

# Framtider

*International edition 2008*



## *The Swedish Model*

The welfare state beyond the crisis

Children's rights and resources

A new family-policy model

The future labour force

The changing state

Swedish competition policy



# The Institute for Futures Studies

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The Institute builds its activities on research programmes extending over four to six-year periods. The current programme is entitled *Society and the Future* and runs from 2005 to 2008. It is the fifth in the Institute's series of research programmes. The sixth research program starts 2009

with an emphasis on the future of welfare state financing; youth, education and social exclusion; and, identity in a pluralistic society.

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PHOTO: JEPPE GUSTAFSSON/SCANPIX, SIMA KORENIVSKI/VIDVINKEL, JOHAN WINGBORG/BILDHUSET-SCANPIX

*”The structure of society and the way we organise our political institutions has changed radically since the 1930s, but the concept of a Swedish model lives on.”*

EVER SINCE the arrival of Marquis Childs’s book, *Sweden: The Middle Way*, in the 1930s, the idea of an alternative Swedish social model has remained strong in people’s minds, both internationally and at home.

The model has been associated with the way decisions are made, the shape of social welfare policy and other public institutions, and the nature of differences in people’s lives and circumstances. The structure of society and the way we organise our political institutions has changed radically since the 1930s, but the concept of a Swedish model lives on.

The perception that Sweden is special has been increasingly questioned in Sweden itself, and beyond the country’s borders. The crisis of the 1990s and the cutbacks and reforms introduced as a consequence, have been seen as the beginning of the end for the model.

Yet, the present political crisis of European integration has meant that Sweden and the other Nordic countries have been identified as best performers in combining economic growth and social policy goals. This makes an analysis of the problems and potentials of the Swedish model not only relevant but also important beyond its borders.

The history of Swedish and other European models is about various attempts to develop ‘a strategy of cooperation’ between conflicting interests. The rise of neo-liberalism and the fall of the Iron curtain changed all that, and the previous ideological accords were heavily challenged during the next twenty years. Yet, that rhetoric appears to have lost steam by now. But will employers view cooperation as a fruitful strategy once again or will they use the exit option offered by deregulated capital markets?

The purpose of this edition of *Framtider* is to describe the changes in the Swedish model in a broad sense, even though the format does not permit an exhaustive account, and discuss it with an eye to current dilemmas and future challenges.

With this issue we would also like to invite readers to write contributions (in English) on the future – or the relevance – of the Swedish model, to be published at our website [www.framtidsstudier.se](http://www.framtidsstudier.se). Contributions should be sent to [info@framtidsstudier.se](mailto:info@framtidsstudier.se).

**Joakim Palme**

*Director of the Institute for Futures Studies*

## FRONT COVER

Highly developed welfare institutions, consensus, and competitive, export-oriented companies – those are some features of the so-called Swedish model.

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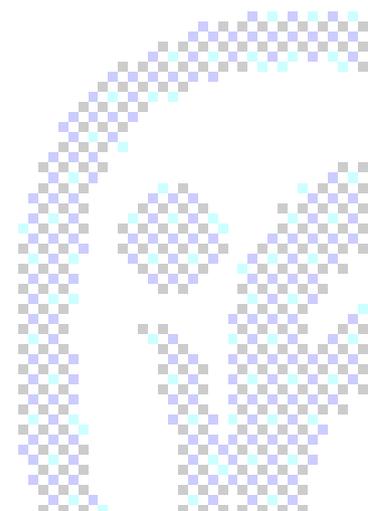
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*Joakim Palme, Johan Fritzell and Åke Bergmark*

# End of Equality?

## The Welfare State Model Beyond the Crisis



PHOTO: LENNART REHMAN/SCANPIX

*What shape is the Swedish welfare state model in following the austerity measures of the 1990s? Since the model is so intrinsically connected to the concept of equality, any assessment of changes in the model should also consider how equality in people's living conditions has been affected. From an analytical perspective, the Swedish tradition of welfare research further implies that we should make a distinction between the welfare state institutions as such and the resources that make it possible for individuals to control their own lives, i.e. what ultimately determines their welfare. How, then, is inequality changing in the beginning of the 21st century after a decade of economic growth above the European average? And what are the challenges for the future, both in terms of people's living conditions and in terms of policy reforms?*

If we want to discuss the future of the Swedish model, it is useful to consider the historical legacy of the existing system where social policy institutions provide for a specific mix in terms of coverage and benefit levels.

Moving on from its original *poor laws* and *friendly societies*, Sweden adopted social insurance programmes that differed from the *state corporatist* approach taken by Bismarckian Germany and other countries on the European continent. The first Swedish pension law in 1913 was both contributory and *targeted*, i.e. it retained the means-testing principle of the poor laws, but expanded coverage to embrace a majority of the elderly population. When means testing was abolished after World War II, a *basic security* model developed with flat-rate benefits, as in the British Beveridge reform but without mandatory contributions. At the same time universal child benefits were introduced.

With the introduction of earnings-related benefits in the 1950s, the basic security programmes became *encompassing*. Here, the idea was to meet the need for both basic security and income security. But we should not forget the other point of departure for the Swedish model, the introduction of

state subsidies into voluntary programmes. In sickness and unemployment insurance, the first state interventions resulted in the emergence of the *voluntary state-subsidised* model. In 1955, Swedish health insurance became universal; step by step, it expanded the earnings-related principle and pressed ahead with earnings-related pensions. Thus by the end of the decade, Sweden had introduced the *encompassing model*.

DESPITE THIS expansion, targeted elements still remain in the form of housing allowances and social assistance, while unemployment insurance in Sweden still has elements of a voluntary state-subsidised model. In health insurance, however, the last remaining traces of the 'friendly societies' were removed as the result of an administrative reform in 2005, when the independent insurance funds became fully integrated into the central state.

In the modern Swedish transfer system, there are hence three basic components: (i) citizenship benefits including old-age pension systems and family support; (ii) earnings-related social insurance benefits, on the same terms for all; and (iii) income-

➤ tested benefits such as housing benefits for families with children and the elderly, and social assistance. In discussing changes during the crisis of the early 1990s and beyond, we will examine the development of income inequality.

Swedish welfare research adopts a multi-dimensional perspective rather than focusing on income or economic resources alone. Studies of people's living conditions also include health, education, employment and political participation etc. Given our focus on redistributive principles, we will mainly focus on income in the following. There

are several reasons why the Swedish case is of interest from an income distribution viewpoint. One is simply that the country has been successful in promoting social policy goals that have reduced poverty and inequality. Another is that generally speaking, Sweden has served as a role model for the advanced welfare state.

This claim needs to be qualified in certain ways, however. There is no Swedish 'miracle', neither in the sense that poverty and inequality have been eradicated altogether, nor in the sense that there is something incomprehensible in Swedish policy design.

Figure 1. Average disposable income (thousands of SEK).

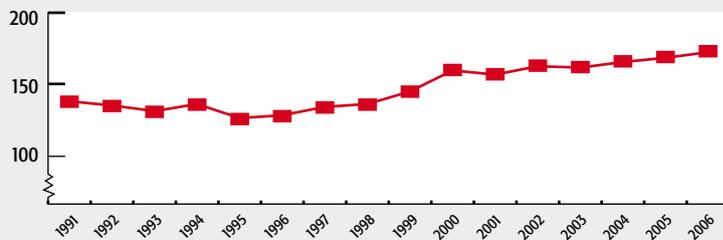
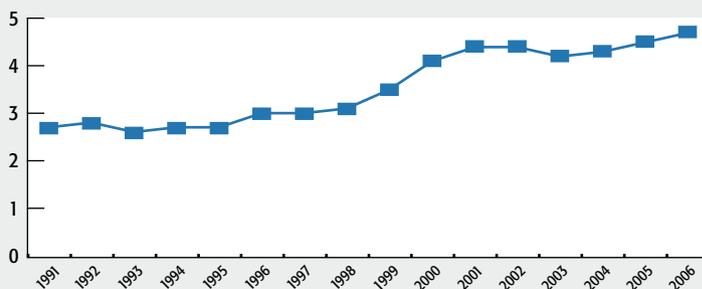


Figure 2. The Gini coefficient.



Figure 3. Poverty (per cent with income below 50 per cent of median income).



*Note: Equivalised disposable income, with capital gains included. Figures for 1992 have been estimated from surveys with other household definitions. Figures for 2005 have been estimated on the basis of Ministry of Finance 2007. Figures for 2006 are estimated on the basis of preliminary statistics published by Statistics Sweden (HE).*

On the contrary, the policy principles are quite straightforward. Universalism is the keyword.

Below, we will look at the trends for average income, income inequality and poverty since 1991, a period that covers the deep economic crisis of the 1990s when GDP growth was negative for three consecutive years and open unemployment rose from less than two per cent to more than eight per cent. In addition, the share of the labour force engaged in active labour market policy programmes increased from two to almost six per cent. This triggered a crisis in Sweden's public finances which the government of the day tackled by means of both tax increases and benefits cuts, putting additional pressure on household income.

*Figure 1* describes the average income curve over the period 1991–2006. The drop in income levels during the employment crisis is striking. The levels were only restored towards the end of the 1990s, but have since risen further. The vast majority of households were affected by both the downturn and the upturn. In decile terms, the lower nine were affected by the downturn while all ten were included in the upturn.

There are two forces behind the increase in average income levels. One is the increase in capital gains, affecting only the top income decile and showing large yearly fluctuations during the observation period. The other is the increase in hourly earnings, which has been recorded for all occupational groups. The latter effect has, however, been dampened by the modest improvements in hours worked.

