konkurrenskraft och det ledde till ett antal smådevalveringar.” Second interview with Erik Åsbrink.
- 217 “Vi trodde, efter devalveringen 82, att LO, framför allt, skulle kunna ha den makten över löneutvecklingen så att den här idén om att vi skulle genomföra en devalvering som gav mer pengar till exportindustrin utan att vi fick en löneutveckling som raderade ut devalveringen, det skulle LO klara. [...] Den centralise-

- rade avtalsrörelsen som vi hade i början av 1970-talet och som så småningom vittrade ner, den var ett minne blott på 80-talet.” Second interview with Kjell-Olof Feldt.
- 218 “Det hade ju då börjat bli en diskussion bland arbetsgivarna om att man skulle ha decentraliserade förhandlingar, helst ute på företagen, men det där fanns det ju inte något gehör för inom arbetarrörelsen. [...] [F]ortfarande trodde vi på att samordnade avtalsrörelser var den minst dåliga, eller den bästa, modellen. Men det hade ju börjat knaka! Det var inte så att lönomodellen sprack på 80-talet, det gjorde den redan i början på 70-talet.” Interview with Ingvar Carlsson.
- 219 Carlsson 2003, p. 207. Author’s translation.
- 220 For a critical discussion, see Elvander 1988.
- 221 See SAMAK 1985, and Eklund 1986.
- 222 “Vi trodde att det skulle gå att hitta en modell.” Interview with Ingvar Carlsson.
- 223 “Den katastrofala felbedömningen var att vi tjuvade på parterna hela tiden, när vi själva, det vill säga regeringen, samtidigt förde en för expansiv politik. Parterna kan aldrig ta ansvar med full storm rakt i ansiktet. LO:s medlemmar betalar inte avgift för att deras ledning skall gå ut och tala om för dem att de skall ha lägre löner. Det måste vara en balans på arbetsmarknaden.” Interview with Michael Sohlman.
- 224 “... jag skulle vilja gräla på Klas Eklund för att Du bara säger att vi måste stoppa inflationen men Du resonerar inte om vilka förutsättningarna är för att få LO att bli antiinflationär. Det är det som jag har försökt att diskutera och jag skulle vilja föreslå att herrarna fortsätter och damerna fortsätter att diskutera det på bussen för jag tycker det är ett centralt problem. [...] Att då bara säga att vi måste ha lönestopp eller att LO måste uppföra sig ordentligt och inte avsäga sig sitt samhällsansvar o s v när vi vet att om LO skulle försöka i dagens läge, även om vi hade en socialdemokratisk regering så skulle det bara gå sönder ute på arbetsplatserna, som det ju redan gör i den ekonomi som vi har den typ av inflatorisk infekterad ekonomi som vi har.” The minutes from the seminar can be found in the Archives and Library of the Swedish Labor Movement, Stockholm. History was to prove Gösta Rehn right, as he pointed out himself in an article in *Dagens Nyheter* in 1990, suggesting that it was about time the LO’s ideas from 1951 had an impact on the government’s economic policies. See Rehn 1990.
- 225 Data from Scharpf & Schmidt 2000a.
- 226 See Mellbourn 1986, p. 16 f.
- 227 Bo Holmberg quoted in Mellbourn 1986, p. 20. Author’s translation.
- 228 See Carlsson 2003, p. 192.
- 229 “Vi hade byggt ett väldigt bra välfärdssamhälle, men nu hade vi ingen automatisk fortsättning, kakan fortsatte inte att växa, och då måste vi anpassa systemen så att vi hade inkomster som betalade utgifterna.” Interview with Ingvar Carlsson.
- 230 Interestingly, the prime minister, Olof Palme, was involved very little in these discussions. See Kratz 1996, p. 27 ff., and Carlsson 2003, p. 193 f.
- 231 “För mig var det avgörande [...] att jag var övertygad om att det vi sade i programmet skulle genomföras. Då kunde jag gå ut till mina medlemmar och säga att vi var beredda att acceptera en reallönesänkning, därför att vi skulle få en högre sysselsättning och mycket annat. Problemet med socialdemokratin de senaste tio åren har varit att fackföreningsrörelsen inte har litat på socialdemokraterna—då är det väldigt svårt att göra någonting sådant här.” Interview with Stig Malm.
- 232 See Konjunkturinstitutet 1984, p. 202. A bill based on this announcement—Prop. 1979/80:181—was sent to parliament on May 13.
- 233 See Fälldin 1998, p. 278 ff.
- 234 “I början fanns det en ‘Haga-anda’ och hela det här köret. Där var två av de tre borgerliga partierna med—man skulle göra upp, och så vidare. Fälldin själv trodde på det. Sedan blev det en större skepsis.” Interview with Sten Westerberg.
- 235 “Det hade ingen som helst effekt, tvärtom fick man den värsta konflikten på många decennier. Då tror jag att illusionerna försvann. [...] Det var det viktigaste skedet—viktigt även för mig, och ännu mycket mer för de som verkligen bestämde.” Interview with Sten Westerberg. Ulf Jakobsson (interview) describes the 1980 labor market conflict as “a very traumatic experience for the center-right government” and “in some sense, a watershed.” (“En mycket traumatisk upplevelse för den borgerliga regeringen, det var storkonflikten 1980, så den kan också sägas vara någon sorts vattendelare.”)
- 236 “Det förslag som jag lade tidig höst 81, det var konsekvent med vad vi hade gjort förut, men vi fick en smäll i avtalsrörelsen 1980. [...] Därför skapade 1980 års avtalsrörelse nya problem för regeringen, och dem gick vi verkligen i närkamp med i den här—tycker jag—offensiva höstpropositionen 81.” Interview with Rolf Wirtén.
- 237 This conclusion is shared by other scholars; see, for example, A. Bergström 1995, p. 284.
- 238 See Prop. 1981/82:30, p. 2.

