

Banks, F. E.

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Swedish Economic Policy: Some Current Problems

by Dr F. E. Banks, Uppsala *

During recent years sharp increases in unemployment have given rise to questions concerning the traditional way of managing the Swedish economy. Various aspects of the resulting discussion are reviewed in the following article.

To many outside observers, Swedish economic policy has usually appeared blunt and effective. The reason for this, it has generally been assumed, is the acceptance by almost forty years of Social Democratic governments of the Keynesian dictum that direct government involvement in the machinery of economic life is often needed if high income levels are to be maintained. The fact of the matter is, however, that the Swedes have gone much farther than the inherently conservative Lord Keynes could ever have countenanced — even in the occasional radicalism of his Bloomsbury days. Keynesian economics is largely about employment, while Swedish economics has more and more emphasized security (“trygghet”), which is a deeper and much more extensive concept.

Of late, however, the appearance of some nasty — and perhaps permanent — pockets of unemployment have provided an excuse to raise questions concerning the traditional way of managing the economy. Supported by some more or less preliminary theoretical materials from the drawing boards of American monetary economists, voices have been heard suggesting that the formerly much maligned monetary policy has something to offer in pursuit of that “trygghet” which, while apparently within grasp, continues to maintain a certain perverse elusiveness.

Various aspects of this discussion will be reviewed below. At the same time the reader should keep in mind that while official circles have yet to pay much attention to this matter, ideas — especially controversial ideas — have a way of traveling fast in Sweden particularly if they get far enough out into the open to attract the atten-

tion of the media. On the other hand it should be pointed out that one of the surest aggregate measures of the wealth of Sweden is their capacity to afford the extravagance of misallocated resources and lost opportunities.

Debate on Monetary Policy

A representative assumption regarding the effect of monetary policy if it were put into widespread use in Sweden is as follows. It would be “softer” and less “drastic” than the interventionist practices favored in the past thirty five or so years. In particular, it would permit the Central Bank to communicate with the rest of the economy via the financial market (which, among other things, would at long last allow the financial market to achieve a certain respectability). The Government and its economic organs could then devote itself to stabilization policy, leaving the allocation of resources to the market, and thereby sidestepping the conflict that apparently arises from having to stimulate and stabilize the economy at the same time. By conflict here it is meant having to continually shift back and forth between purely economic measures and direct controls. In addition, and most important, monetary policy would work.

Behind a barrage of textbook psalms of this nature, the young monetary economists of Sweden are advancing like the shock troops of an elite regiment of the Salvation Army. Somehow, in the debate on monetary policy that may be beginning in Sweden, an important segment of Swedish economic expertise is prepared to believe that Professor Milton Friedman and his disciples are on the way to proving the usability of monetary policy in a context of unemployment and inflation. Simultaneously, there is the unfortunate recognition that Friedman’s interpretation of monetary

* Research Fellow in Economics and Econometrics, University of Uppsala, Sweden.

history is essentially descriptive, and that serious gaps exist in his empirical work. (Equally appreciated is the fact that the econometric work of the Saint Louis Reserve Bank, the most thoroughly examined by the Swedish monetary economists, involves simple reduced form economy wide forecasting that a consensus of the profession regards as unacceptable). Thus, at present, the accepting of Friedman's arguments amounts to little more than endorsing his particular view of the advantages of a completely unrestrained market economy. There is not, as far as I know, much common ground between this point of view and the economic doctrine found in the programs of any of the political parties in Sweden today.

Herculean Challenges

At the same time it should be remembered that a watered down monetary policy of the conventional type has been pursued in Sweden for a great many years now. This has consisted of an interest rate policy of sorts, open market operations, and so on. Most intelligent opinion has it that the only thing this type of activity has accomplished is to provide a few hundred white collar workers with some interesting and not very strenuous employment in an especially pleasant part of Stockholm. One of the explanations for this ist that developments, particularly since the election of 1968, have tended to place the Swedish economy somewhat beyond the realm of economic administration of the usual type. Until recently a great deal of energy has been expended to bring about what is called a redistribution of income; but most important, behind the scenes, measures must be devised and redeviseed that will permit an uninterrupted flow of "aid" to the less developed countries, regardless of the domestic economic situation. Obviously herculean challenges of this latter sort cannot be met by any amount of coming and going at the discount window.