In *Figure 2*, the development of the Gini coefficient from 1991 to 2006 refers to the definition of disposable income with capital gains included. We can see that inequality has grown over time. The yearly changes are strong, with peaks in 1994 and 2000 and fluctuations primarily driven by changes in the tax system that affected the timing of when households realise their capital gains.

Income inequality as measured by the Gini coefficient peaked in the year 2000

**The Gini coefficient** is most prominently used as a measure of inequality of income distribution or inequality of wealth distribution. It is defined as a ratio with values between 0 and 1. Thus, a low Gini coefficient indicates more equal income or wealth distribution, while a high coefficient indicates more unequal distribution – 0 corresponds to perfect equality (everyone having exactly the same income) and 1 corresponds to perfect inequality (where one person has all the income, while everyone else has zero income).

when it reached 0.279, followed by a decrease to around 0.250 and another rise between 2004 and 2006, primarily (but not solely) due to the increased importance of capital gains and their skewed distribution. Income inequality is still at a low level by any international comparison.

The second aspect of income inequality is the 'poverty'. As in many comparative studies we have used the standard procedure of a head count ratio of individuals with incomes below 50 percent of the median income. *Figure 3* shows very small changes over time, which is surprising given the deep economic crisis and high unemployment. In an international perspective, poverty rates in Sweden and in the other Nordic countries remain among the lowest.

BESIDE GENERAL trends, it is particularly important to identify disadvantaged groups and assess how they fared. In scrutinising the 1990s, the Swedish Welfare Commission showed that most socio-demographic groups were hit by the recession and its aftermath, but that three groups appeared to be particularly hard hit: *youth, immigrants and single mothers*.

Turning to the post-crisis era, we find a marked improvement in average incomes, for these three groups as well. Among both young adults and immigrants, the average increase is greater for women than for men. Yet the improvement for single mothers is quite modest. From the social exclusion viewpoint, the higher earnings of immigrants is a noteworthy development and

- offers hope of better labour market integration for these groups, especially since poverty in Sweden is so strongly linked to the lack of income from employment.

Survey data measuring economic hardship more directly reveal a similar improvement in the new century, among disadvantaged groups as well. More people, for instance, possessed what is termed a cash margin. The lack of such a margin is still widespread among certain groups, such as single mothers, but declined from 50 to 41 per cent during the first five years of the century.

Examining more broadly how living conditions changed, we find that the question of who caught up and who lagged behind does not yield an equivocal answer. Comprehensive analysis suggests that when different dimensions of welfare are considered simultaneously, a polarisation tendency can be observed, particularly among youth, immigrants and single mothers. The good times meant that a larger share of disadvantaged groups, too, report that they have employment, that their health is good and that they possess a cash margin. However, we find no corresponding decrease in the share reporting difficult living conditions according to all these three welfare dimensions (no employment, few economic resources and ill health). Among single mothers, for instance, the latter fraction in 2004/2005 was twice that of the late 1990s.

Such polarisation is also present when the number of social assistance recipients is studied. Both the cost and the overall number of recipients have decreased over the past decade. But when we analyse the probability of leaving long-term social assistance, we find that it is lower today than previously. The average number of months with social assistance, which long used to be about 4 per year, has also increased substantially and reached a record level of 5.9 in 2006.

FOCUSING ON recently arrived immigrants we also find examples of polarisation. Earlier studies have shown that in relation to other

groups migrants from former Yugoslavia have been extremely successful in swiftly entering a steady position in the labour market. Nevertheless, analysis of long-term social assistance shows that at the same time quite a large number of ex-Yugoslavs have remained in prolonged social assistance.

Here, a worrying trend is reflected in increased housing segregation. Residential socio-economic and ethnic segregation has increased. Residential segregation can be seen as the spatial expression of social inequalities. In all societies, social and economic inequalities translate into residential segregation. However, segregation processes are not beyond political influence. In fact, most previous housing and urban planning policies have tried to counteract segregation. Most research nevertheless indicates that the great majority of social inequalities relate to individual characteristics. So why, then, should we be concerned about increased segregation?

There are several reasons why this should be seen as a danger signal. The most important one is that the principle of universalism is threatened by the geographically separated residential patterns of rich and poor, migrants and natives. This appears to be a more fertile ground for actions based on perceived self-interest and attitudes built on stereotypes and prejudice. In such a society the principle of universalism will be increasingly hard to sustain. Another challenge is the high poverty rate among immigrants and among young persons without children. It remains for Sweden to develop successful strategies for combating these 'new poverty pockets'.

As regards income redistribution policy, the 1990s can be divided into three phases: (i) the major tax reform, (ii) crisis management, and (iii) recovery. The first phase brought a shift in terms of redistribution from the tax system to the transfer system, with less progressivity in the tax rates and increased generosity in terms of benefit spending. The total redistributive effect remained largely the same. The second phase

included both benefit cuts and tax increases. Since the former slightly outstripped the latter, the redistributive level of ambition was lowered somewhat. The third phase was characterised by tax cuts and benefit hikes, which meant only small changes occurred in terms of increased redistribution.

Turning to the 21st century, we can divide it into two periods. The first represents a continuation of the policy trends evident during the 'recovery period' of the 1990s, and the second the policy steps initiated following the change of government (after 12 years) from a Social Democratic minority cabinet to a Centre-Right coalition majority cabinet.

The first phase included some tax deductions as well as step-by-step improvements in the unemployment benefit system and more generous child benefits. It is also worth noting that 2003 brought the reformed old-age pension system into being. It guaranteed that no pensioner would receive a lower benefit or less disposable income during his or her first year of retirement compared to what the old system would have delivered.

In 2006, the benefit-linked income ceiling in the sickness cash benefit programme was raised, which meant that medium-to-high income persons received a higher rate of insurance through the statutory system. The government further increased public spending on families with children in the form of adjusted child supplements to students, larger housing allowances, a higher rate of advance maintenance allowance to single parents, and the introduction of a second-child supplement.

DURING THE SECOND period, with the Centre-Right coalition in power, there has been a change of direction. A number of benefits have been downsized and a number of taxes have been reduced. Benefits have been affected both by reduced income ceilings and reduced replacement levels, e.g. for the long term unemployed. The changes are not substantial, although they will result in somewhat higher levels of inequality. Tax cuts

include special deductions on employment income but also the abolition of wealth tax and less progressive property taxes. All in all, changes in the redistribution system imply a shift in favour of the employed at the expense of the unemployed. The explicit ambition of the Government, however, is to reduce the number of unemployed by enhancing work incentives.

When it comes to meeting the criteria established for the *encompassing model* we observe certain problems. The general pattern is that Sweden has had difficulty adjusting income ceilings for benefit purposes



*Caretakers generally belong to the real low-income groups in the Swedish labour market.*

PHOTO: FREDRIK SANDBERG/SCANPIX

- to growth in real wages, due to the price indexing principle in the social insurance systems. This in turn could cause middle class support for the welfare state to decline in the long run.

The Swedish pension reform of 1994/1998 is different, and of particular interest both in the present context and in others. In several respects, the reform strengthens the position of the *encompassing model* by indexing the income ceiling for benefit purposes to real wages. This means that roughly the same proportion of the labour force will continue to have their incomes replaced by the statutory system. In the old price-indexed system a growing number of people had earnings above the income ceiling due to real wage increase.

Other aspects of the pension reform have potentially significant implications for the future as well. One is the fully funded part of the reformed system, which is individual but compulsory. It could be argued that individual risk-taking is alien to a social insurance system, but at the same time it opens the door to individual choice. The comparatively high administrative cost of running the system also means that pensions will be lower than otherwise.

Another example is the new method for co-ordinating basic benefits and other benefits. Before, all pensioners received part of their pension in the form of a flat rate universal benefit. In the reformed system, income-related pension is the first tier and basic benefits are only paid to those who have not earned enough to climb above the 'guarantee level'. This new strategy for maintaining the universalism of the system also includes mechanisms for increased work incentives for low-income persons. As yet it is unclear what the political consequences will be as regards the guaranteed pension in a future situation in which the majority of retirees only benefit from the income-related pension.

When we analyse redistribution strategy, the social services are an important factor, and changes in them are relevant. Further-

more, they illustrate how Sweden has dealt with the dilemma of middle class inclusion in the redistributive social policy system.

Historically, the development of the welfare services, including health care, is in many respects another story, not only in that these services have been separated from cash benefits both administratively and financially, but also because the amounts spent on them are what makes Sweden stand out in international comparisons.

The universal provision of social services in Sweden is, by and large, a post-war phenomenon. Sweden established a universal health care system in the mid-1950s, followed by the expansion of elderly care and childcare services. Step by step, the policies for disabled persons have become part of the universal system of social protection. In this context it also appears warranted to underline the importance of full employment, active labour market policy and the dual-earner system for shaping the model.

THE EXPANSION of social entitlements has been accompanied by growing costs. In Sweden, this has been fuelled by the presence of the 'world's oldest population'. However, the net costs of Swedish transfer systems do not diverge from the West European pattern. Several factors have contributed to this. Important among them are the relatively high formal pension age and factual retirement age, and the high labour force participation rate among women.

Traditionally, Sweden has relied heavily on general taxation for the financing both of universal benefits and of subsidies to voluntary insurance. The municipalities have always had a strong financial responsibility for social assistance and for the care of vulnerable groups. The introduction of earnings-related benefits was linked to new financing models, with social security contributions being paid by employers. These contributions have also helped finance labour market policy programmes and daycare services.