4. THE POLITICS OF PURPOSE

- 1 “Han visste ju vad orden betydde, så han invände mot den här formuleringen. [...] Han tyckte att det var en för drastisk formulering, att det kunde tolkas som att man övergav sysselsättningsmålet som det primära. Jag argumenterade [...] för att så kunde man inte se det, utan det var vi som hade kommit till insikt om, samfällt, att utan att vi får bukt med inflationen så har vi inte en chans på sysselsättningsmålet.” Interview with Gunnar Lund.
- 2 See Prop. 1990/91:50, p. 1.
- 3 The need for fiscal restraint—through spending cuts and/or tax increases—was a recurring theme in economic policy bills in the second half of the 1980s; see, for example, Prop. 1987/88:60, p. 6 ff., Prop. 1987/88:100, p. 4, Prop. 1987/88:150, p. 22 f., Prop. 1988/89:100, p. 4 (cf. p. 20 f., where the government also claimed that fiscal policy after 1982 had been “remarkably restrictive”), Prop. 1988/89:150, pp. 3, 14 ff., Prop. 1989/90:100, p. 13, Prop. 1989/90:114, p. 4 ff., and Prop. 1989/90:150, pp. 7, 21.
- 4 See Feldt 1991, *passim*, and Carlsson 2003, chapter 4, pp. 255–260, and chapter 11.
- 5 See Esaiasson 1990, p. 442, and Gilljam & Holmberg 1990, p. 32 f.
- 6 See, for example, Malm 1994, p. 131–141.
- 7 See Konjunkturinstitutet 1989, p. 36 (June 7). Later, special taxes on the construction sector were introduced in Göteborg as well; see Konjunkturinstitutet 1990, p. 30 (April 25).
- 8 Feldt 1991, p. 432. Author’s translation.
- 9 On events in the spring of 1989, see, for example, Carlsson 2003, p. 262 ff.
- 10 See Prop. 1989/90:95. On the events that led up to this, and the conflict between Ingvar Carlsson and Kjell-Olof Feldt, see Carlsson 2003, pp. 280–298. For Feldt’s version, see Feldt 1991.
- 11 See Prop. 1989/90:114, and Prop. 1989/90:150.
- 12 See H. Bergström 1993, p. 183 f. Bengt Westerberg says that his opinion was that “this was the beginning of a cooperation that might be developed.” (“Min inställning då var att det var början på ett samarbete som skulle kunna utvecklas.” Interview with Bengt Westerberg.)
- 13 See Carlsson 2003, pp. 351–358.
- 14 See *Framtid för Sverige* 1991.
- 15 In fact, Allan Larsson at first declined the offer to become finance minister, since he wanted to implement the “stabilization agreement.” See Carlsson 2003, p. 341.
- 16 See Konjunkturinstitutet 1991a, p. 131. For an overview of the background and consequences of the Rehnberg accord, see Elvander 1997, pp. 17–22, and Elvander 2002, p. 199 f.
- 17 “Jag kom ihåg att vi satt inne på Allans [Larssons] rum och diskuterade kostnadsutvecklingen och en eventuell intern devalvering efter Lars Calmfors artikel. Men vi var mitt i en avtalsrörelse och [...] och ledningens slutsats var att vi kan inte göra en sådan anpassning nu, för det kommer direkt att leda till att arbetstagarna försöker kompensera sig med högre löner.” Interview with Lars Heikensten.
- 18 LO 1990, p. 28 f.
- 19 “Vi var inte kritiska mot fast växelkurs, men vi hade kommit i ett läge då det bara var en katastrof som återstod.” Interview with Dan Andersson.
- 20 “Den utlösande faktorn var faktiskt artikeln som Dan Andersson och P-O Edin skrev på DN Debatt. Jag hade föreställningen att det rådde samsyn om behovet att få ner inflationen och därför uppfattade jag artikeln som en provokation mot dessa strävanden.” Interview with Allan Larsson.
- 21 See Prop. 1990/91:100, pp. 7, 18.
- 22 See Prop. 1990/91:50, p. 130.
- 23 See, for example, Larsson 1991, p. 23 ff.
- 24 Prop. 1990/91:50, p. 1. Author’s translation.
- 25 “Missförståndet ligger i [...] att man tappar det som var det första ledet i meningen: ‘i syfte att hävda sysselsättningen.’ Med ‘andra önskemål och intressen’ menade vi ökade offentliga utgifter och lönehöjningar som skapar inflation. Det var inflationen som var det stora hotet mot sysselsättningen, inte åtgärderna för att få ned inflationen.” Interview with Allan Larsson.
- 26 “Det tycker jag är våldsamt övervärderat, de som sade att det skedde ett paradigmskifte och det var så stort. Vi hade ju en inflation som hotade att slå ut företaget på löpande band. Att snacka om full sysselsättning och låta den inflationen löpa vidare, det var totalt omöjligt. Om man ville ha full sysselsättning så var det första man måste klara att få ned inflationen.” Interview with Ingvar Carlsson.
- 27 “The economic policy shift was not caused by ideology, but by the conditions we faced.” (“Omläggningen av den ekonomiska politiken var inte ideologiskt betingad, utan den var betingad av de faktiska omständigheterna.” Interview with Allan Larsson.)
- 28 See, for example, Larsson 1991, p. 27 ff.
- 29 Note also that academic economists like Lars

