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## **The Swedish welfare state model - effects of globalisation and economic restructuring; discussion of social democratic and union strategies**

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The welfare state can be said to meet internal and external challenges. The internal ones certainly also need discussion. The most important one as I see it for the future of the Swedish or Nordic welfare state model is how to solve the question of financing as the need for resources increase due to “the Baumol dilemma” and the aging population.

However in my opinion the even more important, and less discussed at least in Sweden, are the external challenges connected with globalisation, economic restructuring and a neoliberal world order. I shall devote this paper to these aspects of the challenges against the welfare state. I shall argue that the main reasons for the weakening of the welfare state are (1) a global shift of power when capital moves freely across national borders while unions and democracy are still nationally organised and (2) a shift in the hegemonic ideology in the neoliberal direction. Defending the welfare state then means opposing these

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<sup>1</sup> Based on excerpts from the book *Den globala kapitalismen – och det nya motståndet* (Global capitalism – and the new opposition), Ingemar Lindberg, Atlas 2005. Translation into English by Erica Stempa..

trends or finding ways to counter-balance them. I shall thus argue that proponents of the welfare state today need to be opponents of the neoliberal world order. I shall argue that unions and democracy must find transnational ways of powerful action. I shall also argue that there is room for a new social democratic and union offensive on the issues of economic democracy. Taken together these arguments seem to underpin a more system-critical approach than what was predominant within social democracy during the period of nationally organised welfare capitalism.

### ***1. A system-critical approach***

There used to be revolutionaries who believed that parliamentarism and welfare reforms would only delay the necessary revolution. That attitude is now practically dead. And I hardly meet anyone today who is for a centrally planned economy – though there are many who want to go further towards expanded local and global democracy. The dividing line within today's left does not run between revolutionary, undemocratic communism and reformist, parliamentary working social democracy. It runs instead between system critics and system conservationists. The problem as I see it is that the leading tendency of social democracy lacks a system-critical perspective of the power structure in Sweden and of the present global power system.

If I argue for a transformation of capitalism; does that make me a revolutionary instead of a reformist?

Revolution is a word used with several different meanings. The older meaning is upheaval. A revolution is a social change that affects the social foundations. This is the meaning used when speaking of the industrial revolution, for example. The second meaning is overthrow. A revolution is a rebellion that breaks with the old order and that may conceivably use violent means to achieve its ends.

For my part I am a socialist reformist and in all the classical choices of direction I go for the social democratic and not the communist line. But reformists may be system-critical or system-conservationist. Social democracy as I see it has become system-conservationist.

The terms system criticism and fundamental social transformation may also be used in relation to other predominant systems in society – such as patriarchy or racism. Other forms of system criticism are important elements of the new movements being formed today. They are carrying on a struggle that will not lend itself to classification into the old opposing pairs and that reaches far beyond opposition to capitalism. But here my main emphasis is on discussing a system-critical approach in relation to capitalism and imperialism.

The dividing line between system critical and system conserving reformism is far from clear-cut and unambiguous. It may be difficult to determine whether certain reforms strengthen a system or contribute to its transformation. An important example of this is the question of social contracts. Social contracts have characterised welfare capitalism in Sweden and other countries. They can legitimise the system or contribute to its transformation, depending on how they are formulated and from what positions of strength the compromises are made. The movement that originally wanted to transform the system becomes, through the contract, jointly responsible for maintaining it. But social contracts may also strengthen a system critical movement and make continued transformation possible.

Besides these two attitudes – the system-conserving and the system critical – there is also a form of social engineering that only takes into consideration the reforms' immediate and direct impact on the prevailing anomalies or injustices. Social engineering, a concept that is often associated with the Austrian philosopher Karl Popper, may be described from this perspective as system-neutral. It is creditable and I myself have worked within its framework for most of my working life. But it is based on the assumption that power structures benefit the majority of people and that clever engineers are what is needed for improvements to continue. As the gulf between rich and poor has been increasing for the past twenty years and conditions for vulnerable groups have been getting worse, the underlying reasons must be dealt with. The labour movement's path to a system-conserving position has gone via social engineering – and that is where this movement's thinking today seems to have got stuck.

The conflict between a system-conserving and a system-critical attitude is my first main theme. The second is world poverty and its reasons.

Indignation over world poverty and the growing economic and social divides, both in Sweden and in the world, were important driving forces for me when I visited Porto Alegre and Mumbai to participate in the World Social Fora. How can we best understand causal connections behind poverty (but also wealth and abundance) in poor countries as well as wealth (but also alienation, homelessness and poverty) in rich countries? Why are social divides growing and how can counterstrategies be formed?

In my search for the reasons for world poverty I have found it necessary to examine different views of imperialism. As I see it, world poverty can only be fully understood as a capitalist order that is also imperialist. Imperialism is today given its most brutal expression in the unilateral and illegal occupation of Iraq and Israel's USA-supported policy of apartheid in Palestine. But imperialism is more than occupations and military oppression; it is an economic power system in which Europe is also involved. For me, imperialism is not an anti-American

invective but an analytical concept that helps us to understand the reasons for the extreme and growing gulf between rich and poor in the world.