The money supply in Sweden has generally gone its way unnoticed and unsung, but this situation has begun to change. The "New Monetarists" in Sweden now seem to be splitting into two groups. First there are the Social Democratic monetarists, who simply want the authorities to pay more attention to the money supply – and perhaps to engage their services as experts in this matter; and then there is the group that wants to play down "interventionist" policies, at least to a certain extent, and in addition wants not only the money supply but the "transmission mechanism" and all the other little monetary gadgets and levers scrutinized and adjusted.

A technical problem is raised here, however, in that these gadgets and levers are not visible to

a large percentage of the academic audience. The reason for this can be traced to the economics curriculum of Swedish universities. While the level of undergraduate work in these institutions is high – often, in fact, very high – graduate training is often distinguished by its extensive shortcomings, both quantitative and otherwise. Thus it is possible to spend an entire lifetime in the department of economics of any Swedish university without gaining the remotest insight into the financial side of the economic system. This means, among other things, that the simple models being used to discuss Swedish monetary policy are to a certain extent incomplete, and as a result some of the learned discourse on this topic is not quite so learned as its originators believe.

There is no sense in pursuing further these and similar subjects at the present time, although in truth there is much more that can and perhaps should be said. Instead I feel it necessary to say that it is impossible for me to think that any government with the authority to subsidize the establishment and operation of industrial enterprises that is possessed by the Swedish Government, would want to waste valuable time playing games with the money supply. As shown by the recent decision to establish a steel mill in the north of Sweden at a cost of one billion dollars, which would be in competition with privately owned mills, the Government has made it clear to all interested parties that, when it wants too, it will influence employment directly, with only a ceremonial tribute paid to opposing arguments. On this score the only recognized basis for debate is whether from the cost-benefit point of view, the projects being supported are the right ones.

Production Shifts to LDCs

In modern times the two most common types of unemployment in Sweden have been seasonal and frictional. Thus, in 1967, when unemployment took a sharp turn upward, an argument was confected that this unemployment was structural: some industries, such as the textile industry, were becoming unprofitable, and according to some alleged canons of economic Darwinism were destined to fade away and rematerialize in countries at a lower level of economic development. (There was also an agitation by some economists for the Government to assist in these matters as a form of "development" aid. Among other things some of the leading economists of Sweden suggested that a large part of the Swedish agricultural sector should be abandoned, since the Third World would soon be able to provide industrial man with his victuals, as well as refresh his neurotic soul with their non-mate-

realistic life styles). The portion of the labor force becoming redundant was to be retrained, while receiving an allowance, and their reentrance into the work force facilitated by a certain amount of direct financial assistance.

Had the ailments of the labor market been as diagnosed, it seems certain that they would have been cured in a short time by the medicine prescribed. The number of involuntary unemployed before 1970 almost never exceeded 50,000. At the same time the total number of people receiving training in 1968 amounted to 84,000. (In March 1969 there were 36,500 trainees; and during the same year about 30,000 people looking for jobs received mobility grants). Thus almost all persons without work were able to get some kind of retraining.

Distorted Resource Allocation

But unemployment did not decrease; instead it continued to climb until it reached the near crisis stage experienced at the beginning of the 1973 war in the Middle East. The truth of the matter is that the problem was only partially structural. Mostly it was due to rationalization and productivity growth in heavy and light industries, while the public and service sectors — where productivity varies widely — were expanding rapidly. At the same time the centralized wage negotiating apparatus was not sufficiently flexible to take proper cognizance of productivity differentials in its wage setting, thus distorting resource allocation between sectors and industries. There were also changing attitudes toward work and leisure by many of the new entrants to the labor force, in the face of which both employers and the Government showed a marked inability to arrange more part time work, increase the flexibility of working hours, and in particular to restructure industrial employment in such a way as to permit workers to experience possibilities for personal and professional development that other groups were realizing. Thus many industries needed (and still need) more labor, but could not get it since people were reluctant to enter these branches. This malaise had a disturbing effect on the entire economy.

On top of this the authorities showed an astonishing lack of imagination in their failure to comprehend the effects of a long run economic slowdown on their projected social reforms. Instead, when it was politically unavoidable they swung into action with the frenzied energy of the collision crew on a sinking ship; but mostly they instituted, through the employment service, a large number of temporary jobs — to a certain extent

meaningless for many of the highly motivated, well trained people who were beginning to show up in the ranks of the jobless — and sat back and waited for things to clear up. (The argument was also advanced that employment in Sweden would expand when economic conditions abroad improved. Translated into slightly more complex terms this means that Sweden is *not* insulated from economic disaster abroad — something that many foreign students of the Swedish economy have somehow come to believe). Many of the people who were given temporary jobs at that time are still getting them, though in many cases different jobs; and could conceivably remain in this situation for the rest of their working lives.

