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ASPECTS OF
THE SWEDISH ECONOMY
AND THEIR
RELEVANCE TO IRELAND

ROBERT O'CONNOR, EOIN O'MALLEY

and

ANTHONY FOLEY

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General Summary

SWEDEN is frequently regarded as a good model to imitate in terms of economic and social policy in that it is now one of the richest countries in the world. It appears to have resolved the problems of unemployment and poverty which are, regrettably, still features of the Irish situation.

There are a number of basic similarities between the two countries which make an examination of Swedish policies particularly relevant to us. Both economies are small in the sense that as a proportion of the total world supply of tradeable goods they provide only a small fraction. Sweden is, however, among the largest exporters in the world of many goods, particularly of paper pulp. Both are open economies in the sense that the tradeable sector is of great importance in each. Both countries have mixed economic systems (i.e., private and state-sponsored enterprises). Some features of Sweden's economic history also resemble Ireland's. Income per head in both countries was about the same in the early 1860s, and Sweden, like Ireland, experienced large scale emigration in the nineteenth century.

An overview of the Swedish economy is presented in Chapter 1. Of all the OECD countries, Sweden has the largest proportion of population over 65 years and the smallest proportion under 15 years, reflecting the fact that for many years the natural rate of increase in population has been low.

The material living standard of the Swedish people is among the highest in the world. GDP per head of population was second and GDP per head of labour force was eighth in the OECD in 1974. High incomes are due to sustained economic growth over a long period and not to any remarkable recent development. The *per capita* growth rate from 1870 to 1970 is estimated at 2.1 per cent per annum compared with 1.5—2.0 per cent for most other countries in Western Europe and North America. Also (until the recent depression) the amplitudes of business cycle fluctuations in Sweden have been

relatively small so that GNP has grown comparatively smoothly.

Sweden's employment record in the last 30 years has been good. Between the two world wars unemployment generally exceeded 10 per cent and rose to 25 per cent of the labour force in the early 1930s, but, since the war, registered unemployment has been far lower—usually below 2 per cent. It should be pointed out in this connection, however, that statistics on unemployment in most countries are most unreliable, particularly if we wish to make international comparisons. Sweden is no exception in this respect. In that country those on retraining programmes and on early retirement are not included in the unemployment figures. Despite these omissions, however, there is good reason to believe that Sweden's employment record is among the best in the world.

Up to 1960, increases in consumer prices in Sweden had been similar to those in other West European countries. There was a slight tendency for Swedish prices to rise faster than other West European countries in the 1960s but, in the early 1970s, Sweden experienced comparatively low rates of price increase—eight per cent per annum between 1972 and 1975 compared with 17 per cent in Ireland over the same period. In more recent years, however, prices have risen steeply in Sweden, by about 10 per cent in 1976 and 11.5 per cent in 1977. Part of these increases are attributed to rises in import prices and, part to currency adjustments; but the major part of the rise is attributable to unit labour costs which rose by as much as 40 per cent in 1975 and 1976.

Sweden is supposed to be the most egalitarian country in the OECD but the distribution of incomes in a number of other countries, some of which are not reputed to be particularly egalitarian, is much the same as in Sweden, e.g., Norway, UK and Japan. However, incomes are more equally distributed in Sweden than in Ireland. In the former country 50 per cent of income after taxes and transfers (disposable income) is shared by 30 per cent of households while in Ireland 30 per cent of households share 55 per cent of disposable income.

Social security benefits in Sweden are not greatly different from those in other industrialised countries but the Swedish benefits are superior in the area of pensions and social assistance, such as cheap holidays for poor housewives and interest free loans for newly weds to furnish houses. In order to pay for the high social welfare benefits, taxation rates in Sweden are very high. The marginal tax rate for upper income people in 1974 was 78 per cent, while taxation from all sources as a percentage of GDP in 1973-75 was 42.6 per cent. This was lower than the corresponding figure for Norway and the Netherlands and about the same as for Denmark. The Irish figure for these years was 32.2 per cent.

Sectoral Composition of the Economy

The structure of the Swedish economy has changed in line with the trend common in most developed countries since the early 1950s. Employment in agriculture, forestry and fishing steadily declined; mining, manufacturing and construction also declined slightly, while employment in services, especially public services, has grown. In 1972, about eight per cent of the Swedish labour force was employed in agriculture, forestry and fishing compared with about 25 per cent in Ireland. The figures for mining, manufacturing and construction in the two countries were 38 per cent for Sweden and 30 per cent for Ireland, while the figures for services were 54.2 and 44.4 per cent respectively. Sectoral shares of GNP originating from the principal sectors in the early 1970s were: agriculture and forestry six per cent; industry 41 per cent and services 53 per cent. The corresponding figures for Ireland at the same time were: agriculture and forestry, 18 per cent; industry, 35 per cent and services 47 per cent.

Reasons for Sweden's Economic Growth

A number of basic factors appear to have been responsible for Sweden's development in the last century from a poor underdeveloped economy to one of the richest countries in the world. The most important of these were:

1. National independence which meant that, unlike Ireland,

- the country was master of its own destiny and could shape policies to suit its own people.
2. Abundant supplies of ore, timber and water power which, when properly used, supplied exports and foreign exchange for development of a modern economy.
 3. The spread of capital intensive methods throughout Europe and the adoption of free trade in Britain. The former created a massive demand for iron and timber products which were abundant in Sweden, while the latter opened up remunerative markets for these products.
 4. It is claimed also that the informed economic debate which went on in the country throughout the nineteenth century contributed greatly to enlightened legislation and to the adoption of the economic and scientific ideas which were being discussed at the time in the scientific and trade literature. These ideas stimulated the Swedes to borrow abroad, to improve the transport system; and enabled them to utilise timber and phosphoric iron ore, which heretofore had been unusable.

In contrast to Sweden, Ireland is relatively scarce in natural resources. This is a handicap but it does not lie at the heart of the Irish economic problem. Other countries (like Denmark) with poor natural resources have not been held back on this score. Our problems have been of a political nature and our economic backwardness has sprung mainly from this source. Ireland did not achieve independence until 1922 and we are therefore masters of our own destiny for a very short period. Of course national independence on its own would not have guaranteed economic development, but under a native government a more favourable environment for development would have existed. At a time when Sweden was developing her transport system and introducing advanced technologies, we were fighting a land war. After the First World War, when Sweden was adopting advanced policies for the relief of unemployment, we were fighting a war of independence and a civil war. Even in the 1930s, when Sweden was experimenting with counter-cyclical policies to stimulate demand, we were engaged in an economic war with our main pur-

chaser, Britain, thus prolonging a crippling depression. The debate over the years in Ireland has, therefore, been basically political. Economic and technological matters have occupied secondary roles.

Fortunately, however, the emphasis has shifted over time. In contrast to past years economic matters are now beginning to hold the centre of the stage. The First Programme for Economic Expansion in 1958 marked the beginning of a new era. Since then development has gone steadily ahead and we hope that it will continue to do so.

Main Industries in Sweden

Sweden produces five per cent of the world's iron ore and is responsible for 10 per cent of all exports of this ore. Production in engineering has increased more rapidly than other manufacturing during the period 1950-1974—by 7.3 per cent per annum as against 5.3 per cent for all manufacturing. The main divisions of the engineering industry are: (1) Iron, Steel and Metal; (2) Electrical; (3) Motor Vehicles; (4) Machinery and (5) Shipbuilding. Native hydro-electric power has given the incentive for the production of heavy electrical equipment while the forest industry has helped spur on the development of heavy machinery.

Sweden has about one per cent of the world's forests, and forest products account for 25 per cent of exports. Sweden's share of world timber production is four per cent and of world export, 14 per cent. Timber provides the basis of the Swedish paper industry which has expanded greatly in recent years. In 1974 there were 96 pulp mills producing a total of 9.6 million tons of pulp. This accounted for eight per cent of total world production and placed Sweden as the fourth largest world producer after USA, Canada and Japan. About two-thirds of the production of paper and board is exported.

A chemical industry did not develop in Sweden until after the Second World War. Growth has been most noted in organic chemicals, plastics and pharmaceuticals. Petrochemicals were given a special boost in the 1960s by large capital investments. About 25 per cent of total chemical production is exported.

The textile industry accounted for about 15 per cent of Swedish GNP in 1950 but since then this industry has been declining due to stagnating demand and increasing competition from imports. The percentage share of textiles in GNP was only five per cent in 1973. Efforts to stem the decline in this industry have greatly increased since the latter date through interest-free state loan guarantees. Despite these subventions, however, the industry is still in serious trouble and further declines are inevitable.

Energy Production

Though rich in timber and hydro-electric power, Sweden lacks native supplies of coal, oil and gas. Oil products supply 70 per cent of her energy needs and so makes Sweden heavily dependent on imports of oil which now accounts for about 16 per cent of all imports by value. A number of companies are carrying out research into nuclear energy. Two new plants with capacities of 760 and 820 MW came on line in 1977 with a projection that by 1980 nuclear power will be producing 8,300 MW in capacity. This should supply about 20 per cent of all energy needs at that time.

Agriculture and Forestry

Though the area of Sweden is approximately the size of California or twice the size of the United Kingdom, the area of agricultural land is very low, being only about 7.5 million acres, compared with about 12 million acres in Ireland. In addition to the agricultural land, 95 per cent of farmers own about 12 million acres of forest land from which they earn a significant part of their income. Farmers own about one-fifth of the total productive forest area of the country, the remainder being divided between other private owners, stock companies, the state and the Church.

About 98 per cent of the 150,000 Swedish farmers are members of one or more agricultural co-operative societies which include co-operative banks, mortgage societies, market organisations and forest co-operatives. The total membership is one million which is about six memberships per farmer. Generally speaking, prices for livestock and livestock products

in Sweden are higher than in the EEC but crop prices, with the exception of those for potatoes, are lower.

In 1971 more than 70,000 Swedish farmers had part-time work outside their own farms and forests. In addition to this, 75 per cent of the farmers spent 40-50 per cent of their remaining time working in their own forests. This combination of farming and forestry is of great importance in spreading the work load over the year. The forestry work is done in winter when all outdoor farm work has to be suspended. Similar type part-time work could be provided by Irish farmers if they would only consider planting some of their marginal land with fast growing trees.

Industrial and Regional Development Policies

Up to 1976 very little direct aid was given to industry but during the recent depression the state has had to bail out a number of ailing firms. Normally there are no capital subsidies or direct financial aids for restructuring as are available in Ireland. Restructuring and the desired production mix are obtained mainly through market forces. There is, however, a good deal of Government intervention in the capital market. The state-owned Swedish investment bank is empowered to finance potentially profitable projects which might not, for various reasons, obtain credit on the open market.

The range of policy measures which are used for regional development is much more extensive than that used to assist industry or development in general. In some areas, grants of up to 65 per cent of construction costs are payable in connection with the construction, extension or improvement of premises. Cheap credit and interest-free loans are also provided, as well as training and employment grants for extra employees. Transport subsidies are also paid to offset the disadvantageous costs inherent in long-distance transport from the general aid area. According to Professor Torstan Hagerstrand of the University of Lund (personal communication) Sweden has tried to pursue a national regional settlement strategy which, in his opinion, is unique in the world. As a result, the biggest cities have been losing population for a

number of years. The growing cities are now the provincial capitals.

Sweden did not join the EEC. The Government decided after long discussion that full membership of the Community was not compatible with the Swedish policy of neutrality. The final solution was a free trade agreement for industrial goods which was concluded with the EEC in July 1972. This agreement provided for existing tariffs between Sweden and the EEC to be progressively dismantled in step with the tariff reductions between the EEC and its new members. As a result, free trade was achieved with the EEC on 1 January 1977 except for certain sensitive products. The transition period is extended to 1980 for some metals and to 1984 for paper board and paper products.

Labour Relations

The Swedish labour market has for long had a reputation for harmony and stability. Compared with most other countries very few working days are lost because of disputes. Many foreign observers have commented on the high degree of trust between labour and management. Others have explained the labour peace largely by the Swedish national temperament which is said to be submissive to authority and orientated towards the needs of the group rather than the individual. The remarkable labour peace in Sweden may, to some extent, be due to this characteristic but there is more to it than that. In the early decades of the century Swedish labour relations were characterised by a bitterness and enmity unmatched in most countries. The Social Democrats were elected to power in 1932 on a promise of industrial peace and the ending of unemployment. If it was to remain in power it had to fulfil these pledges and this it did. Industrial peace was arrived at after six years. The ending of large scale unemployment was slower. This objective was not achieved until the end of the war. It is now generally believed that the most important factor in the prevention of industrial disputes in Sweden is the highly developed system of collective bargaining and regulations concerning industrial action which apply to almost the whole labour force. The responsible action of

the trade unions may also be due to the fact that they have a strong influence on the economy and on government policy, and they have every reason to believe that they have become the dominant social partner.

Some people would argue that trade unions in Sweden have acquired far too much power in recent years. Up to 1974 swift action in moving employees saved many ailing firms from bankruptcy. Today the job security laws (achieved as a result of union pressure) makes the movement of workers more difficult to achieve and, as a result, companies which would have been saved by staff reductions of 10-20 per cent have been allowed to deteriorate to the point where they would collapse entirely except for state intervention. As a result the new non-socialist Government (which replaced the Social Democrats in 1976 after 44 years' continuous rule) has been forced to bring into public ownership a far larger part of industry than their predecessors ever did.

Irish trade unions have not the same degree of social and economic power as the Swedish unions and consequently they wield less influence. In many ways, of course, they may not wish to have too much power because of the responsibility which goes with it. Nevertheless, the process of centralised wage bargaining has caused Irish unions to act more as a unit and to recognise the link between their wage claims and the health of the economy. Trade union acceptance of recent wage agreements has depended in part on Government policy towards issues such as taxation and job creation, so the unions seem to be able to use the need for their consent to influence these issues. This is in many ways a leap forward which would probably not have been possible before the era of National Wage Agreements in the 1970s. At present there is little evidence that trade unionists generally wish to follow this line much further. Many clearly feel that wage-bargaining alone is their proper area but if Sweden's experience can be taken as an indication, it is quite possible that Irish workers will come to realise that by adopting a less militant wage policy over the coming years they may be in a stronger position than at present from which to press for more union influence on public policy. Such a development would prob-

ably make for a more stable economy with better prospects for incomes and employment.

Stabilisation Policy

In Sweden the central objective of economic policy since the war has been the maintenance of a high level of employment. The main threat to employment has generally been regarded as short-term cyclical fluctuations in the economy. Consequently stabilisation policy has been the main focus of attention. Such policy in Sweden has been based largely on the management of aggregate demand.

The approach to demand management has been based on the idea that it would be unwise to aim at a level of aggregate demand which would ensure full employment in all sectors and regions. If this were done, excess demand for labour would exist in the stronger sectors with persisting tendencies for wages and prices to rise. The method adopted therefore was to aim at stabilising demand at a level which would normally be expected to result in three to four per cent unemployment. This would be combined with measures to improve labour mobility such as retraining programmes, public works, compensation for moving jobs, measures to stimulate the establishment of firms in areas of high unemployment and some subsidising of marginal firms.

Another basic feature of policy adopted by the labour unions was that they should press for wage increases on the basis of solidarity, i.e., they would not accept differences in wages between industries for the same jobs. The advantage of this policy was that weaker firms would be forced to close and capital and labour moved from unprofitable to profitable industries with the national labour market facilitating the mobility of the labour force. The above policy has come in for a good deal of justifiable criticism in recent years but despite this, one of its basic ideas has been accepted generally, namely: that the possibility of reconciling full employment and price stability is enhanced if the mobility of the factors of production is increased by a vigorous labour mobility policy.