The third main theme I want to take up is the crossroads at which the Swedish and European trade union movements now find themselves. Should workers in the North join with workers, the unemployed and landless in the South? Or should workers in the North join with the “Western” powers against the poor and “dangerous” people in the South? I can conceive of a major re-orientation, a giant future trade union task. It concerns broadening local and national trade union work to build up new forms of co-operation for a global working class. And I mean working class in a very wide sense – the great majority of workers but also those who are unemployed or landless or are temporary workers in the informal sector, which constitutes the majority in many poor countries.

## ***2. Swedish welfare capitalism and the labour movement's third era***

The year is 1985, one year before Sweden's Prime Minister Olof Palme will be murdered. In a break in a Socialist International meeting, Kjell-Olof Feldt, at that time Finance Minister, argues for abolition of the Swedish exchange controls. Palme is tired and irritated and his body language dismissive. Just as Feldt is expecting a refusal, Palme exclaims: “*Do as you want. I don't understand anything anyway.*”<sup>2</sup>

This is a key line on a key issue. How was it possible that an intelligent and confident, sometimes arrogant, political leader felt that he “understood nothing”? In the years from 1985 to 1995 we see a substantial Swedish policy shift in a neo-liberal direction. Was it a necessary consequence of the globalisation of the economy? Was it an internal necessity because the Swedish welfare state had gone too far? Did the Swedish labour movement have no interpretation of its own of the new course?

In the era of welfare capitalism Sweden went further than most countries in an attempt to maintain full employment, remove class divides and widen peoples' individual possibilities for development. The most important equalisation policy instruments were broad general education, employment policy, the wage policy of solidarity and the universal welfare systems. At the beginning of the 1980s Sweden was one of the most egalitarian countries of modern times.

For more than twenty years now, income and welfare gaps have instead been growing in Sweden – as in most of the countries in the world around us. Not since the breakthrough of democracy has the trend been reversed in such a way over a long period. What is the reason?

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<sup>2</sup> Feldt: *Alla dess dagar - i regeringen 1982 -1990*, Norstedts 1991.

In Sweden a centre-right story exists, saying that the growing divides are necessary since Sweden has gone too far with custodial welfare policy and high taxes. Equalisation policy has hampered growth and created dependence on social security, it is said, so now these divides must widen. But why are they increasing even more in countries with lower taxes and more parsimonious welfare systems – mainly the Anglo-Saxon countries?

There is also a social democratic story in Sweden, about an economic crisis at the beginning of the 1990s and about strenuous attempts to balance the budget and then restore the welfare facilities that were cut back during the crisis. But why did the divides start widening before the Swedish crisis and why are they continuing to grow long after the crisis was overcome?

The explanatory model that states that Swedish welfare policy went too far and therefore had to be rolled back can in my opinion be quite unequivocally dismissed. Why in that case would welfare policy be rolled back more in the countries that went less far? The claim that equalisation policy hindered growth – that now even social democratic governments repeat – has also been repudiated empirically. Sweden's economic growth from 1950 to 2003 was fully at the same level as growth in Germany, the UK, France and other countries, who like us started from a fairly high level.

The impact of “globalisation” is a more complicated question. I do not think that the entire shift in policy should be regarded as a necessary consequence of an inexorable globalisation. Nor do I, however, agree with those who maintain that we can continue as before.

In the era of welfare capitalism Sweden developed a social model that attracted attention and that was regarded by many as a desirable form of mixed economy, a real third way between capitalism and state socialism. Its fundamental structure can be described as a combination of full employment and equalising wage policy through the Rehn-Meidner model and a universal welfare policy.

The Swedish trade union movement, with LO at that time as the uncontested leader, gradually developed a system of coordinated central wage negotiations with two main aims: (1) maintaining full employment without inflationary pressure that would reduce competitiveness in the future and (2) reducing income gaps by lifting low wage groups in the different sectors.

The two main goals were thus full employment and fair distribution. Companies with low productivity would be forced to rationalise or go out of business. Companies with high productivity would be able to invest and expand. Structural changes were to be stimulated. The state and the unions had complementary roles. Wage negotiations and possible conflicts around these should be handled by the parties on the labour market without state intervention.

The role of the state in the Swedish model of welfare capitalism was a complementary one.

The state was expected to contribute in three ways. It should (1) pursue a restrictive non-inflationary economic policy. It should also (2) pursue an active labour market policy with relocation grants and extensive training programmes in order to make it easier for those who loose their jobs to find new employment, usually in more productive sectors with higher wage levels. And the state should (3) provide incoming security in periods of loss of income.

In the 1960s this model reached the stage of full functionality. Sweden became known for combining international competitiveness with generous retraining and income maintenance programs to stimulate structural adjustment without placing the burden of this on the backs of the most vulnerable groups. The wage policy of solidarity began to have a real impact on wage differentials in society by raising the wages of low wage earners. This was achieved through central cross-sector negotiations led by LO and its national employer counterpart SAF (the Swedish Employers' Confederation).

