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**Big Cuts, Little Time:
Welfare State Retrenchment in Sweden**

by

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Abstract

When harsh cuts were introduced in the Swedish welfare state in an agreement between the centre-right government and the opposition Social Democrats in 1992, there were astonishingly few disagreements between the political parties as to which social groups should carry the burdens of the cuts. The conventional wisdom on welfare state retrenchment would lead us to expect a clash of interests, especially considering the strength of interest groups in Sweden and the different constituencies of the five parties included in the agreement. This paper explains why that did not happen. It argues that the role that key officials played in shaping the 1992 retrenchment agreement in Sweden was decisive in averting potential political conflicts. In a crisis, politicians depend on advice from officials as politicians need complex information, often under pressure of time. This paper argues that key state officials, through their advice, defined both the character of the crisis and the range of possible solutions. As the number of options was restricted, key officials were able to define what cuts were reasonable. Within this framework, politicians looked for practical solutions and, to a large extent, disregarded conflicts of interest. This paper also suggests that the content of such advice depends on what is called the loyalty of key officials, which depends on the terms of their employment.

When harsh cuts were introduced in the Swedish welfare state in an agreement between the center-right government and the opposition Social Democrats – the so-called “first crisis-package” in September 1992 – there were astonishingly few disagreements among the political parties as to which social groups should carry the burdens of the cuts. Moreover, in contrast with the usual practice, interest groups were largely excluded from the process. The conventional wisdom on welfare state retrenchment would lead us to expect a clash of interests, especially considering the strength of interest groups in Sweden and the different constituencies of the five parties included in the agreement (Korpi & Palme 2003; Pierson 1996, 2001; Stephens, Huber & Ray 1999). How can we explain why they could nevertheless reach this agreement?

The main approaches in the literature on welfare state retrenchment do not provide much help toward answering the question. Scholars following Paul Pierson’s (1994) influential assessment have drawn attention to the limited range of welfare cutbacks and claimed that social policy frameworks, although under pressure, remain secure in basically all mature welfare states. The lack of cutbacks is explained largely by the unpopularity of welfare retrenchment among voters and the influence of new interest groups such as pensioners, created by the welfare state itself (Esping-Andersen 1999; Green-Pedersen & Havland 2002; Lindbom 2001; Pierson 1994, 1996, 2001; Taylor-Gooby 2002). Others have challenged this analysis often using the power-resource approach associated with explanations of welfare state expansion. From this perspective, welfare state cuts are largely explained by the power distribution among class-based actors and expressed in partisan politics (Allan & Scruggs 2004; Anderson 2001; Clayton & Pontusson 1998; Korpi & Palme 2003; Timonen 2003).

Diverse as these approaches are, they have one assumption in common, and it is this assumption that is of interest in this study. Both analyze the political process of welfare retrenchment as largely defined by the influence of powerful interest groups, be they *new* groups of welfare clients or *old* class-based groups. Following either of these approaches one would expect heavy interest group influence. The political parties should act according to the interest of the strongest interest group in their respective constituencies, considering their power-resources and their association with the parties. As already noted the Swedish case suggests that this does not present the full picture. However, the assumption that interest groups are the decisive factor influencing the outcomes of retrenchment initiatives evidently does not hold in the case of Sweden in the early 1990s.

This article argues that the role that key officials – that is, centrally placed civil servants in the Government Offices or agencies – played in shaping the 1992 retrenchment agreement in Sweden was decisive in averting potential political conflicts. This argument builds on Hugh Hecló’s notion that “politics finds its sources not only in power but also in uncertainty” (Hecló 1974, 305). In a crisis, politicians depend on advice from officials as politicians need complex information, often under pressure of time. I argue that key state officials, through their advice, defined both the character of the crisis and the range of possible solutions. As the number of options was restricted, key officials were able to define what cuts were reasonable. Within this framework, politicians looked for practical solutions and, to a large extent, disregarded conflicts of interest. Without the advice from the key officials, or with other advice, both the welfare cuts and

the process itself would probably have been different. Therefore, the Swedish case suggests that civil servants may play a more important role in determining the extent and character of cuts in mature welfare states than has been recognized.

This paper also suggests that the content of such advice depends on what I call the loyalty of key officials. Roughly stated, officials can be loyal either to the state or to the government, depending on the terms of their employment. In some countries key state officials depend on the government for their position; the United Kingdom is one such example. In other countries they do not; Sweden falls into this category. In countries where state officials depend upon the government, they tend to think like politicians, calculating political gains and losses, therefore including interest considerations in their advice. In such countries key official advice would not have the disarming effect on political conflict observed in Sweden. However, in countries where key officials depend upon the state, political conflicts of interest are disregarded in their advice, and, instead, the official's advice is biased by their position in the state apparatus. This is what happened in Sweden.

Interests, Time, and Influential Officials

Two conclusions may be drawn from the ongoing debates on welfare retrenchment. On the one hand, until now, welfare retrenchment has not brought about any shifts from one welfare regime to another in the mature welfare states due to welfare retrenchment (Esping-Andersen 1999; Huber & Stephens 2001; Pierson 1996, 2001; Taylor-Gooby 2002). The configuration of welfare regimes seems stable, although some analyses suggest a diminishing role of the welfare state, as social policies do not always cope with changes involving new social risks (Hacker 2004; Taylor-Gooby 2004). On the other hand, conclusions concerning stability of welfare state regimes have led to an underestimation of welfare state cuts actually taking place in Oceania, North America and Western Europe. Recent studies show that major cuts have been made in several countries during the 1980s and 1990s, among them Sweden (Allan & Scruggs 2004; Clayton & Pontusson 1998; Korpi & Palme 2003). It is the variation in welfare cutbacks that this paper seeks to explore.

As Jacob S. Hacker has noted, too much attention has been paid to what has *not* happened to the welfare state and too little to what actually *has* happened (Hacker 2005). To some extent, this is due to the tendency in much of the existing literature to define welfare state retrenchment so as to exclude changes that have not caused major institutional reform. In such studies welfare state retrenchment is seen to occur only if the welfare state no longer remains in the same welfare state regime after the cuts (Lindbom 2001). I instead define retrenchment as any cutbacks in the welfare state, following the definition of welfare state retrenchment as suggested in the power resources tradition (Green-Pedersen 2004). There the welfare state is seen as a provider of social rights (Korpi & Palme 2003). Welfare state retrenchment is consequently defined as changes in these social rights that make them less attractive or generous (Green-Pedersen 2004). This more inclusive definition is necessary in order to take real changes into account.

The paper shows how cuts in the Swedish welfare state in the 1990s cannot be explained without taking into account factors typically neglected in studies of the politi-

cal output of retrenchment processes in mature welfare states. The term output refers to the intended policy result, and should be distinguished from the actual result (outcome). In particular, I want to show how taking such factors into account helps explain variations in how the burden of retrenchment is distributed among social groups.

There are several suggestions in existing theory that could – and to a large extent also do – explain this variation but, as noted earlier, the Swedish case suggests that these explanations do not present the whole story. The basic assumption in the existing literature, although scholars disagree on a lot of issues, is that the strongest interest groups can control retrenchment and even resist it if it serves their interests. Interests can indeed a lot in some cases. However, I argue, there are limits to interest-based explanations, at least when political decision makers become dependent on bureaucratic advice when an economic crisis leaves them with little time and a need for complex information.

In what can be called the New Politics perspective, welfare state retrenchment (or lack thereof) is explained by a framework resting on two pillars (Pierson 1994, 1996, 2001). The first is the unpopularity of retrenchment reforms. As noted by New Politics scholars, the welfare state enjoys strong support among voters in almost all Western democracies, support that is both broad and intense. It is broad because expanding the welfare state has involved a large proportion of the electorate either as employees or as clients. In 1995, as Pierson shows, 57 percent of the electorate in Sweden, 51 percent in Germany and 32 percent in the United States belonged to either or both of those two categories (Pierson 2001, 413).

The intensity of the support stems from two sources. To start with, interests in maintaining the welfare state are concentrated. Welfare clients are reasonably well defined groups, such as pensioners, the long-term sick and the unemployed, with strong common interests in defending the source of income. This stands in sharp contrast to supporters of welfare retrenchment, who are a diffuse group with an ill-defined goal. Gains from welfare retrenchment are, as these scholars note, uncertain and widespread. The intensity also stems from the fact that those opposing welfare cuts fight for already existing benefits, while supporters of retrenchment do not. New Politics scholars point to psychological and electoral research showing that voters react differently to losses and gains, as they react more intensely to negative rather than positive risks (Pierson 1996).

This broad and intense support makes it hazardous for politicians to advocate welfare retrenchment, as voters probably will punish them, and strong interest groups will mobilize against it. This, in the New Politics view, makes the politics of welfare retrenchment something very different from the politics of welfare expansion, as welfare expansion was widely popular (Pierson 1996).