As a general rule the Swedes try to base wage increases for the whole labour force on the amount that firms facing

international competition can afford. Wages for workers in the sheltered sectors are then related to these and not the other way round, as tends to happen in Ireland. Unfortunately, however, an exceedingly generous wage settlement in 1975 had an inflationary effect on export prices and resulted in the loss of substantial market shares in 1976 and 1977. The devaluation of the krona in the latter year produced a recovery in export income but did not fully restore Sweden's lost position.

Other important demand management instruments are:

- (a) Variations in public investment and Government orders to industry, i.e., public relief works and control of the timing of house and road construction.
- (b) The investment reserve system, whereby in prosperous years companies are permitted to allocate up to 40 per cent of pre-tax profits to an investment reserve on which no corporation profit tax is paid. The firms may use these funds for investment in recession periods.
- (c) The temporary investment tax which was used during the 1950s. In two separate periods a tax of 12 per cent was applied to gross investments in machinery and buildings (excluding housing) in the private sector. The tax was temporary and was deductible for income tax purposes but it had the effect of reducing planned investment in those years by five to six per cent. It has not been used since 1958.
- (d) Support for stockpiling, whereby the Government makes a grant to cover 20 per cent of the cost of increasing stocks if firms guarantee to maintain their full number of employees during the grant period. In 1970 to 1975 firms employing eight per cent of the labour force used this form of support. Recent reports indicate, however, that this high level of support has put a severe strain on the available funding and has even proved counter-productive. In brief recessions, stockpiling support has proved very valuable in maintaining employment. In the recent

prolonged recession, however, it has tended to have the opposite effect. It has strained company finances, increased their debts and has curbed productivity.

The Swedes are well aware that the success of any stabilisation policy is critically dependent on its timing. If the effects of the policy action come at the wrong time they may even increase instability. They therefore employ a number of devices to improve the timing of stabilisation policies. Commentaries and forecasts of economic activity are produced regularly by the National Institute of Economic Research and the Treasury Department. The Labour Market Board produces monthly labour force surveys, and every employer is required to notify the County Employment Board in advance of any intention to cut back production if at least five employees are going to be affected. These reports enable the Labour Board to keep up to date on labour market developments. If, on the basis of its information, the Board finds that unemployment is increasing, it is empowered (without parliamentary approval) to initiate public works' programmes and other fiscal action. There is also an emergency stand-by budget for public works to be used when unemployment is too great for normal employment-creating measures. In addition to public works, a reserve of other planned investment projects is always available for immediate commencement when the situation warrants it.

Swedish stabilisation policies in the 1950s and 1960s have been criticised on the grounds that they concentrated too much on the demand side of the market, while neglecting the cost side. It has now come to be realised, that demand management policies alone are inadequate when there is a high level of international inflation. Under these conditions a broader approach is essential. Control must also be exercised on the cost side through wage restraint and this has become very obvious during the recent depression when high wage settlements and wage drift made many industries uncompetitive.

It is in the area of stabilisation policy that Ireland can probably learn most from Sweden. In many ways our policies

over the years seem to have had a destabilising rather than a stabilising effect. Referring to the slow rate of growth in the 1950s, K. A. Kennedy and B. R. Dowling (1975) state that the chief cause of this seems to be the failure to secure a satisfactory rate of expansion in aggregate demand. In particular they say that "the massive cut-back in public investment in 1957 and 1958 unnecessarily deepened and prolonged the depression in the economy."

Nor according to B. M. Walsh (1977) has the depressing experience of the years 1956-58 taught us much. In those years he says "government expenditure was cut savagely during a period when external factors were causing a decline in domestic demand. Unfortunately, the same coincidence was evidenced once again in 1967 although the rise in unemployment was much less pronounced then. In the very severe recent recession we notice the same phenomenon has re-appeared".

The implementation of counter-cyclical policies is, however, not a simple task. It requires very careful planning, and up-to-date information must be available in order to time the projects properly. In addition, there is the problem of integrating incomes' policies with stabilisation measures. The creation of a fast rate of increase in domestic demand without a corresponding increase in exports means taking risks with the balance of payments and external reserves. It may also cause a sharp increase in the rate of inflation.

Statsforetag

Statsforetag is the holding company for all the state-owned commercial enterprises which operate in the legal form of ordinary share companies in Sweden. The holding company is Government-owned and any dividends declared go to the state. The group is quite large. In 1974 it had 29 main subsidiaries and employed 41,000 persons.

Up to 1975 the group as a whole had been profitable but in 1976 an overall loss was experienced for the first time. In that year the total loss was £58 million. The decline was mainly due to the effects of the recession on earnings in the basic industrial operations—mining, shipbuilding, steel, paper

and paper pulp. It is expected that some, but not all, of the firms will return to profitability at the end of the recession. Those not doing so will be wound up unless they are maintained strictly on regional policy grounds. Shipbuilding is a case in point. The shipyards, which once produced a tonnage second only to that of the Japanese, are already undergoing a 30 per cent reduction of capacity, but it is felt that further closures are inevitable.

It is important to stress that the Statsforetag group is not primarily a development corporation or an employment creating agency. While it does have certain social objectives its principal objective is commercial viability. It is really state capitalism under another name. It differs from a private company only in that ownership of the assets are in state hands.

It is our opinion that the creation of a Statsforetag type organisation is not a simple solution to the unemployment situation in Ireland, though it may have some contribution to make if the aim is the achievement of profitability and not just the propping up of lame ducks. If it is to be an organisation for the subsidisation of loss-making enterprises, we are better without it.

Conclusions

It is argued in Chapter 8 that Sweden has attained her present level of development, not through any specific policy instrument or set of instruments, but because her people made a definite commitment to full employment in the 1930s and have stuck to that commitment since. All other economic objectives have been subsidiary to this.

It is the authors' belief that if Ireland is to develop economically in the years ahead, we also must make a commitment to full employment. But this commitment must be a total one and must be made by all our people—Government, opposition, trade unionists, employers and self-employed.

The Report concludes by noting that while Ireland may not have the natural resources of Sweden we do have access to the same fund of knowledge as the Swedes. The constraints on the application of that knowledge will be of our own creation.

Introduction

THE main purpose of this paper is to identify Swedish economic policies and institutions which could prove of benefit in tackling the problems of the Irish economy. Sweden is frequently regarded as a good model to imitate in matters of economic and social policy. For instance, Martin Schnitzer claims that "Sweden has developed a system which appears to have resolved the problems of unemployment, poverty and income inequality that have affected Western civilisation during this century. Sweden is a showcase country—a model which other countries can examine from the standpoint of perhaps exploring the possibility of utilising various employment and social welfare approaches" Schnitzer (1970). Schnitzer also remarks that the Swedish combination of high standards of living and a highly developed social welfare system has created perhaps the closest thing to a Utopian society in existence.

For a country of its relatively small size, the international reputation of Sweden is certainly high, and foreign economists have shown considerable interest in Swedish policies. A number of basic similarities between Sweden and Ireland make an examination of Swedish policies particularly relevant to us. Both countries can be characterised as small open economies. They are *small*, in the sense that they provide only a small fraction of the total world supply of any tradeable good. Sweden is, however, a very large exporter of many industrial goods and is the third highest exporter in the world (after Canada and the Federal Republic of Germany) of paper and pulp. Unlike Ireland, therefore, she has a certain amount of monopoly power over many foreign markets. Both Ireland and Sweden are *open* economies in the sense that the foreign trade sector plays an important role in the structure of the economy. Swedish exports plus imports are about 60 per cent of GDP. The corresponding figure for Ireland is about 100

per cent. It should be noted, however, that Swedish industrial exports are based, to a considerable degree, on home produced inputs while Irish industry is more involved in processing imported material for export. Because of the above characteristics the implications for policy are that textbook macro-economic theory and trade theory, based on larger industrialised and generally closed economies, cannot be directly applied to Ireland or Sweden. Sweden is conventionally considered to be more socialist in orientation than Ireland but it is doubtful if this is true. Both countries have mixed economic systems — they have characteristics of both capitalism and socialism like most Western economies. Although there is some public ownership of industry in Sweden, most of the factors of production are in private ownership, and there is reliance on the market system rather than on central planning to allocate resources. But both national Governments have great economic importance due to the size of the national budgets, public influence on investment, and various efforts to redistribute incomes.

Besides these basic structural similarities, some features of Sweden's economic history also resemble Ireland's. According to estimates made by Kuznets, (1966) *per capita* income in both countries was about the same in the early 1860s. At that time Sweden and Ireland were two of the poorest countries in Europe. Sweden, like Ireland experienced large-scale emigration to America in the second half of the nineteenth century, and this continued until 1914. The Swedish population in 1860 was 3.9 million compared with 4.4 million in Ireland (26 counties) in 1861. Over the period 1860 to 1914, about one million Swedes had emigrated to USA, yet the population at the latter date was 5.7 million. This compares with a figure of 2.4 million for Irish emigration (26 counties) in the period 1861 to 1911, when the population dropped from 4.4 million to 3.1 million.

But there are, of course, major differences in the economic achievements of the two countries. The process of modern industrial growth began in Sweden about 1870, and over the hundred years, 1870-1970, Sweden experienced a growth rate of real GDP per head which was second only to Japan.

Sweden is now one of the richest countries in the world with incomes considerably higher than Ireland's. Unemployment has not been a major problem since the early 1940s, and in fact job vacancies have usually exceeded registered unemployment.

In this paper we first give a brief overview of the Swedish economy, comparing Swedish economic achievements with Ireland and other countries. Next we present a chapter giving a history of economic development in Sweden from the middle of the 19th century to the end of the Second World War. We then give some details of the modern industrial and agricultural sectors. We then go on to consider the working and effectiveness of a number of Swedish policies and institutions, which might be considered of relevance to Ireland. We conclude by evaluating the extent to which Ireland can learn from the economic experience and policies of Sweden.

Chapter 1

Overview of the Swedish Economy

WITH an area of 174,000 square miles, Sweden is the fourth largest country in Europe, being approximately twice the size of Great Britain. The whole country lies further north than Ireland and the northern part is within the Arctic Circle, yet it enjoys a relatively temperate climate due to the Gulf Stream. Over half Sweden's area is covered by forests and less than one-tenth is arable land. Population density and economic development are uneven. Except for some coastal regions the northern part is very sparsely populated, and the most densely populated area is a belt running south-west from Stockholm and down the west coast. This area is quite small compared with the size of the whole country. Of the important industries, mining and quarrying tend to be concentrated more in the northern region than in the heavily populated south. Forestry, the lumber industry and pulp and paper also give a certain amount of employment in the north but they are more concentrated in the south.

Population and Labour Force

At the end of 1974 Sweden's population was 8,117,000, of which four million were in the labour force. For many years now the birth rate has been low and the rate of population increase relatively slow. In fact, about half of the increase in recent years has been accounted for by immigrants. The slow rate of natural increase is reflected in the age structure of the population. Of all the OECD countries Sweden has the largest proportion of population over 65 years and the smallest proportion under 15. The proportion in the active age groups, 15 to 64, is about average. But the participation rate in the labour force (the labour force as a percentage of total population) is unusually high, at 49 per

cent. This compares with an average of 41 per cent in the European members of OECD and 37 per cent in Ireland. The high participation rate in Sweden is largely explained by the particularly high proportion of women at work. Some 40 per cent of the labour force is composed of women and more than half the married women in the country work part-time at least.

Living Standards and Growth

Incomes and other indicators of material living standards in Sweden are among the highest in the world. GDP per head of population was second and GDP per head of labour force was eighth highest in the OECD in 1974.

Table 1.1: *Indicators of living standards in selected countries*

Country	GDP in US \$ ¹				
	Per head 1974	Per head of labour force ² 1974	Motor cars per 1,000 1971	TVs per 1,000 1972	Telephones per 1,000 1972
Switzerland	7,340	15,230	233	239	535
Sweden	6,878	14,070	290	333	576
USA	6,598	14,960	433	474	628
Canada	6,464	15,280	321	349	499
Iceland	6,280	14,950	222	220	370
West Germany	6,195	14,110	239	293	268
Denmark	6,026	12,300	231	282	377
Luxembourg	5,987	14,190	296	220 ^a	361
Australia	5,877	13,270	314	227	340
Norway	5,847	13,790	206	241	320
United Kingdom	3,371	7,380	219	305	314
Ireland	2,180	5,990	140	173	114

¹ GDP in purchasers' values at current prices and exchange rates.

² Approximate figures.

^a 1971.

Sources: National Accounts of OECD countries, 1974, Vol. 1; Year Book of Labour Statistics, 1975; and OECD Economic Survey of Sweden, June 1975.

High incomes in Sweden are due to sustained economic growth over a long period, and not to any remarkable recent development. According to Lindbeck (1975), the growth rate *per capita* for 1870-1970 may be estimated at 2.1 per cent per year, compared with 1.5-2.0 per cent for most other countries in Western Europe and North America, and 3.1 per cent for Japan¹. However, while Sweden's economic growth over the last century as a whole was comparatively rapid, in more recent times growth has not been as rapid as in many other countries. After the Second World War, the growth rate increased in Sweden as it did in other countries, but the improvement in many industrial countries (with the notable exceptions of the United States and the United Kingdom) was greater than in Sweden. Thus, though Sweden's *per capita* national product has been among the highest in the world throughout the post-war period, its lead over many European countries has been diminishing. In 1950-71, GNP *per capita* grew by 3.3 per cent per year compared with 3.7 per cent per year for Western Europe (Lindbeck, *idem.* p.2). (These figures, however, must be viewed with some reservation due to measurement difficulties. In particular, it should be noted that Sweden, like most highly developed economies, has a relatively large services sector, in which productivity increases as conventionally recorded tend to be low).

In the post-war years, business cycle fluctuations in Sweden have followed the same general pattern as in most industrialised countries, but generally lag behind international developments. The amplitude of the fluctuations has however been relatively small, so GNP has grown comparatively smoothly. The world recession of 1974-75 did not hit Sweden until 1976 and though the effect on GDP has been severe, that, on employment was much milder than in most other countries. In 1975/76 GDP increased by 1.7 per cent but in 1976/77 it declined by 2.4 per cent and it is expected to increase by only 0.2 per cent in 1977/78. It seems that the Swedes were taken somewhat unawares by the severity of this recession. The Budget Statement for 1978/79² states that the

¹The difference between 2.0 and a 1.5 per cent annual growth rate over 100 years is a total of 300 per cent.

²See the Swedish Budget 1978/79.

people had lived for so long in a state of relative affluence that they believed "that prosperity was given". Recent events have certainly changed this attitude. They have shown that no country is immune from world happenings and that demand management policies, which had proved highly effective in the 1950s and 1960s, were no longer adequate. New policies were required and it is claimed (*ibid.*, p.51) that the first steps in implementing these policies have been taken. Though these measures will involve a strain in the short run they are expected to contribute to an appreciable improvement in the economy in 1978 and 1979.

Unemployment

Sweden's employment record in the last 30 years has been good, particularly, when compared with its earlier experience. Between the two world wars unemployment generally exceeded 10 per cent (average for year), even in economic booms; in the depressions of the early 1920s and the early 1930s it rose as high as 25 per cent. But since the early 1940s registered unemployment has been far lower—usually below two per cent. The large number of immigrants, which are about seven per cent of the total population, is due to the consistently high demand for labour.³ Unemployment in Sweden has been very low compared with Ireland in post-war years, but many other European countries have recorded unemployment as low as Sweden for most of this period. This is reflected in the fact that in the EEC about 10 per cent of the labour force are immigrants. Although Sweden's low unemployment was not exceptional in post-war Europe until the early 1970s, it is true that in the early years of the recent recession Sweden has had exceptional success in maintaining employment levels though not without problems in other areas. We will examine the contribution that Government action has made to achieving high employment levels when we come to consider stabilisation policy and manpower policies in later sections. It should be pointed out in this connection, however, that statistics on unemployment are notoriously unreliable in most countries, particularly if one wants

³Most immigrants come from other Nordic countries, mainly Finland.

to make international comparisons. In Sweden, for example, those on retraining programmes are not included in the unemployment figures and we do not know how many are retraining all the time without ever getting a job. Early retirement schemes are also used in many countries (including Sweden) to conceal unemployment.