Does the globalisation of the economy imply a threat to this social model? The simple yes or no answers are unsatisfactory. When capital and exchange controls were abolished the Swedish central bank, Riksbanken, was already starting to lose control as a consequence of the development of the “grey” capital market and the internal transactions of Swedish multinational companies. It was equally significant that in the 1980s governments in other countries abandoned the full employment goal and instead used high unemployment to keep inflation down. Sweden could not continue alone along the route it had taken, our economy was far too integrated with those of other countries. The difficulties of maintaining “the Swedish model” were further complicated by wage formation problems on the trade union side, and the employers’ breaking with the co-ordinated wage bargaining system because of internationalisation, and starting a counteroffensive. The Rehn-Meidner model was based on the combination of full employment and the wage policy of solidarity with an anti-cyclical Keynesian economic policy, curbing inflation and assuming that controls of interest-rates and capital movements existed. In the 1970s and 1980s this policy functioned less well than before. And when the state finally relinquished control of the capital market the tools required for manoeuvring between unemployment and wage/demand-driven inflation were lost.

At the beginning of the 1990s the model had been abandoned and the process that led to this was just as much political as economic. There is something in the Swedish political change-over that cannot be described other than as a shift in the leading circle’s attitude to how social development should be governed. One would have expected that Sweden, as a social democratic model country, with “the world’s strongest trade union movement”, would have offered particularly strong resistance to the neo-liberal view of economic policy that started to have

an impact at that time. Instead we saw an unusually rapid and far-reaching change in the attitude to the instruments of economic policy and in fact also to the policy goals. At the end of the 1980s the government pursued an expansive inflationary policy at a time when inflationary pressure was already high. The fight against inflation was transformed from Keynesian stabilisation policy to a policy of norms, in which the influence of world markets on Swedish interest rates was deliberately strengthened. The goal of low inflation took precedence over full employment. Tax reductions via “the tax reform of the century” were to be financed through “dynamic effects”. These changes in thinking and acting cannot be solely explained as a consequence of “globalisation”. They can only be understood as an expression of the ideological turnaround among those in power, particularly in and around the Ministry of Finance.

My argument is not that globalisation is a neo-liberal invention and that social democracy could have continued as before. But the paradox at this stage is that the Swedish labour movement did not offer any resistance or at least develop its own theories concerning the new conditions. Instead capitalism’s neo-liberal ideology had a remarkably strong impact in Sweden, far into Swedish social democracy.

I worked close to the LO leadership and the LO economists in the first half of the 1990s, when the dramatic change in social democratic policy and view of society had its full impact. The trade union leaders were deeply convinced advocates of “the Swedish model” – so deeply convinced that I often thought they were thinking too much along the old lines and refusing to see the changes that had taken place in the premises for the model. But just as Palme had in 1985, they left the “economy” to the economists, while all the time maintaining that LO and the Social Democratic party must stick together, which meant not getting into conflict with the economists at the Ministry of Finance. The critical attitude of the LO economists towards parts of the neo-liberal ideology thus never gained any proper political backup in the period of change from 1985 – 95. And gradually the LO economists came to participate in large parts of the policy changes – partly so as not to be marginalised and lose all influence.

Sweden was strongly affected by the changes in the world around and the Social Democrats’ shift in policy assuredly had considerable external causes. But how could the leaders of the Swedish labour movement be dragged into the ideological realignment? How come Olof Palme said “do as you like” and LO’s President did not fight for the Swedish model he believed in?

The problem was, in my opinion, that the leadership accepted the analysis of the Swedish crisis at the end of the 1980s and beginning of the 1990s as an economic crisis. They believed explanations based on the economists’ tables and diagrams of inflation, budget deficit and national debt and counted on the management of these variables to overcome the crisis. The leaders did not have the courage to listen to their own internal compass – that it was just as much a



matter of power structure and ideology. And they did not have access to a theory for social change that could analyse the shifts in norms and power structures that are not found in economists' models. Hence they lacked a strategy for meeting the neo-liberal shift in norms and the changed power structure. They were not capable of recognising their members' anger over a social trend that seemed to be steered by capitalist interests instead of workers' interests and therefore could not mobilise the power inherent in this anger. The opposition that was expressed on certain occasions became instead mostly a feeble look back towards a "Swedish model" the premises of which had been radically changed. The debate within the Swedish labour movement thus got stuck in a sterile conflict between *modernisers* and *traditionalists*, linked to the equally sterile conflict that was simultaneously emerging between those for and against the EU. And there is still no strategic innovative thinking with reference to the changed premises that seeks to combine the changed conditions of production with socialist norms and with institutions that can carry a policy other than the neo-liberal.

Thus it is my opinion that the growing divides and the rolling back of the Swedish welfare state cannot be understood mainly as an internal crisis of the Swedish welfare state. Nor can the turnaround be fully described as the consequence of an irresistible globalisation that swept away the foundations of national welfare policy. It was mainly an ideological shift and a change in the underlying power structure.

