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Observations of a Swedish-American

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We have lived in the US since 2003, but spend about 40 per cent of the year in Sweden. While in the US we divide our time between south Florida and redneck country in the rustbelt of western New York. We see and meet a lot of people from different backgrounds and read many different local newspapers. What do I hear in the US about Sweden?

The first answer is, very little. If anything, people ask questions about *The Girl with the Dragon Tattoo*. Stieg Larsson is big. With the conspiracy mode being not too uncommon in the US, we are often asked: "Was he killed?" I have been surprised at the degree to which ordinary people in the American heartland have read Stieg Larsson. The new Swedish wave is about crime novels.

More sophisticated writers excel in analysing whether the darkness of Swedish crime books, and not only Stieg Larsson's, is a result of dark northern winters – or, another explanation, whether there is an urge for deep drama and lots of violence in a land so perfect and peaceful that it has become boring. Swedes have to read about violence in order to experience it. That was the theory of a cultural analysis in the *Wall Street Journal*. So, even in crime, the conclusion turns out to be mostly positive. See, also, how thoroughly Swedish authors and their fictional alter egos go about their investigations. There is no search for big philosophy. This is the land of piecemeal social engineering and rational pragmatism: fact added to fact, in a systematic way, without much flair or fanfare – be it the journalistic investigator or the everyday police hero or "the girl who kicked the hornets' nest".

The Nobel awards are covered to some degree, even if many believe

that they are presented in Oslo, since the peace prize has become so much more prominent than the awards in science and even literature. In the science community, as an indicator of rising competition for prestige among nations, nothing beats the Nobel prize. Swedes do not fully appreciate the significance of the Nobel at universities in America. Most universities have a proud exhibition of major awards at the main entrance or in the room of the university president. The Nobel award, if a member of the university has achieved that honour, is always at the centre – with the others placed as mere decorations around it.

A car bomb in Stockholm is seen as part of our common, western struggle with terrorism. Much has been written and broadcast about the adventures in Sweden of Julian Assange, creator of Wikileaks. The main reporting is about Swedish prosecutors hunting him, which is a plus in the eyes of most Americans. Bombs, terrorists – even the murder of leading politicians – are still considered aberrations. They have not changed the basically peaceful and orderly image of Sweden.

As for the fields of politics and world economics, there seems to be minimal interest in Sweden. Afghanistan, Korea, Iran, the Mexican border, Egypt, Libya, Chavez, Castro are world events or figures of higher profile. But, even as part of Europe, Sweden seems to be under the radar. Europe for Americans tends to be one concept, one "nation". Even sophisticated analysts at CNBC discuss "where Europe is going" without much differentiation. I constantly hear financial commentators say that Germany is the only economy in Europe with strong growth. Sweden and Scandinavia, with even stronger growth, are somehow cut off from Europe. To American commentators, Europe appears to consist chiefly of three countries: Germany, France and Britain.

Sometimes, though, the eurozone is equated with Europe. And in that Europe, PIIGS get some extra attention: Portugal, Italy, Ireland, Greece and Spain. "Will all the PIIGS need bailouts?" is the question. "Will the financial collapse spread to Portugal and Spain?" There is an obvious parallel with California and Illinois in the sovereign debt crisis. This is a framework into which the European debt crisis can be placed and understood in America. Of course, Americans look with astonishment on the protests in Athens – "Oh, my God," they tend to say, "don't they understand that the country is bankrupt and cannot pay all these early retirement pensions to state employees?" Many see it as a warning of what might happen if you go too far along the road to an entitlement

culture. But the same Americans make similar observations about the situation in the states of California and Illinois.

Only in very specialised professional circles do I hear an interest, or even an awareness, of the fact that Sweden, as well as Finland and Denmark, have managed their finances well. Health is silent.

There is not much awareness either of the fact that Sweden has introduced tax reforms that Americans can only dream of: no property tax (3–4 per cent normally in American counties), no wealth tax, no gift tax or inheritance tax (35 per cent these days in the US, a level which Democrat activists are screaming about being far too low). In fact, the combination of major revenue sources – VAT, a flat rate of social insurance fees and a flat rate municipal tax (which is the only income tax paid by some 85 per cent of wage earners) – makes the system as a whole in Sweden close to a "flat tax" system. All of this is seen as extremely right-wing in the US. People hardly believe me when I tell them about the Swedish tax and pension reforms. Those on the left in America, mostly and strangely called "liberals", are also surprised when I inform them that nearly 50 per cent of all electricity generated in Sweden comes from nuclear power plants (the other half from hydroelectric energy, making Swedish production of electricity completely CO_2-free).

The Swedish system has long been a model for liberals in America and they don't like the type of reforms introduced since 1990. Moderates and conservatives, who should like them, still hold stereotypical views of Sweden as a socialist, "cradle-to-grave" welfare state.

