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Notes and explanation of symbols

The following symbols are used in tables in the *Review*:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A blank space in a table means that the item in question is not applicable.

A minus sign (-) indicates a deficit or decrease, unless otherwise specified.

A point (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1970/1971.

Use of a hyphen (-) between years, e.g., 1971-1973, indicates reference to the complete number of calendar years involved, including the beginning and end years.

Reference to "tons" mean metric tons, and to "dollars", United States dollars, unless otherwise stated.

Unless otherwise stated, references to annual rates of growth or variation signify compound annual rates.

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Review

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Development and social change in Sweden

*Villy Bergstrom**

Two dominant trends may be observed in the modern history of Sweden: first, its capacity to adapt to changes in the international economy, and second, the formation of political coalitions.

The first trend could be the necessary consequence of its size and the resulting dependence on international trade. The second has taken two forms: parliamentary collaboration between political parties and the establishment of "electoral coalitions" around policies which have transcended class interests and appealed to groups outside the Government's support base.

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I

Some thoughts on Sweden's modern economic history*

There is no established theory that completely explains why and how economic growth begins, how a country goes from widespread poverty to well-being, even abundance.

In Sweden, researchers can point to some interesting features of the country's remarkable development in the last century and can identify the typical changes which have taken place in its economic structure during the transition from stagnation to sustained growth.

The decade of the 1880s is usually mentioned as decisive for Sweden's "take-off". At that time, a series of Swedish inventions and —especially, perhaps— the re-working and development of foreign innovations were applied to industrial production. Some examples are skimmers (Alfa Laval), telephones (LM Ericsson), electric motors (ASEA). In many cases, moreover, something unusual occurred—the inventors and innovators were also entrepreneurs, qualities rarely seen in the same person. The entrepreneurial conglomerates that arose at the end of the nineteenth and beginning of the twentieth century still dominate Swedish industry today. The exception is Volvo—the largest enterprise in Sweden—which was founded later.

This was the time when Sweden made enormous capital gains in a short time. Different technical and chemical discoveries made it possible to exploit natural resources which had remained practically untouched until then. The Bessemer or Thomas process allowed the purification of iron ore from the north of Sweden, which was characterized by its high concentration of phosphorus. Paper production based on wood pulp was begun almost at the same time. All of a sudden, phosphorus minerals and forests —resources that Sweden possessed

*Work presented to the seminar on "Development, democracy and equity: the experience of Sweden and Latin America", jointly organized by ECLAC's Social Development Division and the International Centre of the Swedish Worker Movement and held in Santiago, Chile, 29-31 May 1989.

in enormous quantities— were transformed into economic wealth. As a result, Sweden's terms of trade improved notably.

During the 1870s, almost 70% of the population worked in agriculture. A process of rapid industrialization began in the next decade; a large percentage of the total labour force was employed in industry, a trend which continued up to the mid-1960s.

Sweden has a history of remarkable economic growth. From 1870 onwards, per capita income grew at an annual rate of 2.5%, i.e., 0.5% faster than the United States, Norway and the Federal Republic of Germany. This growth rate is only surpassed by Japan, whose per capita income grew at an annual rate of 2.7%.

Japan and Sweden differ from the other countries mentioned in that they both grew rapidly in the years between the two world wars and after 1945. Many other countries distinguished themselves by growing rapidly in one of those periods, but not in both.

Are there any decisive reasons for this phenomenon? Economic historians have identified some factors that could help explain the successful history of Swedish growth:

a) Between 1850 and 1919, a fourth of the Swedish population—1.2 million people— emigrated, almost exclusively to the United States. Thus, the country was freed from rural poverty

with its sequels of hunger and massive unemployment, and the economic burden on the population employed in agriculture was significantly lightened. The density of capital (amount of capital per inhabitant) as well as the ratio of land per inhabitant rose steeply. Although GNP certainly fell because of the emigration, per capita GNP increased considerably.

b) During the 1880s, international demand, combined with the inventions and innovations already mentioned, gave Sweden enormous wealth. The forests and minerals were developed and became much more valuable than the petroleum deposits in the North Sea were for the United Kingdom and Norway during the 1960s and 1970s. This brought about the already mentioned improvement in the terms of trade.

c) Sweden stayed out of both world wars. It kept its productive apparatus intact and was able—after those conflagrations—to produce in order to meet an inexhaustible demand during the respective reconstruction periods. The density of capital remained relatively high.