There are some limitations to this argument, however. As Korpi & Palme (2003) have noted, welfare expansion was not an altogether popular process, considering that reforms had to be paid for by increased taxes. Raising levels of taxation was never popular, and therefore also a hazardous game for politicians to play. The voters faced a trade-off between welfare expansion and taxation, and this conflict was solved in elections where different parties held different standpoints regarding this trade-off. I see no rea-

son, from the outset, to rule out the possibility that the same process would take place with welfare retrenchments. It is clear that the support for the welfare state is strong in several countries (Svallfors 1997). But, without considering other dimensions of public opinion – such as support for budget cuts in times of economic crisis – it does not necessarily lead to the conclusion that all parties will avoid advocating welfare retrenchment (e.g. Gilljam 1988).

The second pillar of the New Politics framework is what is called institutional stickiness. Here two different factors both reinforce the electoral obstacles spelled out above.

The first factor is the impact of veto points in the political system. The basic argument is that the less concentrated political power is – the more veto points there are – the harder it is to hold a coalition of retrenchment agents together (Pierson 2001). But there is also another, contradictory way that veto points work. As a lack of veto points concentrates accountability in the same way that it concentrates power, it also increases the risks attached to unpopular political decisions (Pierson & Weaver 1993; cf. Bonoli 2001).

The second factor is the well-known feedback process that has been called “path dependency” (Pierson 2000). Roughly, this means that political courses are often hard to change once in place, because of large set-up costs – investments that will be lost if another way is chosen – and because of actor adaptations to previous arrangements. It has been suggested that this to a large extent is the case in welfare politics (Pierson 2001).

The New Politics standpoint suggests that retrenchment is rare, but it also implies that any variation should be explained by four different factors. The first consists of voters’ preferences, where high public support for the welfare state is expected to block retrenchment. In this case, when we are trying to explain why particular groups are targeted, we should expect political parties to advocate cuts that affect their voter base as little as possible.

Second, there is the influence from new interest groups, where a high intensity in support for the welfare state also blocks retrenchment. In this case we should expect cuts to be greatest where the intensity of support is lowest, that is, where interest groups are poorly organized. The long-term sick might, for example, be one such case, while pensioners might be an example of the opposite.

Third, there are the effects of veto points, where a large number of veto points halts retrenchment. This suggestion has no clear implication about which groups one should expect to be targeted with cuts.

The fourth is path dependency, where sunk costs and actor adaptation to the existing welfare system also block retrenchment. In line with this insight, one should expect to see cuts that do not lead to new investments, and where actors need to change their behavior as little as possible.

In this study, through which I am trying to understand why certain groups are targeted with cuts the first two explanations are of most interest. According to the New Politics logic, the political parties should aim welfare cuts at voter groups that are not

easily mobilized, or that are not in the voter base of the party. The political parties should also avoid cuts in areas where there are strong organized interests.

As already noted, advocates of New Politics predict that the four hypotheses above will very rarely – if ever – speak in favor of welfare retrenchment. This leaves politicians only one option: “blame avoidance” (Pierson 1996, 145). Politicians will use techniques to avoid being punished by voters. These strategies seek either to avoid responsibility by lowering the visibility of reforms or to divide their opponents by playing them off against each other or compensating them in some way (Pierson 1996). This gives us a fifth suggestion. This says something about how politicians should be expected to act while carrying out the welfare cuts. It means that politicians will try to avoid being held accountable for welfare retrenchment. Political actors should therefore be expected to try to hide which groups are targeted, buy support from the most important groups, sacrificing less important groups, and play different groups against each other.

In what might be called the Class Politics perspective, welfare retrenchment is seen as a distributive conflict largely determined by the allocation of power resources among class-related interest groups. In that process partisan politics and welfare institutions are very significant: partisan politics, as it channels class interests; and welfare institutions, as they structure both interests and resources (Korpi & Palme 2003).

Power resources are the “capabilities of actors to reward or to punish other actors” (Korpi & Palme 2003, 427). The basic argument is that different socioeconomic classes are dependent on different power resources and therefore prefer distributional conflicts to be solved either by the logic of markets or politics. Actors relying on economic assets, primarily capital, will prefer solutions based on market logic, while actors relying on the power of numbers, primarily labor, will prefer solutions based on political logic. It is argued that welfare states can be seen as outcomes of conflicts among class actors relying on these different resources (Korpi & Palme 2003).

This conflict is manifested in partisan politics because of a linkage between class and party. This means that the variation in retrenchment should be explained by the distribution of power among class and party actors. When parties to the right and interest groups associated with them are strong there should be more welfare retrenchment than when the left is strong and there are strong unions. What is of greater importance in this study, one should also expect parties to fight for the rights of the class associated with them, and policy output to be influenced by the strength of interest groups. The suggestion is that class-based interest groups will, through partisan politics, affect retrenchment according to their interests. Consequently, political parties should be expected to advocate cuts on groups not linked with them.

It is important to note both the differences and the commonalities of the two perspectives. One common assumption is one of rationality and the importance of group interests. Both perspectives are theories of rational agents and to a large extent both rely on interest-based explanations. Their main disagreement concerns which interest groups one should look to; “new” client-based or “old” class-based groups.

The interest group influence on a welfare retrenchment process might, however, be limited in many ways. In his important study of social policy in Britain and Sweden, Hugh Hecló (1974) points to the limits of interest-based explanations and stresses the importance of learning. "Governments not only 'power' (or whatever the verb form of that approach might be); they also puzzle," Hecló concludes (Hecló 1974, 305). In his view, even powerful actors do not always know what they want, and learning this is as important as struggling over different alternatives. Actors learn what they want in two ways: from experience and from advice. This gives key civil servants a very important role, as they have both experience of policy performance, and analytic capacity enough to suggest solutions to the problem at hand. This gives them power to define what should be done. Their position caused Hecló to conclude that "bureaucracies of Britain and Sweden loom predominant in the policies studied" (Hecló 1974, 301).

As Patrik Marier (2005) has recently pointed out, bureaucratic influence is ignored in the New Politics perspective, and this is also true for the Class Politics perspective (Rothstein 1996). In both schools, state officials are, without further consideration, seen as loyal to the political majority and willing to support the government with expert advice, this even though it is well known that the bureaucracy can have its own agenda (Peters 1995).

Following Hecló, I propose that the retrenchment agenda is influenced by advice from key officials. It is probably even more so in periods of welfare state retrenchment than it was in periods of welfare state expansion. After all, the welfare systems have grown more complex over time, making the need for expert advice even more crucial. Information and analytic capacity are, as Hecló remarks, what give key officials their central role (Hecló 1974).

If this is accepted as a valid point, it is important to investigate if there is any systematic difference to what kind of advice key officials give politicians. I believe that we should expect that. In their analysis of state responses to the Great Depression, Margaret Weir and Theda Skocpol (1985) make an important claim. Appointed officials (as well as politicians) have organizational and career interests of their own, and they will generally not act in ways that could harm these interests. When acting, they will consider the state structure in which they are located. Their role in the state apparatus will affect their interests, but it will also affect their advice in another way. "If a given state structure provides no existing, or readily foreseeable, 'policy instruments' for implementing a given line of action, government officials are not likely to pursue it," as Weir and Skocpol put it (Weir & Skocpol 1985, 118). In the case of welfare retrenchment this means two different things. First, regarding policy advice, we should expect it to have a bias toward maintaining the existing policy structure. Second, and in this case maybe more important, the advice from key officials should be expected to be influenced by the way that key officials interpret their role within the state structure.

It is important to be aware of the way that we should expect bureaucrats to influence political decisions. It is not by pushing for specific decisions in any direct way. They have neither the capacity nor the legitimacy to do so. Instead, this is done through their influence over the agenda. Here, their role is more limiting than creative. By mak-

ing some suggestions instead of others, the range of political decisions available for politicians is restricted. This makes their role reactive, but not less important.

Given the expectation that officials' advice will reflect their interests, and their interests will be affected by their role in the state apparatus, as Weir and Skocpol argue, how will their role in the state apparatus enter into their perception of their interests? The answer that I suggest is that it will be largely determined by whether their role is defined in relation to the government or the state - in other words, to which of these they feel they owe their loyalty. Loyalty to the government means that a political logic will influence a state official's advice. He or she will, like politicians, think about the outcome of the next election and thereby consider the attitudes of voters and the impact of important interest groups. In such cases, interest-based explanations put forward by New Politics and Class Politics scholars will probably be more valid. Loyalties to the state, on the other hand, imply that state officials do not think like politicians. Instead their advice is influenced by the structure of the system, and their role within it. State officials in this position think and act to keep the system as functional as possible from their point of view. It is important to note that key officials in different positions can hold quite different points of view. For key officials at the Ministry of Health and Social Affairs this might mean keeping the welfare system intact, even when cutbacks are necessary. Cuts will in such a case be made according to the already existing welfare state structure, for example the universalistic structure of the Swedish case. All key officials will, however, not view the welfare system as the defining feature for their advice. Officials at the Central bank will, for example, worry much more about the bank's objectives when they give advice.