Banking, Finance and Exchange Rates

Like most countries Sweden has a central bank (Riksbank) responsible for such duties as the execution of monetary policy. In addition, there are three categories of banks which base their activities on deposits from the public. The three types are: commercial banks, savings banks and co-operative banks; accounting for 62, 32 and 6 per cent respectively of total bank deposits. The different type of banks are allowed to operate in substantially identical areas. The Government and its agencies exercise a thorough control of the finance markets. In addition to the control of the volume and direction of credits, exercised through a great number of monetary policy instruments, there are special laws for practically every type of institution which govern these activities. There is also a state-owned investment bank which is used to finance projects which might not obtain credit on the open market.

The Riksbank, which was founded in 1668, is the oldest central bank now existing in the world. It is a Parliamentary body subordinated to the Riksdag. Its activities are the same as those of other modern central banks: to issue notes, administer the country's official gold and foreign exchange reserves and to act as the bank of the state and of the other banks. One of the Riksbank's most important tasks is the execution of monetary policy. The instruments used for this purpose are the discount rate, open market operations and regulations regarding liquidity and cash ratios.

The largest commercial banks (which are privately owned) have long been very active in international banking. In the last decade they have, to an increasing extent, established affiliated banks and representative offices in foreign banking centres and have also taken up participation in international banks, ship mortgage institutions, etc. For such investments

abroad, permission from the government must be obtained. Permission from the Riksbank is required before a bond issue may be floated. During the post-war years very few foreign bonds have been issued on the market. The Riksbank has also been restrictive in granting permits for Swedish bond issues abroad. Recently, however, its attitude towards financing on the foreign credit markets has changed as a consequence of the current balance of payments deficit caused mainly by the higher oil prices.

Payments for all imports and exports may be made freely through authorised banks and without the formality of presenting an import or export licence. In cases where a foreign investor seeks to transfer capital into Sweden for making a direct investment a Riksbank licence is required and is normally granted. Direct investment abroad by Swedish residents requires authorisation from the Riksbank. As a general rule such investment will at present be approved only if the investor raises most of the necessary funds outside of Sweden. A licence is required for the purchase, by non-residents, of Swedish securities and as a general rule is not granted.

The Swedish Krona is fully convertible and Sweden has undertaken not to impose restrictions on current payments or to discriminate in exchange rates. The Krona was revalued in 1946 from S.Kr. 4.10 to S.Kr. 3.60 per US dollar. It followed the sterling devaluation in September 1949 to the par value of S.Kr. 5.17 per US dollar. In accordance with the decision taken at the Group of Ten meeting in Washington in December 1971, the Swedish Krona was revalued to the par value of S.Kr. 4.56 per US dollar. In March 1973, certain EEC countries introduced the system known as the snake which allowed their currencies to float jointly against the US dollar and within which their own currencies can fluctuate against each other within a band of 2.5 per cent. Sweden was a member of this floating arrangement up to August 1977 when she was forced to leave. A rapid increase of costs during 1975 and 1976 had led to a deterioration of unit costs compared with the average for competing countries. Sweden thus lost market shares at home as well as abroad.

Several industries, chiefly the shipyards, steel, textiles and

clothing were badly affected. When an expected improvement in international activity failed to materialise in 1977 and it proved impossible to achieve a requisite internal adjustment in costs, the balance of payments deteriorated and it was clear that remedial measures had to be taken. Adjustments to the exchange rate were made on 4 April and 29 August 1977, these two devaluations amounting to 15 per cent for the year. As a result Sweden has recovered a substantial part of her lost competitiveness and it is expected that this will lead to an improvement in exports in 1978. The present rate for the Swedish Krona is to be maintained at an average for the currencies of her fifteen most important trading partners.

Price Trends

Consumer price increases in Sweden have been similar to those in Western Europe for most of the post-war period. In the years 1953-70 prices rose by an average of 3.7 per cent annually, compared with 3.8 per cent for the weighted average of Western Europe, and 2.7 for Western Europe plus North America. There was a slight tendency for Swedish prices to rise faster than other Western European countries in the 1960s, but in the early 1970s, Sweden experienced comparatively very low rates of price increase. As Table 1.2 shows, consumer prices in Ireland increased faster than in Sweden and most of the other countries in the table, in the first half of the 1970s. In more recent years, however, prices have risen steeply in Sweden, by about 10.0 per cent in 1976 and 11.5 per cent in 1977. Part of these recent increases are attributable to rises in import prices and part to currency adjustments, but the major part of the rise is attributable to unit labour costs which rose by as much as 40 per cent over the two years 1975 and 1976 (ibid. p.17).

Sectoral Composition of the Economy

The structure of the economy by sector has changed in line with the trend common in most developed countries since the 1950s. Employment in agriculture, forestry and fishing steadily declined; mining, manufacturing and construction also de-

Table 1.2: *Percentage increases of consumer prices in selected OECD countries.*

Country	Average annual increase 1962-72	Twelve months to:			
		Dec. '72	Dec. '73	Dec. '74	Dec. '75
			%		
Sweden	4.7	6.3	7.5	10.5	7.2
France	4.4	6.9	8.5	15.2	13.5
West Germany	3.2	6.5	7.9	5.2	5.9
Italy	4.3	7.4	12.5	24.5	20.3
United Kingdom	4.9	7.7	10.5	19.1	21.2
Canada	3.3	5.1	9.1	12.4	11.3
United States	3.3	3.4	8.8	12.2	10.3
Japan	5.7	5.3	19.1	21.9	14.2
Ireland	5.8	9.1	13.0	22.0	16.4
<i>Total OECD</i>	3.9	5.1	10.3	14.2	12.2

Source: OECD Economic Survey of Sweden, June 1975.

clined slightly, while employment in services, especially public services, has grown. The pattern of sectoral shares in employment shown in Column 4 of Table 1.3 is not very different from other highly developed European countries, though the services sector is slightly larger and the industrial sector slightly smaller than most. In Ireland the agricultural sector is still very large by comparison, and both industry and services are considerably less developed than in Sweden. These factors must be borne in mind in drawing analogies between Ireland and Sweden.

Sectoral shares in Swedish GNP at current prices have changed in a similar manner to shares in employment. In 1974, GNP originated from the principal sectors as follows: Agriculture and forestry—six per cent; Industry—41 per cent, and Services—53 per cent. The corresponding figures for Ireland in that year were: Agriculture and forestry—18.1 per cent; Industry—34.9 per cent and, Services—47.0 per cent.

Table 1.3: *Percentage sectoral shares of total employment, 1950-1972*

Sector	Sweden			Ireland	
	1950	1960	1970	1972	1972
		%			
Agriculture	17.8	11.4	6.3	} 7.8	} 25.5
Forestry and fishing	3.4	3.8	2.3		
Mining, manufacturing and construction	35.9	43.6	39.9	38.0	30.0
Public services and other services	42.9	41.4	51.5	54.2	44.4
<i>Total</i>	100	100	100	100	100

Source: Some data about Sweden 1975-76, *Skandinaviska Enskilda Banken*.

Composition of Expenditure

Table 1.4 shows the composition of National Expenditure in Sweden in 1950 and 1974, and in selected countries in 1974. Comparing the figures for Sweden in 1950 and 1974 there is an evident decline in the share of private consumption which is offset largely by an increase in public consumption. While a small number of other countries, including West Germany and Norway, have a similarly low share attributed to private consumption, Sweden's 53 per cent is close to the lowest figure for market economies. Since the share of Gross Fixed Capital Formation at 22 per cent in Sweden is quite in line with other Western European countries, it is the share of public consumption that is relatively large. In only a few other countries, including Denmark and the United Kingdom, does the share of public consumption exceed 20 per cent, while the figure for Sweden is 24 per cent.

Gross Fixed Capital Formation has increased its share of GDP in post-war years in Sweden, as in most other industrialised countries. The rising trend was more pronounced

Table 1.4: *Composition of national expenditure as percentage of GDP*

<i>Expenditure</i>	<i>Sweden 1950</i>	<i>Sweden 1974</i>	<i>Denmark 1974</i>	<i>West Germany 1974</i>	<i>United Kingdom 1974</i>	<i>Ireland 1974</i>
			%			
Private consumption	69	53	56	53	64	71
Public consumption	13	24	23	20	21	18
Gross fixed capital formation	18	22	22	22	20	25
Increase in stocks	-1	2	2	1	1	3
Exports of goods and services	22	33	36	29	28	44
Imports of goods and services	-21	-33	-39	-24	-34	-60
GDP at market prices	100	100	100	100	100	100

Source: National Accounts of OECD countries, 1974.

in the 1950s than in the 1960s, and a slight decline occurred in the early 1970s.

The figures for exports and imports for all the countries in Table 1.4 are large by comparison with earlier years since they all experienced a large increase in foreign trade in 1972. However, whether one looks at the share of foreign trade in GDP before or after 1972, one sees that the Swedish economy is less open than most others of a similar size (in terms of GDP), but somewhat more open than the largest European economies—West Germany, France, the United Kingdom and Italy.

Income Distribution

Greater equalisation of incomes has been a stated goal of policy in Sweden since the Social Democratic Party first came to power in 1932. (They remained in government, alone or in coalition, for 44 years until 1976 except for a brief interregnum in 1936.) There is no doubt that progress was made in this respect, though the biggest change in distribution occurred in the 1930s and early 1940s, mostly due to the elimination of large-scale unemployment at that time. It is less clear whether equalisation has proceeded since 1948. The distribution of income to people included in official tax statistics seems to have become slightly more unequal but for *all* individuals over 20 years there has been some equalisation in the post-war period. This disparity is largely explained by the increase in the proportion of women at work; working women receive higher incomes than non-working women, but they tend to receive less than men. Thus they receive enough to swell the ranks of lower-income tax-payers, making the income distribution to tax-payers alone less equal, but making the distribution to all adults more equal. A similar development has occurred in most other West European countries.

Recent research by Sawyer (1976) on size distribution of incomes, indicates that Sweden is among the most egalitarian countries in the OECD. But the distribution of incomes in a number of other countries, some of which are not reputed to be particularly egalitarian, is much the same as in Sweden,

e.g., Norway, UK and Japan (see Table 1.5). Thus Sweden's reputation as a particularly egalitarian country appears to be somewhat exaggerated.

It can be seen from Table 1.5 also that incomes are certainly more equally distributed in Sweden than in Ireland. In Sweden 50 per cent of income after taxes and transfers is shared by 30 per cent of households while in Ireland 30 per cent of households share 55 per cent of disposable income.

Of course, differences in the distribution of household size in the various countries are quite marked and this distorts, to some extent, comparisons based on the figures in Table 1.5. Sawyer, therefore, re-calculated the size distribution of income in these countries (not including Ireland) on the assumption that they all had the same standardised household size distribution. The result was that, according to various measures of inequality, Sweden was the second most egalitarian country listed, after the Netherlands, with Norway, Japan and the United Kingdom following.

One interesting feature of income distribution in Sweden is the fact that a much smaller fraction of household income arises from ownership of capital than is the case in most other countries. In 1971, only four per cent of household income came from interest, dividends and rent, compared with 12 per cent in the US, nine per cent in Japan and eight per cent in the UK. However, before concluding that the ownership of wealth is a less significant source of inequality in Sweden than is usual, we would need to know more about the distribution of this wealth within households. In fact, large amounts of wealth are held in semi-public pension funds. The wealth which is actually held within the private sectors is quite unevenly distributed—much more so than incomes—but this is a common feature in other countries. Stark⁴ says that on a pre-tax and direct income basis the level of inequality in Sweden is relatively large but on a post-tax household income basis it is less than in other countries.

⁴See Stark, T., Contribution to the discussion on the paper entitled "Personal Distribution of Income in the Republic of Ireland" by Brian Nolan, read before the *Statistical and Social Inquiry Society of Ireland*, 2 February 1978.

Table 1.5: *Size distribution of household incomes after taxes and transfers by deciles*

Country	Year	Percentage of household income received by each decile of households									
		top tenth	2nd tenth	3rd tenth	4th tenth	5th tenth	6th tenth	7th tenth	8th tenth	9th tenth	lowest tenth
Sweden	1971	21.3	15.7	13.3	11.5	10.0	8.5	7.2	5.9	4.4	2.2
Ireland*	1973	26.0	16.1	13.1	10.9	9.3	7.9	6.6	5.1	3.3	1.7
United Kingdom	1973	23.5	15.2	12.8	11.1	9.9	8.5	7.1	5.5	3.8	2.5
Norway	1970	22.2	15.1	13.0	11.7	10.2	8.6	7.3	5.6	4.0	2.3
Netherlands	1967	27.7	15.2	12.4	10.3	8.8	7.6	6.4	5.2	3.9	2.6
West Germany	1973	30.3	15.8	12.1	9.8	8.2	6.8	5.7	4.6	3.7	2.8
France	1970	30.4	16.5	13.0	9.7	8.9	7.4	5.6	4.2	2.9	1.4
Japan	1969	27.2	13.8	11.3	9.9	8.9	7.9	7.0	6.1	4.9	3.0

*The figures for Ireland are estimates calculated from data in the Household Budget Survey, 1973.

Source: Sawyer, M., (1976).

The Public Sector

The Swedish public sector ranks among the largest of the industrial nations measured in terms of percentage of Gross Domestic Product (GDP). As can be seen from Table 1.6, public expenditure as a percentage of GDP in Sweden was surpassed only by the Netherlands for the period in question (i.e., 1973-75). Ireland is also well up the league table ranking fifth in terms of relative size of public expenditure. Ireland's 42.6 per cent contrasts with the United States, Australia and Japan, all with shares of around 30 per cent.

As can be seen from Table 1.6 also, the share of GDP used in public consumption is noticeably higher in Sweden than in Ireland—23.2 per cent compared with 17.5 per cent. In fact, Swedish public consumption is the highest of the countries listed. Only Denmark's figures of 22 per cent is close to it. All the other countries are below the 20 per cent mark with Japan being as low as 9.4 per cent. As a means of curbing the present recession the central Government is exercising more restraint than usual on expenditure of its own activities. The growth in real Government consumption is planned to remain at the same level in 1978 as in 1977. Similar restraints are being placed on local Government expenditures.

Public investment is higher in Ireland than in Sweden (5.8 per cent of GNP compared with 4.5 per cent respectively). In the early 1960s investment shares were almost the same in both countries but since then Sweden's share has declined while Ireland's has increased. With regard to transfers, the proportion spent on this item is higher in Sweden (16.8 per cent) than in Ireland (15.1 per cent).