d) Unlike other countries, Sweden established as priority objectives—through its economic policy—a high level of employment and a high use of installed capacity, thus avoiding sharp and prolonged depressions. The deep and lengthy depression of the 1930s, which had disastrous effects on the economy of the United

Table 1

SECTORAL CONTRIBUTION TO THE GNP

(Percentages)

Periods	Agriculture	Industry and construction	Trade and transport	Public administration	Other	Total
1896-1900	28	27	28	3	14	100
1926-1930	14	40	30	5	11	100
1951-1955	9	49	25	7	10	100

Years	Agriculture	Industry	Construction	Trade	Public administration	Other	Total
1955	10	31	10	10	10	25	100
1965	6	31	11	11	13	27	100
1975	5	30	8	13	20	25	100
1987	3	24	7	13	23	29	100

Source: Osten Johansson, 1967, *The Gross Domestic Product of Sweden and its Composition 1961-1965*, Stockholm, SCB, Nationalrevisionsverket (Central Bureau of Statistics, National Accounts); Willi Bergstrom, 1969, *Den ekonomiska politiken i Sverige och dess verkningar (Economic policy in Sweden and its effects)*.

States, followed a much more moderate trend in Sweden, thanks to the application of a successful economic policy. In this way, both GNP and per capita GNP have been maintained at levels higher than those of many other countries.

To sum up, to succeed a country must accumulate capital, avoid wars and maintain a high and stable level of employment.

We can also add —keeping in mind the pioneer era at the end of last century— that it is to a country's advantage to conduct a bold and extensive campaign of industrial "spying" abroad. Frankly, this explains many of Sweden's industrial successes from the beginning.

To tell the truth, it should also be pointed out that Sweden avoided to a large extent the heavy burden of external debt contracted at the end of last century. From the outset, it took out large foreign loans to finance investments in the hydroelectric sector and in the construction of its network of railroads. These loans were paid throughout the 1920s with currencies highly devalued by inflation, so that large external indebtedness never became a significant economic burden for the country's economy.

This somewhat brief account can be substantiated by a study of the national accounts (table 1).

The table shows that the contribution of agriculture and timber to GNP dropped from close to 30% at the end of last century to barely 10% in the middle of this century, and only 3% in 1987. Industry and construction developed in

the opposite direction, with a contribution to GNP which rose from 27% at the end of last century to 50% in the 1950s, reaching its high point in the mid-1960s and then diminishing. Public administration has risen continuously from 3% at the beginning of the century to 23% in 1987.

Exports —considered as percentage of GNP— remained around 20% in the first half of the century, only to then reach some 37% in 1987. Also considered as percentage of GNP, investments have risen constantly from the end of last century to the mid- 1960s, reaching a maximum level of 27% in 1965. The mid-1970s saw the beginning of one of the worse crises in the industrial history of Sweden. It lasted up to the early 1980s. Investments fell at that time to 22% of GNP, a level where they have remained up till today (table 2).

Table 2

EXPORTS AND GROSS FIXED-CAPITAL INVESTMENT AS PERCENTAGE OF GNP

	Exports	Gross fixed-capital investment
1900	19	12
1930	12	14
1955	24	22
1965	24	27
1975	31	23
1987	37	22

Source: Table 1.

II

A new political structure

Industrialization created a working class and also launched an enormous migration from the countryside to the city. The urban population was only 13% in 1870. It reached 30% in 1920. This emptying of the countryside was the basis for the political and trade-union development of the worker movement. The constitution of the worker movement was largely a local process. The same people who organized the worker

communes and youth clubs were also members of the trade unions. The Social Democratic Worker Party of Sweden (SAP) was founded in April 1889, exactly 100 years ago. In the beginning, the central organization of the party also became the central organization of the trade-union movement. This situation was maintained for nine years, until the workers created their own trade-union organization in

1989, the General Confederation of Workers of Sweden (LO). The nucleus of social democracy was made up of the members of the trade-union clubs, collectively associated with the party.

The local character of the process of forming the party gave it a degree of stability and strength that contrasts with the experience of relatively successful modern parties, like the socialist parties of France and Greece. These were very vulnerable, because they were formed by a small number of people, and from above instead of from the grass roots. More than authentic mass movements, those parties were an organic instrument at the service of ambitious politicians.