Resort to the Printing Press

The next topic is taxes. For a number of years now it has been apparent that the Swedish tax payer was no longer prepared to submit, passively, to the growing fiscal burden that he was asked to shoulder. Thus, at the present time, personal taxes are being reduced, and further reductions are being scheduled for the coming years. What is interesting here is the proposed technique for financing much of these decreases. This is to be done by an increase in the "wage tax", which is a tax that employers must pay, and which basically depends on the number of their employees. The unconstrained result of this arrangement can hardly have a favorable effect on prices — at least from the point of view of the consumer; and if another recession should begin it will clearly have a deleterious effect on employment.

New problems, new solutions. If a high level of unemployment should appear again, more and larger stimulation packages will be introduced. (Larger child contributions, higher pensions, more temporary work, more retraining people for jobs that may never exist, etc.) These stimulation measures, along with the social reforms that are in the pipeline, will also have to be financed, but under the circumstances the wage tax could hardly be considered appropriate. Instead, when the time comes, these expenses will be covered by simply printing large amounts of money — although no one has indicated if the new monetarists will give these *ad hoc* boosts in the money supply their blessing. Moreover it could be argued that this resort to the printing press is as it should be, since under the impact of the decrease in welfare that such things as further increases in the price of oil will almost certainly bring about, people will have to be given something in place of real goods, and under certain circumstances money is a satisfactory substitute.

What does not seem to have been publicly proposed in Sweden at any time is that an expansion of the money supply should be used to finance a full employment program of the type proposed by Henry Wallace in the United States in the 1930s, or even Daniel Moynihan in the 1960s. There are two reasons for this. First, a belief on the part of certain influential people that employment in the industrial sector need not be expanded, since future increases in employment will naturally tend to fall within the public (and service) sector. My own opinion here is that if raw material prices and the like continue to increase more effort must be put into producing goods that can be exchanged for primary products. In other words, for Sweden and other West European countries the "service economy", as it is called, will have to be postponed for a decade or so.

Even more important, there is a strong — if unspoken — belief that a full employment policy would put the Swedish balance of payments under an intolerable pressure, which it might, and thus endanger Swedish transfers to underdeveloped countries. This is of course a sensitive matter, as is illustrated by Swedish exchange rate policy. Many of the leading economists in Sweden today are arguing for an upward revaluation of the Swedish Crown, while recognizing that if the present aid program is adhered to regardless of the ups and downs of the business cycle, a devaluation of one type or another is inevitable in the future. Naturally, the general public has yet to be made aware of this situation.

Socialization of Swedish Industry?

I would like to conclude by saying a few words about a new policy that is being introduced in Sweden for the purpose of "safeguarding" and increasing employment — one which is, as far as I know, unique in the world, at least in its presumptions.

This proposal calls for the use of money in the "General Pension Fund", which is formed on the

basis of social charges on employers, to buy stock (shares) in Swedish industrial companies. Somehow it is argued that this money will provide "risk" capital for firms desiring to invest in new capacity.

Fear has always been expressed by the non-socialist opposition that the pension fund would someday be used to buy up and "socialize" Swedish industry. There is no point in saying that this might not be the ultimate purpose of this policy, but as it stands, only a small amount of the fund is to be used to purchase securities, and there is general uncertainty even among large numbers of socialist politicians and economists as to the desirability of widespread nationalization — regardless of how it takes place. Moreover, the Swedish Parliament rather than the Government is to apparently have the final word in determining just how much of the fund can be used.

Thus when the authorities say that they choose this particular method of providing firms with risk capital, they are apparently serious. Now in case the reader feels that Swedish industry depends on Stockholm's Bourse for its risk capital, I would like to provide an assurance that this highly vilified but comparatively innocuous institution is at best a far northern version of Casino Royale, and lives a life quite separate from the factories and laboratories in which the Swedish standard of living is created. Generally speaking, the only employment that this measure will safeguard is that of stockbrokers and their secretaries.

Still, about the future, one has a right to be optimistic. Swedish politicians and economists, although they would be the first to deny it, have a healthy interest in La Gloire — and in recognition. As a result it is common that outright bad policies either economic or social, have no difficulty in accumulating followers, but at the same time they have a decided difficulty in keeping them. This is one reason why, incidentally, the Swedish economic debate is still one of the most interesting in the world.

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Head Office: 2 Hamburg 11 · Alter Wall 20-32 · Tel.: 36 92-1

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