Social Security System

The basic social security benefits available in Sweden are *not greatly different from those of other industrialised countries*. Huntford (1971) notes that family allowances are more comprehensive in France, medical care is cheaper and better in Germany and Switzerland, while in the United Kingdom dental care is completely free, whereas it is not in Sweden. Swedish benefits are superior in the areas of pensions and supplementary social assistance. For example, poor house-

Table 1.6: Structure and evolution of public expenditure^(a) (Per cent of trend GDP at current prices)

Country	Average 1973-1975 ^(b)							
	Total ^(c)		Consumption ^(d)		Investments		Transfers ^(e)	
Netherlands	49.8	(36.3)	16.9	(15.2)	3.7	(4.7)	24.9	(13.5)
Sweden	47.4	(34.3)	23.2	(17.2)	4.5	(5.1)	16.8	(10.0)
Norway	45.6	(33.3)	16.5	(13.3)	4.6	(4.0)	21.9	(14.0)
United Kingdom	43.3	(34.3)	19.6	(16.9)	4.9	(3.8)	13.7	(9.8)
Denmark	42.2	(28.9)	22.0	(14.6)	4.3	(3.8)	14.0	(9.1)
Belgium	41.0	(31.2)	15.6	(13.0)	3.2	(2.6)	18.0	(12.3)
Italy	40.9	(32.7)	13.7	(13.4)	3.1	(3.6)	19.8	(12.8)
Germany	40.5	(34.3)	19.1	(15.7)	3.7	(4.3)	15.6	(13.5)
Canada	39.4	(29.2)	19.8	(14.8)	3.8	(4.1)	11.6	(7.2)
Austria	38.8	(33.0)	16.1	(12.9)	6.2	(5.3)	15.3	(13.9)
France	38.8	(36.9)	13.6	(13.6)	3.3	(3.1)	20.0	(17.2)
United States	33.2	(29.4)	18.1	(17.8)	2.2	(2.9)	10.2	(6.0)
Australia	29.8	(24.4)	14.5	(10.3)	4.2	(4.4)	8.0	(6.5)
Japan	22.3	(19.1)	9.4	(8.8)	5.5	(5.3)	6.5	(4.4)
OECD Total ^(f)	35.1	(30.5)	16.6	(16.0)	3.4	(3.5)	12.2	(8.4)
Ireland	42.6	(29.5)	17.5	(12.5)	5.8	(3.8)	15.1	(10.2)

Notes: (a) The table refers to expenditure by the central administration and the agencies under its effective control, national and local Government and their administration, social security agencies and autonomous Government entities, excluding public enterprises.

(b) Figures in parentheses are corresponding total for 1962-1964.

(c) Interest on public debt and other minor expenditure items, not shown separately, are included in total.

(d) Consumption represents the current expenditure on goods and services undertaken by public authorities.

(e) Transfers to households and enterprises.

(f) OECD total has been calculated in US dollars at the average exchange rates then prevailing.

For further details of the definitions see UN publication *A System of National Accounts and Supporting Tables*, Studies in Methods, Series F, No. 2, Rev.

Sources: Taken from *Full Employment and Price Stability (OECD) 1977*.

Irish data derived by authors from *National Income and Expenditure 1975*, using similar classifications.

wives are provided with cheap holidays. Newly married couples or unmarried parents are eligible for interest-free loans to furnish their homes. Local welfare offices also have great discretion in assisting needy people who have exhausted, or are ineligible for, the statutory benefits. The main Swedish social welfare benefits are the basic pension scheme, the health insurance scheme, the industrial injuries benefit scheme and the unemployment benefit scheme. In addition, there exist such benefits as the child allowance, and housing allowance, which are allowances paid to low-income groups to facilitate the purchase of suitable housing. Between 1969 and 1974 spending on social welfare increased in constant prices by 43 per cent. The proportion of GDP absorbed by direct payments of welfare benefits and assistance was 10 per cent in 1969 and 12 per cent in 1973. The comparable figures for Ireland are seven per cent and nine per cent respectively. Unemployment benefits in Sweden are generally higher than in Ireland, yet it would appear that they do not have a disincentive effect on employment. There are many reasons for this. The work ethic in Sweden is very highly developed and there are strong social pressures on unemployed people to take work. There are similar pressures to undergo retraining programmes but there is no compulsion as such.

Taxation

The basic aim of the Swedish social welfare system is to provide help where it is most needed, especially for the young and old. With growing numbers of old people and rising costs, the burden for the active population has become more difficult to bear. The result has been higher and higher taxation with an increasing share of revenue being paid by employers. Marginal tax rates in 1974 went from 32.6 per cent of taxable income at the bottom of the scale to 78 per cent at the top. Those in the latter group, however, would have gross incomes of £20,000 per annum and over. Taxation as a proportion of GDP in Sweden compared with similar figures for other countries is given in Table 1.7. This table shows that income tax in 1973-75 amounted to 19 per cent of GDP in Sweden compared to only 8.6 per cent in Ireland. This was mainly

Table 1.7: *Structure and evolution of taxation (In per cent of trend GDP at current prices)*

Country	Average 1973-1975 ^(a)									
	Total		Personal income taxes		Social security taxes		General consumption taxes and excises		Other ^(b)	
Norway	47.4	(34.3)	14.3	(11.7)	13.6	(6.9)	18.0	(14.0)	1.5	(1.7)
Netherlands	44.8	(32.4)	12.6	(10.0)	17.6	(9.6)	11.5	(10.1)	3.1	(2.7)
Denmark	42.7	(28.2)	24.7	(11.7)	0.9	(1.6)	15.8	(13.8)	1.3	(1.2)
Sweden	42.6	(32.6)	19.0	(14.3)	8.4	(5.1)	13.8	(11.4)	1.3	(1.8)
Austria	39.1	(32.9)	11.5	(9.2)	8.9	(6.8)	16.9	(14.7)	1.7	(2.3)
Belgium	38.0	(27.9)	11.6	(6.6)	11.8	(8.2)	11.5	(12.3)	3.1	(1.7)
Germany	36.1	(33.7)	10.4	(8.0)	11.6	(8.7)	12.6	(14.3)	1.4	(2.6)
France	35.1	(34.2)	4.9	(4.2)	13.6	(11.3)	14.4	(17.1)	2.3	(1.7)
United Kingdom	34.7	(29.1)	12.8	(8.7)	6.1	(4.3)	13.4	(13.1)	2.4	(3.0)
Canada	33.7	(24.6)	11.4	(5.5)	3.4	(1.6)	14.1	(13.2)	4.8	(4.3)
Italy	29.9	(28.8)	5.6	(4.1)	12.7	(10.3)	10.4	(12.6)	1.2	(1.8)
United States	29.4	(27.0)	10.0	(8.9)	7.0	(4.5)	8.9	(9.2)	3.5	(4.4)
Australia	26.9	(21.6)	11.7	(7.3)	0.0	(0.0)	11.3	(10.7)	3.9	(3.5)
Japan	20.6	(18.9)	5.2	(3.7)	4.1	(2.9)	6.6	(8.1)	4.7	(4.3)
Total OECD	30.9	(27.9)	9.5	(7.8)	7.9	(5.5)	10.4	(11.0)	3.1	(3.6)
Ireland	32.2	(24.2)	8.6	(5.0)	3.7	(1.6)	18.5	(16.3)	1.3	(1.3)

Notes: (a) Figures in parentheses are corresponding totals for 1962-1964.

(b) Mainly corporate taxation.

Sources: Taken from *Full Employment and Price Stability (OECD) 1977*.

Irish data derived by authors from *National Income and Expenditure 1975*.

due to the large agricultural sector in Ireland which at that time paid little if any income tax and to the lower incomes and the larger number of dependents per worker in Ireland. As can be seen from this table also, Swedish social security taxes amounted to 8.4 per cent compared with 3.7 per cent in Ireland. The proportions of other taxes are the same in both countries (1.3 per cent of GDP). Consumption and excise taxes on the other hand total 18.5 per cent of GDP in Ireland and only 13.8 per cent in Sweden. Because the public sector in Sweden utilises a larger share of total resources than its counterpart in most other countries, the tax burden has become so heavy that the possibility of achieving restrictive effects in the current recession via further tax increases are very limited. Extra VAT taxes are, however, being imposed on motor fuels and foreign travel to curb private consumption but since there is no room for further increases in income tax a reassessment of priorities for the various public undertakings has to be considered.

Chapter 2

Reasons for Sweden's Economic Growth

IT was stated in the introduction that *per capita* income in Ireland and Sweden was about the same in the early 1860s when the two countries were among the poorest in Europe. Since then the growth in the Swedish economy has been the highest in Europe, whereas that in Ireland has been amongst the lowest. What, we might ask, were the reasons for these divergent growth rates since that time?

It could be argued that Sweden has had national independence for centuries, whereas Ireland did not achieve such status until 1921. This is only part of the answer, however. It helps to explain Ireland's slow growth, but it does not explain Sweden's early stagnation or her good performance in later years compared with many other European countries which have had national independence for centuries also.

Sweden's rapid growth can be traced to a number of factors, but one of the basic elements underpinning all others was probably her abundant supplies of ore, timber and water power. It is estimated that her stores of iron ore are almost inexhaustible. But these resources had been there from the beginning of time and had remained undeveloped. Why were they developed after 1860 and not earlier?

Heckscher (1954) says that one of the most important factors initiating Swedish development was the international migration of capital. In the 50 years between 1860 and 1910, Sweden witnessed a large import of foreign capital which was a vital prerequisite for the country's rapid economic upswing. Capital imports as such were nothing new; foreign importers of Swedish ore had often financed exporters in the Swedish sea ports enabling them, in turn, to extend credit to producers. But this was on a trifling scale compared with what took place in the 19th century. It was no longer a quest-

tion merely of supplying short-term credit. Much of the borrowing was done by long-term bond issues and the overwhelming part of the foreign borrowing was done by the Government to finance railroad construction. In turning to foreign countries to finance the most capital absorbing operations of the time, the Government released domestic savings for the use of private business. Some private people also borrowed abroad at this time but this was insignificant compared with government borrowing. Foreign borrowing ceased around 1910 and eventually Sweden became a net exporter of capital. (For details of the current situation see Chapter 3.)

The development of the Swedish railway system and other land transport were the most important innovations in Swedish history. Prior to these developments transport and communications between provinces were impossible throughout the year. In the late 1860s the north of Sweden was struck by a near famine at a time when crops in the southern provinces were plentiful. This happened because food could not be transported northwards. Nor could iron ore be carried from the northern mines to the southern ports for shipment abroad throughout the year. The development of inland transport, therefore, was a vital prerequisite for economic growth, as was the introduction of hydro-electric power for heating furnaces and forges. The latter was facilitated greatly by Sweden's abundant water resources.

The improvement in the Swedish transport system was not independent of a number of other developments which came about at the same time and earlier. Three basic factors appear to have set the whole process in motion. These were:

- (1) The tremendous increase in the international exchange of scientific and technological information during the 19th century.
- (2) The change to increasingly capital intensive methods throughout Europe and
- (3) Britain's adoption of free trade.

The increase in the international exchange of scientific information benefited most countries but it was especially important for Sweden. The appearance of an enormous body of scientific literature in the 19th century, removed the veil of

secrecy in which new techniques and processes used to be wrapped. It was no longer necessary, therefore, to import foreign industrialists and workers in order to learn their methods. From now on no country could expect to preserve a technical monopoly as in the past and as a result some of the best industrial techniques in the world were introduced quickly into Sweden.

Probably the most important process brought in by this method, was a technique for making steel from phosphoric ores known as the Thomas/Gilchrist or basic process. Swedish ores are overwhelmingly phosphoric; before the advent of the basic process, they were not only useless, but even noxious. Steel made from these ores would break under the hammer and for this reason the richest fields in Sweden could not be mined. The basic process, however, allowed Sweden to use her vast ore deposits and set her industrial revolution in motion.

The second basic factor in Sweden's development, i.e., the change to highly capitalist methods of production in Europe, was also connected with iron. These new methods created a tremendous demand for this product and as a result, Swedish exports expanded enormously. There was a similar, but smaller increase in demand for Swedish forest products, but the expansion in the demand for timber for construction was only a first stage in this development. In the second stage the expansion in the forest products was closely tied to the consumers' goods' markets. The swelling demand for wood pulp was above all the consequence of increasing literacy and the rise of the daily press.

The third basic factor contributing to Sweden's development was Britain's adoption of free trade and the abolition of colonial preference. During and after the Napoleonic wars, most of Britain's timber was imported from Canada. This discriminated against other timber producing countries, including Sweden. The reduction of penal tariffs against non-colonial countries in the early 1850s was therefore a great boom to European timber producers and particularly to Swedish. Up to that time Norway was the main Scandinavian timber producing country, being much better located for this

purpose than Sweden. Foreigners saw no need to go into the Baltic for timber, when it was to be had on the shores of the North Sea. Also the Norwegians possessed technological superiority which was a further bar to the growth of Swedish exports. Unfortunately for Norway, however, her forests were becoming cut over by the early 1850s and attention was therefore focused on Swedish supplies. The response was slow at first, due to lack of technological appliances and a poor transport system, but gradually these difficulties were overcome. As stated above the transport system was developed while at the same time steam saws and other devices were introduced. Hydro-electric power, rather than charcoal was used to fire the steel furnaces. Heckscher (*op.cit.* p.225) says that the steam saw was one of the major contributions to the industrial revolution in Sweden. The use of steam made it possible to set up saws along the coastline, where they were easily reached by timber floating down the rivers, as well as by timber ships. As a result, the Swedish timber industry grew at an enormous pace. "It was a gold rush like experience to which there was no counterpart in earlier Swedish economic history" (*ibid.*).

Another important factor aiding Swedish development around this time, was the liberalisation of Swedish trade policies. Tariff protection and prohibition of imports were the characteristics of Swedish policy in the early 19th century. The most restrictive policies were the Navigation Acts, which restricted foreign ships entering Swedish ports. The first relaxation of the old commercial policies was the disintegration of these acts through the conclusion of navigation treaties with various other countries. This happened throughout the 1850s and 1860s when the Swedish cabinet managed to do away with practically all prohibitions against imports, to reduce import tariffs on manufactured goods and to establish free trade in agricultural produce.

Though the liberal trade policies had numerous critics they continued in operation until the 1890s when the competition of American grain gave rise in Sweden, as elsewhere, to a new tide of protectionism. Agricultural tariffs were followed in 1892 by an increase in tariffs on industrial goods and

during the first decade of the 20th century, very heavy industrial tariffs were in operation. Hence, at the outbreak of the First World War Swedish industry was again protected by a high tariff barrier.

Any assessment of Swedish protectionist policy is difficult, but Heckscher (*ibid.* p.239) says, that in peace time, protection was a somewhat retarding factor in the general growth of the Swedish economy because it placed burdens on profitable branches of industry in favour of unprofitable ones. On the other hand, the price rise prevailing throughout the major part of the protectionist period provided a valuable stimulus for Swedish agriculture and many other industries.

Population

Few developments during the century preceding the First World War were more dramatic than the population growth which occurred in Sweden. Thus in spite of the industrial expansion after 1850, industry was not capable of absorbing the enormously increasing population, which occurred mainly in the rural areas. The solution was emigration to the USA.

The first waves of emigration began in the 1850s and 1860s. Two peak years were 1868 and 1869, when as a result of bad harvests more than 70,000 people emigrated out of a total population of 4.2 million. It slowed down somewhat in the early 1870s but by 1880 it had become more or less a permanent phenomenon. The reasons for the exodus were plain. At the root of the matter lay simply the great discrepancy between living standards in the old and the New World, coupled with the difficulty of finding employment at home.

Between 1860 and 1914, when emigration ceased, over one million people had left the country. The population at the beginning and end of this period was 3.9 million and 5.7 million respectively. It was primarily the landless agricultural classes who chose to leave and in the short run their departure saved the country from agrarian pauperism. Later on, rapid industrialisation and a declining birth-rate absorbed the landless. But even in 1914, when emigration ceased, the decline in the agricultural population did not cease. It has continued unabated, even to the present day. Over the 50

years between 1880 and 1930, the proportion of the population in agriculture declined from 72 per cent to 22 per cent, while over the past 40 years it has been reduced to about seven per cent.

The First World War

Sweden, which had remained neutral, was unprepared for a war such as the First World War turned out to be. Nothing had been done specifically with a view to providing for the exigencies of a blockade. No stocks had been laid up; no economic programmes had been prepared. As a result, a most serious food shortage was created by the Allied blockade of foodstuffs and by demands from the Germans for extra livestock exports. The total nutritional deficiency caused by these factors was 22.5 per cent of total food consumption (in terms of calories) during the last two years of the war. This shortage inflicted great hardship.