### **Two phases of post-war development**

Two main theories compete with each other in terms of understanding the development of the welfare state. According to one the welfare state emerges when urbanisation and industrialisation make welfare facilities necessary and economically possible. The development of the welfare state is mainly a response to the needs at a certain stage of society's economic development, says this theory, which is usually called the industrial development theory. The theory is used now to say that we have entered an information and knowledge society and that welfare systems therefore need to be individualised and privatised.

The industrial development theory does not explain the major differences that exist between welfare policies in different countries. And it has difficulties in explaining the past twenty years' rolling back of welfare policy. On these points I think the power resource theory has a greater explanatory value.

The power resource theory maintains instead that the welfare state's development reflects the power structure in society. Two aspects of power are decisive in this model; power over production and power in the community. In production two power resources are central: on the one hand capital and control of production and on the other hand labour and other human resources. Capital

is mobile, can be concentrated and transformed into other resources. Labour, on the other hand, resides with its owner; it is less mobile and more difficult to concentrate. There is often a surplus of labour – unemployment – that weakens this power resource. The power resource theory's second main aspect is the relation between economic power and democracy. Here, the economic power that resides in privately owned business is set against the power of the democratic vote, based on the rule of one person, one vote.

With this approach, the emergence of the welfare state is mainly a consequence of a shift in power in favour of the broad majority. The main reasons for the shift in power are the organisation of workers into trade unions and the impact of democracy.

During the “thirty golden years” 1945 - 75 – the era of welfare capitalism – policy was steered by the interests of the broad majority and social liberal thinking. The governments were at that time striving for full employment, welfare policy was being expanded and social divides were closing. This is an era when the people – with the trade unions and democracy as tools – had a decent amount of power in relation to the economic power. In the 1980s and 1990s unemployment was instead allowed to rise. The fight against inflation was given higher priority than full employment in the whole of Europe. And for the last twenty years unemployment has been about ten percent in Europe – as against two percent in the 1960s. The economy was deregulated and public operations were privatised. Welfare policy was rolled back, the material divides widened and social exclusion grew.

Behind the developments of the past twenty years are both a power shift between labour and capital and a shift in the prevailing social view. The power of democracy has been weakened; deregulated, internationally mobile capital has gained power at the expense of citizens and employees. And a neo-liberal – instead of a social liberal – social view has steered the thinking of the elite and the actions of governments.

Using the power resource theory as a conceptual framework we can regard the past twenty years' rolling back of the welfare state and growing social divides in the world as a consequence of the weakening of workers' trade union and political power resources by means of the continued internationalisation of production and the (politically driven) deregulation of the economy. Workers in different countries are to a growing extent set against each other in the form of undercutting competition, which is also called social dumping. And governments are played off against each other in competition for investments and jobs, a competition that pressures governments into adapting to suit capital, while at the same time international rules of trade are set up by the WTO, hindering governments from making counter demands.

The choice of explanatory model determines the strategy. From the point of view of the power resource theory the roll-back of the welfare state is because employees' organisation is still mainly national and that democracy has not yet developed the ability to operate across borders. The power resource theory does not characterise developments as inevitable as the industrial development theory does. Capital has won the first round – but we are waiting for a continuation. But the conditions governing the social struggle are different now from what they were in the era of welfare capitalism. The players need to find other organisational models and new fighting instruments in relation to an informal, network based and globalised capitalism.

However, I believe that not only the power structure but also the predominant belief systems are significant. In the decades after 1945 there was a broad acceptance of the ideas of the welfare state. Experiences of both the wars and the mass unemployment of the interwar years had left their mark. There was broad political agreement that the state should take responsibility for full employment and decent social protection, a sort of ethical hegemony of the left. In the past twenty years an aggressive neo-liberal right has instead been attacking the welfare state. Deregulation, which increased the power of capital, has been supported by an ethical hegemony of the right, at least in the circle of those in power. These shifts in the “spirit of the times”, as I see it, have an independent significance – in mutual interaction with the shift in power in economic and political life. A counteroffensive must also apply to power over thought.

The crisis of the Swedish welfare state thus fits into a broader social trend. The lesson of the late twentieth century is that the welfare state was not able to tame capitalism in the long term. The wild animal has broken its chains through its new cross-border mobility.

The transition from welfare capitalism to a rawer form of capitalism has undermined confidence in a reformist transformation of capitalism nationally, using the power of the state as an instrument. That development puts the labour movement and the broad left at a crossroads between resigning to a system-conserving direction, aiming at “capitalism with a human face”, or moving towards a more basic questioning of the system than the national welfare state entails. The first position at present dominates European social democracy and the general socially radical debate.

I believe, however, that globalisation need not lead to a shift towards neo-liberalism; there were – and are – alternatives. But the scope for national regulation has been weakened. A left that shuts its eyes to the weakening of the national level will be nostalgically retrospective.

Can the welfare state be restored or have its foundations been dislodged for good? And is the welfare state the goal of socialism? As I see it there are two reasons from the Swedish point of view to argue for a more far-reaching system critical position than the welfare state implies. One is that the national welfare state can no longer be defended nationally. The forces that threaten the embedded capitalist order of the welfare state are transnational and their counterforces must also be transnational. The other reason is that it is high time to again approach the issues concerning economic democracy.