Furthermore, the Swedish trade-union movement managed to avoid political divisions, while the question of religion was never a problem. The great strike of 1909 led to a defeat and weakened the movement for several years. After this experience, the trade-union movement as a whole became rather cautious in using the strike as a political instrument, although there were frequent "little strikes" on the federation level. With some exaggeration, we can affirm that after the war, the trade-union movement almost never struck only for wages; apparently, it will only strike when questions of principle are at stake.

This situation tends toward a certain softness, owing to the strong growth in recent decades of trade-union organizations of government employees and other employee organizations, which allows them to compete with worker unions on certain levels of the wage scale. At the same time, more recently created trade-unions lack a long tradition of trade-union experience. In this sense, we can speak of a tendency to weaken the so-called Swedish model, due to the fragmentation of the trade-union movement.

In the "revolutionary" years of 1917-1918, the party faced a situation of internal struggle about the question of democracy. The unity and strength of the trade-union movement, along with the experience of the great strike of 1909, helped the reform leadership maintain control of most of the party. Another contributing factor was the previous collaboration of the party with the Liberals in the struggle to achieve political democracy. Hjalmar Branting, the first head of the Social Democratic Party, had been elected to the Parliament on a Liberal ticket, since the workers did not have the right to vote at that time. This was the first parliamentary representation in the history of the party.

III

The ideological tradition

Swedish social democracy and the worker movement have never been distinguished as creators of theory. At the beginning, many ideas and programmes were taken over from Germany. By way of example, the 1920 programme developed a rather dependent Marxism, which remained formally in place up to 1944. According to that programme, all of society's problems would be solved once private property was eliminated. The economy would be more efficient, the "good things of life" would be justly distributed, and productive resources would always be put to full use, with no periods of unemployment.

But very soon social democracy took over the government. In 1920, the only exclusively social democratic prime ministry in the world assumed control. The unilateral and simple content of the party's programme was naturally a big help during the profound crisis of 1920-1921. With the succession of several social democratic governments, it became clear that in the field of political practice, social democracy was reduced to applying the traditional monetary and fiscal policies, not unlike those that the progressive bourgeois sectors could have promoted. It is pertinent to note, however, that the social democratic governments of the 1920s were minority

governments, with limited possibilities of carrying out an independent policy.

However, the trade-union movement was growing in power, and the working class was gradually becoming involved in political activities. Mobilization did not come quickly. The working class still voted less frequently than the more wealthy social classes, although it was gradually improving. The party had the capacity to attract highly-talented personalities to its ranks. It conducted a very intense ideological discussion in its reviews and theoretical books; as a result dogmatic Marxism lost its influence in favour of an action-oriented pragmatism, which sought to raise the standard of living, achieve greater social equality and struggle against unemployment. It is difficult to exaggerate the negative importance of the project to raise the inheritance tax presented in Parliament in 1928. That motion, inspired by questions of principle, was the basis of a violent attack launched by the bourgeoisie against social democracy and interrupted the sustained trend in the electoral progress of that party. The project lacked a real base in daily life, and the workers therefore did not appreciate how such a measure could help to improve their living conditions. It was a lesson that profoundly marked the party's action for the rest of the period between both world wars. To be successful, a policy must be perceived as relevant to practical living conditions. Lines of action based exclusively on questions of principle and lacking a direct connection with the daily problems of people can lead to tremendous political defeats. (A similar experience occurred in 1976, when the party lost power, at the time of a violent attack by the bourgeoisie against the "wage-earners' funds", a proposal that the common citizen would have a hard time considering especially important.)

A formal battle broke out in the party in Congress in 1932, when the decision was taken to abandon the policy of socialization—the official orientation of the 1920s—as the party's basic line of action. It was replaced by some ideas on economic planning, and the question of the ownership of the means of production was de-emphasized. It should be pointed out, in any case, that when they spoke of economic planning at that time, it was not much more than what today is called Keynesian stabilization policy. Never-

theless, it was quite advanced for those times. Different Swedish economists—Liberals like Bertil Ohlin, and Social Democrats like Gunnar Myrdal and Erik Lindahl—played a pioneering role in all this. Erik Wigforss—at that time the most important intellectual of the Social Democratic Party— independently assumed the new flow of ideas, and Sweden became "Keynesian" four years before the publication of the *General Theory*.

The party began its long period in government with the electoral victory of 1932, once the crisis of 1928 was overcome.