In the fall of 1920, the economic crisis, which had spread throughout the world reached Sweden and developed into an unusually deep depression. However, the solution to the problem was simplified by the strong demand for Swedish exports (above all pulp). Unemployment, which by Swedish standards was exceptionally large, was met by measures designed to bring the unemployed back to work in private enterprise rather than in public works. Also, though it may seem paradoxical in this situation, all attempts to exclude foreign competition by means of tariffs were resisted. It was felt that the gains from exports should not be jeopardised by curtailing imports.

Whatever the cause, Sweden was among the first of all European countries to come out of the post-war depression. Throughout the early 1920s, while the rest of Europe struggled, Sweden experienced a partial boom, though there was persistently higher unemployment than before the war. For labour as a whole, however, this was offset by rising real wages. These successes have been attributed (Uhr, 1977) to the economic advice given the Government by economists of the older generation—Davidson, Wicksell, Cassel and Heckscher—who had all served the state during the First World War

and throughout the 1920s on problems of monetary policy, taxation and international trade. For example, the character of Sweden's budget and tax system was essentially developed, according to Davidson's views on Public Finance, back in 1910, and remained substantially in effect until 1937, when it was replaced by a system deliberately designed to operate in a counter-cyclical manner.

The Great Depression

The Great Depression reached Sweden relatively late, in the second half of the 1930s, though troubles had already been felt in agriculture at an earlier date. In 1931 Britain abandoned the gold standard and Sweden followed almost immediately as her external reserves were down to 30 million Krona. The number of unemployed rose from 32,000 in December 1930 to about 200,000 in March 1933. At the latter date 45,000 of the unemployed had temporary jobs on relief work at very low wages, 77,000 had cash relief benefits, but the remaining 78,000 were receiving neither dole nor work relief assignments (Uhr, *ibid.* p.113).

It was at this time that Sweden's most distinguished economists, Lindahl, Myrdal and Ohlin—all relatively young men then—together with a handful of younger scholars, collectively known as the Stockholm school, began to play a prominent role in shaping the country's recovery policies. Indeed it could be said that this school anticipated by several years Keynes' "General Theory" which was published in 1936. The first to announce a policy for recovery was Eric Lindahl in a lecture entitled "Public Works in Time of Depression" given to the Economics Society in Stockholm on 23 November 1932. This lecture turned out to have greater significance than even Lindahl himself could have foreseen as it galvanised public opinion and support for a positive recovery programme.

Lindahl thought it unlikely that the then existing measures (public works, freely available credit at reduced interest rates) would suffice for the task of increasing employment; and he rejected out of hand, the often repeated demand for a reduction in wages. He said that expansion of output for the

domestic market should be the primary aim and that people must have money to buy the goods produced. He therefore recommended that wages on relief works be kept at levels only slightly below commercial rates.

Lindahl's views, though opposed by some of the older economists—Bagge and Heckscher—were supported, except for certain details, by Myrdal and Ohlin. The latter, in a remarkable monograph entitled "Monetary policy, public works, subsidies and tariffs as measures against unemployment" in April 1934 (Uhr, *ibid.* p.107) brought to public attention, concepts such as expectations, uncertainty and the effects on confidence and on liquidity preference of public works. Myrdal, in his contribution, which was an address to Parliament, drew attention to the undesirable effects of unemployment saying that prolonged maintenance of unemployed workers on cash relief is very destructive of the morale and skills of the human capital invested in them, and that such deterioration is very costly to restore, if indeed it can be restored at all.

The economists' views on counter-cyclical policies were accepted by the Social Democrats, who assumed power in Autumn 1932, and by early 1934, 120,000 (63 per cent of the unemployed) had jobs on relief work projects, while the rest were on cash relief. From this time on, recovery was fairly rapid.

Though the effectiveness of the policies pursued were questioned at the time, by the older economists, most people would now agree that they worked well, and saved Sweden from a much more protracted depression. The fact that the analyses turned out to be appropriate to the conditions of the times, greatly enhanced the prestige of the economics profession in Sweden and by their services in this period, the Stockholm economists, in particular, earned for themselves and their successors, a permanent role in the nation's policy councils (Uhr, *ibid.* p.119).

The Second World War

The framework for economic policy that had been created during the depression was essentially maintained throughout

the 1930s, even after the depression gave way to a minor boom around 1935. At the same time, the working classes managed, partly by strengthening the trade unions and partly by use of political power to acquire an increasing share in the national product.

Sweden also remained neutral during the Second World War. After the invasion of Norway and Denmark in April 1940, she was cut off from the outside world to an extent unknown even in the previous war. However, in spite of prolonged and virtually complete isolation, the people suffered no deprivations similar to those of the First World War. Although the food situation sometimes looked serious, there was nothing like the hunger of 1917-18. This was due, in part, to pre-war stimulation of agriculture, which left the country in a very strong situation with regard to food production. It has been claimed that planning made all the difference between the First and Second World Wars in this respect.

Conclusions

In contrast to Sweden, Ireland is scarce in natural resources. This is a serious handicap, but it does not lie at the heart of the Irish economic problem. Other countries (like Denmark) with poor natural resources have not been held back on this score. Our problems have been of a political nature and our economic backwardness has sprung mainly from this source.

Ireland did not achieve independence until 1922 and we are therefore masters of our own destiny for a very short period. Of course national independence on its own would not have guaranteed economic development but under a native government a more favourable environment for development would have existed. At a time when Sweden was developing her transport system and introducing advanced technologies, we were fighting a land war. After the First World War, when Sweden was adopting advanced policies for the relief of unemployment, we were fighting a war of independence and a civil war. Even in the 1930s, when Sweden was experimenting with counter-cyclical policies to stimulate demand, we were engaged in an economic war with our main purchaser, Britain, thus prolonging a crippling depression. The

debate over the years, in Ireland, has therefore been basically political. Economic and technological matters have occupied secondary roles.

Fortunately, however, the emphasis has shifted over time. In contrast to past years, economic matters are now beginning to hold the centre of the stage. The First Programme for Economic Expansion, in 1958, marked the beginning of a new era. Since then, development has gone steadily ahead. Let us see if it can be hastened, by examining in some detail, modern Swedish policies.

Chapter 3

The Industrial Sector and Policies for Industry, the Regions and Trade

AS in other countries, economic progress in Sweden has been largely sustained by the rapid expansion of industrial output. The volume of industrial production expanded by about 4.5 per cent annually in the 1950s. The rate of growth accelerated in the early 1960s to over seven per cent annually, and slowed down subsequently to just over five per cent in 1965-70, and 4.7 per cent in 1970-74.

While the share of the labour force employed in manufacturing industry has dropped from 34 per cent of man-hours in 1960 to about 28 per cent in 1973, output per man-hour rose by seven per cent per year during the 1960s. Thus, although GNP has grown somewhat slowly by Western European standards in the 1960s and early 1970s, the industrial sector has had a fairly rapid increase of output per man-hour. Within the last few years, however, it is claimed (Swedish Budget, 1978/79) that one of the central problems of the Swedish economy has been a deterioration of industrial competitiveness and this has been aggravated by the fact that international recovery, more or less, petered out after the first half of 1976. The adjustment of the Swedish exchange rate by a total of 15 per cent in 1977 will yield an improvement in industrial competitiveness but certain branches like shipbuilding and textiles face severe structural problems that cannot be resolved by measures such as devaluation. To restore international competitiveness in these branches, measures are being introduced which aim at contracting certain industries and making them more effective so that resources can be liberated for more expansive activities. Even when business activity improves, Swedish industry will have to undergo major adjustments and the Government has already taken

a number of measures in this direction, including steps for improving the research and development potential of the business sector.

Structure of Output

Changing patterns of demand, development of new markets and technological progress are reflected in the changing structure of industry. The importance of industries based on raw materials and semi-finished goods is declining while the dominance of the more advanced technology-based industries such as metals, engineering, and chemicals is growing. This trend is similar to that in other highly industrialised countries. Greater freedom of trade since the war has been an important factor in the development of highly capital-intensive industries in a small country such as Sweden. The manufacture of goods such as motor vehicles, ships and aircraft requires access to a very large market in order to take advantage of economies of scale in production, administration, marketing, research and development.

Table 3.1 shows the change in the structure of industry since 1950.

Note on the Main Industries

Mining: Sweden produces 5 per cent of the world's iron ore and is responsible for 10 per cent of all exports of this ore. Some 90 per cent of total deposits are in the North of Sweden and they include not only iron ore, but also zinc, copper, gold, silver, lead and manganese.

Engineering: Production in engineering has increased more rapidly than in other manufacturing industries during the period 1950-1974—by 7.3 per cent per annum—as against 5.3 per cent for all manufacturing. In 1950 it accounted for 25 per cent of exports by value and by 1974 this figure had risen to 44 per cent.

The main divisions of the engineering industry are (1) iron, steel and metal; (2) electrical; (3) motor vehicles; (4) machinery and (5) shipbuilding. Machinery accounts for about 30 per cent of added value in the industry, though the motor vehicle section has been expanding. Native hydro-electric

Table 3.1: *Percentage sector shares of GNP arising in manufacturing industry, including mining (Measured in constant prices)*

Sector	1950	1960	1970	1973
			%	
Mining	4.7	5.2	2.9	3.1
Food	11.0	8.0	7.8	6.7
Beverages and tobacco	1.7	1.4	1.7	1.7
Textiles, clothing and leather	14.8	9.3	6.1	4.9
Wood and furniture	7.7	5.9	7.4	7.9
Paper, pulp and paper products	6.7	7.9	6.9	7.4
Printing and publishing	7.8	5.9	7.1	6.5
Rubber	1.3	1.2	1.5	1.3
Chemicals	4.9	5.1	6.6	7.6
Oil refining, oil and coal	0.8	0.9	0.8	0.7
Quarrying	5.2	4.3	4.5	3.9
Iron, steel and other metals	3.7	6.8	6.1	6.1
Engineering	28.8	37.2	40.1	41.4
Other	1.1	0.9	0.5	0.8

Source: Some Data about Sweden 1975-76, *Skandinaviska Enskilda Banken*, Stockholm.

power has given the incentive for the production of heavy electrical equipment, while the forest industry has helped spur on the development of heavy machinery. Sub-contracting has become very important and a quarter of engineering output is of products for further processing. The steel section of the industry is, however, facing troublesome problems at present. These have arisen in part from the lengthy and deep recession among the Western industrial countries which has led to a steep decline of steel consumption there since 1974. At the same time, a modern steel industry has grown up rapidly in several countries in Latin America, Asia and the Far East. This can be expected to have long-term repercussions on the

steel industry, not alone in Sweden but in the whole OECD area. Actually Sweden is now concerned not so much with steel exports as with holding its share of the domestic market. Present policy is to concentrate production in the viable parts of the industry, while the other parts are wound up.

Forest Industry: Sweden has about one per cent of the world's forests. Her importance in the timber industry springs from the ease of exploitation of her forests. The main advantages include a small variety of species, a long fibre, and favourable conditions for growth and cutting. Forests products account for 25 per cent of exports. Sweden's share of world production is four per cent and, of world exports 14 per cent. Growth for the industry in the Long-Term Survey 1972-1974 is projected as 7.4 per cent per annum.

Paper Industry: There has been a very great expansion of the paper industry in recent years. In 1974 there were 96 pulp mills producing a total of 9.8 million tons of chemicals and mechanical pulp. This accounted for eight per cent of total world production and placed Sweden as the fourth largest world producer after USA, Canada and Japan. About two-thirds of the production of paper and board is exported, though domestic consumption of paper and board is very high, running at over 470 lb per capita each year. As an exporter of paper she ranks third after Canada and Federal Germany.

Chemicals: A chemical industry did not really develop in Sweden until the Second World War. Growth has been most noted in organic chemicals, plastics and pharmaceuticals. Petro-chemicals were given a special boost in the 1960s by large capital investment. After petro-chemicals the fastest growing sector is pharmaceuticals, which is a section whose products are largely the result of product development in the companies' own research laboratories in Sweden. About 25 per cent of total chemical production is exported.

Textiles: The textile industry is characterised by being highly mechanised and capital intensive, with the exception of the clothing industry, which has a relatively high labour content. Since 1950 the volume of textile production has shown a downward trend due to stagnating demand and increasing com-

petition from imports. In the period 1965-1974, production declined by three per cent per annum, investment by 1.5 per cent and employment by seven per cent, while there was an increase in productivity of seven per cent per annum. Efforts to stem the decline in this industry have greatly increased since 1974 through interest-free state loan guarantees. Despite these subventions, however, the industry is still in serious trouble and further declines are inevitable.

Energy Production: Sweden is rich in timber and hydro-power but lacks native supplies of coal, oil and gas. Oil products supply 70 per cent of her energy needs and so makes Sweden heavily dependent on imports of oil (petroleum accounts for 16 per cent of total imports by value). Hydro-electric power accounts for 16 per cent of total energy produced, and accounts for about 80 per cent of all electricity production. Oil produces about 15 per cent of electricity. Consumption of electricity has increased by seven per cent per annum in recent years, while the increase in total energy use has been five per cent. Industry uses 42 per cent of all energy, transport 16 per cent and households, etc., the remaining 42 per cent.

Table 3.2: *Energy—sources and uses, 1973*

<i>Sources</i>	<i>Percentage</i>	<i>Uses</i>	<i>Percentage</i>
Oil	71.0	Industry	42.0
Hydro-electric power	16.0	Heating	42.0
Lyes and firewood	7.5	Transport and	
Coal and coke	4.0	communications	16.0
Nuclear power	1.5		

Source: Same as for Table 3.1, p.38

A number of companies are carrying out research into nuclear energy. Two new plants with capacities of 760 MW and 820 MW came on line in 1977, with a projection that by 1980 nuclear power will be producing 8,300 MW in capacity.

(In 1973 nuclear capacity was about 500 MW—1.5 per cent of total energy sources or about eight per cent of total electricity.)

Concentration in Industry

As in most other industrialised countries, structural transformation has been rapid in the post-war period, particularly since 1960. This is shown in increased concentration through mergers of companies, shut-downs, acquisitions of subsidiaries, co-operation agreements between companies, etc. In 1964 the 100 biggest private industrial enterprises accounted for 46 per cent of industry's total value added, and there has been considerable further concentration of firms since then. It has been estimated that in 1964-68, companies representing 10 per cent of total industrial employment were bought by other companies. To a large extent, there seems to be general agreement as to the necessity for this re-organisation in view of the increasing need to specialise and to exploit economies of scale in order to meet international competition.

Concentration has been strongest in the export industries. This is presumably because these industries face tougher competition from home-traded goods, and also because the shift to advanced technology-based industries is even more marked in the composition of exports than of all industrial output. (See Table 3.3). The concentration also gives Sweden a certain amount of monopoly power on world markets and a degree of autonomy which is much greater than Ireland or indeed many larger countries have on such markets.