Sweden used to be at the forefront as a model social democratic country. Could it perhaps have been possible to go forward on that path instead – on the basis of new premises?

### **Economic democracy**

The dominant system critical movement in Sweden in the last hundred years has been the labour movement. Its trade union and political reforms for a long time had as their long-term goal the transformation of the capitalist system. The powers of the state were to be conquered using parliamentary democracy as a tool. Social reforms were formulated with the express intent to strengthen the working class in preparation for the third step – laying the power over production in the hands of the entire population. First, according to the labour movement's three stage thinking, political democracy will be established by means of the universal and equal right to vote. Thereafter, with help of the trade unions and the right to vote, social democracy will be developed, with job security agreements, welfare policy and broad education for everyone. Then, when time is right, the third stage will follow – economic democracy. This third stage played a principal role as late as in the main report to the 1981 LO Congress.

During the neo-liberal era in the 1980s and 1990s the labour movement's leaders, due to external pressure and internal uncertainty, not only backed down from structurally important parts of the welfare state, mainly full employment, but also entirely abandoned the idea of economic democracy. After having driven the system-changing demand for employee investment funds in the 1970s, in the last decades the trade union movement has become defensive, directed towards defending agreements and social protection systems. In 2000 LO presented a Congress report on Democracy that did not dare to breathe a word of system criticism or demands for economic democracy. For the Social Democratic Party nowadays welfare capitalism, and a watered down form at that, seems to have become the goal, not a step on the way.

In my opinion, conditions exist today for resuming fundamental system criticism even in Sweden and other countries at the centres of capitalism. The time is right for a broad, mobilising, ideological offensive to push back the

privatisations, the deregulation of the economy, the weakening of democracy and the attacks on agreements, labour law and the welfare systems. And new features in the development of capitalism make the issue of economic democracy of more immediate interest than for a long time.

During the era of welfare capitalism companies were regarded as having a number of things they had to give consideration to – employees, suppliers, customers, the community and shareholders. Now there is one single express goal, to satisfy the shareholders. The power of ownership is shifting from major private owners to institutional ownership (pension funds, insurance companies, foundations etc). The financier takes power from the factory-owner and the vacuum after the factory owner is filled by an increasingly powerful director bureaucracy – steered by proprietary interest that sees only stock market values and short-term maximization of profits. The company executives devote themselves more to financial transactions, buyouts and mergers than to long-term development of production. Remuneration to directors is increasing and the gap between them and the employees is growing.

This trend calls up two basic questions. The first is how do we want the money that belongs to the Swedish people, but which is deposited in banks, insurance companies and pension funds to be used? I think we should demand that the money be used in a way that benefits our interests in the long term as employees, consumers and citizens. We should form a strategy for the ownership of the funds and establish representatives in the fund leadership that are able to distinguish between the interests of the elite and those of the people.

The second basic question is: who is best suited to decide the organisation of labour and production – the shareholders or the employees? In an increasingly knowledge-rich production there is a large and growing percentage of the business assets lodged in the knowledge and experience of the employees. When production becomes more decentralised and customised, the knowledge, responsibility and initiative of those who directly carry out the work becomes increasingly important. At the same time people's knowledge, independence and participation demands grow, which is one of our society's deepest and most hopeful characteristics of change. And the demands for influence and independent responsibility are well in line with what modern goods and services production requires. We have perhaps arrived at the point when employees can start to hire capital instead of the other way round?

To really give employees the right to determine the organisation of work would threaten the power and privileges of employers and management. The employers are in actual fact in a dilemma. Their goal is not only maximization of profit but also to keep power at the top, which a hierarchically organised production does. The development of production may today hold the potential for liberation that power structures are suppressing. The social possibilities of

technology are on a collision course with the prevailing ownership and power structures.

But capitalism cannot be transformed in one single country, not when the deregulation of capital and the internationalisation of production have gone so far as they have today. In face of this, the labour movement and the Swedish left have stopped in their tracks in dumb impotence. The unfruitful conflict has been allowed to develop between *modernisers* – often enthusiastic EU supporters – who accept today's capitalism but want to give it a human face, and *traditionalists* – often EU opponents – who want to restore the welfare state. As I see it, EU opposition is a non-political formulation of the real political dividing lines and is a blind alley for the left. If the left – in a broad sense – instead really develops a system-critical attitude, a future-oriented strategy for an alternative Sweden and Europe, the unfruitful conflict will fade away and be replaced by the real political dividing line between system critics and system conservationists.

To deny globalisation and the weakening of the nation state will not bring things forward. Capitalism today can only be transformed in a transnational operation that connects local, national, regional and global change processes.

### **The third stage of opposition**

The labour movement started to emerge in Western Europe over a hundred years ago. Its first fifty years were characterised by the efforts to transform the brutal class society of early industrialism. This period was characterised by a trade union battle to organise itself against the employer, to be able to go on strike and enter into agreements, and a political fight for freedom of association, democracy and political power. The mainstream part of the movement in Europe had socialism as its guiding light. The aim was to fundamentally transform the capitalist social order – revolutionary according to some, reformist according to others.