When moving abroad, pride in one's mother country tends to increase. We find a lot in Sweden to talk about with pride, even to be missionaries for. The common denominator these days is "smart solutions for specific issues". Let me mention five, out of many:

1. The Voucher System for Schools and Free Parental Choice

This is anathema in America, in spite of its self-perception as a nation of freedom, choice and self-reliance. In Sweden, since the free school reform of 1992, money follows the student. Students are not "placed" in a neighborhood school by public bureaucrats. Parents and students can apply to any certified school of their choice. The right to choose is, as it should be, combined with the right to offer alternatives. Owners of independent

schools (free schools) have to apply for certification from the Swedish Schools Inspectorate. Independent schools have to follow the national curriculum, but can add a certain profile – like extra language training. Fees are not allowed; the voucher payment is the only source of revenue. Schools are not allowed to select students; intake is, by law, made according to the order of applications.

This system has major implications. It empowers parents. A student who has run into an untenable situation in his current school has the right to move to another, at any time, without the consent of a bureaucrat. Teachers have different employers to choose from. Educators with conviction and vision have the chance to make their dreams a reality – creating their own school instead of pushing in vain for change against the wall of resistance from public monopolies. Excellent schools attract more students. Bad schools are forced to change or die. The "market", consisting of parents and students, makes it much harder to let the internal forces of poorly performing schools persist.

About 25 per cent of students at high school level and 11 per cent in the compulsory school system in Sweden attend "free schools". A number of school companies, originally founded by entrepreneurial educators, have reached a size and level of competence where they can take the step to go abroad. I should disclose that one of them – International English Schools (IES), based on discipline, high academic expectations and up to half of teaching in English with native English-speaking teachers – was founded by my wife, Barbara Bergstrom. She started her own school in 1993, immediately after the free school reform. IES has since developed into the largest independent school organisation in the compulsory school system (grades 1-9) in Sweden, with over 11,000 students in 20 schools around the country.

America is dominated by socialist attitudes in this field, heavily promoted by powerful teacher unions. It is constantly argued in the US that free parental choice would mean that money was taken away from public schools. But the money originates from the people, not from the public bureaucracy. If an independent school takes care of a student, it also absorbs the cost. Why should a public school keep the money if it no longer has the student? The entire argument is false.

We have observed, close up, the work of school boards in America. It is a disgrace, most of the time. Politicians sit and make decisions about which bus drivers to hire and which custodians to replace. It is micro-

management, above the heads of principals, and does not work. In this system, it is also very hard to get rid of unsuitable principals and dysfunctional teachers. Everything is bogged down in the mud of complex bureaucracies and erratic politics.

The new Swedish model for school choice, although under constant modification, would really be something to introduce in America, as well as in Britain. I cannot understand why "parental choice" should remain a negative concept in the land of the free. It is no coincidence that African-American communities are most positively inclined to introducing a voucher system. Deprived of choice, parents and students are confined to the neighbourhood school. In a country with strong housing segregation, this constricts life chances for many talented children. In contrast to nations with a large private school sector like Britain, the Swedish system allows every student and parent – irrespective of income and status – to choose the best and most suitable school. In Sweden free schools mean "not publicly run" and "free of charge".

The same right to choose and right to offer alternatives, via voucher payments (or coupons) has also been introduced in many municipalities for care of the elderly and services for the disabled. The right to choose empowers the individual, compared to a system in which bureaucrats assign a provider. New ideas on how to provide these services are also developed when social entrepreneurs and dedicated professionals are allowed to start their own companies. Their success depends on the level of appreciation of their customers.

2. The New Public Pension System

Most nations – and all states in the US – are challenged by the fiscal effects of an ageing population. Medical costs and insurance form the toughest challenge. Pension systems also have to be reformed. Promises have to be funded properly. Systems must be reformed for long-term sustainability. That mistakes were made in the past is no excuse for pulling new generations into fundamentally unsound systems.

The Swedish pension reform of the 1990s should be of major interest, not least to America. Five political parties, the four non-socialist ones plus the Social Democrats, made a long-term agreement, installing trust in the durability of the reform irrespective of future changes of government. The reform was adopted by parliament decades before the old

system ran into deep financial trouble. This made it possible to give transitional rules a generous construction. Sweden went from a defined-benefit public pension system to a system defined by contributions (though with certain base guarantees). Benefits follow from the accumulated accrued savings.

Every added year of income also adds to the value of the account of pension rights for each individual. This gives a strong financial incentive for people to continue working. Not only do you add to your pension account, you also increase your annual pension by postponing the year of retirement. Every year, a new calculation is made by the authorities for average life expectancy at the age of 61. If life expectancy increases from 20 to 25 years – due to improvements in health – then your accrued pension points at the age of 61 would be divided by 25 instead of 20, should you choose to start taking your pension early. That way, the pension level is automatically adjusted to increased longevity without the need for new, sensitive political decisions.