Later historical research has shown that the new ideas on fiscal policy—characterized by the use of budget deficits in times of recession as a means of counteracting a decline of activity in the private sector—were of course "revolutionary", but their real quantitative effect was not too great. What was genuinely relevant for a relatively successful short-term policy applied in Sweden during the crisis of the 1930s was a sharp depreciation of the krona, which basically happened by chance. Strictly speaking, this measure saved Sweden in the economic crises of 1931, 1949 and 1982. On all those occasions, the country's situation was unique. This was possible because of its small size, which meant that as important as success in exporting was for Sweden, quantitatively speaking, it was unimportant in the total volume of international trade.

An important element in the social democratic strategy from 1932 onward was the formation of coalitions—with different degrees of formality. Already before the full establishment of political democracy, the Social Democrats had collaborated with the Liberals, precisely on this question. In that year the Parliamentary majority needed to form the government was ensured by the Social Democrats' acceptance of a protectionist policy for agriculture. In response, the farmers' party supported the new fiscal and labour-market policies in Parliament. This strategy of collaboration had been prepared beforehand. Already in 1930, while the party was still in opposition, a project had been worked out to relieve the situation of misery among workers and farmers. Almost identical sums of money were proposed as credits for farmers and aid for

workers in the labour market. From that time and almost permanently, the Social Democrats have sought the support of some bourgeois party to approve the important reforms proposed by the party. Collaboration with the farmers was through Parliament and even in coalition governments. Sweden had no social class of large landholders playing a political role. Farmers practised a family-style agriculture and lived in social conditions similar in many ways to those of the working class.

After the war, the lower middle class and the farmers supported the creation of a general system of medical insurance and more widespread schooling. This is an example of the electoral coalitions mentioned above. It would seem that the lower levels of the employee sectors lent their support to the worker movement to set up the pension system of the services at the end of the 1950s —another example of electoral coali-

tion. The exception was the above-mentioned question of the "wage-earners' funds", i.e., the creation of a system of capital funds by shares, owned collectively by wage-earners and financed by dues on wages and income tax. On that question, the Social Democrats failed to form an electoral coalition, and the results are well known. This project contributed to the Social Democrats' loss of power in 1976.

It should be pointed out that collective funds many times superior were created in relation to the establishment of the additional pension system (ATP). Also at that time —at the end of the 1950s— there was a violent political battle over the "socialist funds". However, the Swedish worker movement managed to win that battle, because the creation of the collective capital funds was organically linked to a social reform with much wider support: the subsistence of all citizens in their old age.

IV

The policy developed

Already in 1930, the party had united around a line of action. The State would generate employment, through the expansion of policy to the labour market, which would be financed with public indebtedness. On the level of social policy, transfers to households would attempt to alleviate poverty in different ways among workers and farmers. The theoretical scaffolding of the Stockholm School —an early variant of "Keynesianism"— was the work within the party of, among others, Gunnar Myrdal and Ernst Wigforss.

In practice, the ideology of socialization had been abandoned and replaced by a kind of ideology of planning. Instead of socializing *capital stock*, a long period was begun of socializing *income flows*, with the aim of producing a range of living conditions different from those produced by the free play of market forces. This is reflected in the coefficient of taxes, which has risen constantly since 1930, as well as in the increase in public expenditures for consumption and transfers (see table 3).

The objective of public expenditures for consumption was distribution. With the slogan "Only the best is good enough for the people", it was proposed that health care and education should also be provided and administered by the

Table 3

TRANSFERS TO HOUSEHOLDS, PUBLIC EXPENDITURE FOR CONSUMPTION AND INVESTMENT, AND TOTAL TAXES, AS PERCENTAGES OF GNP

Years	Transfers to households	Public expenditures for consumption and investment	Total taxes
	GNP	GNP	GNP
1950	6	15	21
1960	8	20	29
1970	11	28	41
1980	18	33	49
1987	19	30	55

Source: Table 1.

public sector for the benefit of the population as a whole; that the quality of these services should be sufficiently high to gain the approval of the middle classes; that the State should not be concerned only about the poor; and that private services could also be provided to meet the demand of the middle and upper classes.

With this plan, the different groups of citizens would receive something for their taxes. In this way, high taxes would be more acceptable than if the middle classes had to pay taxes to provide different services and a social safety net to the poorer sectors of society. This ideological foundation still exists in the welfare society and it has probably contributed to the fact that the Swedes, in spite of everything, have accepted the highest taxes in the world.