One of the features of the recent pension reform is that insured persons' contributions

now go to the pension system. The presence of user-financing in virtually all welfare service spheres is nothing new for the Swedish social security model. The increase in user fees during the crisis of the 1990s also had an adverse effect on the model's universality. When user fees are high – and times are hard – economically vulnerable groups forgo healthcare and old-age care to a greater extent than others, but they still contribute to the financing of such services with their taxes.

The changes in the financing of social services that took place during the first years of the 21st century illustrate how Sweden has dealt with the dilemma of middle class inclusion in the redistributive social policy system. We have seen the introduction of maximum ceilings for user charges in child-care services as well as for user fees in elderly care.

The purpose of introducing maximum ceilings for child-care costs was to address the situation of low-income families, since the size of the fees threatened to deter them from using this heavily subsidised service or to exclude them from too costly child-care service centres. Another concern was the high and increasing marginal effects (poverty traps) facing single-parent families in particular due to the combined impact of income-related fees to child-care and incomes-tested housing allowances. The deterioration in the economic situation of single-parent families in the 1990s was a result of lower income from employment (not lower benefits).

In elderly care the motive was slightly different. The concern was partly that the economic situation for relatives of institutionalised elderly persons could be under- ➤

PHOTO: ROBERT EKEGREN/SCANPIX



*Single mothers, youth and immigrants were hit particularly hard by the economic crisis of the 1990s. The situation of a significant fraction of single mothers continued to be troublesome well into the next decade. In 2004/2005, the fraction of single mothers having harsh living conditions (unemployed, poor economic resources and ill health) had doubled compared to the end of the 1990s.*

- mined by very high user charges. Also, the threat of high user charges had triggered preventive strategies on the part of households who were likely to face high fees (they passed on wealth to relatives etc.).

Several changes in the organisation of the social services deserve attention. One is the increased application of purchaser-provider models, which in combination with a change in 1992 that opened the door to private for-profit providers in all sectors has altered the scenery. Municipalities and counties still make the decisions about subcontracting their social services, but the reform has led to a fairly substantial increase in the private provision of publicly funded services. There are large variations between sectors and regions. Private provision does not always include customer-choice models but more often tendering procedures where local monopolies remain in place but pass into private hands.

FREEDOM OF CHOICE may be considered valuable in itself. A crucial question for the Swedish model is whether it can be reconciled with equality of both supply and standards. Freedom of choice in the publicly financed welfare services sector has in certain contexts been weighed against the increased segregation of users observed in connection with the introduction of customer-choice models. The value attached to, say, the systems of education as an interface for different groups in society might thereby conflict with goals concerning freedom of choice and other benefits deriving from increased competition. Weighing the various goals against one another should ideally involve value judgments, as well as an accurate assessment of how various alternatives work in the real world.

The various policy changes that have taken place since 1990 may not have resulted in any fundamental shift in Sweden's redistributive strategies. We can even point to changes that were designed to reinforce these strategies. However, other changes have occurred that may help to bring about a more fundamental shift in the formation

of interests around the welfare state. For instance, we can observe difficulties in connection with the use of the tax system for redistributive purposes, linked to the problems of high marginal tax rates. With lower taxes there has thus been a shift from taxes to transfers in terms of redistributive importance.

One reason why the funding of the welfare state is so crucial to its future is that the increased needs of ageing societies will place heavier demands on the public purse and the various sources of financing. Another reason is that critiques of the welfare state tend to be based on claims about lack of cost control and eroded incentives to work. The proportion of older inhabitants is continuing upwards in the long term, while other age groups are declining in absolute terms. In the period 2025–2030, this ageing process will become even more pronounced, and only the very oldest group aged 80 and over will show an increase.

In the short term, ageing in Sweden is less of a problem for the redistribution system. It is time to make up our minds about how we want the Swedish model of the future to be, and to invest in its future tax base!

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#### FURTHER READING

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# Children's rights and resources

*Everybody would agree that societies need children. But whose responsibility are they, and what is their role in society? Whereas previously it was mainly the parents who were responsible, over the past century children in Sweden have become both a public responsibility and a matter of official concern. Sweden has invested heavily, for instance, in education and health care.*

However, in terms of influence and participation, children live virtually on the margins of society. Likewise, they are little able to influence their own situations, which means their living conditions are determined by other factors – by their relationship to their parents and by the relationship between the parents, by the economic and social situation of the family, by the relationship between state and family, and finally by the relationship between state and individual.

Over the past century, the distribution of responsibility between parents and society has been a key issue. There has also been much discussion of how public resources should be distributed between different generations and between those who have children and those who do not. Responsibility for children is a recurrent topic of discussion in Sweden, and according to the Convention on the Rights of the Child children should be taken into consideration in all political decisions.

The future status of children looks, however, somewhat ambiguous. There are signs

that the young will become more marginalised but there are also indications that they will strengthen their position in society. The position of children, and of other age categories, is partly linked to their share of the total population. A hundred years ago, about 40 per cent of the population in Sweden were under 20 years of age, while today this figure is just over 20 per cent. When different age categories are set against each other in redistribution policy, the size of an age group and its political voting rights may be important factors. Given their relative position, children do indeed risk being marginalised. The future, however, is never fixed. Other factors may affect the status of children in Sweden, such as policy decisions and changing perceptions about children and childhood.

FAMILY ISSUES have been a focus of Swedish policy for much of the past century. In the 1930s and 1940s the situations of families with children were a major topic in the public debate, and quite a few reforms concerning



*How children feel they are treated is crucial to their own future citizenship but also to the future of democracy as a whole.*

children and families were introduced. Significantly, government efforts to create good housing for families with children had a favourable impact on the standard of living. Many activities for children that had previously been initiated and run by individuals or philanthropic organisations, such as daycare centres and child welfare centres, now became more closely linked to the public sector or became a part of it. This also meant that non-educational institutions of importance to children's everyday lives became a concern of state and local authorities. Government strove to create equal conditions for children regardless of their background. Financial support from the state tended to improve the economies of such institutions, but it also led to greater centralisation and conformity.

In 1948, child benefits were introduced and granted to the mothers of all children. This was something new. Families with children were identified as a category and their standard of living was compared with the standards of childless families. Child benefits implied that the state had a responsibility for all children, in non-institutional contexts as well, and regardless of their economic and social positions. Today, child benefits still carry a powerful symbolic message in public policy.

Since the 1960s the state has shown a closer interest in family policy and children's living conditions. During the 1960s and 1970s many activities for children and adolescents were expanded, including pre-schooling, and a greater interest in children's leisure-time activities could be perceived. This development might be described as a 'societalisation' of childhood.

TODAY, GOVERNMENT policies cover a wide range. They influence household standards and children's activities both at school and in daycare centres. New laws and regulations affect family relations, for example in connection with child-custody cases and with the sharing of parental leave between parents. Children's everyday lives are affected by

school legislation, labour laws and age limits in various contexts.

Other improvements have also been introduced that affect children's lives and reflect changing views on children and childhood. The prohibition of corporal punishment in schools in 1958 was one important reform, while another was the 1979 law prohibiting psychological and physical abuse and punishment within the family. These marked a major shift away from a perception of children mainly as objects and towards a perception of them as subjects.

However, the fact that compulsory school and child benefits encompassed all children did not always mean that all children were treated in the same way and given the same rights. Not so long ago, civil status could be a decisive factor in terms of social opportunity and economic support from the state. Children born out of wedlock had to wait until 1970 to secure the right to inherit their fathers. Many studies have shown that unmarried women and their children found it more difficult than married women and their children to obtain support from poor-relief authorities and, later on, from social services.

THE PAST CENTURY has witnessed a variety of improvements for children, but also some setbacks. The hard times of the 1990s caused public investment in children to be curtailed. The decade was characterised by economic cutbacks that hit children and families with children fairly substantially. Child benefits were cut twice, and school, daycare and after-school activities were granted fewer resources. Another factor that affected many children's situation was the high rate of unemployment among parents.

Today, the situation of children and families with children has improved to some extent, and by international standards Sweden has a low percentage of child poverty, partly because of the dual-earner system. However, viewed in the long term, it is interesting to note that the cutbacks of the 1990s were actually possible in the first place. The fact

- that they occurred shows how vulnerable children and families are in relation to public policy. It also shows that benefits which are often looked upon as fixed and secure, such as child benefits, are always subject to negotiation in times of economic hardship. The needs and wants of other groups might well be considered more urgent.

The 1990s can also be described in quite another way, however. Government policies placed strong emphasis on children's status and rights. No less than nine official reports relating to children's power and government policy were published. In these reports, concepts like child, youth and young people are combined with heavily charged words such as power, influence, politics and citizenship.

There have since been other reports dealing with related issues, but those from the 1990s stand out because of their strong focus on opportunities for children and young people to raise their voices, to be heard and to have their opinions respected. In that sense, these reports represented something new. Consequently, the 1990s may reasonably be described as being more child-centred than earlier decades. This could be said to reflect the development of new relations between state and family, and state and children, and also to reflect an increasing individualisation.

In order to achieve influence and participation, children sometimes need to be represented by adults. Many children's rights must be monitored and looked after by adults, since children lack the right to vote, which is a powerful tool in a democracy. This lack of suffrage was one of the arguments behind the establishment of the Children's Ombudsman in 1993.

The official reports noted above concerning children's power in society mark an important shift. At the same time, the loss of regulation makes it difficult to see exactly what children should be able to influence and how they are supposed to participate. It is a telling paradox that the decade in which children were granted more power and influence, at least in the political rhetoric, also

brought heavy cuts for children as a social category.