Loyalty of key officials differs systematically among nations. The reason is that state officials are employed on very different conditions in mature welfare states. In countries like the United Kingdom and the United States, key state officials are dependent on the government for their position (Sausman & Locke 2004; Peters 2004); in other countries, such as Sweden, Denmark and Germany, they are not (Grönnegård Christensen 2004; Pierre 2004; Schröter 2004). In the first cases, key officials should therefore be more loyal to the government while, in the latter case, they should be more loyal to the state. This may help explain the differences in retrenchment among countries, where the U.K., for example, is the western country where the most far-reaching welfare cuts have been carried out, while more limited cut-backs have been made in Sweden. However, one could also make sense of the Swedish case alone. Bureaucratic support for the existing system seems to have limited the range of choices available for the political parties and has therefore blocked out a lot of interest conflicts.

Taking the bureaucracy into consideration is especially important in welfare retrenchment, as it is often characterized by the need for complex information and sometimes also by lack of time. It is probably uncontroversial to claim that mature welfare states are complex, but to assert that welfare state retrenchment is characterized by lack of time needs some additional support. In quantitative comparative studies scholars have found effects of negative fiscal balance and high unemployment levels. How large these effects are is in dispute, but it seems to be clear that they have some effects (Allan & Scruggs 2004; Huber & Stephens 2001; Korpi & Palme 2003). This can be interpreted as a crisis-effect. In line with this, I argue that a crisis in itself provides time constraints and

therefore that lack of time and retrenchment are related in some way. Exactly how common time and information constraints are, are empirical questions and go beyond the scope of this article. The theoretical argument, however, is that in cases with a lack of time and need for complex information, politicians are even more than otherwise dependent upon central state officials for information and recommendations. One should therefore expect the loyalty of key officials to influence their advice under all circumstances, but their advice will be more influential if the politicians lack either the time, the capacity or both to come up with policies of their own. Time and the need for complex information are considered to be “intervening variables” in this approach.

Sweden was such a case: cuts and tax increases of about 40 billion SEK were agreed to after just four days of negotiations between the center-right government and the social democratic opposition (Teorell 1998). Such time pressure probably reinforces the influence of key officials, as politicians operating under such circumstances have to work with already existing propositions. When there is a lack of time, you simply have to work with what you have.

Summing up, as state officials in some countries are more loyal to the state than to the government, they might be biased by their own role in the system, not calculating political gains and losses, and this affects the political output of the retrenchment process.

In total, I have put forward seven different circumstances that would need to be explored for a full explanation, and if we consider the two versions of interest-group influence as one circumstance, we have six. I will, however, consider only four of them.

As it has no clear implication for the question that I am trying to answer, I will not test the veto point hypothesis, since there were very few veto points in Sweden in the 1990s. This has two consequences. First, this should make it easier to push through a retrenchment agenda for a coalition of retrenchment agents than otherwise would have been the case. Second, this limits the possibilities for blame avoidance, as it concentrates accountability on the government and its allies.

I will instead focus on the techniques suggested by the blame-avoidance hypothesis. According to that, how the political process unfolds should be motivated by a desire among politicians not to be held responsible for retrenchment.

I will also explore the impact of the voter hypothesis on the Swedish case. Regarding the question I am trying to answer, its prediction should be fairly clear: politicians should be concerned with the strong support for the welfare state among voters and this should restrict the retrenchment.

In addition, I will investigate the impact of interest groups in the Swedish case. Here I am collapsing the two different interest group arguments put forward by advocates of New Politics and Class Politics. As previously noted, there is a common assumption that interest groups will be influential, but different opinions as to which groups are important, new or old. It is the common assumption that is investigated here, but I will not try to evaluate which kind of interest group is the most influential, if any. For this

assumption to be correct strong interest groups should be of importance and steer the retrenchment process in favor of their interest.

Finally, I will investigate the bureaucracy hypothesis, which suggests that key officials influence the retrenchment process by limiting the options available to politicians. This should be done in a manner consistent with the key official's interest, given her or his position in the state structure.

Sweden in the 1990s

I use what Peter Hall has called a systematic process analysis to investigate the Swedish case. One advantage of this method is that it reveals actual steps taken in the political process, and thereby shows real actors in their context. If, by using this approach, one cannot trace the influence of certain actors anticipated to have had power over the decisions made, it is probably not there. The research strategy is to find as many observations about the process as possible, guided by theoretical suggestions, and to try to make a judgment about which explanation best specifies the process. This makes it possible to compare the predictions made in the competing theories discussed above, and to evaluate their strength when explaining this case. The analysis will therefore be more focused on the process leading up to the political decisions of making welfare cuts than on the cuts themselves. I will also consider counterfactual scenarios (Hall 2003).

One disadvantage with this approach is the limitation of knowing how typical the Swedish case is. Here it is important to note some characteristics of the case. There are three rather distinct periods of Swedish welfare state cuts in the 1990s. The first is the period of the *Stop-package*, 1990-1991. This package was announced by the Social Democratic government in 1990, and implemented in 1991 in cooperation with the Liberal Party, before the election. The second is the period of the *Crisis packages*, unfolding from 1991 to 1994. The first two crisis packages were agreed on by the center-right government and the social democratic opposition 1992 and implemented before the election of 1994. But throughout this period, other retrenchment packages, supported only by the center-right government, were also introduced, and carried through Parliament with the support of shifting majorities. The third period covers the *Budget reconstruction program*, from 1994 to 1998. The Social Democratic Party was reelected in 1994 on a platform including measures such as benefit cuts and tax increases to handle the increasing budget deficit. This program was carried out by the Social Democrats, and supported by the Left Party (1994-1995) and the Center Party (1995-1998) (Jochem 2003; Lindvall 2004; Palme & Wennemo 1998; Ploug 1999).

In this study, I will deal with the period of *Crisis packages* (1991-1994), paying special attention to the political process leading up to the first two packages, played out in the autumn of 1992.

I selected this case for three reasons. First, Sweden has a setting of strong and well-organized interest groups, both "new" groups, like pensioners' organizations, and "old" groups, like trade unions (Timonen 2003). And, although corporatist institutions in Sweden declined during the 1990s, interest organizations are still strong and important (Jochem 2003; Svensson & Öberg 2002). This makes Sweden an easy case for the interest

group approach, and therefore a hard case for any challenging theory. Second, the lack of veto points and the severe economic crisis in Sweden in the 1990s makes it probable that serious welfare cuts would be made and that a range of retrenchment options would be considered. Third, in the period of *Crisis packages* (1991-1994) there is a variation in time pressure on political actors that, at least to some extent, makes it possible to evaluate the effect of time pressure. In the autumn of 1992, there was a currency crisis that made it necessary to act with great speed. After the floating of the *krona* in November 1992, much of the time pressure was taken away; this is discussed in more detail below.

The empirical analysis draws on official documents, secondary sources, archives, and interviews with policymakers and state officials. One archive is specially worth mentioning. After her death, the former Minister for Finance (1991-1994) Anne Wibble left an archive of documents and correspondence from her years as an active politician at the National Archives of Sweden (Riksarkivet). The interviews were conducted with centrally placed actors in the retrenchment process of the early 1990s, and include both politicians and state officials.

The Scene

Early 1990s Sweden experienced a severe economic crisis. The crisis led to the emergence of mass unemployment, not seen in Sweden since the Great Depression. Unemployment rose from only 1.6 per cent in 1990 to its postwar peak of 8.2 per cent in 1993, not counting those in labour market training programs. Unemployment stayed at about that level until 1998 (SCB 2005). Underlying persistent unemployment was weak economic growth. The GDP declined from 1991 to 1993. Together, this created a growing budget deficit, going from a surplus in 1990 to a large deficit only few years later (Kuhnle 2000; Lindvall 2004).

It is beyond the scope of this paper to explain why those macroeconomic changes occurred. This has been done by others (Lindvall 2004; Martin 2000). Here, I take the crisis in itself as a given and focus on the impact this situation had on policymaking.

A consequence of the 1990s development was that the prerequisites of the Swedish welfare model – low unemployment and stable economic growth – could no longer be met (Huber & Stephens 1998; Pontusson 1992). Relative social spending rose as a result of both the shrinking GDP and the rising costs for unemployment. Supporting the growing budget deficit with loans created pressure for budget cuts on the government from the financial markets that set the cost of borrowing. All of this put a strain on Swedish social and economic policy. Politics in Sweden in the early 1990s was very much about dealing with these problems.

One particular feature of the crisis that is of special importance is understanding the actions taken by the political parties and the central bank – the *Riksbank* – in 1992. This is the status of the hard currency policy adopted in the early 1990s. The Swedish economy was overheating in the late 1980s, and as a consequence inflation was high (Martin 2000). In October, 1990, the Social Democratic government changed the chief objective of Swedish macroeconomic policy, making low inflation its primary goal (prop.

1990/91:50). There was, early in this decade, consensus among politicians and economic experts that this policy should be supported by a strong commitment to a fixed exchange rate of the Swedish krona. In May 1991 the Riksbank pegged the krona to the European Currency Unit, the ECU. Unemployment could no longer be fought by devaluations, as had been the case in the early 1980s (Lindvall 2004).