As part of this reform, the five parties also made a political compromise on the old, divisive issue of private accounts. The Social Democrats accepted that a minor part of an individual's pension fee, 2.5 percentage points of the wage base, can be placed in funds of the individual's choosing. The individual is offered a wide selection of stock market funds.

The public pension system is supplemented by additional pensions agreed upon through collective bargaining in the labour market. Furthermore, tax deductions are granted for totally private pension insurances, up to a certain level. The importance of the public system is reduced gradually, partly due to ceilings in the system, partly due to everybody knowing that increased longevity will mean that it gradually covers a lower percentage of the income you had when working. When this warning signal is given decades in advance, people are able to plan in a controlled way for more private insurance and savings.

3. Patient Insurance for Medical Failures (instead of the regime of trial lawyers)

One of my formative experiences after moving to the US in 2003 took place at a dental surgery. I had problems with a loose crown. The dentist I contacted refused to put the crown in place. "If I do that, then I take over the responsibility for that tooth and, if something else happens, you

could sue me." Welcome to the American system of medical litigation. It permeates everything. When my wife and I made the mistake of accepting an offer for a full-body MRI scan, we did not realise that it would lead to months of follow-up referrals between various doctors. Since a body scan points at possible risks, but is hardly ever conclusive, physicians evaluating the risks will try to do all they can in order not to be the one at the end of the decision chain. If some problem is revealed later, they could be the subject of litigation. Hence – refer to someone else for further tests and then more tests. This type of "defensive medicine" costs approximately 2 per cent of GDP, according to some studies. It is a disease in itself in American society. It feeds huge numbers of trial lawyers, many of whom advertise for cases. Claimants often do not even have to risk paying legal costs. The potential indemnities, through court or "voluntary" settlements, are so high that trial lawyers are satisfied with a share of the compensation, if successful.

Sweden has avoided this type of system by combining a restrictive law concerning compensation for medical damages with insurance systems for healthcare providers as well as for the pharmaceutical industry. To get reasonable compensation from the insurance, you do not have to prove that someone has made a mistake or that a product was inherently unsafe. It suffices to show that damage occurred due to treatment. To receive compensation from this insurance system takes much less time than litigation and less evidence is required from the patient. Responsibility placed on a medical provider is separated from the right to compensation. This has yet another advantage: providers can be more open about what has happened. Since the system is simple, and incentives for lawyers limited, very few people choose to go to court.

A separate system for incidence reporting – "lex Maria" – likewise aims at acquiring early and systematic knowledge of patterns of incidents throughout healthcare. With this being the prime purpose, rather than to punish individuals, even minor incidents are reported and the rest of the healthcare system can be warned about them in order to change routines and prevent injuries to patients. The way it functions resembles incidence reporting in aviation.

To learn from the social engineering in Sweden in the field of compensation for medical damage would constitute a major improvement for America.

4. Separation of Responsibility for Infrastructure and Goods

Sweden has developed this into an institutional art: for example, separating responsibility for electrical grids and delivery of the electricity itself, or railroads and the running of trains. You can have competition in the delivery of electricity and in the delivery of transport, even if the basic infrastructure is a monopoly. But more than that: by instituting a clever system for fees for the use of basic infrastructure, you uphold a revenue stream for important investment in repairing and maintaining that infrastructure.

Another example of this has to do with school buildings in Stockholm. Many years ago the City of Stockholm established a separate company for owning and managing school buildings. Schools are reimbursed, as part of the voucher payment, for an average cost per student for rent of premises, cleaning and so on. By being able to collect normal rent from schools, the City of Stockholm School Building Company (SISAB) can keep up renovations (and also the value of buildings) without having to ask for separate appropriations from the public budget. Likewise, independent schools use part of their voucher payment to enter into contracts with landlords – be they private or public.

In nearly all countries, we see the "tragedy of the commons", like important public infrastructure deteriorating due to lack of funding in annual, public budgets. This, in turn, is partly due to the fact that so many other items are more politically sensitive in the short term, primarily entitlement spending. It is helpful if you can create institutions for upholding renovations and investments without annual appropriations from public budgets. Sweden is worth looking at for such institutional designs.

5. Budget Process Reform

Following the financial crisis in Sweden in the early 1990s (a consequence of the credit deregulation of 1985, in combination with a fixed exchange rate which prevented the Central Bank from increasing interest rates), far-reaching institutional reforms were implemented. All parties with any experience of government cooperated. The electoral term of parliament was extended from three to four years. A balkanised budget process in

parliament, where committees responsible for different sectors handled different parts of the government's budget bill, was replaced by top-down decision-making. Instead of item-by-item voting, the entire budget was to be handled by the finance committee of parliament, in total control of the aggregates. The budget process in parliament starts with establishing spending ceilings, in total and for 27 areas of expenditure. This is done for the coming year and for the following two years. Specific decisions made later in the process have to stay within these spending limits. Opposition parties cannot vote against the budget bill unless a majority in parliament also agrees upon a positive alternative to the entire budget. This means that the opposition has to be united and to be explicit about trade-offs once a total budget ceiling has been set. Even a minority government, then, has a good chance of seeing its budget bill accepted by parliament.