Like other citizens, children have to a great extent been included in the general increase in welfare over the past century. From a historical perspective, it is worth pointing out that public investments have helped make the costs of bringing up and caring for children visible. Improvements in children's well-being are another constructive achievement. In addition, Sweden has moved towards greater rights for children, both individually and as a category. Rights have been accorded directly to children and they have received a higher degree of protection.

NEVERTHELESS, we need to examine different social arenas since there are contradictory tendencies within every society. Progress in one area may mean setbacks in another. The 1990s offered a striking example in this respect. These contradictions need to be examined if we are to understand contemporary society and to discuss our future.

In a way, the issue of children's influence and power is a challenge both for adults and for society as a whole. Young people's interest in politics is often seen as a measure of how society will develop in the future. Apathetic and cynical young people are perceived as a threat to democracy's survival. If we encourage children to raise their voices and tell them they can count upon their views being respected – what happens should adults fail to live up to this promise, or if they are only concerned with what they themselves consider important and correct?

The voting age in Sweden has been discussed on and off throughout the last century and several changes have been introduced. The latest reform lowering the voting age was introduced in 1974. Thus we are currently experiencing the longest period in a hundred years without any changes in this respect, despite the fact that children's rights are now being discussed more widely than ever. How children feel they are treated – whether or not their opinions are taken

seriously, for instance, or are considered valuable by politicians – is crucial to their own future citizenship but also to the future of democracy as a whole. Probably, funding earmarked for children’s activities and aimed at strengthening their position in society also strengthens their political identity. By the same token, economic cutbacks and the absence of economic support may well jeopardise children’s sense of political identity as well as their affiliation with society.

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PHOTO: LARS EPSTEIN/SCANPIX



*Children and staff demonstrating against the closing of their after-school recreation centre in Stockholm.*

# Towards a **new** family-policy model?

*For decades, Sweden's family policy has been one of the clearest examples of a dual-earner model, encouraging both parents to participate in the labour market and to share unpaid care work. Policy reforms proposed recently, however, will introduce a wider range of features, which may lead to greater diversity in terms of how families combine childcare and paid work. It will also affect gender equality, both in the labour market and within the family.*

Figure 1. Dimensions and models of family policy.

		Dual-earner support	
		LOW	HIGH
Male breadwinner support	HIGH	<p><i>Traditional family policy model</i></p> <p>GERMANY</p>	<p><i>Mixed family policy model</i></p>
	LOW	<p><i>Market-oriented family policy model</i></p> <p>UNITED KINGDOM</p>	<p><i>Dual-earner family policy model</i></p> <p>SWEDEN</p>

Since the 1970s, a prime goal of Swedish family policy has been to strengthen gender equality and the dual-earner model. Central to this model is the combination of earnings-related parental leave, access to publicly subsidised daycare and separate taxation of spouses. Parental leave is often seen as crucial to the way both paid and unpaid work is distributed between the sexes.

Currently, parental insurance entitles parents to a total of thirteen months of job-protected leave, during which they receive 80 per cent wage replacement. Two months of leave are earmarked for each parent individually, while the remaining time is shared between them as they wish. At the end of the leave period, the great majority of children in Sweden enter daycare. This is heavily subsidised; the cost to a family with one child in full-time daycare, for instance, is a maximum three per cent of household income before tax.

Extensive research has compared the different family policy models established in Western welfare democracies. *Figure 1* shows a classification based on services and transfers, including parental leave legislation, by the Swedish sociologist Walter Korpi.

The dual-earner model in Sweden and the other Nordic countries has resulted in high levels of female labour force participation and relatively high fertility.

In the traditional family policy model, developed in many Continental European countries, the emphasis is more on supporting female homemaking during the child's early years, for example through flat-rate childcare leave benefits. This model is characterised by a lack of public daycare for the youngest children, low labour force participation among mothers and low fertility levels. In many English-speaking welfare

states, among them the United Kingdom, there is neither extensive support for dual-earner families nor any major public funding input to support traditional family patterns. Instead, families are forced to rely on market-oriented solutions for their childcare.

A fourth model may be described as a mixed family policy model. Here, both types of support are highly developed, with the seemingly contradictory goals of simultaneously supporting dual-earner families and traditional family patterns.

During the past decade, several countries have gradually developed, or drifted towards, such a model. For example, the dual-earner model applied in Finland has been supplemented by a flat-rate childcare leave benefit for families who do not utilise public daycare. Another example is Germany, where earnings-related parental insurance was recently



*Two months of job-protected leave are earmarked for each parent individually. The remaining eleven months of leave may be shared as the parents wish.*

- introduced into an otherwise male-breadwinner support model.

While Sweden stands out as a clear-cut example of the dual-earner model, it is still the women who perform most of the unpaid household and care work. However, the participation of fathers has increased over time. The public family-policy institutions have contributed to this gradual change in

behaviour. *Figure 2* shows how paternity leave has developed in Sweden, starting with its introduction in 1974. Currently, men claim on average some 20 per cent of earnings-related parental insurance. Thus, although such a level is unmatched elsewhere in the European Union, the distribution of care work between Swedish women and men is still very uneven.

Figure 2. Fathers' share of all parental insurance days claimed.

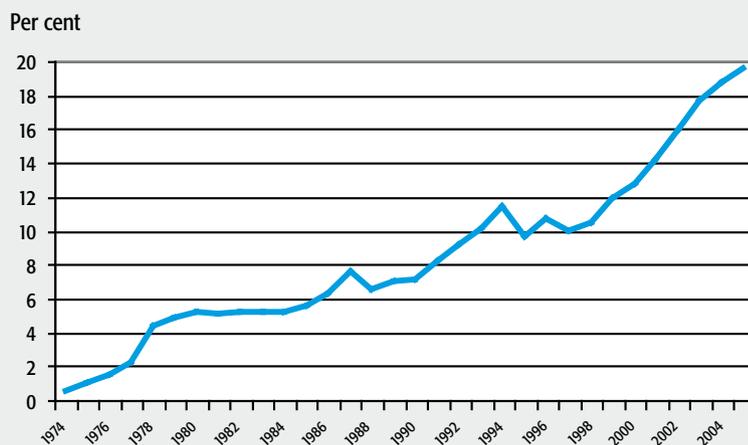
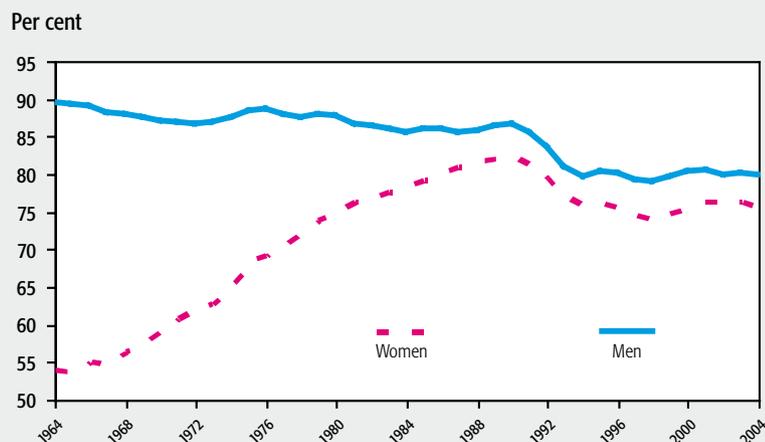


Figure 3. Swedish labour force participation.



As can be seen from *Figure 3*, men's increasing participation in childcare is paralleled by women's rising labour force participation.

In 2005, a government commission reviewing parental leave proposed three main changes aimed at reducing gender inequalities in paid and unpaid work: a further two months' leave, increased individualisation from two to five months earmarked for each respective parent, and higher benefit ceilings. The latter measure was designed to reduce the adverse effect on the family economy when the parent with the highest earnings (usually the father) claimed leave.

Had they been fully implemented, these reforms would have radically strengthened the dual-earner model. However, the issue of earmarking is highly controversial and cuts across political lines. In the summer of 2006, the Social Democratic government and its parliamentary allies, the Green Party and the Left Party, raised the benefit ceilings for parental insurance, but left the duration of leave and the number of earmarked months unchanged. During the autumn election campaign the same year, the lat-

ter two parties called for an increase in the earmarking of leave for fathers, while the Social Democrats opted to keep parental leave legislation unchanged.

After twelve years of Social Democratic rule, a centre-right coalition won the election in September 2006. During the campaign the coalition advocated a number of family-policy reforms, including the introduction of a flat-rate childcare leave benefit for parents with children aged one to three years. The proposed net benefit amounts to a maximum of SEK 3 000 per month, which is around one fifth of an average net wage.

To supplement this benefit, a tax bonus for couples who share earnings-related parental leave more equally is about to be introduced. This means that the parent with the lowest income receives a tax reduction of SEK 3 000 per month when the other parent is on parental insurance leave. These reforms could be seen as a political compromise resulting from conflicting interests within the government, in particular between the Christian Democratic Party – which for decades has proposed a leave system that favours parents who prefer to stay at home



PHOTO: JENNY JARNSTEDT.



*Late afternoon and everybody has left. The exterior of a quite typical Swedish daycare centre – a one-storeyed wooden building, surrounded by a low fence.*

- instead of utilising public daycare – and the Liberal Party, a long-standing supporter of the dual-earner model.

IN ADDITION, a ‘cash for care’ system will be introduced to give Swedish parents a wider range of childcare choices. This will enable parents wishing to do so to take care both of their own and of other children at their home, while receiving economic compensation from the municipality.