- Jonung (1999, p. 211), and Assar Lindbeck (1997, p. 1303) argue that there was regime change.
- 30 “Därmed var det *de facto* så att politikerna hade bestämt sig för att de var beredda att ta en viss uppgång i arbetslösheten—för att säkra en stabil utveckling framöver.” Interview with Lars Heikensten.
- 31 “Vi trodde att vi äntligen hade vänt blad i den ekonomiska politiken, så att inflationsbekämpning erkändes som grundläggande, ägnat oss åt strukturreformer, var på väg in i Europa. Vad var naturligare än att då sätta punkt definitivt för vad vi ansåg hade präglat den ekonomiska politiken alltför länge—devalveringscykler och släpphänhet. En slutgiltig spik där var att knyta till *ecun* på ett oåterkalleligt sätt.” Interview with Gunnar Lund.
- 32 “Den viktigaste makroekonomiska omläggningen skedde 89–90—skatteuppgörelsen, förbättrad budgetpolitik.” Interview with Olle Wästberg.
- 33 See Bergström 1993.
- 34 There are several accounts of the attempts to defend the fixed exchange rate and the cooperation between the center-right government and the social democratic opposition. The most detailed and comprehensive account—based on press material and interviews conducted in 1993 and 1994—is Teorell 1998. See also Sundelius et al. 1997, Hamilton & Stuart 2003 (and the other contributions to Jonung 2003). Hamilton’s and Stuart’s account is based on Anne Wibble’s papers (which I studied myself in 2001). There are also a number of accounts written by politicians and other participants; see, for example, Bildt 2003, Carlsson 2003, Dennis 1998, Wibble 1994, and Lundgren 1998. For accounts by journalists, see, for example, Elmbrant 1993, and Kask 1997.
- 35 See Konjunkturinstitutet 1991a, p. 130.
- 36 See Konjunkturinstitutet 1992b, p. 167.
- 37 Dennis 1998, p. 53 ff.
- 38 For a detailed account of this period, see Teorell 1998, chapter 2, on which much of the following account is based.
- 39 See Hamilton 1992a, and Hamilton 1992b.
- 40 For a summary of the statement, see Konjunkturinstitutet 1992b, p. 165 f. (March 19).
- 41 See Konjunkturinstitutet 1992b, p. 168.
- 42 See Prop. 1992/93:50. See also Konjunkturinstitutet 1992a, p. 91 f.
- 43 “... kostnadsproblemet kom mer i fokus. Det innebar inte att det strukturella budgetunderskottet var mindre betydelsefullt.” Letter from Carl Bildt to the author.
- 44 “När vi började hela processen och Bengt Dennis drog sin syn på läget, så var det utgifterna som han pekade på. När marknadsreaktionen inte blev den väntade på besparingspaketet kom han och andra tillbaka och sade att det var kostnadsläget som var problemet.” Interview with Bengt Westerberg.
- 45 See Wibble 1992a.
- 46 See Hansson 1992a, and Hansson 1992b.
- 47 “En fundamental skillnad mellan regeringen och oss var analysen av vad det var för sorts problem vi hade. Jag hade skrivit en promemoria om detta som fanns i arbete och som förändrades lite från månad till månad [...] och som var basen för den syn vi hade i våra motioner. Den synen var att vi hade misslyckats i stabiliseringspolitiken. Vi hade haft exceptionella svängningar i framför allt hushållens sparkvot och de svängningarna i hushållens sparkvot var chocker på ekonomin, och de var av formidabel storlek.” Interview with Leif Pagrotsky.
- 48 See Konjunkturinstitutet 1992b, p. 168. A bill based on this agreement—Prop. 1992/93:135—was approved by the government on November 19.
- 49 “Det vi inte fick med i uppgörelsen var åtgärder för att säkra banksystemet. Jag och Leif Pagrotsky hade en överläggning med Urban Bäckström och Bo Lundgren och vi trodde att de var inställda på att göra någonting. Sedan fick vi på lördagskvällen höra av Carl Bildt att det inte behövdes, det fanns ingen bankkris, bara en Nordbankskris.” Interview with Allan Larsson. See Carlsson 2003, p. 492 f.
- 50 “Vi hade väl från strikt departementala utgångspunkter kanske varit intresserade av att lägga in den redan i paket 1.” Interview with Bo Lundgren.
- 51 “Riksbanken sade att det avgörande var just underskottets storlek och att man måste strama åt finanspolitiken för att vinna marknadens förtroende. I och med att Riksbanken hade den synen blev det i viss mån en sanning.” Interview with Ingemar Hansson. Bo Lundgren, the minister for taxation, agrees: “Of course, for our government and for the social democrats, considering the image projected by Bengt Dennis, this became in a way the main objective.” (“Det är klart att för vår regering och för socialdemokraterna, med den bild som gavs av Bengt Dennis—på något vis så blev det huvudmålet.” Interview with Bo Lundgren.)
- 52 “Vad regeringen begärde av Riksbanken och av mig, det var att jag skulle skriva ut recept

- för hela den ekonomiska politiken. Det anses jag inte att centralbankschefer skall göra. [...] En normal regering skulle själv ha den kapaciteten och insikten. Men det var en splittrad regering.” Interview with Bengt Dennis.
- 53 See, for example, the central bank’s response to the 1992 medium-term survey of the Swedish economy, where the bank estimated that the structural deficit accounted for about half the total deficit. (A copy of the response can be found in Anne Wibble’s personal papers.)
- 54 “Krisen manifesterades ju i valutapolitik, men egentligen var det en finanspolitisk kris.” Interview with Bengt Dennis.
- 55 “Egentligen var konjunkturinstitutets och finansdepartementets analyser inriktade på den vanliga, keynesianska analysen, det vill säga att om efterfrågan minskar så skall offentliga utgifter ökas.” Interview with Thomas Franzen.
- 56 “Bland annat jag var mer orolig för efterfrågesidan än regeringen var i början.” Interview with Ingemar Hansson.
- 57 See, for example, Hansson 1992c. This memo was used in midnight discussions between Anne Wibble and Allan Larsson regarding the demand situation—see Wibble 1992b.
- 58 “Vår bedömning var att det svenska kostnadsläget återigen hade blivit ohållbart högt och att en orsak till de höga räntorna och devalveringsspekulationerna var att det fanns en grund i form av ett alltför högt kostnadsläge. [...] En intern devalvering var ett sätt att minska spänningarna och därmed minska den uppfattade sannolikheten för devalvering, och därmed minska räntorna.” Interview with Ingemar Hansson.
- 59 For a discussion about the “anatomy” of the crisis in the early 1990s, see Jonung 1999, pp. 201–211.
- 60 “Det som vi då inte såg tydligt, och som inte heller den nya regeringen Bildt såg tydligt, det var det som skedde med Tysklands ekonomi—överhettning och åtstramning via penningpolitiken, som slog mot resten av Europa—och vad det fick för effekt. [...] Det var den här delen som inte uppmärksammades i den svenska debatten. [...] Under 91 såg man inte så mycket av det, det tog något år innan den tyska åtstramningen fick effekt, också utanför Tyskland.” Interview with Allan Larsson.
- 61 “Vi såg framför oss att ekonomin skulle komma att sakta in rejält, och vi såg att detta skulle komma att ske till följd av att vi hade ett felaktigt kostnadsläge. I kombination med att den internationella konjunkturen vek skulle detta—precis som vid ett antal tidigare tillfällen—komma att leda till en nedgång i industrisektorn. Det skulle i sin tur komma att slå tillbaka in i ekonomin precis som det hade gjort förut. [...] Men vad vi inte såg var den dramatiska realräntechocken. Det var ett antal faktorer som drev fram den, bland annat den tyska återföreningen och valutakrisen 92. Men redan tidigare hade inflationen gått från knappt 10 till cirka 2 procent, samtidigt som ränteläget inte kunnat anpassa sig. Det var detta som var huvudskalet till att krisen blev så mycket djupare än förutsett. [...] Vad vi inte förstod, och de flesta inte förstod förrän vi var framme vid våren 1992 ungefär, var hur realränteproblematiken skulle slå och inte heller kopplingen till fastighetsidan.” Interview with Lars Heikensten.
- 62 “Tanken omkring 1990 var, tror jag, att låta processen läka igenom på samma sätt som de tidigare nedgångarna. Denna gång skulle man dock inte devalvera utan acceptera att arbetslösheten tillfälligt gick från 2 till såg 4 procent, sedan skulle systemet ha vant sig.” Interview with Lars Heikensten.
- 63 Svante Öberg, who was state secretary in the Finance Ministry, says that in the end, “relative costs had returned to the situation we had before the devaluations [in the early 1980s]. Economic policy had not been successful in this regard. There was therefore a great deal of focus on policies for low inflation.” (“Till slut hade kostnadsläget i förhållande till omvärlden återvänt till det kostnadsläge vi hade före devalveringarna. Den delen av den ekonomiska politiken hade man inte lyckats med. Det var därför väldigt mycket fokus på att komma ned i en låginflationspolitik.” Interview with Svante Öberg.)
- 64 “Jag kan inte minnas att jag deltog i några diskussioner där man kopplade fastighetsmarknaden och eventuella framtida problem på den sidan till den ekonomiska politiken. Stabiliseringspolitiken gick i stället i första hand ut på att få ned inflationstakten. [...] Det som syntes vid den tiden var att det första finansbolaget fick stora problem. [...] Dessutom fanns analyserna från finansmarknadsavdelningen; de tyckte att bankerna låg illa till. Men det var inte någonting som påverkade, vad jag vet, den allmänna inriktningen av stabiliseringspolitiken.” Interview with Svante Öberg.
- 65 “Det fanns inte i föreställningsvärlden att vi skulle få den arbetslöshetsutveckling som vi sedan fick 92–93–94. [...] Det var en bubbla på fastighetsmarknaden. Digniteten av