The commitment to the fixed exchange rate was, however, challenged by speculation against the Swedish currency. The early 1990s was a turbulent period on the European exchange markets. Speculation forced several countries connected to the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS) to opt out. This turbulence also affected Sweden and the Riksbank defended the Swedish currency by raising interest rates. In September 1992 the pressure against the krona was hard. Interest rates were raised, at first to 24 percent, then to 75 percent, and eventually, pressured by the floating of other European currencies, to an inconceivable 500 percent. In November 19, 1992, however, the Riksbank had to give up, letting the krona float (Lindvall 2004).

Before that, late in August 1992, there were initiatives from both the center-right government and the social democratic opposition to start a dialogue, negotiating fiscal policy changes intended to strengthen confidence in the Swedish economy, and especially in its currency. Some contacts were made in September, and on September 17 the Prime Minister, Carl Bildt, from the Conservative Party, and the Social Democratic leader Ingvar Carlsson publicly declared that they would start a dialogue aimed at developing a crisis package. Just four days later a retrenchment package was presented, including cuts and increased taxes of about 40 billion SEK (DN 1992a; Egardt 1992; Prop. 1992/93:50; Teorell 1998).

Blame-avoidance and credit-claiming

To understand the motives for the actions of all political parties in September 1992 it is of the uttermost importance to understand that the main objective was to stick to the hard currency policy. As already mentioned, there was a strong consensus on this policy. The center-right government, the Social Democrats, the Riksbank and basically all other important actors believed that there was no alternative to floating the krona, mainly because of the experience of the failure of the third way (Martin 2000). However, speculation against the krona created hard pressure to float the Swedish currency. The Riksbank used the interest rate to oppose that. The 500 percent interest rate, implemented the days before the first crisis package, shows just how strong this commitment was. At this time, it was clear that only using the interest rate would not be enough. Confidence in the Swedish economy as a whole had to be restored, using political means. This created pressure to come to an agreement on a crisis-package in the first place (Lindvall 2004).

The broad agreement on the two crisis-packages in September 1992 is in itself consistent with the New Politics conception of blame avoidance. It might be interpreted as a way of spreading blame among the political parties and avoiding accountability in a time of crisis. There is also some evidence to support this. The Liberal Party leader Bengt Westerberg explains that one important motive for involving the Social Democrats in the retrenchment process was that this would share the political burden across a broader

majority of the political parties. "If the government itself would have presented, for example, a reduction of pensions to 98 percent, the critique would have been so hard, it would have been politically impossible to proceed"¹

This conclusion was, however, not shared by the government as a whole. Representatives from the Conservative Party and from the Christian Democratic Party were skeptical of an agreement with the Social Democrats. Olle Wästberg, State secretary from the Liberal Party in the Ministry of Finance explains how the different parties in the government reasoned on this issue: "The Conservatives and the Christian Democrats were not so interested in this," he continues; "the Liberal Party thought that it was hard for us [i.e., Liberals] to make big social cuts with a conservative party, and it would be much easier if the Social Democrats were in on this."² However, even within the Liberal Party, there were differing views on this issue. The Minister for Finance from the Liberal Party Anne Wibble was "not enthusiastic," Mr. Wästberg says.³

It is also the case that at least parts of the government also considered a solution that would not include the Social Democrats. Peter Egardt, from the Conservatives, State secretary in the Prime Minister's Office and a very important advisor to the Prime Minister, stated in an interview to *Dagens Nyheter* in the beginning of September that the government had no intention of negotiating with the Social Democrats (Dagens Nyheter 1992c). And even when pre-negotiations with the Social Democrats had started, the negotiators Carl B. Hamilton and Olle Wästberg, who were both from the Liberal Party, did for a long time not believe that it was worth its political price to reach an agreement with the Social Democrats (Hamilton 1992b; Wästberg 1992a).

To understand why the government reached an agreement with the Social Democrats, one must consider the alternatives. The center-right government was a minority government. It had to seek support, and it had only two options; the Social Democrats or the populist party New Democracy. The Liberals, and especially Mr. Westerberg, had invested heavily in not relying on New Democracy because of its populist immigrant policies. A formalized agreement with the Populists was therefore out of the question. This was however nothing new and Mr. Egardt explains how the government reasoned when they first came into office 1991: "We assumed that we, in the Riksdag, always could count on support from New Democracy," but concludes that "at least to some part, that assumption proved to be wrong."⁴ The Populists were, however, the only reasonable alternative for the government, and probably what opponents to an agreement with the Social Democrats were thinking of. The questions they faced were if they could trust New Democracy, and even if they could, would such a crisis package

¹"Hade bara regeringen gått ut och sagt att man t.ex. skulle sänka pensionsutbetalningarna till 98 procent, så hade kritiken blivit så hård att det hade varit politiskt omöjligt att fortsätta." Interview with Bengt Westerberg.

²"Moderaterna och kristdemokraterna var föga intresserade av detta." And, "Folkpartiet menade att vi har mycket svårt att genomföra stora sociala nedskärningar tillsammans med ett konservativt parti och det skulle underlätta oerhört om vi hade med socialdemokraterna." Interview with Olle Wästberg.

³"kände ingen entusiasm för det." Interview with Olle Wästberg.

⁴"Vi hade utgått från att vi i princip alltid kunde räkna med stöd i Riksdagen från Ny demokrati. Det visade sig delvis vara en felbedömning." Interview with Peter Egardt.

restore the necessary confidence in the Swedish currency. Uncertainty about the answers to both those questions made the populist alternative less attractive. Mr. Egardt concludes that “it was not a realistic alternative.”⁵ When the government faced the immediate currency crisis and the 500 percent interest rate was implemented, they therefore had only one realistic alternative if they wanted to bring a retrenchment package to parliament.

What motivated the Social Democrats to make an agreement on welfare cuts with a center-right government is hard to explain with a blame avoidance approach. Obviously, they took a considerable political risk in doing so. They could have, after all, just let the government take the blame. To understand why they made an agreement one must recall the depth of the economic crisis and the hard currency policy. The Social Democratic leader Ingvar Carlsson says that “it was an extraordinary situation. It trembled in a way that is not common in Sweden.”⁶ In his memoirs Mr. Carlsson writes about their motives. He points to the three arguments important to the Social Democrats: they worried about how Sweden would look when the Social Democrats once again came into office if they did not solve the crisis in a “reasonable” way; they were concerned about where they could seek support once in office, if they denied their own support now; and, they worried about the public reactions if the crisis was not solved as efficient as possible (Carlsson 2003, 486-487). In a memorandum from one of the government’s negotiators sent to the Prime Minister and the Minister for Finance, Mr. Wästberg wrote about how he interpreted the Social Democrats motives. In his view they had three motives: to prove that Sweden cannot be governed without the Social Democrats; to end the government’s reform agenda; and, according to Mr. Wästberg the Social Democrats also suffered from being left out of the loop [“kanslihusabstinens”] (Wästberg 1992a). What both descriptions have in common is that the Social Democrats were more motivated more by credit-claiming than blame avoidance. They wanted to be able to point to the agreement and to win something, as much in the eyes of the other parties as in the eyes of the public.

To evaluate the extent to which the agreement had to do with blame avoidance, one might also consider how the government acted later in the mandate period. In order to deal with the budget deficit, welfare cuts were also made after the agreement was struck between the government and the Social Democrats. The most important changes were the cuts made in replacement rates in parental insurance and in unemployment insurance. Both were decreased from 90 to 80 percent (Palme & Wennemo 1998). In neither of those cases did the government hide who had been responsible for the cuts, and the bills were carried through parliament on shifting majorities.

One should also consider how the Swedish parties acted before the election of 1994. At this point, it was clear that Sweden faced new welfare cuts. The parties, however, did not try to conceal this fact, nor did they seek broad compromises. Instead, both the Social Democrats and other parties proposed big cuts already in their election cam-

⁵ “...det var inget realistiskt alternativ.” Interview with Peter Egardt.

⁶ “det var en väldigt speciell situation. Det skakade till på ett sätt som inte är vanligt i Sverige.” Interview with Ingvar Carlsson.

paings. In 1994 the Social Democrats won the election on a very straightforward platform of welfare cuts (SAP 1994).

Summing up, it is not clear how important the blame-avoidance tactic was in the Swedish case. It is, however, safe to say that the most important objective for the government was to present a credible package that could restore confidence in the national currency, and in doing so they had no real alternatives. For one party – the Liberals – the blame-avoidance tactic seems to have mattered, but not for other parties. Considering the alternatives, the Social Democratic motives, and how the parties acted later in the period it is probable that blame avoidance tactic not the most important – and definitely not the only – guiding feature.

Voters and interest groups

According to a basic New Politics argument, retrenchment is restricted by the unpopularity of welfare cuts among voters. It was true, also in the early 1990s in Sweden, that the welfare state was supported by a large proportion of the electorate (Svallfors 1996). If, and in such a case how, this restricted the welfare cuts is however a more open question.