The outcomes of the proposed changes are difficult to predict, but the decade-long strengthening of an unmixed dual-earner model seems to have ended. Paternity leave during the first year after confinement will be supported by means of the above-mentioned tax bonus. One anticipated consequence of the flat-rate childcare leave benefit and ‘cash for care’ is a higher rate of female full-time homemaking, beginning in the child’s second year of life, in particular among less educated women. Current policy may thus be seen as moving in opposing directions – supporting female work and traditional families simultaneously.

The extent to which women actually return to work after claiming childcare leave varies between countries where such systems operate. In Finland, most women return to the labour market after a couple of years’ leave, while the return rate among German mothers is much lower. Critics argue that long periods of parental leave undermine the position of women in the labour market by increasing the risk of unemployment, encouraging part-time work and pushing them into temporary and marginal forms of employment.

ANOTHER POSSIBLE consequence is that women become high-risk employees to a greater extent, which may cause statistical discrimination of women as a group to worsen. Furthermore, flat-rate childcare leave benefits are likely to reinforce the already gendered division of labour. The low level of benefits means that recipients may have to rely on the parent with the

highest income, which is usually the man. Consequently, there will be less opportunity for single mothers to avail themselves of childcare leave.

A model based on contradictory policies may also affect demographic and socioeconomic outcomes. Women with poorly paid jobs in the labour market are more likely to claim flat-rate childcare leave than women in more well-paid positions, thereby increasing economic polarisation among mothers. One possible implication of this would be a more divided society, where well-educated, high-income couples share paid and unpaid work more equally, while women with lower earnings or a weak footing in the labour market opt for a more traditional division of labour. This may in turn contribute to a polarisation in the fertility behaviour of different socioeconomic groups.

LOW FERTILITY and rapidly ageing Western societies are critical developments that have placed family policy firmly on the agenda and made the EU and national governments increasingly aware of the importance of family support. As a result, new policies have often been added to older ones, generating models with seemingly incompatible components. To some extent these contradictory elements could be viewed as a response to rising popular demand for parental choice. Swedish opinion polls show that there is relatively strong support for the child-care leave benefit.

However, while the advocates of parental choice tend to use gender-neutral language, experience tells us that long absences from paid work weaken the position of women in the labour market most. The price of greater freedom of choice regarding childcare may therefore ultimately be paid by women, albeit to different degrees depending on their socioeconomic position.

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*Even today it is mostly women who take care of the household and other things needed at home. But there is also a marked tendency of men participating to a greater extent.*

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# Younger and more mobile – the future labour force

*Ageing in Sweden paradoxically enough leads to rejuvenation of the labour force when the boomers born in the 1940s retire. Around 1990, large cohorts were born who will enter the labour market at roughly the same time as the boomers are about to leave. The numbers of the professionally active population will therefore not change over the next decade. Instead the labour force will become both younger and more mobile.*

Those born in the 1940s are already about to leave the workforce and by 2015 they will have retired altogether (*Figure 1*). Baby boomers born around 1990 are currently entering upper secondary school and will probably have obtained their degrees by 2015. Since the number of persons in these two generations is roughly of the same order, vacancies will tend to match the inflow. Even if today's participation rates remain stable, therefore, the labour force will increase.

Thus misgivings about a declining workforce in the near future are misdirected. On the contrary, we now have an excellent opportunity to restructure Swedish employment to meet the increasing demands that will be made on the welfare system when the retiring boomers are about to turn eighty some 15–25 years into the future.

Unfortunately, the retiring boomers cannot simply hand over the keys to 20-year-olds

when leaving the workforce. Both entry and exit occur more gradually and via a long chain of job switches. In fact, exit also occurs quite often because people become ill or die suddenly. Compare the number of boomers born in the 1940s in the upper panel in *Figure 1* with those in the lower panel! About 100 000 boomers are projected as having died or emigrated during the interval between the two panels.

Inflow from net immigration also plays a major role in increasing the number of young, professionally active people. The cohorts born in 1986–1995 are expected to increase by around 70 000 persons during the coming ten-year period.

Young people's level of education is considerably higher than that of the elderly, so the generational shift will imply a sharply decreasing share of people with low education in the labour force. If we wish to avoid severe

matching problems in the labour market – with highly skilled workers being forced to accept jobs for which they are overqualified – the Swedish economy will have to move towards a situation where the demand is for higher qualified labour.

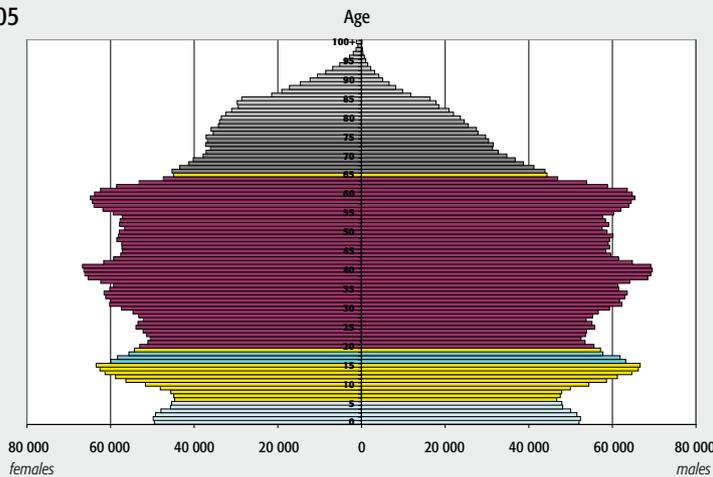
Much of the increase in service production required in the future will develop within the public sector, mainly in the care and educational systems. But most of an individual's care needs develop at the very end of life, so this development will not have any major

impact at the national level until the boomers enter their eighties. Regionally, however, there are places where the young have departed and only the old people are staying behind.

DURING THE POST-WAR period, people in Sweden have entered the labour market at an increasingly later age and have also retired increasingly early in life. Will this recipe work in the future? The demographic situation will clearly force us to reconsider this trend, at least if we want to strengthen the ability of



2005



2015

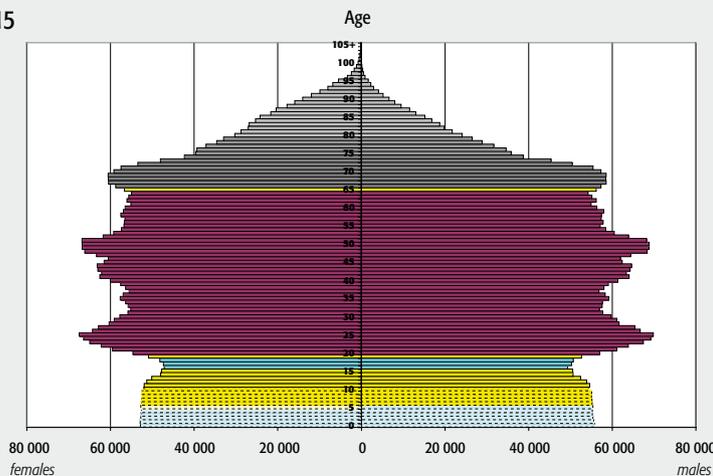


Figure 1. Sex and age distribution in the Swedish population 2005, and a projection for 2015. Persons 65 years and 19 years old are marked with yellow, as are the age groups attending compulsory school.

Source: Statistics Sweden, *Getting established as adults: the generational gap 1980–2003, 2005*.



*Baby boomers born in the late 1980s are today slowly beginning to enter the labour market. By 2015, the labour force as a whole will probably increase somewhat, despite the fact that the boomers of the 1940s have retired.*



people of working age to provide for enough children to reproduce the population and, consequently, the tax base.

Immigration can only temporarily cover for an inadequate rate of domestic fertility. But children naturally mean substantial costs both from a private and a public viewpoint. A new-born child will be able to support itself in Sweden only after 20–30 years. It then takes another 20–30 years until the investment cost is recovered and a net return is generated.

Here we have a political core issue that the generational shift will bring to the fore. If we do not invest in the reproduction of the population and its educational needs, the potential to sustain a reasonable level of welfare for the growing numbers of elderly will slowly disappear.

In the aftermath of the economic crisis of the 1990s, the age at which 75 per cent of a cohort was established in the labour market rose dramatically. Today, the principal explanation offered for this delay is the greatly increased level of enrolment in higher education, which is largely a favourable development. However, the delay in entering the labour force compared with the pre-crisis period is far longer than the mere 3–4 years that a person spends on his or her higher education.

A LATE ENTRY into the labour market tends to be accompanied by family formation and childbirths later in life. We already know that in the coming decade large cohorts will increase crowding in the educational system, in the housing market and in the labour market. Under these circumstances, there is little likelihood that childbirths in Sweden will rise to the replacement level (around 2.1 children for every fertile woman) – unless family support is expanded.

In the Swedish generational shift, the public sector has a key role to play, for a number of reasons. Firstly, the boomers from the 1940s are predominantly employed in the public sector. Secondly, we can foresee an increased demand for public services, initially

in higher education and subsequently – with varying regional delays – in elderly care and health care. Thirdly, the public budget balance will deteriorate and consequently make restructuring and shifts in priorities essential. Fourthly, the provision of these services is directly determined by political decisions.

Thus the potential for taking political responsibility is increased. But the result may just as easily be flawed decisions if politicians are short-sighted and tend to look in the rear mirror too much, since the coming generational shift will place us in a fundamentally new situation. In particular, it would seem that the realisation that considerable investment is needed to ensure the reproduction of the population and its education is all too often subordinated to short-sighted and bureaucratic budget norms.