- den bubblan såg varken nationalekonomen eller bankerna.” Interview with Ingemar Hansson.
- 66 “Vi såg en allmän nedgång, en kostnadskris i ekonomin och de stora strukturella problemen, men vi hade ju ingen aning om storleksordningen och djupet i den potentiella nedgången. Det gällde sannolikt regeringen i övrigt också.” Interview with Bo Lundgren.
- 67 “Vi hade ju en prognosbild som var framtagen av tjänstemän på departementet på våren. [...] Den visade att industriproduktionen— som var den ledande variabel vi tittade noggrannast på—hade vänt. Det berodde på att exporten aldrig gick dåligt under den där perioden, utan det var det inhemska som vek och man underskattade ju totalt hur mycket det kom att vika.” Interview with Leif Pagrotsky.
- 68 “Man tog inte fram problemen med avregleringen. [...] Ingen var intresserad av det, för det var fel fokus.” Interview with Leif Pagrotsky.
- 69 See Bäckström 1993c.
- 70 Anne Wibble’s papers contain several memos written just after the floating of the *krona*. See, for example, Tobisson 1992, which said that the Riksbank should follow the German *Mark*, and that in the long run, Sweden should join a common European currency. See further Olofsson 1992a, which said that Sweden should strive for a fixed exchange rate, but in the short run should adopt an inflation target and delegate responsibility for the implementation of this target to the central bank. See also Ekonomgruppen i statsrådsberedningen 1992, which advocated a “price stabilization norm,” to prepare for a future fixed rate (p. 14).
- 71 “Vad gäller växelkurspolitiken var vi eniga om att ‘nästa steg’ är ERM-anknytningen och att några mellansteg inte är aktuella längre. Enligt min mening bör vi uttala som mål att knyta till ERM för att bli framgångsrika i EMU. Detta ger långsiktig stadga åt den ekonomiska politiken.” Bildt 1992.
- 72 “It could only be done when our exchange rate had stabilized and the situation in the rest of Europe had stabilized. At the time, we believed that would be fairly soon, but that prediction turned out to be wrong.” (“Det kunde ske först sedan vår kurs stabiliserats och läget i Europa i övrigt stabiliserats. Vi trodde då att det skulle ske relativt snart, men på den punkten blev vi knappast sannspådda.” Letter from Carl Bildt to the author.)
- 73 Source: Riksbanken.
- 74 See Heikensten 2003, p. 340 ff.
- 75 See Jonung 1999, p. 217. Anne Wibble’s economic advisor Carl B. Hamilton, says that the Riksbank “adopted an inflation target in the spring of 1993, and they had the total support of both the finance minister and the prime minister.” (“Riksbanken gick över till ett inflationsmål på våren 1993 och de hade total uppbackning från finansministern och statsministern i detta.” Interview with Carl B. Hamilton.)
- 76 For an overview, see Truman 2003 (I am grateful to Lars Svensson for recommending this book to me.)
- 77 See Lundgren 1998.
- 78 “Farlig för ekonomin, farlig för budgetunderskottet, farlig för kronan och farlig för regeringen.” Bäckström 1993a. An attached memo summarized the argument under the heading “Dennis must lower the interest rate!” [“Dennis måste sänka räntan!”].
- 79 “... en penningpolitik som är mer anpassad för våra inhemska förhållanden [...] en av världens värsta finans- och skuldkriser, som ser ut att ha skapat t och en depressiv ekonomisk situation. 6–7 procents realränta! Det är perverst.”
- 81 “Riksbankens filosofi var att när vi nu har [...] gett upp den fasta växelkursen, då måste vi visa att vi håller fast vid målet prisstabilitet. Då kan vi inte börja uppträda ansvarslost både på räntesidan och på valutasidan. [...] Vi ville inte ha en snabb depreciering av kronan.” Interview with Bengt Dennis.
- 82 “Vi sade att om ni gör någonting ordentligt på budgetsidan, då är det enklare för oss att få ned räntan.” Interview with Thomas Franzén.
- 83 “Om man sänkte räntan kraftigt i ett läge när kronan inte bara flöt utan också sjönk kraftigt och man hade noll förtroende för finanspolitiken, så riskerade man att göra ont värre.” Interview with Thomas Franzén.
- 84 “Riksbankens självständighet var vi angelägna att hävda.” Interview with Carl B. Hamilton.
- 85 See ekonomgruppen i statsrådsberedningen 1993a, 1993b.
- 86 “Det växte fram en insikt hos mig och samtidigt hos Urban att krisen var kopplad till balansräkningsproblem. Jag såg hur nära finanskrisen och budgetkrisen var knuten till ränteläget och förmögenhetsställningen för svenska hushåll och företag. I detta perspektiv är det regeringens/Riksbankens uppgift att snabbt få ned räntorna och få upp tillväxten.” Letter from Lars Jonung to the author.