In his 2007 study of Sweden's budget reform, Joachim Wehner concludes: "Overall, the data shows that the role of the Swedish parliament in the budget approval process has become more predictable after the reforms. Parliamentary amendments have decreased sharply and the approval process no longer produces regular increases in spending. The new process was deliberately designed by politicians with strong preferences for greater fiscal discipline and the data support the conclusion that it facilitates more prudent decision-making."[1]

When the reform was introduced, the budget deficit had reached 11 per cent of GDP and the public debt 80 per cent of GDP. Today, in 2011, the state budget is in balance and gross public debt has been reduced to around 30 per cent of GDP, one of the lowest figures in Europe. There is more to it than the budget reform (and the reform itself was based on a political consensus to strengthen fiscal discipline), but the institutional reforms have certainly contributed to Sweden's impressive fiscal improvement.

America has altogether different institutions, but at least the Swedish experience shows that institutional design matters. You cannot, as in the US Congress, let sub-committees play a decisive role in setting expenditures, allow individual legislatures to add on pet projects for their home districts ("earmarks") and make it possible to vote for increased expenditures without having to show how to pay the bill.

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Smart Swedish institutional and social inventions, like the ones mentioned above, are very relevant to America. They also tell the story of Sweden as a country of pragmatism – innovative and eager to find practical solutions to real problems instead of being engulfed by big emotions and vague "visions". As former Social Democratic Prime Minister Ingvar Carlsson said in an interview: "If I feel that I have a vision, I would go to my eye doctor for treatment." Carlsson is typical of political leaders in a land of rational pragmatism.

Beyond smart institutional arrangements, I believe that the US might also be motivated to study the Swedish experience in governance itself. As the brilliant Republican senator, Judd Gregg, noted in his farewell speech, the following question has become very troubling: "How do you manage necessary but difficult reforms in an entitlement culture with ageing populations, where the public discourse is mainly handled by more and more populist media outlets?" One may doubt the chances of producing a successful outcome from this tricky equation, but Sweden, viewed internationally (even if not always correctly) as the prime example of an entitlement culture, seems to have done it.

The previously mentioned pension reform is just one example. A recent example is the successful re-election in 2010 of the non-socialist Reinfeldt government, in spite of its radical reforms of the Swedish sickness benefit system, reducing benefits for many and instead increasing incentives for work.

How have reforms of this nature, retracting established welfare rights and benefit levels, been possible? This question, I believe, points once again to a return to an interest in Sweden as an example of calm, rational consensus-building in times of crisis and need. Many western countries are now confronted by basically that same question: how do we move reforms from the space of the "politically impossible" to the realm of the "necessary and implemented".

At the World Economic Forum in Davos in January 2011, a special seminar was arranged around the economic success of the Nordic countries. On lists of the most innovative and successful countries, Sweden, Norway, Denmark and Finland are consistently ranked among the top ten. This is the case year after year on the WEF rankings. It is quite an achievement that these four small neighbouring countries so often make it to the top ten in the world.

During the latest European financial crisis – also labelled part of the

"sovereign debt crisis" of the world – Scandinavia was not drawn into the storm. The main reason mentioned in Davos by Scandinavian representatives was that the four nations had learned a lesson from their earlier financial problems. There certainly was a housing bubble, with all its consequences, in Norway in the late 1980s and in Sweden in the early 1990s. Finland ran into big problems when the Soviet Union collapsed. Denmark has also been through some turbulence with public deficits. So, the argument went, "we were blessed by problems to learn from". This has helped to avoid them now.

The deeper question, though, was hardly addressed in Davos. What makes a political system and a country really learn from a crisis and correct its behaviour for the future? The world provides numerous examples of nations unable to learn from history, repeating the same mistakes, or gradually slipping in spite of possessing full knowledge of what needed to be done.

In my view, there must be deeper reasons behind the ability to learn from mistakes and experiences and to transform understanding into action. To some degree the reasons may be cultural. They are definitely institutional.

There is a deep-rooted civic tradition in the Nordic countries. Citizens don't just go out and shout in the streets. They prefer to conduct themselves in a more orderly fashion and ponder on what action to take. There is a basic public understanding that deficits have to be reduced and that the economy should be handled responsibly. That does not mean that protests against sensitive cuts do not occur. Nor does it exclude a sometimes heated debate between political parties and in the media concerning the balance between cuts and tax increases or the structure of taxes. But enough people have a grasp of fundamental responsibility in public affairs to support measures taken and to punish a government guilty of financial neglect.

It has been quite interesting to see how this same basic culture has led the small and vulnerable Baltic nations – Estonia, Latvia and Lithuania – to find their way through tremendous financial suffering during these last few years and come out strong on the other side of their crises. People have taken austerity measures with dignity and endurance. These impressive nations certainly belong to the Nordic family, sharing its structure of civic values.