THE GOOD NEWS is that due to this demographic change, opportunities are opening up for resolving structural problems in society – such as skewed gender distribution in the care sector, metropolitan congestion and service provision in sparsely populated regions. If we manage to take advantage of these opportunities, the Swedish economy can be in much better shape when the boomers from the 1940s start to crowd the elderly care and health care facilities 20 to 25 years from now. We can then face the situation with a larger and more evenly distributed labour force, and consequently a sounder tax base as well.

However, if we continue to treat family policy, educational policy, housing policy and regional policy as something entirely separate from elderly-care policies, and if we hesitate to secure the loans required to invest in the future labour force, we will very likely miss the opportunities that are opening up. The ageing population will clearly put pressure on the Swedish welfare system in the long run. While this will by no means be the disaster that certain media and voices in the public debate would have us believe, it will create problems that must be taken seriously. ➤

*Time to move on to a new stage of life – the boomers born in the 1940s have already begun to retire from the labour market.*



PHOTO: INGVAR ANDERSSON/SCANPIX.

- An integrated perspective and a long-range viewpoint in political decision-making are urgently needed.

In light of these developments, there is every reason to address the problems that young people face in trying to establish themselves as self-sufficient individuals in both the labour market and the housing market. While this is a serious welfare problem for the young themselves and for their chances in life – an argument that carries a lot of weight per se – we should also bear in mind that if we continue to obstruct family formation and childbirths, the future welfare of the elderly population will be eroded as well.

ONE IMPORTANT step of a constructive nature would be to create a support system that encourages the combination of adult education and family formation. That would represent an investment in the future with potentially high returns, while at the same time increasing the welfare of many children today. This step should be taken without delay if it is to have the desired effect at the right time.

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# The changing geography of state activity in Sweden

*The last few decades have witnessed the introduction of a new doctrine for spatial development in Sweden. Demographic change and increased international competition have caused the state apparatus to move towards competition policies that are strongly linked both to urban space and to the knowledge-based economy developed around the universities. ➤*



PHOTO: ROLF CHRISTENSEN/SCANPIX

*Midsummer night in central Stockholm. The Riksdag (the Swedish Parliament) right in the middle, and the Royal Castle in the left hand corner.*

► While the emerging welfare state earlier in the 20th century was preoccupied with the social and spatial *distribution* of resources produced by internationally successful industries (cars, forest, telephone industries etc), the current state is increasingly engaged in *generating* economic growth and international competitiveness.

An important part of present-day doctrine is that localities and regions are the main agents of competition. Therefore, a relatively standardised spatial organisation of regions and localities has gradually been replaced by an order in which specific local and regional contexts are strongly affecting the role of local authorities, county councils and regions. The political organisation of the country varies from region to region.

During the 20th century, especially after the Second World War, state intervention increased in many political fields in Sweden. A basic dilemma for the emerging welfare state was how to strike a balance between continuity and change.

On the one hand, the welfare state was a modernisation project that sought to facilitate the transformation of society in order to secure further economic growth. Industry was expanding and demanded labour in certain regions, mainly in the south. On the other hand, the welfare model meant striving for equal conditions for all households in all parts of the country. Sectors and regions had to be protected from the direct effects of economic restructuring. The arguments in favour of state intervention to ensure balanced nationwide development were both economical and social, and also related to Sweden's military defence.

*The distance from the northern-most part of Sweden, well above the Arctic Circle, to the southern tip is about 1 600 kilometres. Population density in the northern half of the country is five inhabitants per square kilometre.*

Social and spatial redistribution continued to expand under the welfare project. In the mid-1980s, the Swedish welfare state was redistributing 53 per cent of differential income, more than in any other country in Europe. Nevertheless, at that time it was widely recognised that the country's spatial redistribution policies were not enough to prevent the gaps widening between urban and rural regions. Decades of out-migration among young adults left rural and peripheral regions with an age structure that did not favour natural population growth. Economic restructuring favoured metropolitan areas, and the concept of regional balance started to erode.



MAP PRODUCTION: LANTMÄTERVERKET



## In the mid 1980s a national campaign to revitalise rural areas was launched, under the heading 'All of Sweden Must Thrive' ...

In the mid 1980s a national campaign to revitalise rural areas was launched, under the heading 'All of Sweden Must Thrive', headed by a grassroots organisation, the Popular Movements Council for Rural Development. The title of the campaign shows the ambiguity that prevailed at the time: continuing recognition of the importance of balanced development and at the same time lack of faith in the state's ability to achieve such a goal. The campaign introduced a new approach to regional politics – the idea of endogenous development. Development should build on actions taken locally in people's everyday lives.

The theme of the national campaign showed the strong priority given to balanced regional development, but also reflected an increasing awareness of the fact that development was basically unevenly distributed in the country. For the welfare state, the introduction of the concept of endogenous development at this point was a way of re-allocating responsibility to other political levels and ultimately back to the rural population itself.

The current approach to spatial development differs from the traditional welfare approach in three fundamental ways. To begin with, it reflects *a shift from a national to an international focus in policy formation*. While the traditional welfare project was highly national in character and concerned with the reorganisation of economic activities and welfare within national boundaries, the new approach recognises that Sweden is a small

country competing in the world market. Worries about the future of marginal rural areas have been replaced by concern about national competitiveness. Regional development policies are based on economies of scale and the need for both geographical and functional concentration.

Secondly, the new doctrine reflects a *changing view of the relationship between economic growth and welfare*. In traditional regional policy, welfare was seen as a prerequisite for and a part of the economic growth process. The use of subsidies for locating industries in peripheral regions, for instance, was a way of utilising the labour supply in all parts of the country. To achieve this, it was necessary to establish welfare institutions throughout Sweden.

CURRENT REGIONAL policy is heading in a different direction, separating economic growth from welfare. The principle of mutual interdependence is giving way to the view that economic growth is a prerequisite for welfare. Welfare policies are being played down and regional policy is being redirected towards competitive regions and sectors.

The third main change to the current spatial doctrine concerns the role of the state. In the establishment phase of the welfare state, the main focus was on social and spatial redistribution of resources within the country. The new doctrine is devoting more *attention to the supply side of the economy*. The state is assuming a role in organising the production system, and the individual

- ▶ region is now seen as the principal arena for the development of an internationally competitive industry.

A key concept in the new doctrine is regional innovations systems, focusing on the interplay between research and development, industry and the public sector at the regional level. The region is seen both as an arena and as an actor responsible for the development of innovations and competitiveness.

The state has reorganised at the national level to facilitate this transformation. Institutions such as the Swedish Governmental Agency for Innovation Systems (Vinnova) and the Swedish Institute for Growth Policy Studies (ITPS) are now taking steps to develop a 'competition state'.

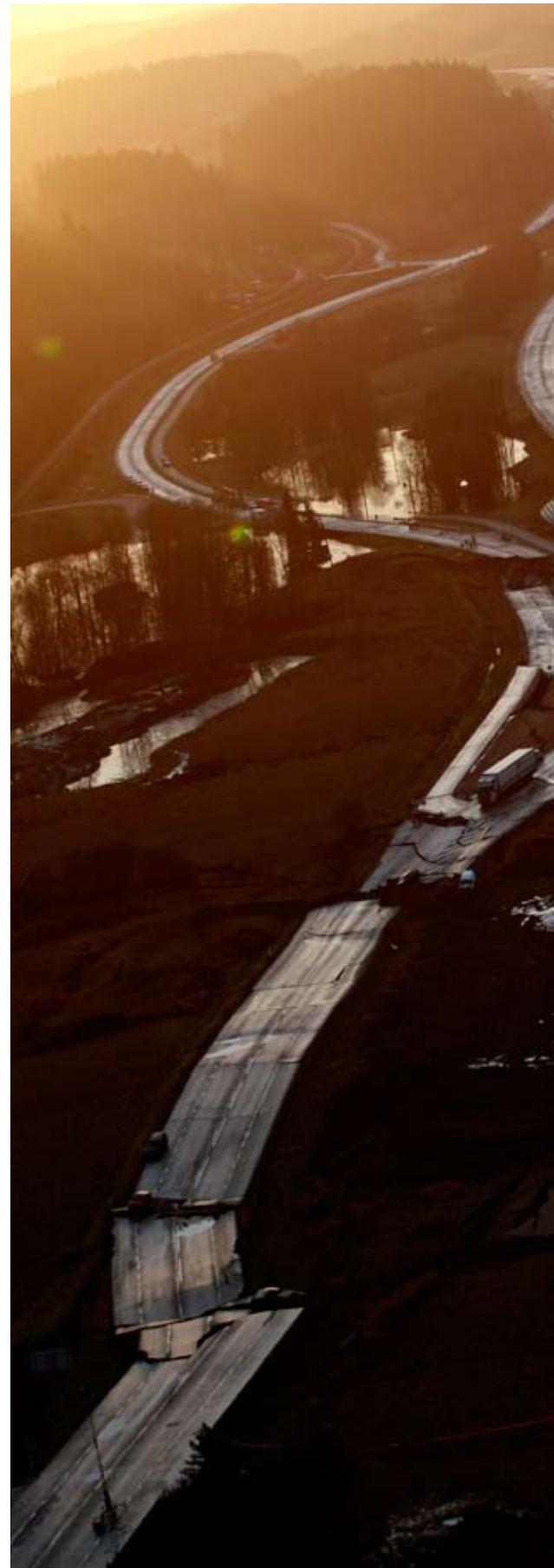
Firstly, traditional regional policy in pursuit of a nationwide development balance is being replaced by an emphasis on international competitiveness. Thus innovations policy is addressing regions capable of becoming internationally competitive. Central government is supporting coalitions between business, universities and the state with sufficient power to develop competitive niches.

