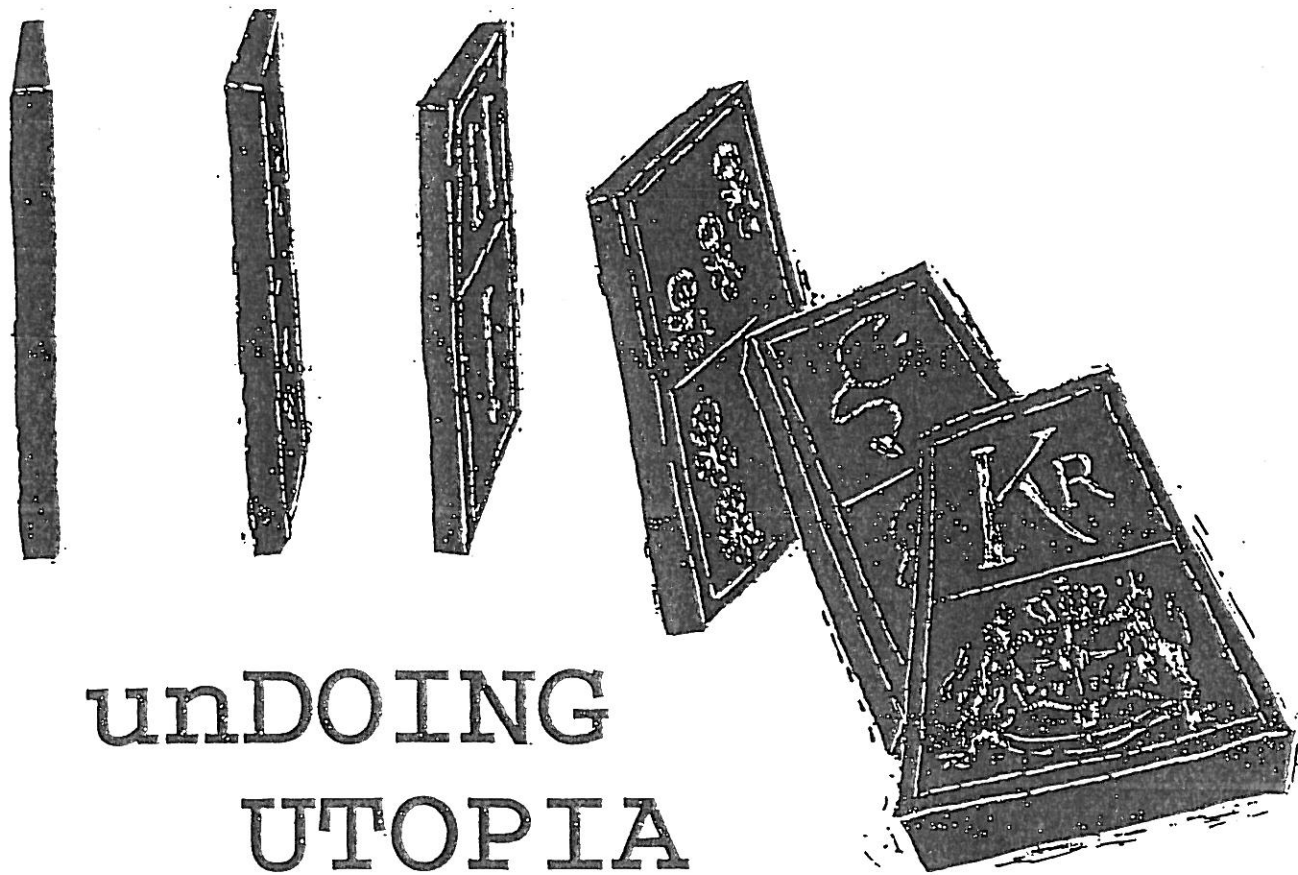




undoing UTOPIA

*Held up for decades
as the model of a successful
socialist state, deep recession
and debt are forcing Sweden
to retreat from total welfarism*

Year after annoying year, lesser folk around the world had to look with envy at those wonderful Swedes. They lived the longest. They were the fittest. They had the world's highest standard of living. Their cradle-to-grave welfare system almost guaranteed full employment. "Free" post-secondary education was available to all. So were health care and pensions. The list went on endlessly.

Was there a single cloud over this Scandinavian paradise? Well, maybe one little one: at a top rate of 70%, Swedes paid the highest personal taxes in the industrialized world.

It all came about through what

the Swedes used to call "the third way" — not communism, not totally capitalism either, but something in between. The Social Democratic Party brought about the miracle. Until 1991, it was in power for all but six of the previous 59 years. The big corporations such as Volvo and Saab, and the big trade unions became the other two partners in a tidy agreement with the Social Democrats which worked like a charm for many years. Starting in the 1930s, business, labour, and government made a bargain — no strikes in return for high wages and social benefits. In the compact country, with its eight million people, this system became known as the "Swedish model." It

was imitated but not equalled by other social democracies, including Canada.