An additional, but very important, factor behind public perceptions is

the general awareness among most people that they live in a small country in a big world. With a metaphor: you sit in a small boat on a big and stormy sea. Open trade is a necessity. If you don't behave, you will soon be punished by strong global forces. There is a genuine sense of vulnerability, which contributes to an acceptance of what has to be done.

There are also institutional factors in play. One such factor is that all the Nordic nations are parliamentary democracies, where a government can normally count on approval from a majority in parliament, particularly in budgetary matters. This makes it clear where responsibility lies. Every government has to act so that it can defend its management of the country's business in the next election. You cannot successfully blame others. As we know from the US, "blame avoidance" is a major part of political logic. In a totally fragmented system, there is always someone else to blame.

At the same time, the multiparty system – which could create extra complexities – means that most parties most of the time are involved in serious negotiations. It tends to foster awareness that compromises are necessary and nothing to be ashamed of. If you are in opposition at one point, you are likely to share responsibility at another point in time or on other issues. You'd better be prepared not just for talk, but for decision-making. The multiparty system can also mean that it becomes possible to solve a tricky issue between some parties and thereafter release a party that has been taking a hit for an unpopular stance to recover. One type of coalition can solve some problems that have to be tackled while another type of coalition can go head-to-head with reality in other fields. This is very much what happened after the Swedish financial crisis of the late 1980s. Social Democrats and Liberals agreed upon an important tax reform. Expensive housing subsidies were abolished by a non-socialist coalition under Moderate leadership. All five major parties set the pension reform. Non-socialists deregulated the telecoms market and introduced the voucher system for schools. Social Democrats, returning to power in 1994, reduced pension indexing and finalised the budget reform.

In Sweden, the major political alternatives compete to be seen as the most responsible leader of the nation. This, in turn, has been affected by the 44 years of uninterrupted Social Democratic rule. The non-socialist parties, too, have to instil trust that they can handle the affairs of Sweden.

An underpinning that is more difficult to define is the strong traditional role of academic economists in public life in Sweden (from the Stockholm

School of Economics and others). There is a feeling, as a politician, that you should earn the support of respected economists in order to be able to act with confidence. This is part of a rational and pragmatic political culture, placing great emphasis on studies, analysis in public commissions and so on. To act against facts and figures, without the support of evidence-based policy analysis, is seen as a flaw.

It should also be mentioned that ideological lines, even though they certainly exist, are not drawn in such absolute terms as in America. The Liberal party, for example, has been the early initiator of several progressive social insurance reforms. The Social Democrats relied heavily on favourable conditions for private industrialists to produce the growth for increased real wages and the tax base for social reforms. It has *not* been anathema for Social Democrats, at least not when governing, to introduce changes that favoured capitalists (abolition of the inheritance tax, for example, was implemented by a Social Democratic government). At the same time, it has not been a capital sin for non-socialists to accept certain tax increases, such as that on gasoline, or improved funding for social insurance when needed. In this respect, politics has been more pragmatic.

It is, of course, hard to transfer a political culture, or even institutions, from one country to another. When it comes to the European Union, Swedes speak of its decision centre – Brussels – with much the same disdain that most Americans spit out "Washington". Swedes are not inclined to send taxpayers' money to "Brussels". So Sweden should perhaps be compared more to a well-run American state (Minnesota?) than to the large federation called the United States of America.

Still, with my Swedish background, I cannot help but react to the way the US political system functions when it comes to taking responsibility for acting upon important problems and not just postponing solutions beyond the next election – and the election after that. "Washington" really has become dysfunctional. Veto powers tend to be so strong that no major decision can be taken, except under extraordinary circumstances. The opportunities for avoiding blame are endless – politicians fight to avoid blame for failure instead of taking the lead for achieving success. The brief, two-year term for members of the House of Representatives and the need to assign priority to constant fundraising, contribute to a climate of permanent election campaigning. The selection processes in each party, in combination with the many non-competitive election districts, reward an absolute ideological rigidity instead of encouraging

productive compromises. At the same time, the emphasis on the individual representative makes it harder for parties to act as cohesive negotiating bodies.

A populist tradition also scares politicians from telling people the truth about goal-conflicts and hard choices. Recent opinion polls show that most Americans tend to believe that it is enough to cut bureaucracy in "Washington" in order to get rid of a budget deficit of an astonishing 40 per cent of expenditure.

Few Americans, even sophisticated writers in the media, want to acknowledge that many of the obstacles to achieving much needed reforms are due to the way American political institutions are constructed. The Constitution is a sacred document, which cannot – by definition and national myth – possess major flaws or negative side-effects. I fully recognise that many features of the political institutional design in the US are due to the size and diversity of the nation, which have necessitated complex institutional compromises and contributed to its system of checks and balances. But it has consequences when this system is combined with today's media simplifications. America works because of the amazing vitality, energy and ingenuity of its people – in spite of a dysfunctional political system. This is less of a problem when things go smoothly, but becomes painfully clear when tough reforms in areas like entitlements, subsidies (such as agriculture) and taxes (such as a $1 per gallon increase in gasoline tax) are needed.