- 182 87 “Skulle det ha gjorts så skulle det ha gjorts då. När vi trädde till kunde man inte göra så väldigt mycket. Vårt stora problem var att klara igenom de här besparingarna och få förtroende och fast mark under fötterna och få ner räntan. Men det var frustrerande att se hur lång tid det tog.” Interview with Ingvar Carlsson.
- 88 “Jag tycker att Riksbanken bedrev en jättekonstig politik. [...] Den baserades på felprognoser över inflationen och att man inte rätt förstod kraften i finanspolitiken.” Interview with Leif Pagrotsky.
- 89 “Det fanns en dragkraft från exportsidan, precis som efter en devalvering. Det fanns en positiv kraft, så man vågade ta i med en ordentlig finanspolitisk åtstramning. Men det hade varit bättre om man samtidigt hade låtit på penningpolitiken. [...] Riksbanken var ju självständig och den gjorde ju som den ville.” Interview with Svante Öberg.
- 90 See Olofsson 1992b.
- 91 “Riksbanken tog inte order av någon. [...] Riksbanken sade vad den ville och så fick regeringen anpassa sig.” Interview with Leif Pagrotsky.
- 92 “Jag märkte att de hade en klar politisk bias. De ville föra en hårdhänt politik. Riskscenariot var sådant att det var mycket värre om inflationen började överstiga de två procenten än att den understeg dem—vilket faktiskt inträffade. Det var ett sätt att behandla materialet som gjorde att det inte kändes riktigt komfortabelt att acceptera deras analyser. Samtidigt [...] handlar det om att investera i ett långsiktigt förtroendekapital.” First interview with Kjell-Olof Feldt.
- 93 “Det är möjligt [...] att räntan låg kvar på en för hög nivå för länge, men samtidigt tror jag att det faktum att politiken var väldigt bestämd och målmedveten under de här åren kraftfullt bidrog till att dämpa inflationsförväntningarna. [...] Huvudmålet måste vara att driva ned inflationsförväntningarna i ekonomin, och det lyckades.” Interview with Bengt Westerberg.
- 94 The quote comes from Prop. 1992/93:100. (Author’s translation.) See also Prop. 1992/93:150, Prop. 1993/94:25, p. 31 f., Prop. 1993/94:100, pp. 29–35, and Prop. 1993/94:150, p. 47–51.
- 95 See Prop. 1994/95:61. See also Konjunkturinstitutet 1994, p. 103, for a summary.
- 96 “Under 1993 hade den inhemska efterfrågan gått ner mycket kraftigare än man hade väntat sig och Sverige halkade efter andra länder i ekonomisk utveckling. [...] Vi skulle visserligen få en stimulans för exportindustrin, men det skulle dröja innan den verkade igenom. Vi hade alltså en nedpressning av den inhemska aktiviteten som var självförvållad. Den fråga vi ställde oss var: finns ett sätt att minska skadorna på den ekonomiska tillväxten?” Interview with Allan Larsson. For a discussion about the 1993 motion and the ideas behind it, see Kask 1997, p. 136–146.
- 97 See Persson 1997, p. 42 f.
- 98 “Vi hade accepterat en åtstramning på 80 miljarder. [...] Det blev 120 miljarder plus kommunerna. Då kan man säga att man måste ta i, eftersom finansmarknaderna var vansinniga, man måste skapa trovärdighet. Vår analys var att det inte var statens skuldsättning som var problemet, utan inflationsmålet och trovärdigheten kring det. Bara vi fick ner inflationen och lönebildningen var OK så skulle räntan gå ned.” Interview with Dan Andersson.
- 99 See, for example, Carlsson 2003, p. 574.
- 100 “Kort sagt byggde vår strategi på att snabbt sätta igång budgetsaneringen så att vi skulle återfå förtroendet på marknaden och därigenom få en kraftig sänkning av marknadsräntan.” Letter from Göran Persson to the author.
- 101 “Det fanns ett dominerande mål för finanspolitiken efter kronfallet, det var att få ned budgetunderskottet så snabbt som möjligt. Det fanns inget utrymme för diskretionär stabiliseringspolitik av den typ som dominerar läroböckernas framställning.” Letter from Lars Jonung to the author. Carl B. Hamilton, Anne Wibble’s economic advisor, also says that the focus was solely on “creating credibility, in order to reduce deficits, and lower interest rates.” (“... att skapa trovärdighet så att vi fick ner underskotten, och fick ned räntorna.” Interview with Carl B. Hamilton.)
- 102 For a summary of ideas at the Finance Ministry’s Economic Affairs Department, see Hansson 1993, which advocated a long time-frame for budget consolidation, in order to keep aggregate demand at a reasonable level. It also pointed out the problem of an imbalance between the sheltered sector and the competing sector, as the latter was very much stimulated by the depreciation of the *krona*, while the former was held back by fiscal restraint. It further said that the government should not raise marginal income taxes. Finally, it said that the government should, if it wanted to pursue expansionary fiscal policies, aim for measures that had a direct effect on demand, since the propensity to consume was small in the short term.