Secondly, a functional approach to the concept of 'region' is being adopted. Vinnova has defined a region as

*... the groups, coalitions, partnerships applying to the programme and the location of their core competencies and supporting activities.*

THE STATE IS decentralising policy formulation to regional and local levels, thereby paving the way for regional self-organisation based on cross-sectoral partnerships and networks etc. The role of the state today is to provide the overall framework: to deregulate, decentralise and build institutions capable of supporting regional activities without regulating them in detail.

The dual policy approach emphasising *increased competition as the principal goal* and *the regions as the principal agents* has provided the basis for an institutional reform at regional level in Sweden. As the state has authorised the regions to propose their own





*State control in landscapes of uncertainty?  
The main road between Gothenburg and Oslo  
has been demolished by a landslide  
caused by heavy raining.*

political organisation, an asymmetric process has developed that produces different solutions in different parts of the country. Some regions, for instance, have directly elected assemblies responsible for development in their area, while others still base their activities on the traditional regional authority (the county administrative board) sanctioned by the national parliament.

The changing map of local and regional political activity is not just a case of re-scaling to promote efficiency. Rather, it reflects the changing global environment in which the Swedish state is operating. The problems of the welfare state have resulted in a 'relativisation' of the national territory as the basis for state activity.

IN A BROADER SENSE, the formation of diverse arenas of state power is a reflection of the complex mix of interests that modern politics now has to accommodate at the national level. In order to maintain its position as the primary institution organising economic growth and welfare distribution, the state must operate in various ways and at various levels, from governing local welfare institutions to securing the national competitiveness of Swedish capital in the world market. A general feature of the development of welfare states in Western economies is that there is no single privileged scale for economic and political organisation around which other scales are organised.

In order to defend the national territory, the welfare state has to apply aims and measures adapted to the specific context. Local and regional administrations must be designed to meet problems and opportunities as they arise in the various regions.

The active promotion of economic growth in itself is not a new task for the state. By tradition, policies for economic growth and the development of welfare institutions are closely linked and mutually interdependent.

What has now become vital and what may be in conflict with traditional regional policy is the active selection of areas, regions





Commercial hopes in the periphery. Haparanda, a town in the North, is enjoying a new sense of belief in the future since Ikea opened a new furnishing store there.

PHOTO: JENNIE SEGERBERG/SCANPIX



## The reform would ensure the same type of political organisation in all parts of the country. Every region would have a university and a university hospital.

► and environments considered suitable for international competition and thus for state support. However, it should be noted that current competition policy is not replacing welfare policy; rather, it is being applied as a parallel perspective alongside traditional redistributive policies as one of the multiple and often contradictory roles of the state.

This fragmented situation, with a variety of political institutions in different parts of the country, gave rise to the appointment in 2003 of a parliamentary inquiry, the Committee on Public Sector Responsibilities (Ansvarskommittén). It was given a wide-ranging mandate to propose how the future responsibilities of public institutions at various geographical levels should be distributed. In its final report, the committee calls for a major reform under which the number of regions is reduced to 6–9 (from the present 21). These new regions should have directly elected assemblies, raise their own taxes and be given extensive responsibility for the health care system, environmental protection and planning procedures etc.

In many ways, the proposed reform implies a comeback for welfare state principles. There is a strong emphasis on the traditional obligations of welfare institutions. The reform would ensure the same type of political organisation in all parts of the country. Every region would have a university and a university hospital. Also, by proposing a maximum of two million inhabitants in any given region, the reform is designed to ensure that a single region does not become too influential at the national level. The reform would obviously rule out a situation in

which a few metropolitan regions possessed a significant parliamentary majority and thus wielded a similar amount of political power at the national level. The report, on which the whole committee was agreed, gave less prominence to the international competition aspect.

At the beginning of 2008, the political process of reviewing the reform was still under way and the leading political parties appeared to be divided. It is an open question, therefore, whether the competition perspective or the welfare perspective will dominate the new institutional order in the Swedish public sector.

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# The invisible guide

## – competition policy in the age of economic liberalism

*In the year 2000, the Swedish Social Democratic government delivered a bill on competition policy containing more liberal economic features than ever before. It was a rhetorical document of liberal utopian thinking, and in my view was based on the economic theory of perfect competition, arguing for the positive effect that competition has on society as a whole. We are, it seems, guided by the invisible hand.*

Most importantly, the bill proposed that the Competition Authority be authorised to implement EU competition law in Sweden. With the bill as a starting point, competition policy has gradually been redirected towards such issues as market efficiency, supervision and the following up of rules. Cartels have been seen as particularly harmful to the economy, and in order to intensify and improve the cartel hunt an informer system has been established. Those passing information to the Competition Authority are to receive favourable treatment in respect of ‘crimes’ they themselves have committed.

Sweden is now adopting a tougher stance on anti-competitive behaviour. Just a few

decades ago, leading politicians took a completely different view, arguing that a total prohibition on cartels was absurd. Cartels could be good or bad, depending on the purpose and the context. Nowadays, criminalisation of cartel behaviour is constantly on the agenda. At the same time, the question of how to develop real, efficient competition in the economy is only in its infancy, according to some debaters.

There are a number of economic and ideological aspects that explain this turn of events. I believe that the scholars Bruce Doern and Stephen Wilks have a good point. According to them, the idea of competition has become a nostrum (a cure-all) in the process of applying market principles to

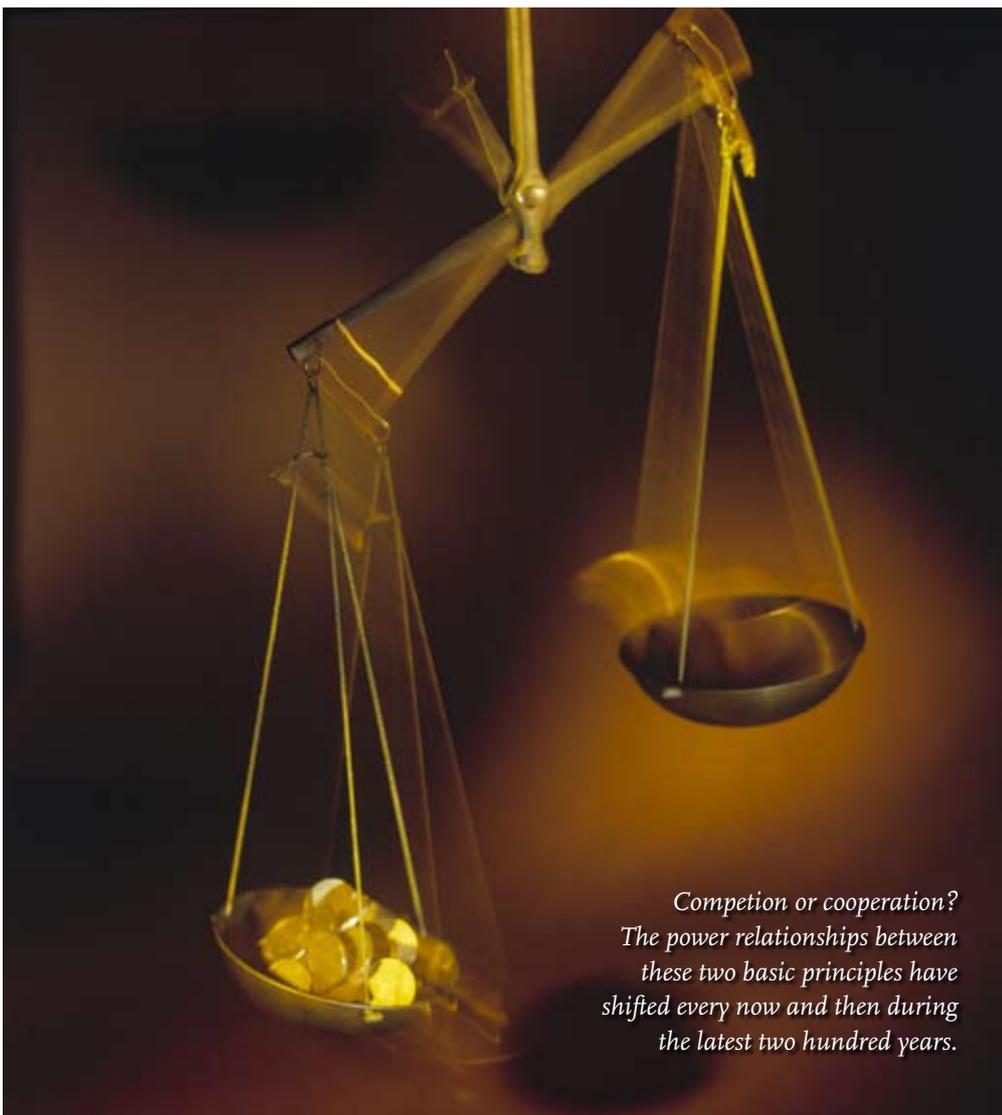
almost every part of society. This radical break with the established Swedish model, understood as an economy of negotiation rather than competition, should be viewed not least in the light of the Lisbon strategy (inaugurated in 2000), which aims to make a competitive Europe a leader of the globalised economy.

By the turn of the century, competition had become perhaps the most influential aspect of the discourse on futures. But even recent history can be misleading. In 2007, the future seems to have been colonised by the climate threat.

The institutional arrangements of Swedish competition policy were put in place in

the 1950s, and remained in force until the early 1990s. The competition law of 1953 (the Restraint of Competition Act) was dominated by the principle of misuse. It was not collusive behaviour as such that was the problem, but the improper use of market power by cartels or monopolies.