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Let me make a few observations about Sweden as such, in relation to what has characterised the country for so many years. I don't believe in describing any country as a "model" for others. Societies, of any size, are too complex to copy, with too many specific historical and organic circumstances and too much of a path-dependency in their institutional set-up. But there are certain structures and basic pillars in every nation, forming the preconditions for policies and paradigms.

In the case of Sweden, I would mention at least three such pillars.

First, Sweden is a homogenous old nation state, where almost everybody shares universal social welfare arrangements and feels part of the same political demos.

Secondly, Sweden is a country of large global companies, which are

Swedish-owned and provided with generous conditions as part of a great compromise with equally strong labour unions – all in all leading to peace in the labour market and union support for high productivity, open trade and prosperity.

Thirdly, Sweden is governed by the Social Democrats, most of the time in formal power, always mastering the mindset of the nation.

All of these pillars have been degraded to a point where they are now falling down.

The first pillar is falling not least due to an inability to handle immigration. Since 1985, more than a million immigrants have been legally admitted live in Sweden – and this in a population of nine million. Only 10,000 have come to work. The rest, 99 per cent, have arrived as refugees, as relatives or for other "humanitarian" reasons; many from countries like Somalia, Iran and Iraq. Over the last ten years immigration has been three times as high as it was in the 1980s. Open unemployment among immigrants from Africa is 28 per cent, compared to 5 per cent among people born in Sweden. Very few of the Somalis are employed. According to a report from the National Statistics Bureau, 76 per cent of all immigrants who arrived over the last five years are unemployed and living on social welfare. The median time it takes for an immigrant to Sweden to get a job is seven years.

This is a complete failure with far-reaching implications. Sweden used to be a "workfare state" much more than a welfare state. The work ethic was strong, participation was high and living on "welfare" was stigmatised. Not necessarily so anymore.

Formally, everybody felt included in the system, both in the workplace and in the social system. You paid high taxes and social insurance fees, but even the middle class felt that it was worth it given the protection and services the system provided. This was the universal character of the social system. Not in the same way anymore.

When "welfare" becomes correlated with "immigrant", a different type of political cleavage emerges. In the election of 2010 the Social Democratic party, formerly a party for "labour", received only 22 per cent of the votes from those with jobs. It was supported by over 50 per cent of the unemployed and people living on welfare. To be perceived as the party for welfare recipients became a major liability for the first time in modern Swedish history. In the wider Stockholm region, only 13 per cent of those having a job voted for the Social Democrats.

Muslim boys in families where the father is unemployed and has, as a consequence, lost his authority – living in suburbs with their own subcultures – are increasingly estranged and bitter about Swedish society.

This is a major challenge to the universal Swedish nation state: the *Folkhemmet*. It affects everything. And, in my view, the elites in Sweden are in denial. That goes for both the old political elites and the mass media.

In the 2010 election, 330,000 Swedes voted for Sverigedemokraterna (the Sweden Democrats), a nationalist party with one major item on its agenda: to reduce immigration. This new party easily passed the 4 per cent threshold for entering parliament, receiving 5.6 per cent of the vote despite having been shut out of all regular television debates before the election, stopped from holding public meetings by attacks from anarchists and other left-wing forces and described in totally negative terms by all media.

The success of this new party, described as "xenophobic", astonished the establishment. The strategy became, first, not to talk to or deal in parliament in any way with this new party, and even to bully its representatives; and, secondly, to increase immigration further. Labour immigration was freed up by the non-socialist governing Alliance in 2008; having well-educated and productive people come to work in Sweden could in fact improve public perceptions about the effects of immigration. But following an agreement between the governing Alliance and the Greens in February 2011, restrictions on immigration based on so-called "humanitarian" principles were further loosened. It will be easier for relatives of refugee immigrants from African countries (like Somalia) to come and live in Sweden. Other humanitarian reasons, beyond mere refugee status, will be more often accepted.

Even immigrants living in Sweden without a permit, or those who have been denied entry to stay in Sweden, will – according to the new agreement – be allowed full access to the healthcare system. Children of those families will be allowed to go to school in Sweden for free. So, while the police are trying to find these families, in order to implement a court decision to remove them from the country, other branches of the public system will help them stay in Sweden.

The agreement is highly contradictory from a legal point of view. Either you have received a permit to live in Sweden and then you can stay. Or you have been denied a permit – and then in reality you can also stay, and with full social rights.

In its eagerness to deny Sverigedemokraterna any influence, the established parties are changing policies in totally the opposite direction to the signal given by the electorate. In all likelihood, this will result in added support for the only party advocating restrictions on the volume of immigration. It will increase stress and tensions from immigration, already heavily felt in communities around the country, in healthcare, in schools, in crime levels and in public expenditure.