- 103 “En restriktion var att regeringen inför omvärlden skulle kunna presentera ett förlopp över de närmaste fyra-fem årens utveckling där vi hade hållbara offentliga finanser.” Interview with Ingemar Hansson.
- 104 “Att finanserna skulle ha en hållbar utveckling var ett villkor för att räntorna skulle komma ned, såväl de långa som de korta, och det i sin tur var ett villkor för att vi skulle få en god ekonomisk utveckling. [...] Samtidigt skulle nettoeffekten på den ekonomiska aktiviteten vara så god som möjligt, i synnerhet på kort sikt.” Interview with Ingemar Hansson.
- 105 Models of the interaction between capital mobility, exchange rate policy, and monetary policy were developed in the early 1960s. See especially Fleming 1962, and Mundell 1963.
- 106 For a discussion of the situation that Sweden and similar countries faced after pegging their currencies to the *ecu*, see Soskice 2000, p. 62 ff. Cf. Moses 1994, and Garrett 1998, p. 41.
- 107 See Prop. 1989/90:150, p. 19, and Prop. 1990/91:39, p. 10 ff. Cf. Feldt 1991, p. 432 ff.
- 108 Bengt Dennis says that “there was a very strong belief that a small country, an open country—like the Swedish economy—should have a fixed exchange rate. That was the dominant thesis in the world.” (“Dels var det en väldigt starkt förhärskande uppfattning att ett litet land, ett öppet land—som svensk ekonomi—skall ha fast växelkurs. Det var den förhärskande tesen i världen.” Interview with Bengt Dennis.)
- 109 “Flytande växelkurs var nästan omoraliskt.” First interview with Erik Åsbrink.
- 110 “Om vi skulle kunna undvika nya spekulationer mot kronan var det nödvändigt att skapa en trovärdighet internationellt. [...] Det var en stark misstro mot Sverige efter alla devalveringar, och nu måste vi bygga upp det förtroendet igen.” Interview with Ingvar Carlsson. Bengt Dennis also refers to the “history of devaluations. If we were to loosen the regime now, [...] all credibility would be lost.” (“... devalveringshistorien. Skulle vi nu luckra upp regimen, [...] då skulle all trovärdighet gå förlorad.” Interview with Bengt Dennis.)
- 111 See Carlsson 2003, p. 312, on the determination not to devalue again.
- 112 “Vi ville stänga den vägen, så att de fackliga förhandlingarna skulle vara klara över att det här går inte längre. [...] Så när vi tog det här beslutet, då tog vi två beslut: vi gör den här devalveringen, men sedan är det fast växelkurs som gäller.” Interview with Ingvar Carlsson.
- 113 “Du får komma ihåg vilken *frame of mind* man befann sig i vid den där tidpunkten. [...] Alla vi som var ansvariga för den ekonomiska politiken, hade levt sedan 82 med övertygelsen att vi hade satt punkt med en sista rejäl, jävla devalvering, satt punkt för det olyckliga mönster vi hade hamnat i. Och vi skulle inte tillbaka till det.” Interview with Gunnar Lund.
- 114 See, for example, Kjell Olof Feldt’s comments in Ahlqvist & Engqvist 1984.
- 115 See Prop. 1989/90:150, p. 2 f., Prop. 1990/91:100, p. 18, Prop. 1990/91:150, pp. 3 ff., 17 ff., 29, Prop. 1991/92:38, p. 30 f., Prop. 1991/92:100, p. 5 f., and Prop. 1991/92:150, pp. 1, 35.
- 116 “Dels spelade EU en roll, viljan att inför EU visa på en långsiktigt stabil valuta.” Interview with Olle Wästberg.
- 117 “Att börja inleda samarbete med EG genom att byta växelkursregim, som bara skulle uppfattas som att vi gav efter, som en förtäckt deprecieringspolitik, det var en tanke som varken vi eller någon politiker stod ut med.” Interview with Bengt Dennis.
- 118 “IEG-sammanhang gick det ju ut på att man inte enkelt skulle komma ifrån sina problem genom att devalvera, utan det fanns ett system för växelkurssamarbete. Man korrigerade inte fullt ut för att konkurrenskraften hade urholkats. Därigenom fick man press på priser och löner. [...] Det var ju konsistent med det övergripande tankandet att man skall komma ur devalveringsspiralen.” Interview with Thomas Franzén.
- 119 See, for example, Prop. 1988/89:150, pp. 7, 18, and Prop. 1990/91:150, p. 29. Government bills from both social democratic and center-right governments emphasized that real wage moderation was now the responsibility of business and labor—not of the government; see, for example, Prop. 1990/91:50, p. 4, Prop. 1990/91:100, p. 19, and Prop. 1991/92:38, pp. 8, 12.
- 120 “Allmän trovärdighet, inåt och utåt, är en viktig del. Nödvändigheten att klara lönebildningen på egen hand är ett annat argument. [...] Om vi hade sagt att nu har vi problem, så nu devalverar vi, vad hade det då funnits för press på parterna att göra upp anständiga avtal?” Interview with Allan Larsson.
- 121 “Lönebildningen var central. Det som var problemet var att arbetsmarknadens parter hade sådana inflationsförväntningar nästan jämt.” Interview with Bengt Dennis. Mr. Dennis also mentions that the central bank wished to place restrictions on fiscal policy—“we did not think that we would be able to discipline fiscal policy better with another system.” (“Det tredje var att vi hade en tro att vi inte skulle kunna disciplinera finanspolitiken

- bättre med något annat system.” Interview with Bengt Dennis.)
- 122 “Det fanns en ambition att lägga ett ansvar på arbetsmarknadens parter. Devalveringspolitiken hade varit att frånta arbetsmarknadens parter ansvaret för lönebildningen. [...] Skälet till att krisförhandlingarna och krisuppgörelsen 1992 över huvud taget var möjliga var denna gemensamma övertygelse att vi inte en gång till kunde lösa obalansproblemet med en devalvering.” Interview with Bengt Westerberg.
- 123 “I det läget innebar devalveringar en risk för att man spädde på inflationsbrasan med alla de negativa effekter också för lönebildningen som detta medförde. Växelkursen var och är ett viktigt ankare för den ekonomiska politiken.” Letter from Carl Bildt to the author.
- 124 Garne 2001, p. 137. Italics in original.
- 125 See SOU 1990:44, p. 21 ff.
- 126 SOU 1990:44, p. 407. Author’s translation.
- 127 Carlsson 1990. Author’s translation.
- 128 See Bildt 1990, and Westerberg 1990.
- 129 See Lindbom 2001a.
- 130 See Erlander 1972, p. 19.
- 131 One might have expected that the political right would have advocated change much earlier, but in fact, the most important shift in the conservative party’s position on the role of the state took place in the second half of the 1980s (see Strandberg 1998, section 5.2). This is not to say that there had been no partisan differences: there was always center-right criticism of the extensive social planning that the social democrats favored (see Strandberg 1998, chapter 3).
- 132 Carlsson 2003, p. 293.
- 133 Socialdemokraterna 1964, p. 109. Author’s translation.
- 134 See Rothstein 1986, pp. 17, 82 ff. The overview of developments in education policy that follows is based on Lindensjö & Lundgren 2000, and Schüllerqvist 1996. Their findings are broadly consistent with those reported in Englund 1996, and Wahlström 2002.
- 135 Göran Persson quoted in Lindensjö & Lundgren 2000, p. 101. Author’s translation.
- 136 Lindensjö & Lundgren 2000, pp. 116, 128. Author’s translation.
- 137 The following overview of developments in social policy is based on Palme & Wennemo 1998, Andersson 2003, and Vahlne Westerhäll 2002. For an overview of changes to the social security system in the 1990s, see also Anderson 2001.
- 138 On the pension reform, see especially Lundberg 2003.
- 139 See Andersson 2003, p. 117 f.
- 140 This overview of housing policy is based on Olsson 1991 and the contributions to Lindbom 2001b, especially Persson 2001, and Strömberg 2001.
- 141 Olsson 1991, p. 159.
- 142 See Benner 1997, p. 65.
- 143 Strömberg 2001, p. 44. Author’s translation.
- 144 See Hinnfors 1992, pp. 243–251, and Lindvert 2001, pp. 102–110, for overviews of family policy in the 1960s and 1970s.
- 145 See Lindvert 2001, p. 222 ff., and Dahlström 2003, p. 60 f.
- 146 See Rothstein (forthcoming).
- 147 See Nilsson 2001, pp. 96 ff., 104 ff., and, for an analysis of the move to the right in the 1991 election, Gilljam & Holmberg 1993, chapter 18. Cf. Svallfors 1996, chapter 4.
- 148 Bengt Dennis has described his relationship with the government during his time as Riksbank governor in Dennis 1998, pp. 199–212. With legislation proposed in Prop. 1997/98:40, formal central bank independence was introduced in Sweden. In the mid-1990s, institutional changes in budgeting also meant that economic policy became more independent from other policy areas (new legislation regulating budgeting was proposed in Prop. 1995/96:220).
- 149 Prop. 1982/83:50, p. 26. Author’s translation.
- 150 See Prop. 1991/92:38, pp. 5, 35, Prop. 1991/92:100, p. 7, Prop. 1991/92:100, pp. 1 f., 39, and Prop. 1992/93:150, p. 2.
- 151 See Prop. 1991/92:38, p. 5, Prop. 1991/92:100, p. 21, Prop. 1991/92:150, p. 1 f., and Prop. 1992/93:150, p. 2.
- 152 “... långsiktiga skattesänkningar, förhållandena på arbetsmarknaden, avreglering av telepolitik, delar av tjänstesektorn och transporter, i syfte att få ekonomin som helhet att fungera bättre och främja tillväxten.” Interview with Olle Wästberg.
- 153 “... långsiktiga ekonomisk-politiska reformer. Det var arbetsmarknaden, och det var på många olika politikområden.” Interview with Carl B. Hamilton.
- 154 “... den långsiktiga reformpolitiken var den som skulle ställas i centrum. Vi ville förankra ett mer långsiktigt synsätt på de ekonomiska problemen och den ekonomiska politikens uppgifter.” Letter from Carl Bildt to the author.
- 155 See Feldt 1991, p. 410.
- 156 “Att både sänka skatterna mest för höginkomsttagarna—vilket skattereformen *de facto* innebar—och samtidigt minska sjukersättningen och slå mot de sjuka, de fattiga, de