This social democratic policy has been heavily attacked on several occasions. It has been called a vicious circle, where everybody pays taxes first, and then has them given back in the form of pensions, allowances for children, housing subsidies, etc. Nevertheless, the Social Democratic Party has maintained its conviction about this policy, originally formulated by Gustav Möller in the mid-1930s.

Table 3 shows the evolution of taxes, transfers to households, as well as public expenditures for consumption and investment. The growing degree of socialization of social income also is clearly shown. The coefficient of taxation has risen from 20% in 1950 to 55% in 1987. Transfers rose from 6% of GNP in 1950 to almost 20% in 1987, while public expenditure grew in the same period from 15% to 30%. At the same time, however, around 90% of the productive apparatus remained in private hands.

1. Corporate taxes

Corporate taxes have been a peculiarity of Swedish development since the end of the 1930s. The nominal rate of taxes on earnings has been high, between 40% and 55%. However, enterprises have been allowed to deduct capital investments from their taxes, which have far surpassed the amount corresponding to wear and depreciation. In the same way, the rules for assessing inventory have been very generous. This has made it possible for enterprises —through investments and capital accumulation— to create a level of

deductions which has allowed them to reduce their effective tax base. Thus, recently, for example, the nominal tax rate on earnings has been above 50%, while the real level has varied from 10% to 35%. This system of corporate taxes has stimulated capital investment and provides a powerful incentive to "sow" earnings by investing, which at the same time makes it possible to lower tax payments. When enterprises decide to pass along earnings in the form of dividends to shareholders they are counted as additional income, which means that in the end between 70% and 85% of those dividends must be paid as a marginal tax. This system has greatly stimulated economic growth, which is why it has remained in place for so long.

2. Labour-market policy

Gösta Rehn, one of the authors of the Swedish labour-market policy, is participating in the seminar and is going to speak on this subject. I would only like to point out that the wage-earners of Sweden have always had a relatively positive attitude towards structural changes in the productive apparatus and the redistribution of resources from low-productivity sectors to high-productivity sectors. Table 1 illustrates the structural changes recorded.

In many other countries, the working class has opposed technological changes and modifications of the structure. Similar attitudes are also found in Sweden, but they have never been a real obstacle to the renovation of the productive apparatus. This is partially due to the policy applied in the labour market. Re-education, transfer allowances, relocation of the labour force, along with the creation of temporary work, have been the usual ingredients of this policy. Sweden provides more resources for this active labour-market policy than any other industrialized country, which has certainly contributed to a higher degree of acceptance of structural changes and technological renovation. Even more important, however, has been the fact that the Swedish working class has known since 1932 that the Government's top priority has been the goal of full employment. On the contrary, between 1976 and 1982, structural renovation was resisted, precisely when the econ-

omy was in crisis and unemployment was increasing. It is difficult to exaggerate the importance of an economic policy that gives priority to full employment. It creates security, even in periods of change.

Finally, we should point out how the wage policy of the trade-union movement has combined with the labour-market policy and reinforced the tendency to stimulate capital accumulation, as mentioned with respect to corporate taxes. The trade-union movement, and especially the General Confederation of Workers of Sweden (LO) —which organizes workers and other manual labourers— maintains the principle of "a policy of wage solidarity". Originally this meant "equal work, equal pay", independently of individual enterprises' level of earnings and capacity to pay wages. A

policy like this speeds up the process of change, since it does not allow inefficient enterprises to survive by paying low wages.

Later the expression "policy of wage solidarity" represented the efforts made by the trade-union movement to raise the level of lower wages, and the practice of a moderated ambition with respect to raising higher wages. This policy helped eliminate the more inefficient enterprises, while the more efficient ones can reach a high level of earnings and experience rapid growth, thanks to moderate wage demands and the benefits obtained from the tax policy. Different scientific investigations of the wage structure unanimously stress the great importance of the trade-union movement's wage policy and agree that the practical effects of that policy have been basically consistent with its intentions.

V

Conclusions

The observations formulated about the economic history of contemporary Sweden could be summarized in two main characteristics:

a) Exports have been the dynamic factor of economic growth in Sweden, with a productive apparatus faced with growing international competition. Exports have generated the resources needed for financing the considerable growth of the public sector.

b) Sweden has had a democratic régime since the 1920s. Democracy was attained peacefully. Thanks to it, social peace and a broad consensus in the citizenry have been preserved, which were also facilitated by the ethnic, political and religious homogeneity of the Swedish people.