The new type of immigration flows from non-European countries and Muslim cultures furthermore produces challenges to the value system, which have been shown to be deeply problematic. On the one hand, official Sweden wants to be perceived as "tolerant" and "multicultural". On the other hand, Sweden is the most secular and modernist country in the world, according to the World Values Study. Radical feminism has for a long time been a major force in shaping public policy. Homosexuals have the full right to marry. Abortion is legal and covered by national health insurance.

For such a society, it is not easy to handle the new expressions of patriarchic family structures, girls being forced to hide their faces and "honour killings" by fathers and brothers of young women who are just claiming their right to personal freedom. Sweden has seen several cases of this sort and many more are concealed behind curtains and deliberately kept away from public scrutiny by self-censorship in a politically correct media.

The immigration challenge to Sweden is immense and explosive. It is transforming the country in many ways. It is not going too far to say that Sweden has failed in its efforts to integrate a high volume of non-European immigrants. People know it. They also know that you cannot in the long run combine a very expensive welfare state with totally open borders and access for all to the same social rights. The only possible solution would be work, which is exactly what the new immigrants from non-European regions do not get.

In the field of immigration and the failure to integrate immigrants into society, Sweden shares the problems of most previously homogenous nation states. In this case, it is Sweden which has profound lessons to learn from America.

The second pillar – an industrial base of Swedish-owned and Swedish-based global companies – is also collapsing. There still remains a strong presence of global companies, but few of them remain Swedish owned.

ABB, Astra, Nordea, StoraEnso, Pharmacia, Nobel, Alfa-Laval, Volvo, Scania – you name them. They were founded in Sweden, but today they are foreign-owned, frequently with headquarters located outside the country. Tax policies during the 1980s and 1990s contributed to the exodus. Tax conditions have since changed, but too late to reverse the trend.

We analysed this situation in the government's Globalisation Council, of which I was a member. Sweden has almost always had open borders for trade, something which has benefited the country. But the old basis for agreements between big capital, big unions and a Social Democratic government has vanished. Whether the effects of globalisation will mainly be good or bad is now completely contingent upon the ability to create conditions that attract direct investment, research, education and industrial clusters. Everyone, and everything, is free to leave the country. This new fact has shifted policy conditions to the right. The only possible policy is to provide incentives to stay in Sweden or come to Sweden. This includes talented individuals as well as companies.

The new logic cannot be socialist; it has to include favourable tax conditions for owners, entrepreneurs and the highly educated. For a country to host company headquarters is important from a power point of view. Furthermore, central company management tends to be surrounded by a whole structure of consultants, finance managers, legal firms, design units, R&D centres and the like.

Above all, vulnerability has increased. The wealth base from production cannot be taken for granted. One quick decision at company headquarters abroad and a production plant or an important research unit is gone. Businesses which were taken for granted in the 1960s and 1970s, and by socialists even today, must now be deliberately nurtured – not by subsidies, but by superb conditions in the "ecology for growth". They must also be supplemented by highly favourable conditions for entrepreneurship.

This can be said about many countries in the new global economy. But Sweden stands out, together with Switzerland, in being so dependent upon big companies developed in and since the 19th century. In 1900, Ericsson sold 98 per cent of its products outside Sweden; a hundred years later, the share was 99 per cent.

The third pillar is the Social Democratic party itself. Let me remind readers that we are talking about the single strongest party in the

democratic world during the 20th century. No other party, anywhere, has had the same combination of support in elections and longevity in power. It has also been sustained by the world's strongest labour unions. The blue-collar union, LO, has been and still is an integrated part of the party, putting all its resources at the disposal of the party at election time. Even the leading white-collar union, TCO, is dominated by Social Democrats. It is no coincidence that three of its last four chairmen have also been ministers or junior ministers in Social Democratic governments.

Furthermore, the Social Democratic party, in power as it was for 44 uninterrupted years between 1932 and 1976 and for 21 out of 24 years between 1982 and 2006, governed the world's largest public sector.

We who support other parties and ideas naturally tend to approve of the fact that the Social Democratic party has fallen from its previous lofty position and become more of a regular political party. It has gone from 45 per cent support as its normal election result until 25 years ago, then 35 per cent in the election of 2006 and 30 per cent in the election of 2010. At the same time, LO, the blue-collar union in alliance with the Social Democrats, has lost hundreds of thousands of members, mainly due to less favourable conditions for the unemployment insurance handled by the unions (changes made by the new non-socialist government in 2006).