By the end of the 1980s, however, there were clear signs that the Swedish utopia was in trouble. The reasons were complex. The country's economy was based on heavy industry which declined in importance as new knowledge-based businesses overtook it globally. Sweden, while it hasn't yet joined the 12-member European Community (EC), in 1991 joined Norway, Finland, Iceland, Austria, Switzerland, and Liechtenstein to become part of a free-trade area which includes the EC. Competition then increased as protective barriers were dropped.

Third, and most important, even as a worldwide recession was approaching, the Social Democrats were indulging in a final orgy of spending. By the '90s, the state employed almost four workers in ten, double the mid-'60s figure (Canada's public sector employs about two out of ten workers). Generous vacations were stretched further to 27 days a year. Pay while on sick or parental leave was 90% or more. Taking time off paid so well that absenteeism was a large and chronic problem, forcing Volvo, for example, to employ 25% more workers than it needed to be sure of a full staff on the job.

Such inefficiencies lowered productivity in export industries already shrinking through global recession and competition. The economy went flat with net losses each year since 1991 and Sweden fell into one of the longest and deepest slumps among developed nations. As the economic domino toppled, it knocked over the corporate and personal tax revenue domino vital to Sweden's generous social programs. The government could no longer pay for them all and was running big and growing deficits.

It was obvious to voters by 1991 that the "third way" engineered by the aging Social Democratic Party was no longer working. In elections that year, the Social Democrats were finally dismissed and replaced by a conservative coalition government headed by Carl Bildt and his Moderates. Sometimes supported by the Social Democrats, now in opposition, Mr. Bildt has since been forced to make cuts in Sweden's social programs which have sent shock waves through the nation.

With the budget deficit running out of control, in April 1993 Prime Minister Bildt and his finance minister, Anne Wibble, proposed another \$11 billion in spending cuts over those of the previous two years. For example, the following are either proposed or already in effect: dropping two vacation days; raising the retirement age from 65 to 66; cutting compensa-

tion for sickness and parental leave from 90% to 80%, with some low- or no-payment days; charging Swedes for more of their health-care costs (they have always had to pay a \$15 user fee for a visit to a doctor or hospital).

GERMAN BELT-TIGHTENING

Until recently, Germany was one of the economic powerhouses of the world, but the cost of absorbing bankrupt East Germany and the recession have changed that. Now, Germans are watching some of their social programs being slashed just as people in the rest of the industrialized world have. Just before Christmas last year, the Bundesrat, (the upper house of Germany's parliament) approved cuts to unemployment benefits, child-support payments, and job-retraining programs.

Even this sort of nasty medicine is hardly enough to get the Swedish economic cripple on its feet again. Commercial real estate has nosedived as new office buildings stand empty. Two of Sweden's five biggest banks are on government life-support systems, done in by loans gone sour. Unemployment, once hardly an entry in the Swedish dictionary, is on the rise and, including those swamping the retraining centres, approaches 10%. So is inflation, pushed up by vain attempts to defend the Swedish currency unit, the krona.

As 1993 drew to a close, leaders of all the main political parties drew

HAVE WE GONE TOO FAR?

In some countries, governments pay for an amazing array of services.

- Most unionized and salaried workers in Germany can get extra vacation money to help pay for the expenses of taking time off.
- In Britain, the government will pay to have tattoos removed as often as requested.
- Also in Britain, some alcoholics on welfare can get extra money with which to buy booze.
- Workers at Daimler-Benz, in Germany, could get reimbursed for a child's First Communion outfit.
- In Britain, an unemployed insurance executive received \$2,750 a week to keep up mortgage payments on his \$1.5 million country mansion.

up a five-year plan agreeing to chop state welfare programs further while delaying proposed tax cuts. Still further economies added later resulted in a package which now includes postponement of cuts in wealth taxes, the transfer of health and sickness insurance from the state to the private sector, and cuts in foreign aid. The object, the leaders said, was to make Sweden competitive enough again to earn membership in the European Community.

There is much hand-wringing about the consequences of joining the EC. The Community's present members generally have less generous social programs than the Swedes. Rutger Lindahl, director of the Swedish Institute of International Affairs says: "People think we will have to adjust to a society that's not as advanced...sliding backwards into Europe."

Yet, look closely at the Swedish social welfare system and you find that, while pruned back a bit, it is still impressive enough. Swedes, however, have been brought up against the hard facts of living too high in a competitive world. The pruning saw is starting to make the famous "Swedish model" look a lot more like the other countries of Western Europe.

SUGGESTED ACTIVITY:

We think of Canada as a country with very generous social programs. Compare our various programs with those of Sweden and other European countries.

CHARLES A. WHI