Starting in the 1930s a second stage emerged – which still influences the thinking of the Swedish labour movement. National collective agreements started to be established to regulate working conditions and workers shared in political power. Social and economic divides narrowed, social protection was extended and the old brutal class society became history. While the welfare state was emerging, the goal of transforming the capitalist system was pushed into the background. Consensus and social engineering characterised the work of reform that seemed to be progressing step by step. Consensus reached its heyday during the period that is sometimes termed “the thirty golden years”, 1945 – 75. Welfare capitalism characterised this second era.

The conditions for the third stage of opposition started to emerge in the 1980s and 1990s. Capital was deregulated, profits increased, unemployment was allowed to rise, the trade unions were forced to make concessions, social and economic divides widened and welfare policy was rolled back. Behind that development are profound changes in the organisation of production as well as a shift in the spirit of the times in a neo-liberal direction. The cross-border mobility of production and highly mobile speculative financial capital are important features of the globalised capitalism of the third stage.

To start with these new features could be understood as temporary setbacks. The economic crisis at the beginning of the 1990s overshadowed the long-term changes for a time. But today it is clear that we are in the midst of a new era that requires new forms of opposition. What has taken place is a shift in power that cannot be opposed by means of consensus and social engineering. Seen from a grass-roots and democratic perspective this third era must become a new era of struggle for power and for the prevailing ideology. It is time for the labour movement once more, though in a different form and with partly new goals, to lay emphasis on broad mobilisation. And today the struggle must be internationally directed against a capitalist world order and a global class society.

I think really that Sweden should have the ability to play a leading role in a new global left-wing offensive. The labour law reforms of the 1970s provide a foundation. Our welfare system has survived relatively well during the neo-liberal era. The Swedish trade union movement still has a high organisation rate and is strong both locally and centrally. And even if the Swedish welfare state undoubtedly was a form of capitalism, in the 1970s there were in fact also ambitions and concrete proposals, mainly employee investment funds, which pointed further towards a transformation of capitalism. It is just a pity that the leaders of the labour movement today seem to be terrified by every reminder of this fact.

Many people on the Swedish left in a broad sense still deny the changes and the need for a global struggle. They regard the talk of globalisation as an invention to legitimise the political message of neo-liberalism. The Swedish economy has always been open and international, they say. We must safeguard the welfare state, labour law and the national collective agreements and keep working as before – just make a bit more effort. “We do not carry placards, we talk to the ministers instead”, says one trade union General Secretary, with reference to Attac and other “new” movements. In my opinion this constitutes lingering in the past consensus view of the world.

Those who maintain that everything is still the same as before cannot explain the past decades’ rollbacks. They do not mobilise the anger created by what is happening. “Don’t rock the boat, we’ll deal with this” is what they say instead. As long as such an attitude prevails the new opportunities for a left-wing

offensive opened up by present developments will be lost. Those who should have offered resistance and been forces for change are system-conservationists.

### ***3. Global capitalism and global criticism of the system***

We have been living for some time within a kind of neo-liberal world regime, whose fundamental purpose is to strengthen the power of big business over natural resources, capital flows, labour and knowledge. The predominant international institutions today – the World Bank, the International Monetary Fund (IMF) and the World Trade Organisation (WTO) – are characterised by an attitude that is often summarised in the expression “Washington Consensus”. The key elements of that policy are to reduce government expenditure and reduce taxes, privatise public sector operations, deregulate the product and service markets, liberalise trade, liberalise capital flows, abandon fixed exchange rates, consolidate private ownership and open up land and water for purchase by foreign private companies.

The establishment of the World Trade Organisation, WTO, almost ten years ago may be seen as a symbolic high point of the neo-liberal world regime. Through the WTO and bilateral and regional agreements the contents of international trade agreements are extended far beyond trade in goods to cover such things as public procurement, the rights of investors, trade in services, intellectual property (including patent rights), energy policy and ownership rights to land and water. The aim of the new regulatory systems is to strengthen the rights of investors. Companies may sue governments if they force “unnecessary” regulations on them and the definition of “unnecessary” is not determined democratically but by the WTO’s trade experts. The companies, on the other hand, cannot be held liable.

When neo-liberalism emerged twenty five years ago it claimed to be showing the way to increased growth and rising prosperity. When the economic results are examined they show that the neo-liberal decades in more or less every way failed to achieve what this political ideology claimed it would. Compared with the decades before, the neo-liberal decades were characterised by lower growth and slower welfare improvements. Unemployment increased in rich and poor countries. The gulf widened between rich and poor.

The neo-liberal world regime has been in decline for about six or seven years. The Asian crisis in 1997, the collapse in Seattle in 1999 and Cancun in 2003 and the growing opposition movement as well as the present economic stagnation, with the risk of deflation in Germany and Japan, are some of the clearest signs of the neo-liberal crisis. Even warm supporters of the capitalist system have therefore started to consider alternatives to the Washington Consensus. In its rhetoric the World Bank has at least made some attempts to modify its neo-liberal position.