There are, however, additional aspects to this major shift in the Swedish political landscape. As the political economist Mancur Olson pointed out, a Social Democratic party permanently governing and being supported by nearly half the electorate became identified with the success of the country and its future. This made it necessary for the party to attempt to act in a way that was also promoting the success of the country. The Social Democratic party became, in Olson's expression, "encompassing". Its life expectancy, or socially expected duration (to borrow a term from the sociologist Robert Merton), was such that trust in the party depended on the perceived long-term good for the country as a whole. There was no way of avoiding blame. Power and responsibility were directly intertwined. You can certainly argue that a party so firmly established in power also runs the risk of becoming too self-assured and ending up as the victim of its ideologically blinded activists. This is, in my assessment, what happened after the historic year of 1968 (Olof Palme was elected chairman of the party in 1969 and was eager to ride the tide of the times). Still, it is probably true that the perception of carrying the fate of the nation did create a special sense of national responsibility in the leadership

circles of the Social Democratic party – and helps to explain why the party leadership, even today, has been so eager to uphold institutions for fiscal discipline.

Strong finance ministers and fiscal discipline are important elements in the self-perception of a nearly permanently governing party. The historic success of the Swedish Social Democrats is partly due to the fact that the party has never been seen as representing a "benevolent incompetence", like its sister parties in Britain and Germany. In Sweden, the Social Democratic party has been used to having the upper hand in trust, compared to its non-socialist opponents, even when it comes to fighting inflation and promoting balanced budgets.

Reduced to a much smaller political party, Social Democrats can no longer adhere to that position. It took a long while for the party to change its expectations and self-perception as a permanently governing party. The electorate is much less stable than it used to be. Social Democrats are competing in an electoral market with many more independently inclined voters. The fall of socialism as an idea for the economy, and of national control over capital flows, has influenced ideas about the left – so that focus has shifted from the total dominance of heavy socioeconomic issues to a variety of post-modern politics, "identity politics" around sexual orientation, feminism etc.

Anti-growth policies in the environmental field and in connection to global warming have also infiltrated the party. It might have started with the need for adjustments to its power alliances with the Greens and the Left party (former communists) in order to form a governing majority. Yet, over time, these influences have changed the character of the party and further alienated its working-class base. And, by legitimising a party like the Greens, Social Democrats have also given a signal to the electorate that its distance from the Greens is small. A significant number of previous voters for the Social Democrats chose to vote for the Greens in the 2010 election.

Increasing individualism in the big cities, Stockholm foremost among them, is challenging old shared ideas about equal and standardised social services, all provided by the public sector without alternatives and individual choice. In a short period, Sweden has gone from having five old parties in parliament to five old and three new – Christian Democrats, Greens and the anti-immigration Sverigedemokraterna. There is still only 100 per cent of votes to compete for.

A somewhat weaker Social Democratic party need not be bad for Sweden as a country. It might contribute to a more open political life – and to a wider space for entrepreneurship and individual expression in society. Sweden might become a more "normal" democracy in a positive sense, when public bureaucracy and various interest organisations can no longer count upon a single party to be constantly governing – a situation which is not sound and invites single-looped cultures in, say, the bureaucracies of education and social affairs as well as subtle forms of corruption.

It may also be the case that the non-socialist Alliance proves able to take over as the new governing force for a longer period. This is the competence they have shown since the takeover in 2006. I doubt that it will be for very many years, since tensions arise when smaller coalition parties run into trouble. By being re-elected until 2014, the Reinfeldt Alliance government has already managed the longest period of survival of any non-socialist government in the entire history of Swedish democracy.

This new political landscape, with a weak and insecure Social Democratic party, is profoundly new to Sweden. We do not know where it will lead. Will the Social Democrats recover after some soul-searching and reorientation? Will new alliances be formed, perhaps transcending the old barrier between socialists and non-socialists, now that the size of the Social Democrats is less intimidating? Will a productive consensus around vital issues – such as tax policy, economic growth and the pension system – still be possible under these more fluid conditions? Or will the void left by the former dominance of the Social Democrats instead be filled by more populist forces and even stronger political expressions of anti-immigrant sentiment?

We do not know. But observers should certainly be curious to see where the post-Social Democratic era will take Sweden's famous political stability and ability to govern rationally. The political landscape of Sweden is much more open and fluid than it used to be. And it is working in a media culture that is much less educational for the citizenry than it once was.

1. Joachim Wehner, "Budget Reform and Legislative Control in Sweden", *Journal of European Public Policy*, March 2007.

For many people of different political persuasions, in different parts of the developed world, Sweden has stood as a beacon of political sanity and well-organized welfare arrangements. Its educational and health systems are perceived as well maintained. Sweden is both a globalized thriving market economy, and its welfare state. Furthermore Sweden's role as an ethical diplomat affords the country prodigious international influence. As a former empire, it has cleverly found a role for itself as an international mediator in all manner of diplomatic disputes.

How did this situation arise? How did Sweden become a model for countries whose population is so different and so varied? Has it been useful and pertinent? And is the model described above so very model? Is Sweden not quite what it appears in the imagination of these new utopians? Is there a gap between perception and reality? Is there a yearning of a different political order? What are the taboos of Swedish society? And where is Sweden headed? Is there perhaps even a new Sweden in the making?

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