- gamla, det såg jag som en omöjlig politisk upp-
gift.” First interview with Kjell-Olof Feldt.
- 157 “Han [Feldt] lanserade tesen att stabiliseringspolitik inte fungerade längre, utan man måste ägna sig åt strukturpolitik. [...] ... det såg jag som en kompensande teori som skulle förklara varför man inte gjorde mer där.” Interview with Michael Sohlman.
- 158 “Med all rätt pekade folk på strukturproblemet, men när man sade att de var så viktiga att man kunde skjuta undan stabiliseringspolitiken, det tror jag var ett stort misstag.” First interview with Erik Åsbrink.
- 159 “Överhuvudtaget var mycket av arbetet i finansdepartementet under senare delen av 1980-talet inriktat på strukturpolitik. Det gällde inte minst efter valet 1988, det är klart.” Interview with Lars Heikensten.
- 160 “Perioden 90–91 tycker jag är min bästa period. [...] Det är otroligt hur mycket vi gjorde på ett år: snacka om strukturella beslut! [...] Det var en fortsättning av förändringsarbetet för min del.” Interview with Ingvar Carlsson. See also Carlsson 2003, p. 438 f.
- 161 “De som styrde var intresserade av strukturpolitik—både att liberalisera marknaderna och att minska ned välfärdsstaten. Deras program därefter var strukturpolitiskt, inte stabiliseringspolitiskt. [...] Finansministern var för liberal för socialdemokratien. [...] Vad som skedde under sent 1980-tal var en kraftig liberalisering av den ekonomiska politiken och en ganska kraftig misstro mot välfärdsstatens uppbyggnad och logik. [...] Man förlorade den politiska legitimiteten för att strama åt finanspolitiken.”
- 162 “... lät det uppstå en känsla av att partiet inte var intresserat av rättvisefrågor.” Interview with Per-Olof Edin.
- 163 See V. Bergström 1993a, p. 160 f., and Blyth 2001.
- 164 Hansson et al. 1985, p. 128 ff.
- 165 Hansson et al. 1985, p. 125. The same message was repeated in subsequent reports. See Calmfors et al. 1986a, Calmfors et al. 1988, and Björklund et al. 1989.
- 166 “När det gäller normpolitiken så kom den ju att vara avgörande under det första dryga året för regeringen.” Interview with Olle Westberg.
- 167 See V. Bergström 1993a, p. 160 f.
- 168 See, for example, Jonung 1999, p. 194.
- 169 “När vi sedan såg att våra texter gick i nästan oförändrat skick raka vägen in i finansplanerna blev vi förvånade. Det var lite snabbare och lite mer bokstavstroget än vi hade tänkt oss.” Interview with Hans Tson Söderström. Cf. Söderström 1996, p. 14 f.
- 170 See Calmfors 1996. Lars Calmfors wrote articles in 1991 where he discussed different possible strategies given the likely appearance of higher unemployment—see, for example, Calmfors 1991. This article led to a long debate on the usefulness of labor market policy, which Lars Calmfors was critical of; other economists, such as Willy Bergström, were in favor.
- 171 See Lundberg 1985b. Cf. Söderström 1985, and Lundberg 1985c.
- 172 V. Bergström 1986a. Author’s translation. See also Calmfors et al. 1986b, and V. Bergström 1986b. There was also a critical review of the 1985 report in *Ekonomisk Debatt*; see Jespersen 1985.
- 173 “Vi bråkade enormt.” Interview with Dan Andersson. “Vi var egentligen den enda gruppering som [...] analytiskt och resonemangsmässigt försökte ifrågasätta normpolitiken, som politisk idé och ekonomisk idé.” Interview with Per-Olof Edin.
- 174 See Rivlin 1987.
- 175 See Agell & Vredin 1991a. See also Vredin 1989. For contributions to the debate that followed, see Myhrman 1993, Hörngren 1991, Söderström 1991, and Agell & Vredin 1991b. Many of these articles are collected in V. Bergström 1993b.
- 176 “Det var först då vi började ta det på allvar.” Interview with Willy Bergström.
- 177 “Den stora påverkan var perioden 90–92. [...] Den fick aldrig det konkreta genomslaget under min tid.” First interview with Kjell-Olof Feldt.
- 178 “Två-tre rapporter från SNS Konjunkturråd handlade om normpolitiken, och de spelade en roll för regeringens synsätt.” Interview with Olle Westberg. Regarding the seminars in 1991, see H. Bergström 1993, p. 198, and Wibble 1996, pp. 210–215.
- 179 Kjell-Olof Feldt says that he thought that the government “had abandoned deliberate exchange-rate adjustments after the devaluation in 82. We did not want a policy of adjustment. In that sense, this was influenced by the economic thinking and economic theories that appeared in the 80s.” (“Medvetna valutakursanpassningar, det ansåg vi att vi övergav i och med 82 års devalvering. Vi skulle inte ha anpassningspolitik. I den meningen så var det här influerat av det ekonomiska tänkandet och de ekonomiska teorier som kom under 80-talet.”) First interview with Kjell-Olof Feldt.
- 180 See Björklund et al. 1989, p. 6 ff., Bergman et al. 1990, pp. 10, 133, and Bergman et al. 1991, p. 11. Ideas about rules-based econo-