Foreign Investment in Sweden

Foreign ownership of Swedish companies is not very extensive, but it did increase during the 1960s. In 1970, companies in which at least 25 per cent of the share capital was owned by a foreign company, employed nearly 100,000 people, or 2.5 per cent of the labour force. The majority of foreign-owned companies are in manufacturing industry, although since the mid-'sixties there has been an expansion of foreign trade and service companies. In manufacturing alone, companies with at least 50 per cent of share capital owned by

foreign interests employed over six per cent of the manufacturing labour force, and made about 11 per cent of total sales. Employment and sales by foreign-owned manufacturing companies increased by 37 per cent and 96 per cent respectively between 1965 and 1970. The value of direct foreign investment in Sweden rose sixfold from 1960-1970. In 1974 direct foreign investment was 675 million Swedish Krona, or 1.2 per cent of Gross Fixed Capital Formation. Swedish investment and ownership of companies abroad is considerably more extensive than foreign involvement in Sweden. Investment abroad was 2,430 million Swedish Krona in 1974, and in 1970 Swedish companies abroad employed over 180,000 people. Sales of these companies increased by 89 per cent in 1965-70. The main reason for investing abroad was to gain

Table 3.3: *Percentage distribution of exports 1965, 1970 and 1974*

	1965	1970	1974
Agricultural products	3.2	2.3	2.4
Timber	8.2	6.7	6.0
Pulp paper cardboard	20.3	17.3	17.4
Iron ore	5.5	3.4	3.3
Fuel and energy	0.6	0.9	1.3
Chemical products	3.5	4.1	5.1
Base metals and products thereof	13.3	14.7	13.8
Machinery and instruments	21.4	25.0	23.7
Transport equipment	13.6	14.9	14.6
Textiles and shoes	2.3	2.9	2.6
Other goods	8.1	7.8	9.8
<i>Total</i>	100.-	100.-	100.-
<i>Total S.Kr (million)</i>	20,541	35,150	70,391

Source: Same as for Table 3.1, p.85.

free entry to foreign markets. But more recently rising costs in Sweden have made it profitable in some cases to move production abroad and to export merchandise back to Sweden. In this way a substantial part of the textile industry was transferred to other countries.

Industrial Policy

Up to 1976 very little direct aid was given to industry but during the recent depression the state has had to bail out a number of ailing companies. Normally there are no capital subsidies or direct financial aids for restructuring as are available in Ireland. Restructuring and the desired production mix are obtained mainly through market forces. In this respect Sweden is akin to Germany and the Netherlands. It is left to the market to force change, and policy seeks to ensure that the market can in fact operate efficiently.

There is a good deal of Government intervention in the capital market. The state-owned Swedish Investment Bank is empowered to finance potentially profitable projects which might not, for various reasons, obtain credit on the open market. There has always been some state or state-supported lending on advantageous terms to small enterprises, but during the recent depression such loans have had to be extended to large companies which were in trouble. In particular substantial loans have had to be given to firms in the steel, shipbuilding and textile industries.

Because of the concern with growth, the State has tried to increase domestic savings. For this purpose, in 1960 an obligatory insurance system (ATP) was introduced. Obligatory employer-contributions per employee have been accumulated in a General Pensions Fund. This fund is now the largest institution in the Swedish capital market. A large proportion of the fund is lent to the productive sectors of the economy. Most of the institutions lending to industry obtain funds from the General Pensions Fund, e.g., the Industrial Credit Bank and the Business Credit Associations, though the release of these funds has become increasingly selective, being aimed at particular sectors and regions which the government considers in need of investment.

Regional Development Policy

The range of policy measures which are used for regional development is much more extensive than that used to assist industry or development in general.⁵ Regional policy covers 20 per cent of the population and 66 per cent of the land area,⁶ within this there is a special inner area of 50 per cent of the total area and five per cent of the total population. Investment grants, of up to 50 per cent of construction costs, are payable in connection with the construction, extension or improvement of premises. Since 1973, grants of up to 65 per cent can be paid in the inner area and can be made available for machinery investment also. Cheap credit and interest-free loans are also provided, as are Government loan guarantees.

Temporary training grants are paid in connection with setting up or expanding industries. Employment grants are paid for extra employees for three years. Up to 1973 this aid applied only to the inner aid area, since then it applies to the total regional aid area. Transport subsidies are paid to offset the disadvantageous costs inherent in long distance transport from the general aid area.

As can be gauged from the above, the range of regional assistance is quite comprehensive and compares favourably with that in other European countries. In addition to the above, state enterprises always consider the location of new activities in the regions, and specific enterprises have been set up in the north.

According to Professor Torstaj Hagerstrand of the University of Lund (personal communication, June 1978) Sweden has tried to pursue a national regional settlement strategy which, in his opinion, is unique in the world. The purpose is to try to create local labour markets which are so diverse that they can retain some stability. At the same time they aim to equalise, as far as possible, service conditions for industry and people. There is also a national physical plan

⁵Follow up of Regional Incentives in Sweden. A Report by the Expert Group on Regional Studies (ERU), Ministry of Labour, Fack S-103, 10 Stockholm, Dec. 1974.

⁶The northern two-thirds of Sweden and certain other rural districts are designated as "regional development areas".

to look after the land area in a constant way. This policy came about when it was realised that an unacceptable distribution of natural resources (including land) was going on, and that people were not prepared to move around to the extent that some economic objectives demanded. As a result of the regional policies the biggest cities have been losing population for a number of years and that is not just because of suburbanisation. The whole metropolitan area loses; the growing centres are the provincial capitals.

Planning

Swedish economic planning which may be said to have begun in the 1930s, is a mild form of indicative planning. Unlike French planning, there are no fixed quantified targets and no attempt is made to coerce or persuade the private sector to follow any particular course of action. Swedish plans are more in the line of forecasts than plans and are mainly a survey of the likely economic trends over the forthcoming five years. In fact, these five-year reports are never formally adopted as official Government policy. They should be regarded more as an attempt to communicate economic information to the market and thus supplement the information directly supplied by the market. The Swedes devote a lot of effort to analysing likely trends in the supply and demand for labour and then ensuring that manpower policy will bring about an equilibrium between the two.

Trade Policy

While certain trade restrictions and customs duties still remain, especially in the case of agriculture, there is a marked preference for freer trade. It is declared policy not to shelter the economy but to expose it to the full rigours of outside competition. The rationale for this approach is that competition will induce the most efficient allocation of resources and the adoption of the latest technology. The trade policy is simply an extension of the underlying belief in the ability of the market. There have been exceptions, however, such as the textiles and clothing industry in the 1960s.

Sweden is a member of EFTA (the European Free Trade

Area Association) which is still in existence even though Denmark and the UK left the Association when they joined the EEC in 1973. Sweden did not join the EEC. The question of EEC membership was one of the most important political issues in that country during the 1960s. The Government, however, decided after long discussions that full membership of the Communities was not compatible with the Swedish policy of neutrality. International ties which could involve the country in future wars were unacceptable. The final solution was a free trade agreement for industrial goods (agricultural goods excluded) which concluded with the EEC in July 1972. This agreement provided for existing tariffs between Sweden and the EEC to be progressively dismantled in step with the tariff reductions between the EEC and its new members. As a result, free trade with the EEC was achieved on 1 January 1977 except for certain sensitive products. The transition period is extended to 1980 for some metals and to 1984 for paper board and paper products. Sweden and EEC have different external tariffs against other outside countries.

Chapter 4

Agriculture and Forestry in Sweden

THOUGH the area of Sweden is approximately the size of California or twice the size of the United Kingdom, the area of agricultural land is relatively low, being about 7.5 million acres, compared with about 12 million acres in Ireland. In addition to the agricultural area, 95 per cent of the farmers own about 12 million acres of forest land from which they earn a significant part of their income. Actually, farmers own one-fifth of the total productive forest area of the country, the remainder being divided between other private owners, stock companies, the state and the Swedish Lutheran Church.

The proportion of GNP currently produced in agriculture, forestry and fishing is about seven per cent, of which about three per cent comes from agriculture and the remainder from forestry and fishing. The proportion of the total labour force employed in these occupations is about seven per cent also. This proportion has declined from 20 per cent in 1950.

In 1971 there were approximately 150,000 farmers in Sweden with more than five acres of agricultural land. Of these, only 44,000 had more than 50 acres of farm land. Of the agricultural land in Sweden, 68 per cent is devoted to tillage crops, mainly grain crops and the remaining 32 per cent is grassland (See Table 4.1). The number of grazing live-stock is therefore relatively low, total cattle being only 1.9 million and sheep 370,000 compared with about 7.0 and 4.0 million in Ireland respectively. A growing number of small farmers in Sweden are selling off their cattle and at present 30 per cent of farms have no cattle compared with less than 10 per cent in Ireland.

Unlike other European countries the number of dairy cows in Sweden has been falling steadily over the years. In 1939 the number of cows was 1.9 million and milk production was

1,000 million gallons per annum. At that time there were heavy exports of milk products. Since then production has declined to about 600 million gallons. Cow numbers are now only 755,000 and Sweden is barely self sufficient in milk and milk products. Indeed the Swedes are having difficulty in maintaining cow numbers even at a milk price to farmers of over 50p per gallon in 1974.

Table 4.1: *Use of arable land in Sweden, 1974*

	Acres (‘000)	Per cent
Wheat	850	11.3
Rye	274	3.7
Barley	1,595	21.3
Oats	1,170	15.6
Mixed grain	192	2.6
Leguminous plants	23	0.3
Oil plants	401	5.4
Green fodder plants for silage	58	0.8
Hay and grass silage	1,828	24.4
Pasture	536	7.2
Potatoes	119	1.6
Sugar beet	117	1.6
Other crops	76	1.0
Fallow	157	2.1
Arable land not used in 1974	81	1.1
<i>Total arable land</i>	7,478	100.0

Source: Holmstrom Sven, Swedish Farming, Agricultural Economics Research Institute, Stockholm.

The decline in milk production is attributed to the declining labour force in farming, climatic conditions suitable for grain growing and the opportunities for off-farm work engendered by the high prices ruling for timber of all kinds. The output of grain is now twice as great as it was 10 years ago and there are considerable exports. Sweden is just self

sufficient in beef production and eggs but she has a considerable surplus of pigmeat. Pig numbers were 2.4 million in 1974 compared with less than one million in Ireland.

Co-operative Membership

Some 98 per cent of the 150,000 Swedish farmers and forest owners are members of one or more agricultural co-operative societies which include co-operative banks, mortgage societies and marketing organisations. The total membership is more than one million, which is an average of five memberships per farmer. About 80 per cent of sales of agricultural products are handled by the co-operatives and through these the farmers own a significant part of the Swedish food industry, thus exercising an important influence on market prices.

Forest products are also handled by co-operatives. The South Swedish Forest Owners Association (SSSF) is a producer co-operative having a membership of 44,000 private forest owners who between them own five million acres of productive forest land. The Association's area of operations comprises almost the whole of south Sweden. The industrial operations of the Association are carried out by a subsidiary company which is divided into four operating divisions, namely:-

The Forest Division which is responsible for the supply of timber to the industrial plants. Deliveries during 1974 were 6.6 million cubic metres of round wood of which more than 25 per cent was sold to external buyers. Employment in that year, not counting the forest owners, was 1,550; turnover was 830 million S.Kr.

The Wood Mechanical Division. This comprises 13 sawmills, three chipboard mills and a house factory. The latter produced more than 2,000 system built timber frame houses during 1974. The division's turnover was 479 million S.Kr. and the number of employees was 1,950.

The Chemical Pulp Division. In 1974 this division produced 184,000 tons of unbleached and semi-bleached sulphate pulp, 595,000 tons of bleached pulp and 16,000 tons of paper. The division's turnover was 1,041 million S.Kr. and the number of employees was 1,690.

The Packaging Division. This division manufactured 78.5 million paper sacks and an unspecified number of cardboard boxes in 1974. Its turnover was 204 million S.Kr. and 1,130 persons were employed.

For the group as a whole, profit, after depreciation in 1974, was 323 million S.Kr. and average employment for the year about 6,000 people.

Farm Prices

Swedish agricultural policy has two main objectives:-

- (a) to maintain an adequate degree of self sufficiency in case of isolation during wars and
- (b) to ensure that farmers and farm workers have income levels comparable with those of other workers.

These objectives are achieved by active state contributions towards farm rationalisation and by the maintenance of high farm prices. The latter are achieved through high consumer prices which in turn are maintained by import regulations and by a system of levies on agricultural imports. The pricing

Table 4.2: *Swedish prices for certain farm products as a percentage of EEC market prices (1972/73)*

<i>Crops</i>	<i>%</i>	<i>Livestock</i>	<i>%</i>
Wheat	81	Milk	137
Rye	84	Cattle	106
Barley	85	Pigmeat	100
Oats	83	Eggs	81
Sugar beet	93	Poultry	136
Potatoes	128	All livestock products	115
All crops	86	All products	109

Source: Same as for Table 4.1 (page 26).

system is based on central agreements between the Government and the Federation of Swedish Farmers. The latter is a merger of the principal organisation of co-operative associations and the farmers' trade union.

Prices paid to farmers for certain farm products in Sweden as a percentage of average EEC market prices for 1972/73 are given in Table 4.2. As can be seen from this table, grain prices were lower in Sweden than in the EEC countries generally. Prices for animal products, on the other hand, were higher in Sweden than in the EEC. When all products were weighted together, Swedish prices were nine per cent higher than those in the EEC. Food subsidies, however, are paid on a number of commodities in order to keep down consumer prices.

Farmer's Organisations in Sweden

The Federation of Swedish Farmers is the central co-ordinating body of which the individual farmers, the branch organisations and the larger co-operative societies are all members. This organisation also includes the Auditing Bureau of the Federation of Swedish Farmers; the shipping concern—Agro Shipping (part owned); the advertising firm—Landia; The Swedish Agricultural Economic Research Institute; the Swedish Laboratory Service (part owned); the Sanga-Saby School for Farmers and the Swedish Seed Company.

The Federation looks after the interests of Swedish farming and agricultural co-operatives within the community at large. It negotiates with the Government regarding farm produce prices, and all matters relating to agricultural price regulation and national food reserves. It takes account of foreign trade in agricultural goods, and looks after Swedish farming interests abroad through its membership of international organisations. It provides training for farmers, and services them with a flow of information through the various journals which it publishes. It produces films on agriculture and gives advice on business economy and legal affairs. Its scope and influence is enormous, performing many of the functions of the Irish Department of Agriculture.

Combined Forestry and Agricultural Enterprises

In 1971, more than 70,000 of the 150,000 Swedish farmers had part-time work outside their own farms. These worked at various jobs in both industry and services. In addition, 75 per cent of the total 150,000 spent 40-50 per cent of their remaining time working in their own forests. This combination of farming and forestry is of great importance in Sweden for spreading the work load over the whole year and maintaining incomes. The growing season is only about six months per annum and after that outdoor farming has to be suspended. During the remaining period the forestry work is performed, so that farming and forestry are entirely complementary operations. In Spring and Summer the farmers seldom visit their forests, but in Winter they spend practically all of their working time cutting, planting and improving the timber stands.

In Ireland, Bord na Mona is probably the largest single employer of part-time farmers. But despite this, turf work is not particularly suitable for such people, since the two types of work must be done mainly at the same time of the year. Forestry work, either in state or private forests, would appear to be much more suitable for providing off-farm work and rural employment generally. Projections of the number of jobs which must be provided over the next 10 years has created a new urgency in this direction (Walsh, 1977). We must now take a hard look at the type of industry we have been fostering and compare the cost, and permanency of jobs created, with what could be produced from an extension of our forest areas. We refer here not alone to the work of producing and cutting the timber, but also to the subsequent processing operations.

It should be mentioned, of course, that the opportunities for creating a large number of jobs in forestry in Ireland are by no means as favourable as those in Sweden. In the latter country the forest area is about eight times as great as the agricultural land area, whereas our forest area is never likely to be more than one-sixth of the area of crops and pasture in the state.

This, however, should not deter us from aiming at an expansion of our woodlands. Every avenue for job creation must be tried and it is our view that the climate of opinion in favour of forestry is better now than at any time in the past. Heretofore, it was argued that on marginal land the return per acre was much greater in agriculture than in timber production, and that forestry should be confined strictly to non-agricultural land. Experience, however, has shown that Irish farmers are no longer interested in carrying out farming operations on marginal land. Each year more and more of this type of land is becoming derelict and there is no reason why it should not be put under trees, either by farmers themselves or by the Forestry Department. Figures are not available for the cost of creating jobs in this way but it should not be any greater than that from more conventional industry. We understand that studies in this area are now being carried out by the Department of Forestry.