All political actors involved in the process were aware of the unpopularity of welfare cuts. Jan O. Karlsson, economic advisor and negotiator for the Social Democrats, said that: “There were a lot of discussions concerning how different groups would react, and how one could get people to respect the decisions. However, what really mattered was that there was nothing we were more afraid of than not getting results.”⁷ According to him the unpopularity among voters was not what really mattered at the end of the day. The Liberal leader Mr. Westerberg gives an explanation to this when he stress the awareness of the crisis throughout the society. “There was broad public support for the crisis-packages,” he says. Mr. Karlsson thinks likewise, and concludes, “the fact that the interest rate was 500 percent for a few days, and the popular cooperation between the two blocks, made the process run rather smoothly.”⁸ This gave politicians relatively free hands.

What the actors referred to was more than just a feeling. A few days after the first crisis package, opinion polls were published in the Swedish newspapers. Public support for the crisis package was very strong. According to one poll 75 percent of the respondents said that the agreement was “good.” Among supporters of the political parties backing the package support was even stronger, between 86 and 90 percent (Expressen 1992). Another poll, published in another paper a few days later, confirmed this pattern (Dagens Industri 1992).

⁷“Det var väldigt mycket diskussioner om hur olika grupper skulle uppfatta det här, och hur man skulle få människor att respektera besluten. Men det som var styrande var att det fanns ingenting som vi var så rädda för som att inte nå något resultat.” Interview with Jan O. Karlsson.

⁸“Det fanns en bred folklig uppbackning av krisuppgörelserna”, interview with Bengt Westerberg. “förhållandet att räntan var 500 procent under några dygn samt det blocköverskridande samarbetet som medborgarna älskade gjorde att arbetet gick ganska smidigt.” Interview with Jan O. Karlsson.

It is not possible for me to evaluate these attitudes in themselves, but it is clear that they influenced the decision-makers. The Social Democratic leader Mr. Carlsson points to this fact. "We were 'helped' by the crisis itself. When opinion polls were taken right after the crisis-packages, about 85 or 90 percent backed the agreements. In this way it was unusually 'easy' to make these decisions."⁹ Mr. Westerberg also concludes that the general "public support" for the crisis package made it easier for politicians to take action.¹⁰ When the government and the opposition agreed to make big cuts in the budget, they relied on this side of the public opinion, and they were therefore not as constrained by welfare state support as one would have predicted.

We now turn to the question of interest group support. In order to evaluate the role of interest groups, we need to establish what groups were targeted. The main welfare cuts agreed to in the first crisis package were applied to sickness and work-accident insurance (introducing one waiting day in sickness insurance and reducing replacement rates to 80 percent for most of the first year and after that to 70 percent), in the pension system (reducing basic pension rates to 98 percent of the base amount and raising the pension age by one year), housing policy (reducing state subsidies), and family policy (abolishing a raise in the child allowance). Tax increases were also agreed to (mostly for medium- and high-income groups). What is more, a state commission was set up to investigate the possibility of large changes in the structure of sickness and work-accident insurance, transferring them to the labor market parties (Egardt 1992; Prop. 1992/93:50).

The government and the Social Democrats also made some additional agreements in the crisis-package. They were the result of a set of Social Democratic conditions, some of them spelled out already during pre-negotiations. The center-right government agreed to a temporary stop to privatization, to consulting the Social Democrats before making any changes in labor market legislation and to a weaker kind of consultation before privatizing any more state owned companies.¹¹ Exactly what the consultation clauses meant is politically controversial, but Mr. Egardt says that from the government point of view it was clear that the Social Democrats did not have a veto in either of the two cases.¹² In addition, the government agreed not to increase individual contributions to unemployment insurance, which they previously declared that they would do (Egardt 1992).

As seen from the description above, many groups were hit by the cuts: the long-term sick, workers, pensioners, families and high-income earners. The political actors agreed at an early stage that "everybody" would have to pay for the economic crisis. "We thought that everybody should carry the burden in some way," Mr. Westerberg says, and continues: "The premise of the line of argument was that we were in a kind of

⁹"Vi hade en väldig 'hjälp' av krisläget. När det gjordes opinionsundersökningar direkt efter krisuppgörelserna så var det 85, 90 procent som stod bakom uppgörelserna. På det sättet var det ovanligt 'lätt' att ta sådana här beslut." Interview with Ingvar Carlsson.

¹⁰"folklig uppbackning." Interview with Bengt Westerberg.

¹¹The stronger form of consultation was in Swedish called "samråd i förtroendefull anda," while the weaker was called "samråd" (Egardt 1992, 3).

¹²"Frågan var om socialdemokraterna hade skaffat sig vetorätt, och det hade de inte." Interview with Peter Egardt.

crisis that no one had seen in modern times. We were convinced that it was important to save the krona because it would otherwise be impossible to rid inflation from the system, which was the precondition for the negotiations and the crisis-package. In this situation it was reasonable that everybody should pay.”¹³ Mr. Carlsson shared this view, claiming that: “The basic line was that everybody should contribute.”¹⁴ This was also expressed in the government bill that was based on the two crisis-packages and that was sent to parliament. The Minister for Finance, Ms. Wibble, wrote: “The reconstruction means that the temporary burdens will be carried by everybody, which guarantees policy support and credibility” (Prop. 1992/93:50, 8).¹⁵

Even though a broad set of groups was targeted, “everybody” is never included. Here, there were two major exceptions.

The first related to the labor market. It is true that cuts were introduced in work-accident insurance, but aside from that, cuts in labor market policies were excluded from the agreement; instead, there was an expansion in active labor market policy. This expansion was, however, uncontroversial. In a memo from the first talks, Mr. Hamilton, negotiator for the government and advisor to the Minister for Finance, wrote “we largely agreed on the importance of labor market measures” (Hamilton 1992b).¹⁶ This consensus was a consequence of the rapidly rising unemployment.

Another exception made in the labor market policy area was to unemployment insurance. Here the Social Democrats had blocked a rise in individual contributions, this was however a smaller thing, however. More important was that the unemployment insurance was not reduced at this point in time, but later. Reimbursement rate were at first reduced to 80 percent by the center-right government in 1993 (Proposition 1992/93:150), and then to 75 percent by the new social democratic government in 1995 (Proposition 1994/95:150). This reflects that it had been politically possible to do it. Accordingly, why not in the crisis packages of 1992?

To explain this we need to realize that even though there existed a consensus around active labor market policy, labor market policy as a whole was indeed controversial. The government and the Social Democrats held very different views on labor market legislation, and on the kind of role the trade unions should have in the administration of unemployment insurance. Actors from all parties therefore viewed this policy-area as a political minefield, especially due to earlier declarations by the center-right government that it intended to change labor market legislations, and also introduce a compulsory clause in the unemployment insurance which would take away an impor-

¹³“Vi tänkte att alla skulle vara med att bära bördorna på något sätt.” And, “Resonemanget byggde på att vi befann oss i en ekonomisk kris av ett slag som ingen hade upplevt i modern tid. Det fanns en övertygelse om att det var viktigt att rädda kronan, vilket var förutsättningen för förhandlingarna och krisuppgörelsen, eftersom det annars inte skulle vara möjligt att få ut inflationen ur systemet. Då var det rimligt att alla skulle få vara med och betala.” Interview with Bengt Westerberg.

¹⁴“Grundinställningen var att alla skulle hjälpa till.” Interview with Ingvar Carlsson.

¹⁵“Saneringen innebär att den temporära börda besparingarna utgör kommer att bäras av alla, vilket garanterar uppslutningen och trovärdigheten kring politiken.”

¹⁶“vi nog i stort sett var överens om vikten om arb. mark. pol. Åtgärder.”

tant motive for joining trade unions. The center-right government later introduced such a compulsory clause, in 1994, just before the election. The Social Democratic government eliminated it upon coming to power the same year (SOU 1996:150).

It was not, however, an overall demand of the Social Democrats to exclude all labor market policies, thereby ruling out cuts in unemployment insurance. Social Democratic demands before the negotiations were clearly defined in a set of memoranda from the Ministry of Finance (inträdesbiljetterna). It consisted of four types of demands: 1) information about the economic situation and the state budget; 2) a reform-stop, and especially not to enact the care allowance reform (introducing special assistance to parents whose children did not use public child care); 3) no tax cuts that were not specifically financed; 4) and a halt to the privatization of state corporations (Hamilton 1992a, 1992b, 1992c; Wästberg 1992a).

Labor market policy was not mentioned in these memos, with the exception of the common position on active the labor market policy cited above. It became, rather, a common understanding among the actors involved that it would be too hard to agree, making it hard to even discuss this area. Mr. Egardt explains that the government realized that “there were certain issues of special importance for the Social Democrats that would be unjustified to bring up, because of the trouble it would lead to”.¹⁷ Therefore, the government did not force these issues. The Social Democratic negotiator Mr. Karlsson said that “We were rather pragmatic; we only talked about things where we could get results”. He continued: “If we had had ‘peace’ concerning the structure of the system, then we would probably have been able to make some cuts in unemployment insurance and taken some complaints from Norra Bantorget.”¹⁸ (Norra Bantorget is the address of Landsorganisationen i Sverige, LO, the blue collar confederation which is linked to the Social Democratic Party.)