The crisis has been deepened by the USA under George W Bush choosing the path of "unilateralism". The dominant imperialist superpower believes it has the right to ignore international law and agreements entered into and only safeguard American economic and strategic interests, while other countries are to fill the enormous deficits in the USA's budget. The neo-liberal crisis is thereby being extended to a crisis of the entire world order – or rather chaos – that is now prevailing.

In that situation a group of critics step forward and say that regulation is necessary to stabilise the world economy and prevent crises. They also say that tariffs and other barriers to trade should be removed and that the rich world should discontinue its agricultural subsidies. Some of these critics go further and maintain that poor countries should be given the right to protect the country's self-sufficiency and also transitionally protect and support the country's industrial development. Some of them even say that international taxes and a massive transfer of resources from rich to poor countries are necessary, a global "Marshall-plan" similar to the one that restored the economy of Western Europe after the Second World War.

These critics represent a position that wants capitalism to function more socially, a sort of global Keynesianism or a global social democracy of the social-liberal type. Here the financial capitalist George Soros and the former World Bank economist Joseph Stiglitz are included together with the less system-critical parts of the global justice movement. At least at the rhetorical level an aspiration is expressed towards embedded liberalism also by leaders such as Bill Clinton, Tony Blair and Göran Persson, as well as by the President of the World Bank James Wolfenson.

What would a system critical position express instead? It says that inherent in capitalism is an imperialist power structure that benefits the centres of capitalism and is unfavourable to their peripheries. Through monopoly of natural resources, capital and knowledge, through control of the media and communications and ultimately using force of arms the centres of capitalism maintain their economic advantage. Imperialism is, says the system-critical position, an integrated part of capitalism. It is not sufficient that today's world order is governed by good social democrats instead of neo-liberals, the system must be fundamentally changed. Here there are leading researchers and social critics such as Samir Amin and Walden Bello and here are the majority of the movements in the South who bear up the global justice movement.

The view of the World Trade Organisation uncovers the differences. The modest critics advocate clearer responsibility and greater transparency, a stronger role for the governments of the South in the decision-making processes and a less doctrinaire view of free trade and deregulation. The system-critical researchers and movements instead regard the WTO as one of the most important tools of imperialism to preserve and strengthen its monopoly. They

want to freeze or abolish the WTO and instead build up an economic order that creates a new and different balance of power and that provides scope for countries and regions to choose different routes in their economic policy.

”The war against terrorism” forms another dividing line. In recent years we have seen how a global American system of bases, prison camps and interrogation centres is emerging, where thousands of “suspects” are detained for an unknown period and without any legal security. This is an American minigulag, which is never on American soil, where interrogation methods bordering on torture seem to be everyday realities. The system-conservationist critical position seeks to restore the present UN system and the existing international legal system. The more far-reaching system-critical position is expressed instead by a growing anti-imperial non-violent peace movement that mainly wishes to attack the poverty and desperation that makes recruitment to terrorism possible and that links the fight against terrorism to the work for another and fairer world order. An anti-imperial peace movement that is developed in co-operation with the global justice movement may become the system-critical alternative to an imperialism that today has the fight against terrorism as a pretext.

The non-system critical position that I am disputing has recently received a cogent and in many ways appealing interpretation by the British political scientist **David Held**<sup>3</sup>, who by the way uses the term global social democracy for the position he advocates. The strength of the traditional social democratic model, writes Held, was that it was able to combine the ethical values and cohesive power of social justice with the efficiency of the market economy. The model can also be characterised as “embedded liberalism”, continues Held, that is, a regime where “social democrats sought to amalgamate the interests of the state, capitalists and employees into a package of market economy, social welfare and political regulation”. This regime has, continues Held, got into difficulties as a result of globalisation. The embedded liberalism assumed national economies with external arms-length transactions, where governments could regulate movements of goods and capital at national borders. Today there is a growing lack of agreement between the values of social democracy and the tools of regulation that are available. The values of social democracy are still valid and should be normative. But the regulating tools must today be partly recreated at regional and global level. From that point of view Held presents a number of proposals for measures and institutional arrangements.

I have three objections against the tendency that calls itself global social democracy here but which in my opinion would be better described by the term “embedded liberalism”. The first is its implicit elitism. The new tendency forgets that the previous era’s national embedded capitalism – welfare

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<sup>3</sup> *Global Covenant – the Social Democratic Alternative to the Washington Consensus*, Polity 2004

capitalism – rested on strong popular power that could balance the economic power of privately owned business. The main instruments of popular power were then the trade unions and democracy. The new tendency seems to believe that it is possible to establish a global embedding of capitalism without re-establishing new tools for popular power in a global context. Those acting for embedded liberalism do not seem to be popular movements but a mixture of state representatives of a social democratic type, academics and NGOs who meet at conferences and reach agreement on a good global order through discussion. This is just as unsatisfactory and elitist as when in capitalism's infancy well-meaning liberals, using humanist ideas, rational social governance and broad education, wanted to transform the class society of that period. Embedded liberalism – just as the old liberalism – is terrified of broad popular mobilisation. The reform programme will reflect this, it will not present demands that express popular indignation with a mobilising effect – hunger, water shortage, medicines – but advocate global social engineering.