- mic policy were also very pronounced in the 1992 report; see Henrekson et al. 1992. The 1993 report—Eklund et al. 1993—focused on the situation after the fixed exchange rate was abandoned.
- 181 See Henrekson et al. 1994, pp. 8, 18.
- 182 The 1990s have seen few principled articles on macroeconomics, although there have been some debates on specific policy issues, such as European integration and central bank independence. There were a few exceptions. In 1993, one economist wrote that economic policy with floating exchange rates offered opportunities that were not taken advantage of, since the central bank was stuck with rules-based policies that had clearly failed. This economist recommended expansionary policies, both monetary and to some extent fiscal (see Assarsson 1993a). See also Hörngren 1993, and Assarsson 1993b. Villy Bergström offered a Keynesian-inspired critique of fiscal consolidation policies (V. Bergström 1996) and in the late 1990s, there was some discussion about how to use the strategy of inflation targeting (see, for example, Svensson 1998, and Heikensten & Vredin 1998).
- 183 See Moses 1994, and Moses 2000.
- 184 See Kurzer 1993, p. 22.
- 185 See Telasuo 2000, p. 133 f. On the efficiency of capital controls, see also Wihlborg 1993, p. 265 f.
- 186 “Redan i dag är emellertid våra möjligheter att driva en på interna mål inriktad kreditpolitik begränsade.” Lemme & Lindå 1979, p. 3.
- 187 “Valutaregleringen bromsade de stora internationella kapitalrörelserna—folk kunde inte låna och placera hur som helst—men det inträffade efter första OPEC-krisen en stor förändring när man lät svenska företag låna utomlands, i syfte att finansiera bytesbalansunderskottet. 1980 blev det också fritt att nyemittera aktier utomlands. Kapitalrörelserna var dock inte så fria som de blev när portföljinvesteringarna släpptes fria. Det fanns således betydande valutaflöden som gick dels över handelsbalansen och dels via upplåning. Penningpolitiken med fast växelkurs var orienterad mot att balansera valutaströmmarna.” Interview with Lars Wohlin.
- 188 “Domestic demand for credit was controlled by means of domestic regulations.” (“Den inhemska kreditefterfrågan kom att styras med inhemska regleringar.” Interview with Lars Wohlin.)
- 189 See Wohlin 1998.
- 190 See especially Ingebritsen 1998.
- 191 These developments are described and analyzed in McNamara 1998.
- 192 See Moses 1997. For a different view, see Soskice 2000, p. 61.
- 193 See Carlsson 2003, p. 400 f., for evidence that this was a factor that the prime minister considered.
- 194 Ingebritsen 1998 explains the Swedish government’s change of European policy with reference to these two factors.
- 195 Prop. 1990/91:100, p. 2.
- 196 See Gustavsson 1998.
- 197 “Det grundläggande var att det kalla kriget försvann. Neutraliteten som hade varit ett hinder var inget hinder längre, och då öppnades möjligheter för oss att bli medlemmar. För mig var i det läget ett medlemskap också en del av moderniseringen av vår ekonomiska politik. Jag tyckte att det fanns en självgodhet i Sverige över att vi var så bra i alla avseenden.” Interview with Ingvar Carlsson.
- 198 “... en signal om att Sverige inte tänkte fortsätta med en hög inflation och sedan klippa till med devalveringar.” Interview with Allan Larsson.
- 199 “Du kan inte skriva på EU-kontot omorienteringen i övrigt, betoningen av inflationsbekämpningen och allt det här. Det var så uppenbart att vi behövde det *so oder so* i svensk ekonomi. Det var inte så att vi satt och funderade o, o, o, nu skall vi med i EU, nu måste vi verkligen börja anpassa oss till mainstream.” Interview with Gunnar Lund.
- 200 “Det var förvånansvärt få beröringspunkter. [...] gick faktiskt mycket på separata spår.” Interview with Carl B. Hamilton.
- 201 “Jag tror inte att det hade någon EU-motivation. [...] Problemet var den svenska lönebildningen.” Interview with Carl B. Hamilton.
- 202 The centre-right government referred explicitly to the Maastricht criteria in 1991–1994 when formulating economic policies; see, for example, Prop. 1991/92:100, p. 6, and Prop. 1991/92:150, p. 13.
- 203 “Att vi skulle bekämpa inflationen var inget som uppstod den 20 oktober 1990. Från den dag som jag inträdde i regeringen handlade den ekonomiska politiken om att få ordning på lönebildningen för att kunna undvika att inflationen slog undan jobben. Både EES-avtalet och EG-medlemskapet var sätt att markera och skapa trovärdighet för den politiken.” Interview with Allan Larsson.

5. CONCLUSIONS

- 1 Hammar skjöld 1945, p. 24.
- 2 See Alesina & Drazen 1991.
- 3 This was also the case in Great Britain; see Gamble 1994, p. 194.

- 4 On the effects of state structure, see, for example, Skocpol et al. 1985, and Rothstein 1986.
- 5 Schattschneider 1944, p. 1147 f.
- 6 Keynes 1923, p. 80. Italics in original.
- 7 Schattschneider 1975 [1960], p. 133.
- 8 See, for example, the papers collected in Hall & Soskice 2001.
- 9 Erlander 1973, p. 267. Author's translation.
- 10 See, for example, Landgren 1960, and Lewin 1967. For a critical view, see Unga 1976.
- 11 See, for example, Przeworski 1985, p. 207 ff.
- 12 See, for example, Myrdal 1934.
- 13 See Rothstein 1991, p. 115 ff.
- 14 See Rothstein 1991, p. 127.
- 15 See Pekkarinen 1989, p. 318 ff., Vartiainen 1998, p. 33, and Jonsson 2000. On the link between the adoption of Keynesian economics and broader ideological currents in Sweden, see also Jonung 1999, p. 142 ff.
- 16 Erlander 1979, p. 38.
- 17 Schonfield 1969, pp. 201, 211.
- 18 Palme quoted in Ehnmark 2000. Author's translation.
- 19 Keynes 1936, p. 383.

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