The last comment, and the fact that both the center-right government and the Social Democrats cut reimbursement rates in unemployment insurance shows that this might have been possible. It is plausible that this was influenced by the trade unions. However, when asked about contacts with interest organizations, all decision makers stated that there had been no time for such contacts. Normally, in Sweden, all governmental proposals are referred for consideration to major organizations. Now, they found themselves excluded from the process, with one exception, due to the organization of the Swedish Social Democratic Party. In their Executive Committee (Verkställande utskott) LO was represented, and as far as the executive committee was involved, so was LO (for a description of the decision-making process, see Teorell 1998). However, I find no evidence from the interviews that LO was an important actor during the negotiations. And, the contention that it was not is supported by the fact that after the second crisis-package, the Chairman of the LO, Stig Malm, was openly critical of the agreement (Dagens Nyheter 1992b).

¹⁷“det finns hjärtefrågor för socialdemokraterna som det är ohemult för oss att föra fram, vi inser vilka problem det skulle leda till.” Interview with Peter Egardt.

¹⁸“Vi var väldigt pragmatiska,” “vi talade bara om saker där vi visste att vi kunde nå resultat,” and “Om vi hade haft borgfred om systemets struktur så hade man nog kunnat göra besparingar på A-kassesystemet, och tagit lite gny från Norra Bantorget.” Interview with Jan O. Karlsson.

The other major exception that demonstrates that “everybody” was not included involved the so-called handicap-reform. This was an extensive reform act from the Ministry of Health and Social Affairs, to which the Minister for Social Affairs himself was very dedicated. It aimed to improve the standard of living for the disabled, introducing personal assistance. It was an expensive reform and it is easy to imagine that it could have been abandoned in the retrenchment process. What is more, prior to the agreement the Social Democrats set the precondition that there should be no more reforms, however, this demand was after a while presented as “a general rule with one exception (the handicap-reform)” (Hamilton 1992c).¹⁹

The personal commitment of the Minister for Social Affairs and Liberal Party leader, Mr. Westerberg, played an important role as to the fate of the handicap reform. Mr. Westerberg, stated: “I was very concerned to implement the handicap-reform that I worked on at that time, irrespective of the cuts.”²⁰ He was in a position to save it because of his strong position in the government and because of his importance in the negotiations with the Social Democrats. “Bengt was crystal clear on this matter. It was not seen as negotiable. The Liberal Party, or at least Bengt Westerberg, could have left the government on this matter,” Mr. Hamilton said.²¹ The Minister for Health and Social Insurance Bo Könberg concluded on this matter that, “if it would not have been for Bengt [Westerberg] the reform would not have survived.”²² This makes it understandable as to why it was approved in the government. And Mr. Karlsson explains why the Social Democrats accepted this: “It had to do with Bengt Westerberg’s crucial role in the negotiations. There was a mutual understanding between Bengt Westerberg and Ingvar Carlsson. Ingvar did not object that his most important counterpart put the handicap-reform aside.”²³ The handicap reform seems to a considerably large extent to have survived due to the personal commitment of Mr. Westerberg. More crucial in this case, however, was that no one pointed to the handicap movement as an important actor.

In sum, voter support for the welfare state did not halt the retrenchment process. It is clear that all politicians involved were concerned with how welfare cuts would be received, but they were at the same time convinced, correctly or incorrectly, that the crisis itself would help them overcome this obstacle. There was a good chance that citizens would agree that there was no way around this, as the decision makers thought, and opinion polls at the time of the crisis packages seem to have proved them right.

The welfare cuts struck broadly. All actors agreed that no social group should be left out of this. Contrary to what has been claimed about the Swedish case, even strong interest groups were not able to oppose the cuts by pressuring the political actors. Ex-

¹⁹“En generell regel med ett undantag (handikappreformen),” Hamilton 1992c.

²⁰“Jag var angelägen om att genomföra handikappreformen, som jag arbetade med, oavsett besparingarna.” Interview with Bengt Westerberg.

²¹“Bengt var kristallklar på den punkten. Det uppfattades som att det inte var förhandlingsbart. Folkpartiet, eller åtminstone Bengt Westerberg, skulle nästan kunna lämna regeringen på den frågan.” Interview with Carl B. Hamilton.

²²“hade inte Bengt varit så hade inte reformen överlevt.” Interview with Bo Könberg.

²³“Det hade att göra med Bengt Westerbergs helt avgörande roll i förhandlingarna. Det fanns ömsesidig förståelse mellan Bengt Westerberg och Ingvar Carlsson. Ingvar hade ingenting emot att hans viktigaste motpart fick föra undan handikappreformen.” Interview with Jan O. Karlsson.

ceptions were made, for broader political reasons (unemployment insurance) and because of personal commitments (the handicap-reform). The exception of unemployment insurance and the Social Democratic conditions in the agreement show that partisan politics had an important impact in this process. It would be unwise to claim something else. Because of the ideological differences on the larger issue of labor market policy structure, cuts in unemployment insurance were ruled out, something that did not have to happen. This however still does not explain the broad structure of the cuts in 1992, or that unemployment insurance could be cut later both by the center-right government and the Social Democrats. Partisan politics is clearly important in retrenchment processes but the link to interest groups is neither as direct nor as strong as suggested earlier (Anderson 2001, Timonen 2003).

Setting the menu

Once again it is important to remember currency speculations and the status of the hard currency policy at this time. The hard currency policy gave the political actors a common objective. All political actors involved in the crisis-packages tried to defend the krona, using one instrument that was not available to the Riksbank; fiscal policy changes. Prime Minister Carl Bildt and the Social Democratic leader Ingvar Carlsson spelled out this objective in a common statement before the agreement on 17 September 1992. "The government and the Social Democrats have initiated a dialog, aiming at an agreement on a crisis-package to make it possible, also in the long run, to defend the Swedish krona and strengthen the Swedish economy" (quoted in Dennis 1998, 57).²⁴

How to "strengthen the Swedish economy" was, however, to a large extent influenced by the Riksbank. One day after the Bildt-Carlsson statement, on the afternoon of September 18, Bengt Dennis, Governor of the Riksbank, presented the Bank's analysis to an assembly of the leaders of all parties represented in the Riksdag. He presented a list of eight points, with the Bank's view on what should result from a crisis package. Most of the points were general, some practical advice, but some others were clearly policy recommendations. Dennis's third point was the most obvious example: "The range of cuts in the budget, and possible increases in income, must together reach three percent of the GDP. The greater part should to be budget cuts" (Dennis 1998, 62).²⁵

This policy recommendation – big cuts, small tax increases – influenced the political actors and dominated negotiations the following weekend. Both the Minister for Taxation and Financial Markets, Bo Lundgren, of the Conservative Party, and the Minister for Finance, Ms. Wibble, of the Liberal Party, have described how important this talk was (Lundgren 1998, 150; Wibble 1994, 28). Other actors agree that the analysis from the Riksbank was crucial. Mr. Westerberg described in an interview how the 3 percent of

²⁴"Samtal förs nu mellan regeringen och socialdemokraterna syftande till en krisuppgörelse för att göra det möjligt att också långsiktigt värna den svenska kronans värde och stärka den svenska ekonomin."

²⁵"Omfattningen av utgiftsneddragningar och eventuella inkomstförstärkningar måste sammantaget uppgå till vad som minst motsvarar tre procent av BNP. Helt övervägande delen bör vara nedskärningar av utgifterna." (Dennis 1998, 62).

GDP figure set the framework in the negotiations: "We were aiming at cuts of about 50 billion in the negotiations."²⁶

By setting the framework, the Riksbank's way of thinking affected the substance in the crisis package. Mr. Westerberg continues: "The analysis was not so much about the effects this might have on individuals, even if this was a restriction, but more about reaching large budget cuts."²⁷ The Social Democratic leader Mr. Carlsson holds a similar view regarding what was important during the negotiations. He says: "At this point it was most important to do what was right from an economic point of view, and that had an effect on the budget. It was all about lowering the interest rate."²⁸

In his study of the Swedish crisis of the 1990s Anders Lindbom paraphrases Gösta Esping-Anderson (1990). Lindbom writes: "it is difficult to imagine that anyone has struggled to make painful cutbacks *per se*" (Lindbom 2001, 173). But this is more or less what they did. All political actors had one thing in common; they struggled for big cuts *per se*. This defined the first crisis package, and it is important to note that the process, already at its outset, was to a large extent influenced by key officials at the Riksbank, and especially by its governor Mr. Dennis.

Why did the Riksbank try to influence the negotiations? The general answer to this is that it was the only way it could fulfil its role in the state structure. Its key objective was to defend the Swedish currency, something they thought was necessary at the time, and using the interest rate was not efficient enough. From the bank's perspective the importance of the crisis-package would be demonstrated by how it was judged by the financial markets. The Bank's analysis at the time of the first crisis-package showed that the budget deficit was the biggest problem, and what was especially worrying was a large "structural" part of the budget deficit. Only large cuts could deal with this. According to the Governor, Mr. Dennis, this analysis was based on their studies, but also influenced by recommendations from the International Monetary Fund (IMF) (Dennis 1998, 64-65). The Riksbank was convinced that most actors in the financial markets shared their view of the nature of the problem, and without credibility on those markets, the Riksbank's task would be impossible.