My second objection to embedded global liberalism is that – just as national liberalism before – it fights shy of the core issues of economic power. Capitalism is equated improperly with a market economy and the project is said to be getting this market to function better with the help of supportive regulations, as well as achieving a more equal distribution of the production result. The influence of those holding economic power is made invisible. As I remember it, the social democracy I have known for more than forty years wanted to do more than benefit and milk capitalism. It wanted to consolidate democracy. It wanted people to have power over their own lives – in and outside the workplace.

It is certainly not my intention to take exception to the type of historical compromise that the welfare state constitutes. The welfare state represented a historical advance for broad groups of people. But it was precisely the conscious compromise that could be made when economic power had been challenged by strong revolutionary forces. In the future that sort of compromise may be possible and reasonable in a global form, when the system-critical forces have grown sufficiently strong to make those with economic power feel threatened. But that is far off. What I do want to take exception to is a view of society where the power of capital is made invisible – and where the need for popular mobilisation is therefore pushed aside.

My third objection against embedded liberalism, sometimes called global social democracy, is that it forgets imperialism. The network of "global governance" that people want to set up in this direction is dominated by experts, government representatives and NGOs from the rich world, while the capitalist power that is to be regulated also has its centre there. In both cases it is the North that is in control. The rich world's monopoly of the financial flows, knowledge, natural resources, media and weapons of mass destruction is not

called into question. It is not a democracy in its true sense – in that case the balance of power within and between countries would be fundamentally shifted.

Many of the proposals presented within the framework of these efforts towards global embedded liberalism may be wise and reasonable steps towards a better regime than today's. I do not of course rule out co-operation between more and less radical critics of today's order, approximately as when social liberals and socialists co-operated in the fight for the vote and the systems of social protection. But I do object to elitism and to compromising too early. It is the more radical demands with a utopian message that are able to create broad popular mobilisation. It is only that mobilisation that can dislodge the power of the rich. The risk is great that embedded liberalism will not form a part of a greater transformation but instead constitute a cover for retaining the present order, embedded in pretty words and kind intentions.

My own position is, thus, deeply critical of the system. I believe that capitalism has become increasingly out-of-date in today's world – both as a system of production in our own country and as an imperial world order. Today's dreadful injustices cannot be rectified within the framework of the system. Today's enormous potential for a rich life for everyone cannot be liberated by capitalism.

We not only have a capitalist and imperialist social order, but also counterforces. The annual meetings of those in power behind barbed wire fences in Davos are the symbol of an anti-market, the inaccessible power centre of capitalism. The global justice movement's annual meetings in Porto Alegre have become the opposite pole to Davos; a symbol of the open diversity of social and anti-imperial movements.

What we today call popular movements constitute a phenomenon that is only just over a hundred years old. Social movements have emerged against the power of capital, with the trade union movement as one of the leaders. National freedom movements have emerged against colonialism and the power in the centres of capitalism. Both processes started at about the same time, the Indian National Congress was formed in the same year as the Swedish Trade Union Confederation, LO.

At the end of his book, *One Hundred Years of Socialism* the British historian **Donald Sassoon** describes how more or less all Western European social democratic and socialist parties in the 1980s and 1990s revised their party programmes. Both in practice and in their programmes the ideas of a fundamental transformation of the order of production and social system have now been written off. He calls the final chapter *The Major Crisis of Socialism* and leaves the question open of whether this is the end of socialism as a system critical ideology and movement.

At the same moment in history – the years around the millennium shift in Seattle, Genoa, Gothenburg and Porto Alegre – a new movement of movements steps forward and says exactly what the old movements have just finished saying, that another world is possible. The fundamental attitude itself – that the world is not a commodity, and nor am I – is directed against the supremacy of ownership, against the fact that the earth and water and human labour, in fact all human life, are made into commodities on a market. And the criticism of growing economic divides and poverty, the criticism of neo-liberalism and the Washington Consensus calls into question that on which the popular legitimacy of capitalism was based, namely the idea that capitalism gives everyone growing prosperity.

Should capitalism be preserved or transformed? The question is being asked by a growing opposition movement in the South and by a new peace movement in the North. It should also be asked by the labour movement in the North. Today it is possible for the social movements and the anti-imperialist movements to form a joint offensive against the global class society.

What is the criticism of the system that I am arguing for then, what kind of a transformation would it be?

Indicating a direction is not so difficult. The social and economic divides within and between countries should be narrowed instead of widened. Democracy should be developed, not undermined. No-one should go hungry or lack clean water. Everyone should have the possibility of supporting themselves through their own labour. Technological advances should be utilised to give every person work and resources for supporting themselves instead of being closed inside the walls of private ownership. Employees should assume control of the organisation of labour and production. Financial capital and the transnational companies should be subject to democratic control. The earth's basic natural resources should be administered by those who need them to support themselves. Monopolies and instruments of power that benefit the rich world should be abolished and imperialism as a power system should be replaced by an international legal system based on equal human rights and equality of status of nations.

The way that capitalism functions – particularly at this late stage – is the opposite of all this.