Chapter 5

Labour Relations

THE Swedish labour market has had for a long time a reputation for stability and harmony. Compared with most other countries very few working days are lost because of disputes. Many foreign observers have commented on the high degree of mutual trust between labour and management. Others have explained the labour peace largely by the Swedish national temperament which is said to be submissive to authority and oriented towards the needs of the group rather than the individual. Perhaps the most extreme version of this type of explanation is contained in Roland Huntford's book, *The New Totalitarians*, (op.cit., p.8) which suggests that Sweden is well on the way to becoming a society like that described in Huxley's *Brave New World* (in which people are conditioned from infancy to fit into a given role in society, without questioning authority or adopting unconventional behaviour). There may be some truth in these statements about exceptional trust and submissiveness to authority. The remarkable labour peace in Sweden and the unusually responsible attitude of the trade unions, must to some extent be due to these facts, but of course there is more to it than this. Equally important in the prevention of disputes is the highly developed system of collective bargaining and regulations concerning industrial action which apply to almost the whole labour force. The responsible attitude of the trade unionists may also be due to the fact that they have had a strong influence on the economy and Government policy, and they have every reason to feel that they have become the dominant "social partner".

The topic of labour relations in Sweden is of particular interest for Ireland since the type of national wage bargaining which has developed in Ireland in the 1970s is very similar

to the system that has operated in Sweden for many years. Thus Sweden's experience may give some idea as to how labour relations could develop here.

Organisation of the Swedish Labour Market

The Swedish labour market has been highly organised on both the management and labour sides since the turn of the century. The first trade unions were formed in Sweden after 1869, and LO (the Swedish confederation of blue-collar trade unions) was established in 1898. By 1902 SAF (the Swedish Employers' Confederation) was in existence, essentially as a defence organisation against the rising labour movement. The first collective arrangement between LO and SAF, concerning the basis for future agreements, was signed as early as 1906.

White-collar workers did not form trade unions of any great significance until the 1920s and 1930s when massive unemployment posed a definite threat to their security for the first time. In 1944, TCO—the Central Organisation of Salaried Employees) was formed as the national federation of white-collar unions. But TCO did not include all white-collar groups. Some organisations of professional workers with a university education or the equivalent formed a separate central organisation in 1947 called SACO (the Confederation of Professional Associations). In 1975, SACO merged with SR (the National Federation of Civil Servants), an organisation for military officers and certain other civil servants with a higher education, to form SACO/SR. Thus there are, at present, three trade union confederations—LO, TCO and SACO/SR, and one major private employers' confederation—SAF.

LO is the largest and most influential union federation with 1.9 million members while TCO has 950,000 and SACO/SR has 165,000, Forsebäck (1976). LO is a confederation of 25 national unions, most of which are organised by industry rather than craft. Originally unions were organised largely on a craft basis, but in 1912 the LO Congress decided to re-organise in order to match the employer structure, both to exert the maximum pressure and to ease the administrative problems of negotiations. This re-organisation involved a

considerable reduction in the number of unions. The situation in TCO is much the same. There are 24 member unions, mostly organised on an industry basis although some are craft unions. SACO/SR unions, on the other hand, are clearly based on the craft or occupational principle. Membership of some SACO/SR unions is based on the common denominator of a particular university course of study.

SAF, the employers' organisation, is a confederation of 38 employer associations with 26,000 partner companies, small and large. Companies affiliated to SAF employ about 1.3 million people, which is about 40 per cent of Sweden's total working population and a much larger proportion of private sector employees. A number of separate collective bargaining bodies have been set up by public authorities to negotiate with employee groups in the various areas of the public sector, such as central government, local authorities and state-owned enterprises. There also exists a number of smaller employer organisations in the private sector, besides SAF. The structure of management and union organisations, with several large groups on both sides, may appear somewhat diffuse for centralised national collective bargaining. But, in practice, SAF and LO, and to a lesser extent TCO, make the agreements which set the pattern for the country.

Labour Market Regulations

The policy of the Swedish Government has generally favoured non-intervention in industrial relations. Legislation in this field has been restricted, until the 1970s, to setting up a framework for peaceful settlement of disputes, leaving the substantive issues to the groups involved. But labour and management have themselves also negotiated procedural agreements, which place greater restrictions on the use of industrial actions than those specified by law. Only very recently has the Government provided for legislation on important issues prior to agreement by the negotiating parties. This has happened where negotiations were deadlocked on the issues of security of employment and employee representation on company boards. But legal intervention occurred only after the labour side called for legislation to ensure faster

results. Apart from these recent cases, labour market conditions are mostly the product of voluntary agreements.

The co-operative spirit and the commitment to negotiation of voluntary agreements which is now evident in Swedish labour relations is generally agreed to date from the first Basic Agreement between LO and SAF in 1938, also called the Saltsjöbaden Agreement. Serious open labour conflict was quite common before that date. The 1938 Basic Agreement begins with the declaration, "The central organisations of the Swedish labour market fully realise how important it is to have their disputes settled as far as possible without resort to open conflict." It goes on to lay down the following rules which are essentially in force today:

- All disputes between labour and management are to be resolved, at first, by local negotiation. If these negotiations fail the dispute is referred for centralised negotiation. Neither side may refuse negotiations if the other side requests them.
- A request for negotiations must be made within a certain period of a dispute arising. If negotiations fail and if one side wants to refer the matter to the Labour Court, this must be done within three months after the negotiations have ended.
- The right to decide on a strike or lockout is to be exercised by the national organisation, i.e., the national union, not the local branch.
- Strict limitations are put on the use of industrial actions aimed at a neutral third party, and certain essential public services are protected from disputes. (Forseback pp. 18 and 43).

Perhaps the most important background factor behind this agreement was, as Forseback suggests (p. 18) the coming to power of the Social Democrats in 1932. Because of this, the unions could work together with the Government and they became interested in areas other than wages, such as social welfare and measures to maintain employment. Perhaps for the first time the unions could see themselves as part of the "establishment", with a clear interest in order and harmony, rather than being intrinsically opposed to the existing society.

The establishment of the Labour Court, by the Labour Court Act of 1928 was at first opposed by the unions since they suspected its intended function was to restrict their freedom. But in practice the role of the court did not justify their fears. The court has jurisdiction over practically all types of industrial dispute, including those involving collective bargaining agreements, security of employment, status of shop-stewards, etc. The precedents created by verdicts over almost 50 years remain as a body of established rules which give firm guidelines for labour relations. As a result, counsel for the organisations can generally anticipate the outcome of disputes so that relatively few cases, except new matters of principle, are brought to the Court. A disadvantage of this situation is that some important precedents established by the Court date back to the 1930s, and in the view of many present-day trade unionists favour the employers' interests. The unions have recently expressed strong dissatisfaction with these decisions and as a result the precedents of the Labour Court are to be studied by a government appointed commission.

The Collective Contracts Act is another important factor in labour relations. This act forbids industrial action in cases involving the interpretation and enforcement of an existing contract and so guarantees labour peace during the period of a collective bargaining agreement. This is of great value in enabling firms to be sure they can meet their orders without worrying about unforeseen stoppages due to industrial disputes. Consequently Swedish exporters can maintain a reputation abroad for reliability. According to the Collective Contracts Act a union or employer's association must use all means available to prevent or terminate illegal industrial actions by its members. The act is not a great restriction on industrial freedom since it requires nothing more than that the parties to a contract should fulfil it. Disputes over interpretation or enforcement of such a contract can be settled by negotiation, mediation or ultimately arbitration in the Labour Court.

Another part of the legal framework for settling disputes is the Law on Mediation of Labour Disputes. By this law, Sweden is divided into eight districts, each with its own

government-appointed mediator. When labour and management reach a deadlock in negotiations and if one side intends to stage a strike or to enforce a lockout, they must give seven days' notice to the other side and to the district mediator. The mediator generally asks for the postponement of industrial action while mediation proceeds and this is almost always agreed. The mediator cannot impose any sanctions or force a settlement. He relies on his own ingenuity, and the increasing desire for a settlement as time goes on, to arrive at an agreement.

The rights and duties of employees and employers in the public sector are regulated in the same way as in the private sector. Only a small number of top level public employees, who correspond to the top management levels of private companies, are barred from participating in labour disputes. Even the police and the army are not treated as special categories in the use of strikes or lockouts.

In the 1970s there has been evident dissatisfaction among trade unions with several important aspects of the law on labour relations. Consequently, there is still quite an amount of public discussion going on about some issues while others have very recently been the subject of legal reform. Broadly, the new emphasis in the trade union policy is on issues concerning industrial democracy which now tend to be given as much consideration as issues concerning wages and employment conditions.

A major focus in recent discussions has been Article 32 of the SAF statutes. This article requires all collective bargaining agreements signed by members of the employers' confederation to contain a clause which gives the employer the right to hire and dismiss workers freely, to direct and allot work, and to use workers regardless of whether or where they are collectively organised. As we mentioned above, the early verdicts of the Labour Court established precedents which give effective legal backing to this principle. Both LO and TCO demanded, in the early 1970s, that in such questions as hiring, dismissals, transfers and so on, the employer should have a "primary obligation to negotiate", meaning that he should be required to negotiate before taking any action.

They also demanded an end to the employer's right of precedence in interpreting agreements, a right which meant that in a dispute over interpretation of a collective agreement, the view of the employer prevailed until a settlement was made. A new bill (described in detail later in this chapter) was introduced in 1976 which effectively nullifies SAFs Article 32, thus making it possible for employees to participate in decision making on the job. The new bill also gives the local trade union branch priority of interpretation in disputes concerning collective agreements, pending a settlement, and it imposes on employers the "primary obligation to negotiate". Other recent legal changes which are largely a response to union demands are the establishment of industrial safety committees and representation (on an experimental basis) for employees on boards of limited liability companies with more than 100 employees.

Some people would argue that even before the introduction of the new act, trade unions in Sweden have acquired far too much power. (Dullforce, 1978). Up to 1974 swift action in moving workers to employment in other areas saved many ailing firms from bankruptcy. Today the job security laws make movement of workers more difficult to organise and as a result companies which could have been saved by staff reductions of 10-20 per cent have been allowed to deteriorate to the point where they would have collapsed entirely except for state intervention. As a result the new non-socialist Government has been forced to bring into public ownership a far larger part of Swedish industry than the Social Democrats ever did. Also the present legislation concerning job security is making it difficult for young people to enter the labour market. Employers hesitate to take in new persons because of the risk of having to keep them for a lifetime. This, of course, is not peculiar to Sweden. Similar problems are now arising in Ireland.

Collective Bargaining

The present system of centralised collective bargaining in Sweden began to emerge during the 1950s, when the practice of holding wage negotiations between the central federations

was introduced. (Nationwide collective agreements for individual industries began much earlier with an agreement in the metal working industry in 1905.) The national unions and the employer associations within SAF are still formally and legally the contracting parties, but the central bargaining rounds between SAF and LO or TCO are now regarded as the real bargaining rounds. Since the 1950s the national unions and employers' associations have been very consistent in giving their central federations a mandate to negotiate on their behalf. Consequently, there has been a clear tendency towards centralisation of authority.

From the union side, the process of centralised wage bargaining between LO and SAF is generally as follows. First, the individual unions make their preparations, starting perhaps as much as two years before the final settlement. The preparations involve compiling economic statistics, analysing results of previous agreements, possibly sending questionnaires to members and then formulating demands. Local branches of the unions then organise contract conferences to discuss the proposals. Next the national unions select negotiating teams. They have then to seek a compromise between their various claims for the purpose of co-ordinating all negotiations within LO. Having achieved agreement within LO, the negotiating team of the entire confederation meets the negotiators of SAF, which has gone through similar preparations. When a settlement between the confederations appears to be near, bargaining begins between national unions and employer associations parallel with central negotiations between LO and SAF. When the LO-SAF settlement is reached it takes the form of a recommendation to member organisations, but it may take several months to finalise the detailed negotiations based on the central agreement. The final step is negotiations at the local level based on the agreement of an individual national union and employer association. This step may last up to a further six months, but wage rises are generally retroactive from the date of expiration of an old agreement.

This bargaining procedure resembles closely that of Irish national wage bargaining in the 1970s. The main difference

is that in Ireland the ICTU makes a recommendation on the centrally negotiated settlement, and the unions then decide by majority vote at a special delegate conference whether or not to accept it. In Sweden there is not a similar vote. The national unions are formally free contracting parties. But in practice the Swedish unions accept the terms of the LO settlement, just as in practice a recommendation from the Executive Council of the ICTU virtually ensures majority support.

Centralised bargaining between TCO and SAF has developed more slowly, but these negotiations now follow a pattern similar to LOs. During the 1970s LO and TCO have moved closer together, largely because of the noticeable levelling out of wages and conditions of employment between white-collar and blue-collar workers. In the recent and continuing discussion on employees participation in decision making, for instance, the policies of the two confederations have been very much the same. Consequently LO and TCO have tried on several occasions to co-ordinate their bargaining, but they have so far failed to reach a common position. The major division between them is the question of wage drift, i.e. wage increases above the level set in collective agreements due to strong demand for certain categories of workers. Many LO workers in industry benefit from wage drift while relatively few white-collar employees can take advantage of it. Thus TCO would like some kind of guaranteed wage increase based on parity with wage drift among LO members, while LO sees wage drift as a justifiable change in wage differentials based on the relative difficulty, danger or unpleasantness of some jobs. But even if the two large union confederations do not fully co-ordinate their bargaining, the centralised system of national wage bargaining is clearly well established in Sweden.

As noted in the following chapter the development of centralised collective bargaining in Sweden was motivated by a concern on the part of LO for price stability in the economy. This system of bargaining was seen as the way in which the unions could maintain their interests against employers without damaging the national economy, as might

well happen in a free-for-all situation. In Ireland the motivation for the introduction of national wage agreements was different. It seems to have been principally due to a very obvious need to reduce the large number of industrial disputes which arose from hundreds of separate groups conducting their own bargaining. This was leading to situations where a relatively small number of key workers could go on strike and cause widespread stoppages. The climax of this free-for-all situation was reached with the maintenance strike of January to March 1969, following which the unions mandated the ICTU to negotiate on their behalf.

It seems that national wage agreements in Ireland may well have helped to reduce the number of days lost to industrial actions, since the record has improved in the 1970s, as is shown in Table 5.1.

Table 5.1: *Industrial Disputes—working days lost per 1,000 people employed*

Country	Averages		1972	1973
	1964-73	1969-73		
Sweden	43	62	10	10
Ireland	1,054	870	600	420
West Germany	43	80	—	40
Japan	217	238	270	210
France	277	288	300	330
United Kingdom	633	1,036	2,160	570
United States	1,247	1,372	870	770

Source: *Department of Employment Gazette*, London, December 1974.

This table also shows that Sweden has a very good record in industrial disputes. It would, of course, be too simplistic to attribute this solely to centralised collective bargaining since other factors must also have an influence on labour disputes. One such factor is the system of regulations concerning conflicts which we have already reviewed and seen

to be conducive to settlement without industrial action. Another factor, in which Sweden has an advantage over Ireland, is the high percentage of both labour and management belonging to their respective organisations and therefore subject to binding agreements. The Swedish labour force is the most highly unionised in the world with 95 per cent of blue-collar and 75 per cent of white-collar workers belonging to trade unions, (Forsebäck, 1976, p.30). This compares with 50 per cent and 35 per cent, respectively, in the United Kingdom, and much the same in Ireland.

It has been said that national wage bargaining in Ireland may have reduced the number of days lost in labour disputes. It may also have led to excessively high wage settlements in the interests of "buying" industrial peace. If this is true it may have brought some firms to the position where they could no longer compete with foreign producers, thus leading to loss of output and employment. In Sweden, on the other hand, centralised wage bargaining was introduced for the precise purpose of implementing the wage solidarity policy so as to prevent wages rising too rapidly and it seems to have achieved this purpose up to quite recently. The long period of wage restraint in Sweden serves to show that centralised wage bargaining does not necessarily have to lead to excessive wage rises; a great deal depends on the attitudes of the negotiating federations.