The reason for the broad influence of their analysis was the political independence of the Riksbank. Formally the Riksbank became independent first in 1999, but it had been so, *de facto*, already in the early 1990s (Lindvall 2004, 122). If their recommendations had been interpreted as influenced by partisan politics, the Social Democrats would probably not have been as convinced by their advice, and it is plausible that they would have fought for more tax increases and fewer cuts, in the negotiations. Now, the mix suggested by the Riksbank was, more or less, taken for granted.

²⁶"Vi satt i förhandlingarna och skulle komma upp i ett besparingsprogram på ungefär 50 miljarder." Interview with Bengt Westerberg.

²⁷"Då handlade inte analysen om att titta exakt på vilka effekter som olika förslag hade för enskilda individer, även om detta fanns med som en restriktion, utan det handlade om att uppnå mycket stora besparingar på budgeten." Interview with Bengt Westerberg.

²⁸"I det här läget var det viktiga att göra det som var ekonomiskt riktigt och som hade effekt på budgeten. Det handlade om att få ner räntan." Interview with Ingvar Carlsson.

The Riksbank's independence did not, however, mean that it could not be used for political purposes by other actors. The Prime Minister's State Secretary Mr. Egardt says that he and Mr. Bildt were informed of the Riksbank's analysis through the Minister for Finance, Ms. Wibble. The three of them wanted to convince other actors, both within and outside of the government, that big cuts were necessary. Especially, they wanted to influence the Minister for Social Affairs Bengt Westerberg and the Social Democrats. According to Mr. Egardt this was the reason for which the Prime Minister invited Mr. Dennis to present the Riksbank's view to the party leaders. Mr. Egardt even says that the idea of defining the magnitude of the cuts in per cent of GDP came from Mr. Bildt, Ms. Wibble and himself. "You can not command Bengt Dennis, but I said that it was important also to define the goal as percent of GDP, so we attained a frame within which we could work."²⁹ Mr. Egardt stated that this had achieved the effect "that they had hoped for."³⁰ Although there is no evidence suggesting that the Riksbank itself had had a political agenda, the circumstances made it a useful tool in the hands of those who did.

After the Bildt-Carlsson statement and the Dennis lecture, on Thursday and Friday, when substantial negotiations had started, it became clear that the parties needed a quick result. An agreement had to be presented by the following Monday at the latest. "We knew that failure would be a setback for all parties, as for Sweden," wrote the Minister for Finance Anne Wibble, in her memoirs (Wibble 1994, 30).³¹

Before this there had been a dialogue for little over two weeks, mainly among two of Anne Wibble's advisors - Olle Wästberg and Carl B. Hamilton - and two social democratic economic advisors - Jan O. Karlsson and Leif Pagrotsky, but also with some influence from the Prime Minister's State Secretary Peter Egardt. These talks were aimed at preparing the ground for more substantial negotiations, but for some time, it was uncertain if they would ever lead to high-level negotiations. When the pre-negotiations started, at the beginning of September 1992, the government's negotiators did not believe in a deal with the Social Democrats (Hamilton 1992b, Wästberg 1992a). Although important, these talks did not, for the most part, deal with real policy issues. Their importance lay elsewhere, Mr. Wästberg stated: "Its most important role was to create trust."³²

Under these circumstances, almost all decisions concerning substantial budget cuts had to be made during the high-level negotiations during the weekend of September 18-20. The politicians, therefore, were forced to work with what they already had, and this consisted mainly of lists of suggestions from the Ministry of Finance. Due to this, officials at the Ministry of Finance and their colleagues at the other ministries involved - in this case mainly the Prime Minister's Office and the Ministry of Health and Social Affairs - played a very important role for the substantial budget cuts.

²⁹"Bengt Dennis styr man inte, men jag sa att det var viktigt att han också angav procent av BNP som mål, så att vi därmed kunde få ett ramverk att arbeta inom." Interview with Peter Egardt.

³⁰"På det sätt som vi hade hoppas på." Interview with Peter Egardt.

³¹"Vi visste att ett misslyckande vore ett nederlag för alla inblandade, liksom för Sverige."

³²"Dess viktigaste roll var att det var ett slags förtroendeskapande verksamhet." Interview with Olle Wästberg.

The significance political actors attached to the advice from key officials were reflected in the demands made by the Social Democrats during pre-negotiations. As already mentioned, they wanted guaranties against new reforms, tax cuts and privatizations, but they also demanded “economic analysis (made by Ingemar Hansson)” (Hamilton 1992b).³³ Ingemar Hansson was the Director-General of the Ministry of Finance’s Economic Affairs Department. The Social Democrats obviously not only trusted him, but also thought that they needed the information he could provide to enable the agreement.

How important state officials were also is reflected by accusations of lack of suggestions, made both by the government and the Social Democrats. “The Social Democrats had very few suggestions,” said the Minister for Health and Social Insurance, Bo Könberg; and the Social Democratic leader Mr Carlsson stated “the government, strangely enough, was badly prepared.”³⁴ Once the negotiations had started, were no state officials involved; politicians seem to have had a very hard time coming up with new suggestions.

So, where did they get their suggestions? As a normal part of their job, officials at the Ministry of Finance prepared lists of possible reforms to strengthen the budget, especially during times of budget deficit. “These are a kind of suggestion that are often prepared at the Ministry of Finance, and then discussed with, for example, the Ministry of Health and Social Affairs,” says Kristina Reinholdsson who, at that time, worked as a coordinator between the Ministry of Finance and the Ministry of Health and Social Affairs. Bettina Kashefi, who had a similar position, confirmed this, saying: “the suggestions came partly from the Ministry of Finance, partly from the Ministry of Health and Social Affairs.”³⁵

Mr. Hansson explained the special importance of the Ministry of Finance: “Officials at the Ministry of Finance always make long lists of budget cuts. To a large extent measures from those lists were used.” He continued: “There is no ‘expenditure ministry’ that wants to suggest cuts in its own field, and the Prime Minister’s office and the offices of the political parties lack the competence to come up with suggestions that are possible to implement.”³⁶ There are two departments within the Ministry of Finance that make these kinds of lists: Mr. Hansson’s Economic Affairs Department and the Budget Department. Documents reveal that during the autumn 1992 Mr. Hansson and Inga-Britt Ahlenius, Director-General, Ministry of Finance’s Budget Department, and their colleagues,

³³“rent ekonomiska, klara kalkyler (gjorda av Ingemar Hansson).” (Hamilton 1992b).

³⁴“Socialdemokraterna hade väldigt få förslag.” Interview with Bo Könberg. “Regeringen var märkligt nog väldigt oförberedda.” Interview with Ingvar Carlsson. Mr. Egardt, Mr. Hamilton, Mr. Karlsson and Mr. Wästberg makes similar statements in their interviews. See also Carlsson (2003, 493).

³⁵“Detta är en typ av förslag som ofta finns förberedda på Finansdepartementet och som sedan diskuteras med t.ex. Socialdepartementet.” Interview with Kristina Reinholdsson. “förslagen togs dels fram i Finansdepartementet, dels i fackdepartementen.” interview with Bettina Kashefi.

³⁶“Finansdepartementets tjänstemän håller alltid långa listor med potentiella åtgärder för att förstärka budgeten. I stora drag blev det åtgärder från de listorna.” And, “Det finns inget utgiftsdepartement som vill ta fram besparingar på sitt område och Statsrådsberedningen och partikanslierna saknar kompetens för att utforma förslag så att de går att implementera i praktiken.” Interview with Ingemar Hansson.

presented several memos with lists of budget cuts (Ackeby & Kashefi 1992; Ahlenius 1992a, 1992b; Hansson 1992a, 1992b, 1992c).