However, two types of behaviour were clearly prohibited: persistent and organised tendering, or bidding, by cartels (often used in the construction sector) and resale price maintenance (or gross prices). Also, the Free Trade Council, a forerunner of the Market Court, was formed, along with the Ombudsman for Free Trade (NO), an agency responsible for investigating market behaviour. The task of



*Competition or cooperation?  
The power relationships between  
these two basic principles have  
shifted every now and then during  
the latest two hundred years.*

PHOTO: LISBETH HOLTEEN/SCANPIX

- the former was to eliminate inappropriate market behaviour while negotiating with the companies involved.

In 1956, the law was extended to encompass every type of behaviour that could harm competition, except in the labour market and the public sector. A general clause applied. The Free Trade Council acted as a court and had members from interest groups representing industry and unions.

This type of corporative profile also characterised the new competition authority established in the 1950s: the Swedish Price and Cartel Board (SPK). So a Swedish model was actually established in the 1950s, the main ingredients being negotiation, interest-group representation and pragmatism.

Thirty years later, competition legislation still reflected the Swedish model, although by then this model was being called into question. The liberal minister of trade in 1982 chose not to adopt the radical-liberal proposals that had been put forward a few years earlier in a committee report. He kept faith with flexibility and the principle of 'misuse investigation', seeing the Social Democratic competition policy of the 1960s as a model worth following. The 1978 committee report had in vain proposed a general prohibition on cartels.

Instead, it was Social Democratic governments that introduced liberal economic reforms from 1985 onwards. At the time, the idea of economic regulation was disputed. The first governmental step was the deregulation and institutional overhaul of the credit system, which incidentally led to an overheated Swedish economy a few years later. Competition policy was once again subjected to a committee inquiry. The Swedish competition policy model was to be reviewed, and the government directives issued for the purpose saw a policy shift towards a European Community model as an option.

IN THE EARLY 1990s, the competition issue was clearly linked to the ongoing discussion on the EC/EU and the question of Swedish membership (Sweden joined in 1995). In 1992,

a new agency was established, the Swedish Competition Authority, replacing both the Swedish Price and Competition Board and the Ombudsman for Free Trade. The new law (the Competition Act), which has been in force since 1993, represents a shift from a Swedish model to an EU-oriented one.

This subject will be further discussed later, but here it is worth noting the change from the guiding principle of misuse investigation to a principle of prohibition, accompanied by de-corporatism, legalism and sanctions.

The Swedish competition policy model had been characterised by pragmatism and negotiation. Competition, yes, but it was subordinated to other economic values. Labour market policy and regional policy were often considered more important. In the early 1990s, the efficacy of the Swedish model was strongly disputed by its liberal and conservative opponents. Within a few years, several of its basic institutions had been deregulated. And it was not just a matter of deregulation – it also signalled the disintegration of a model for governance.

The first step along this road was taken in 1985 when important parts of the credit regulation system were revised and banks were given a freer role in the financial market. A few years later, employers dismantled peak level bargaining. In addition, macroeconomic policy was revised. Fighting inflation with interest policy measures rather than facilitating full employment became the order of the day.

IN THIS CONTEXT, the new competition policy was one component in a political offensive against the 'inefficient' Swedish model. This was more than a shift in economic policy. When the competition authority of the day sought to explain why competition was such a problem in Sweden, it offered a thinly veiled attack on the Swedish model: regulation in the agricultural, housing and transport sectors, an over-organised society, a large public sector. The basic idea was to bring Sweden into the liberal economic fold.

THE PUBLIC SECTOR, for instance, had previously included state monopolies in the infrastructural field. Many of these monopolies were now deregulated, while public administrations were transformed into public companies and had to compete with others, often private actors. This applied to telecom, electricity and (later) railways. Moreover, public administration was changed through new ideas, in which competition, economic incentives and fragmentation into smaller units were important ingredients. This 'New Public Management' doctrine goes hand in hand with areas of competition policy such as the rules on public procurement, which regulate almost all public purchasing.

Corporatism in competition policy was a distinguishing feature of the Swedish model: pragmatism and legitimacy through interest organisations. As in other areas of policy, this approach was well suited to the actual situation, and the interest groups involved gave legitimacy to the measures undertaken. When this delicate balance was eventually altered, so was the political culture as a whole. Regarding competition policy, this shift is summarised in the table on page 39.

The concepts in the above table should be seen in terms of a sliding scale. My aim is to identify a tendency rather than a definite change.

Let us begin with the first pair. In the Swedish model each case of suspected misuse of market position (restraint of competition) had to be empirically investigated. Under the new competition policy, theoretical considerations, both economic and legal, have assumed growing importance. This is part of a general tendency towards emphasising the 'rules of the game' rather than negotiation. At the same time, we should bear in mind that the rules of the game are anything but new and that negotiation is still practised. However, the tendency is clear: we are witnessing a transition from a principle of misuse to a principle of prohibition (and abuse), a shift from the single-case investigation to the prohibition of whole groups of market behaviour. Taken as a whole, this marks a switch from pragmatism to legalism.

THE POWERFUL emphasis on competition as an organising principle in the Swedish economy basically represents a new approach. It is not, however, an absolute change. There is still plenty of regulation in Sweden, and competition has undoubtedly been important in policy since at least the 1850s. However, private regulation (cartels) and the regulation of Sweden's 'natural' public monopolies have been gradually replaced by market competition.



Table. Changes in competition policy.

Former Swedish model	New (EU) model
Empirical knowledge	Theoretical knowledge
Negotiation	Rules of the game
Principle of misuse	Principle of prohibition and abuse
Pragmatism	Legalism
Regulation	Competition
Interests	Disinterest
Corporatism	De-corporatism, independence
Influence via information	Direct intervention and sanctions



*Sweden's entry into the EU, and the ambition to establish Europe as a leader of the globalised economy, have made the hitherto established Swedish economy of negotiation obsolete.*



Perhaps the most striking change concerns the role of the state. Where once it was a player in the game, it has increasingly become an enabler. The ‘enabling state’ sets the rules and supervises the game of competition, but ideally it should not intervene directly in transactions. Of course, this liberal economic ideal is fairly remote in the context of the real economy, but the direction or tendency seems clear.

THE PRESENT government, for instance, has officially placed six well-known companies on its sales list. Three of them are fully state-owned: the wine and spirits company V&S (with Absolut Vodka as its leading brand), the Vasakronan real estate company, and the SBAB bank (Sveriges bostadsfinansieringsaktiebolag). The government also intends to sell its shares in the Stockholm Stock Exchange OMX, the Nordea bank and TeliaSonera.

The participation of organised interests in the governance of the economy, and in agency management, was a distinguishing feature of the corporative Swedish model. Interest groups were represented in agency management and in the Market Court, the aim being to inject real-life insights and experience into such bodies. The disinterested status of competition authorities and the Market Court was motivated by the need for independence, which would enable individual cases to be judged impartially, especially when foreign companies were on trial. It was a matter of international credibility. Moreover, it was important to keep the Swedish Trade Union Confederation (LO) at arm’s length so as to prevent it from bringing employment concerns into the equation.

This development was part of a general shift away from corporatism and towards the establishment of independent authorities. According to those in power it was essential to the task of ensuring that competition informed policy.

However, in the labour market a different development could be perceived. This market was not covered by competition law, and it

became more or less cartelised in the 1950s through peak level bargaining between centralised union and employer organisations. The Swedish labour market model has since undergone changes, but cooperation and collective bargaining are still important features. In fact, the term ‘Swedish model’ still tends to refer to agreement on labour market issues between unions and employers without interference from the government or the legislature.

We have argued that there used to be a Swedish competition policy model that changed when national policy was brought into line with EU policy. Typical characteristics of this model were consensus and a cooperative attitude towards conflicting interests, and institutions that sought negotiation and pragmatism. This was reflected in the competition policy institutionalised in the 1950s.

When EU rules were implemented in the 1990s, a new and more legalistic model was adopted, placing far more emphasis on theory and adopting a more explicit consumer rights perspective. However, although this is not discussed in the present article, we should bear in mind that a similar trend can be found in a number of other European countries – a shift from corporatism to liberalism, including a tendency to replace negotiation with legalism.

So what will the future bring? Looking back two hundred years, we can see a number of shifts in the power relationship between the two basic principles, competition and cooperation.

The regulated economy during the guild era was succeeded by economic liberalism in the mid 1800s. The pendulum then swung back, and the interwar years, 1918–1939, were dominated by cartels and protectionism. After the Second World War a new liberal wind started to blow from the west. Free trade and competition were once again high on the political agenda. The previous cartel economy was called into question around Europe, and competition policy was introduced, although of a rather mild variety. According



European leaders gathered in Gothenburg, 2001, during Sweden's six-month period as chairman of the Union.



- to historian Wyatt Wells, this development was a result of European countries importing the US antitrust tradition.

The 1970s signified a new backlash for liberal ideas on competition, possibly attributable to the economic crises of the day and rising unemployment. Also, if we are to understand the doubts expressed about competition and the preference for solidarity evident in the 1970s, we need to consider the temporary upswing in socialist ideas that occurred at this time. The following decade saw a fresh comeback for liberal ideas, now dressed in a highly successful neo-liberal costume. This trend continued well into the 1990s, which became something of a golden decade for competition (both policy-wise and ideologically). By the turn of the century, competition had become perhaps the most influential aspect of the discussion on futures.

Today, however, it appears that the future risks being colonised by something entirely different – the climate threat. And both economic liberalism and the advocates of increased global trade are clearly under at-

tack as a result of this threat. In other words, it seems quite reasonable to assume that the cyclical history of competition versus cooperation will continue for the foreseeable future.

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