The list of budget cuts was then normally discussed with other officials in the different ministries involved. The Director-General of the Social Insurance Department of the Ministry of Health and Social Affairs, Inger Rydén Bergendahl, said: "Often, we obtained long lists from the Ministry of Finance with questions on what one or the other measure would provide." Ms. Rydén Bergendahl continues: "The Ministry of Finance has, in this process between the Government Offices, the privilege to make suggestions regardless of their political acceptance."³⁷ Bengt Sibbmark, Deputy Director at the Social Insurance Department, explains the different roles of the ministries in this process, as seen from the Ministry of Health and Social Affairs: "Lists from the Ministry of Finance have sometimes the character of wishful thinking regarding which cuts are possible. If the Ministry of Health and Social Affairs got an assignment to make cuts, we wanted to come up with a suggestion that reasonably considered the purpose of the insurance. This is a source of discussion between the Ministry of Finance and the Ministry of Health and Social Affairs."³⁸

The Prime Minister's Office was also very active. This is the most politicized of the Government Offices. It has a coordinating role between the coalition partners and a larger proportion of political advisers than the other offices do. Suggestions on budget cuts were normally processed at the Ministry of Finance, and then sometimes complemented by ideas from the Prime Minister's Office. The Prime Minister's State Secretary, Mr. Egardt, claimed that their biggest contribution during the autumn 1992 was an idea of a large reform within the social insurance system known as *the Stair* (trappan). This suggestion was initiated by Mr. Egardt himself, "it was something I had prepared," as he said. However, one should also note that it had similarities, and in all memoranda it was compared to, a suggestion from the Swedish Employers' Association (Svenska arbetsgivareföreningen, SAF) (Johansson & Olofsson 1992a, 1992b). The Stair was an attempt to coordinate reimbursement rates between different social insurance systems (sickness, work-accident, unemployment and parental leave), and create what was called a stair of incitement.³⁹ The lowest step - at a reimbursement rate of 75 percent - would be used for short-time leaves and the highest step - at 100 percent - would only be reached through a regular, full-time job. A preliminary analysis showed that this would result in cuts of roughly 12 billion SEK (Johansson & Olofsson 1992a). The Stair was an extensive reform, and it was never implemented, although some of its components such as waiting days, cuts in reimbursement rates and coordination between the sickness and the work-accident insurance were used. These elements were not new, however, and if

³⁷"Det kom ofta långa listor från finansdepartementet med frågor om vad den ena eller andra åtgärden skulle ge." And, "Finansdepartementet har privilegiet att i dessa RK-interna processer hävda synpunkter oavsett om de var politiskt acceptabla eller inte." Interview with Inger Rydén Bergendahl.

³⁸"Finansens listor har ibland haft karaktären av önsketänkande när det gäller möjliga besparingar. Om Socialdepartementet får ett visst besparingsbeting så vill vi lägga ett rimligt förslag givet försäkringarnas syfte. Detta är en källa till diskussion mellan finanssen och Socialdepartementet." Interview with Bengt Sibbmark.

³⁹"... 'trappan' som jag hade utarbetat." Interview with Peter Egardt.

this was an outflow from the Stair or derived from earlier, more moderate suggestions, are hard to say.

There were important differences between how the three Ministries acted, but each was trying to fulfil its role within the state apparatus. Officials at the Ministry of Finance were mainly concerned with budget effects, and this was only natural. They proposed cuts wherever they could, but always within the existing system. Therefore, they were constrained by its structure. Their mandate did not to restructure the system, only to keep it safe. This tendency was reinforced by the way the Ministry of Health and Social Affairs acted. They introduced more constraints as they also considered the purpose of the Swedish social insurance systems. But again, this was only natural, given its role within the state. This role was to protect the social policy interests in this process, and that is what it did. The only Ministry of the three that could think outside the box was the Prime Minister's Office, and it was also from this Ministry that an idea of a large policy reform was introduced. The Prime Minister's Office could do so precisely because it was the most politicized ministry. Key officials there had, to a larger extent, a mandate to propose structural changes, if they could agree on them; again it was not strange that they looked to their party's ideologies for guidance, something key officials in the other ministries could never do.

There is no doubt that the suggestions from the Ministry of Finance were the most important. The Minister for Finance, Ms. Wibble, described in her memoirs how lists from the Ministry of Finance were processed among the politicians, although her description regards the so-called Nathalie plan, a retrenchment plan decided on in 1993. "Usually we met at the Prime Minister's office, Bengt Westerberg, Olof Johansson, Alf Svensson, and me. I brought long lists of possible, and impossible cuts, and income increases. Everything was on the list to start with – from cuts on defense and foreign aid, to indirect taxation on lottery. Then we all said what was most important for us and what we felt should be protected, what were acceptable alternatives. Of course, there was at first not enough left. But after a while, some areas crystallized. And at the end, we could agree on a program of the right proportion" (Wibble 1994, 48).⁴⁰

This probably bears similarities to the process before crisis packages in 1992, but it also has some important differences. The most important difference was that the full list of potential cuts was not presented to the Social Democrats during the high-level negotiations, although Mr. Egardt says that the larger list was suggested to the Social Democrats during the pre-negotiations.⁴¹ Much of the political sorting-out process was made within the government, and before the negotiations. What was offered from the

⁴⁰"Vi brukade träffas på statsministerns rum, Bengt Westerberg, Carl Bildt, Olof Johansson, Alf Svensson och jag. Jag hade med mig långa listor över möjliga och omöjliga besparingar och inkomstförstärkningar. Allt stod på listan från början – allt från minskade utgifter för försvar och bistånd till moms på lotteri. Sedan gick vi laget runt och kryssade för hjärtefrågor som helst skulle fredas och alternativ som kunde accepteras. Först blev det naturligtvis alldeles för lite kvar. Men efter några varv till utkristalliserade sig ett antal områden. Och till slut kunde vi enas om ett program av önskvärd omfattning."

⁴¹"När vi träffade socialdemokraterna de första gångerna så fick de inte skarpa förslag från vår sida istället testade vi av menyer, så att säga, utan att få någon egentlig reaktion." Interview with Peter Egardt.

government, when the high-level negotiations with the Social Democrats began was therefore a sample from the list.

In sum, the possible choices of welfare cuts were restricted in two different ways during the negotiations of the first crisis package. To start with, a high level of cuts was set even before the very nature of these cuts was discussed. This high level forced the politicians to go beyond their own priorities, and this especially applies to the Social Democrats and Liberal Party, although the Minister for Finance seems to have had a different view than the party leader, Mr. Westerberg. The politicians therefore had to work with what was within reach, and this was suggestions from officials at the ministries, and mainly from the Finance Ministry. The lists of potential cuts produced there defined the universe of cuts on which the politicians could agree. The menu was set and the politicians chose from it; at the same time this restricted the policy choices and made agreement easier.

Conclusion

This paper points to the limited explanatory power of both voter-based and blame-avoidance explanations. Although it is true that the unpopularity in the electorate of welfare cuts was well-known, and that this had been considered by all political actors, but this did not keep politicians from carrying the cuts through. Politicians could do so because they thought that the current economic crisis in Sweden would create an understanding for the measures taken. Therefore, they were not so afraid of the reactions of the electorate. Regarding the political tactics of blame-avoidance, I have argued that this might have been one motive for one political actor – the Liberal Party – but it was certainly not what defined the process.

This paper also demonstrates that existing, mostly interest-based, explanations of welfare cuts can not fully explain the Swedish case. The argument is not that this is the way politics work in Sweden, quite the contrary I claim that this was the case *even* in Sweden. Strong interest groups, both “new groups” such as pensioner organizations and “old groups” such as trade unions, could not oppose their constituencies who were affected by welfare state retrenchment. As it was, a broad set of groups was targeted by welfare cuts, and the exceptions that were made had been done for reasons other than the organizational strength of those groups. This does not mean, however, that partisan politics does not matter. On the contrary this study shows that ideology has a large impact. The argument presented here is rather that partisan politics is restricted by the party actors’ dependence on advice from key officials.

This paper points to the fact that the retrenchment process, at its outset, was heavily influenced by the analysis of the Swedish Riksbank. Following the Bank’s analysis politicians aimed at big cuts, and few or no tax increases, to strengthen the budget in order to regain confidence in the Swedish currency. The study suggests that this could have been much different. If the Social Democrats had been only guided by their ideology, they could very well have fought for big tax increases instead of big cuts. Now, probably to some extent influenced by the Riksbank, they did not.

There was also little time to adopt these measures. Facing the question as to where cuts should be made, politicians relied heavily on advice from key officials mainly at the Ministry of Finance, but to some extent also at the Prime Minister's Office and the Ministry of Health and Social Affairs. Initiated from the Ministry of Finance these officials had, as a normal part of their job, prepared long lists of possible welfare cuts. These were now used, and they thereby set out the framework of what was possible for the politicians to do. In this way, as the number of options was restricted, the politicians to a large extent disregarded their conflicting interests and instead looked for practical solutions. I therefore argue that, contrary to conventional wisdom, civil servants played an important part in the political outcome of welfare state retrenchment in Sweden.

State official advice might not always work in this way. It depends on which parameters state officials consider when giving advice. The suggestion initiated from the Prime Minister's Office shows this. This is the most politicized of the Government Offices in Sweden. Their most important advice was a large social insurance reform, which had a lot in common with an earlier suggestion from SAF. If this kind of partisan advice had been the only kind, the outcome would probably have been much different, and possibly without any agreement at all.

In the Ministry of Finance and the Ministry of Health and Social Affairs, on the other hand, political gains and losses were not included in the officials' advice. Instead their advice was biased on keeping the system intact. These offices are not very politicized. The question they tried to answer was which cuts should be made, given their position in the system. If they had also considered possibilities for reelection of the government or other political parameters, their recommendations, and thereby also the political outcome, would probably have been much different. In mature welfare states there is an interesting variation in the politicization of key officials, and the results exemplified by the Swedish case suggest that differences between countries in levels of interest conflicts during retrenchment periods could be explained by variation in the politicization of officials, probably linked to the basis on which they are appointed to office.

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