Wage Demand and Social Policy of Swedish Trade Unions

Wage policies of Swedish Trade Unions in the 1970s have been largely based on the recommendation of a document (to be described later) called the EFO Report. Since the approach recommended in this report is designed to protect the competitive position of Swedish industry in the international market, the unions have effectively forestalled any moves towards the introduction of a Government incomes policy. Both labour and management have traditionally sought to avoid such Government intervention. The EFO approach to wage policy, however, is only a guideline for increases in total wages, leaving room for discussion on the issues of wage differentials and conditions of employment. The attitude of

unions to wage differentials is still expressed in the wage solidarity policy by which unions reject wage differentials between sectors for the same work. But this is not to say that they demand equal wages for everyone since they accept differentiation of wages according to the nature and demands of the job. The range of wage differentials has been regarded as too great, however, and since the mid-1960s, the unions have given efforts to narrow differentials a prominent place in negotiations. Recently also, arguments in favour of the wage solidarity policy have been based far more on considerations of social justice rather than on the economic structure arguments which used to be prominent.

One feature of Swedish wage bargaining which is designed to narrow differentials is the use of an extra increase to those defined as low-wage earners. Low wages have generally been defined as a wage less than 95 per cent of the average, though the level varies with each bargaining round. Low-wage earners are granted a certain percentage upward adjustment (in 1975, 15 per cent) of the difference between their previous wage and the upper limit of the low wage category. The unions are satisfied that wage scales within companies have been compressed as a result of their efforts, although it is recognised that some time after an agreement is signed wage scales revert partially to their old pattern as a result of wage drift. Since most women at work earn less than the average wage, efforts to gain extra incomes for low wage earners mostly benefit women. The relative wage position of women improved noticeably in the 1960s and 1970s. Among LO members the average women's industrial income rose from 70 per cent of men's wages in 1960 to over 86 per cent in 1974, and the trend within TCO has been similar, (Forsebäck, 1976, p.81).

But the interests of the Swedish trade union movement extend beyond wage bargaining to many aspects of social and economic policy. The relationship between labour market organisations and the state are highly formalised in a way that gives the unions (and organised employers) a great deal of influence on Government policies. The rise of trade union influence in capitalist societies was foreseen by Kalecki (1943) who wrote, "Full employment capitalism would have, of

course, to develop new social and political institutions which would reflect the increased power of the working class. If capitalism can adjust itself to full employment a fundamental reform will have to be incorporated in it. If not it will show itself an outmoded system which must be scrapped." It could be said that Swedish capitalism has experienced, and is still experiencing, such a reform so that the trade unions have considerable influence and consequently do not adopt obstructive tactics. The unions' influence can be exerted at virtually every stage of reaching decisions on issues of public importance. To begin with, most important issues become the subject of a Government-appointed commission of inquiry. Since commissions include representatives of interest groups concerned about the subject of the inquiry, as well as the necessary experts, the Government naturally appoints trade union representatives to many commissions. This is advantageous to the Government, as well as the unions, since a clear advance indication is given as to the acceptability of proposals.

The next opportunity for labour market organisations to voice their opinion comes when the commission report is published by the appropriate ministry and is then sent out for official comments from various interested bodies. The trade union confederations put a great deal of effort into preparing their comments. As well as this, the unions can send delegations to the Government on urgent matters which generally receive sympathetic consideration. And they can initiate legislation in the Riksdag through private members' bills introduced by one of a number of spokesmen. They also try to influence public opinion by producing their own authoritative research reports, through courses and conferences, and by their magazines and newspapers.

After a bill becomes law the labour market organisations have a further influence on its implementation. In the Swedish civil service the state ministries are quite small. Most direct administrative tasks are handled by about 80 administrative agencies which have a great deal of independence so long as they act within instructions from the ministries. Such instructions are often phrased in very general terms. All these central

government agencies of major political or economic importance are headed by "boards of laymen" on which the unions have strong representation. LO and TCO are represented in about 30 agencies such as the Labour Market Board, the National Board of Education, the National Tax Board and the National Board for Consumer Policies. SAF has representatives on about 10 boards. Besides this type of representation on the boards of state agencies, the unions gain further representation because of the fact that the unions, whose members are employees in these agencies have the right to appoint personnel representatives to the board. Again at the level of the county branches of Government agencies the unions are represented to a similar degree. These structures of trade union influence on public policy are not purely formal but are, in fact, genuinely effective in enabling the unions to implement much of their policies. (It remains to be seen whether the change of Government in Autumn 1976 which put the Social Democrats out of office for the first time in 44 years will significantly reduce trade union influence.)

Labour market policy is perhaps the major area where the proposals of trade unions have become public policy, but there are other important areas as well. On 1 January 1977 important new legislation was introduced expressly designed to provide for a greater measure of democracy than formerly in the workplace. The Joint Regulation in the Working Life Act and the companion Public Employment Act, constitute a thorough going revision of the labour legislation enacted during the 1920s and 1930s on collective agreements, conciliation, freedom of association and collective bargaining. Strong pressure from the trade unions was obviously one of the factors accounting for the adoption of these new measures. The main features and aims of these new acts are summarised below.⁷

Joint Regulation Act

This act supersedes all previous basic enactments in the field

⁷See "Towards Democracy at the Workplace", New Legislation on the Joint Regulation of Working Life. Ministry of Labour, 5-103 10 Stockholm, 1977.

of labour legislation. The most important changes are as follows:

- (1) The principle, whereby, the employer alone was entitled to organise and assign work and could freely engage and dismiss workers has been replaced by a requirement that collective agreements be concluded, setting out the rights of workers in these areas.
- (2) Should a dispute arise over such matters as a worker's obligation to perform certain tasks, or the implementation of a joint agreement, the trade union that negotiated the agreement with the employer will now enjoy a priority right of interpretation, subject to appeal to the labour court.
- (3) A trade union having a collective agreement with an employer is now empowered to veto sub-contracting or similar arrangements, which appear to be at variance with accepted practices within the industry or trade concerned.

These rights are enjoyed only by trade unions having a collective agreement with an employer. Other organisations which have not managed to conclude an agreement lack these rights. Also workers influence shall not be permitted to extend to matters concerning an organisation's aims and objectives, e.g., the press, radio and television are instances where the scope of the Act has been limited in order to safeguard interests other than workers. For example, it would be unreasonable that journalists should have the right to influence the public aims of a newspaper.

If the right to negotiate is to serve its purpose it must be supplemented by rules ensuring that the workers' representatives have access to all the information they need. This is provided for in the Act. Workers have the same right to comprehensive information about the enterprise's activities as the employer himself.

There is no change in the situation whereby the conclusion of a collective agreement obliges both parties to desist from industrial action during the period of its validity. Nor is there any change in the regulation that workers can be fined for breach of this obligation. The fine under the new Act is at

least 200 Kronor (£30). The main purpose of the award of damages is to underline the principle that agreements are to be complied with.

The right of public employees to resort to direct action in a dispute has been substantially extended. Strikes in the public sector will be governed by the same rules as apply in the private sector. However, in questions concerning the exercise of authority and in matters relating to the inviolability of political democracy, certain restrictions have been considered necessary and these regulations make it very difficult for public servants to go on strike.

Act on the Joint Regulation of Working Life

This is a companion to the previous Act, spelling out in detail all the provisions of that Act and defining unambiguously all the terms included. It also gives exact details of how the various procedures are to be applied and of the duties of employers and workers in this connection. For example, on the right of information it specifies clearly what documents must be made available and what information may be withheld and so on.

Both these Acts give the Swedish trade unions great power. Irish unions do not have anything like the same power as this and consequently they wield less influence. In many ways, of course, they may not wish to have too much power because of the responsibility which goes with it. Nevertheless, the process of centralised wage bargaining has caused Irish unions to act more as a unit and to recognise the link between their wage claims and the health of the economy. Trade union acceptance of recent wage agreements has depended in part on Government policy towards issues such as taxation and job creation and so the unions seem to be able to use the need for their consent to influence these issues. This is in many ways a leap forward which would probably not have been possible before the era of National Wage Agreements in the 1970s. At present there is little evidence that trade unionists generally wish to follow this line much further. Many clearly feel that wage bargaining alone is their proper area but if Sweden's experience can be taken as any indication, it is quite

possible that Irish workers will come to realise that by adopting a less militant wage policy over the coming years they may be in a stronger position than at present from which to press for more union influence on public policy. Such a development would probably make for a more stable economy with better prospects for incomes and employment.

Chapter 6

Stabilisation Policy in Sweden

I^N Sweden, the central objective of economic policy since the end of the Second World War has been the maintenance of a high level of employment. The main threat to employment has generally been regarded as short-term cyclical fluctuations in the economy, and consequently stabilisation policy has been the main focus of attention. Countries which have consciously tried to dampen cyclical fluctuations, in the post-war years, have considered the management of aggregate demand to be the major instrument for doing so, sometimes combined with periods of wage restraint. These countries have aimed to prevent excessive demand in order to avoid rising prices, and to prevent demand becoming too slack in order to avoid unemployment. Swedish policy has been based largely on this idea since the 1930s, but it has also recognised that aggregate demand management alone is not sufficient for successful stabilisation. In addition sectoral and regional policies are necessary.

Much attention has also been paid to measures designed to perfect market efficiency and to improve the mobility of factors of production, in order to aid stabilisation policy. Furthermore, in the last ten years, there has been growing recognition of the fact that a small country with a large foreign trading sector, such as Sweden, can exert only a limited degree of control over its prices and employment level by means of influencing domestic demand. Consequently much attention has recently been devoted to means of controlling costs of production in order to influence the level of foreign demand for Swedish products. This is, however, a fairly recent development; control of domestic demand has been the major theme in Swedish policy discussions in post-war years.

The Budget as an Instrument of Stabilisation Policy

Up to the early 'thirties the Government budget was not in general regarded as an instrument for influencing short or long-term economic development. It was mainly an accounting instrument. A new approach started to grow at the beginning of the 'thirties. It was recognised that the policy of trying to balance the current budget every year was undesirable from the point of view of overall economic stability. Instead it was felt that a broad view should be taken of the economic effects of the Government and explicit attempts should be made to create deficits during recessions and surpluses during booms in order to keep the economy in balance. When private expenditure tends downwards in relation to private income, thus creating unemployment, Government expenditure should grow in relation to Government revenue, to combat unemployment. When private expenditure tends to grow faster than private real income (i.e., production) thus creating an inflationary pressure, Government expenditure should decrease or lag in relation to an increasing Government revenue.

As a result of this new approach, Parliament, in 1937, adopted the principles which still, in theory, rule the budget. The "one-year balance" was abandoned and it was declared sufficient that the budget was balanced over a period of years. To effect this multi-annual balance, the budget equalisation fund was introduced as a book-keeping device. Deficits and surpluses on the current budget are settled against the fund, which, therefore, shows the current accumulated position of the multi-annual budget from 1937/38 onwards.

Even though the 1937 budgetary principles have not been formally abandoned, there has been an essential shift in the approach to the question of fiscal policy during the post-war years. Attention has concentrated more and more on the budget's function as a stabilisation measure in the economy, irrespective of what happens to the net balance of the current budget over a longer series of years. Real economic factors such as total employment, growth of production and price stability have been given priority over more formal matters such as Government asset liability relations. The growing realisation that the budget balance as such is no indicator of

the inflationary or deflationary character of the budget has reinforced this tendency.

This attitude has also been reinforced by the realisation that any measurement of the net wealth of the Government should not be determined by book-keeping conventions having no precise content. Expenditure on the current budget includes a great deal of investment so that even a zero balance could imply a considerable increase of real assets over liabilities.

The 1937 form of budget remained in operation with minor adjustments until 1973 when a Budgetary Commission presented proposals for a reform of the Central Government Budget System.⁹ The task of the Commission was to make the budget as effective an instrument as possible for directing the use of economic resources and for stabilisation policy. Some of the more important proposals which were adopted by Parliament in Spring 1977 were:-

- (1) It should be possible to vary income tax (for private individuals as well as for firms) upwards as well as downwards during a fiscal year, and the Government is authorised to vary VAT and specific taxes at any time. The local government sector is also authorised to contribute to counter-cyclical policy by depositing investment funds during a boom and utilising them during a depression.
- (2) There is to be a single total budget instead of the present current and capital budgets. Furthermore, the change over which is to be made for 1979/80 is to be accompanied by a series of simplifications and improvements in accounting. The Ministry of the Budget and the National Audit Bureau are working at present on the implementation of the proposals. This includes drafting new budget instructions and a new budget manual.

The principles of demand management and the detailed stabilisation policy instruments which have been adopted over the years are discussed in the following sections.

⁹A summary of the proposals is available in English, "Proposals for a reform of the Swedish Budget System", from the Swedish Embassy, 31 Merrion Road, Dublin 4.

Principles of Demand Management

Aggregate demand is made up of four principal components—private consumption, private investment, public expenditure and net foreign demand (exports minus imports). In Sweden fluctuations in the business cycle usually originate with fluctuations in foreign demand for exports. Changes in investment and consumption tend to follow, as industrial production and incomes adjust to the new demand situation. Since private investment is usually the most volatile component of domestic demand, tending to accentuate the cycle if allowed, considerable attention is paid to influencing its timing. The timing of investments by public authorities is also, as far as possible, generally directed by the needs of demand management policy. By aiming to influence the timing of investment chiefly and, consumption to a lesser extent, Swedish policy makers have tried to ensure that domestic demand moves in a contrary direction to foreign demand in order to dampen cyclical fluctuations.

Monetary and fiscal policy are the two major instruments which may be used to influence demand. Fiscal policy aims to influence demand in a direct manner by varying public expenditure or by altering the tax structure in order to affect disposable income. Monetary policy works by varying the quantity of money available in order to affect interest rates and the availability of credit, which in turn affect demand. Fiscal policies are perhaps the more interesting instruments in Sweden since that country has made some useful innovations in this field. Also, though flexible interest rates were used extensively as an instrument for short-run stabilisation after the mid-1950s, in more recent years changes in the interest rate have been motivated more by a wish to affect the balance of payments. This development is very much as would be expected in an open economy such as Sweden, since there has been a growing tendency for interest rate differentials to influence capital flows. For these reasons, we will concentrate mostly on fiscal policy in Sweden, when we come to consider the instruments used for demand management.

The Approach to Demand Management in Sweden

The approach to demand management in Sweden has been based on policies proposed by Gösta Rehn, now head of the Swedish Institute of Social Research at the University of Stockholm. His proposals were largely incorporated in the policies of LO (The Swedish Confederation of Trade Unions) in 1951, and later in the report of a public committee on stabilisation policy. According to Rehn it would be possible to aim at maintaining a very high level of aggregate demand which would ensure full employment in even the weakest sectors of the economy, but this would be unsatisfactory. Excess demand for labour would then exist in the stronger sectors, with persistent tendencies for wages and prices to rise. As an alternative way to maintain full employment, Rehn advocated aiming to stabilise demand at a lower level which would normally be expected to cause about three to four per cent unemployment in a *laissez faire* labour market;⁹ this would be combined with measures to improve labour mobility and *selective* job-creating measures to cope with unemployment in the weakest sectors and regions, without increasing much the level of aggregate demand. The measures advocated to improve labour mobility and cope with unemployment were principally retraining programmes, public relief works, compensation for moving jobs, measures to stimulate the establishment of firms in areas of high unemployment and some subsidising of marginal firms. The labour market policies which have, in fact, been implemented by the National Labour Market Board (AMS) are very much as Rehn and the unions proposed. (The Board, which is largely composed of representatives of Government and the federations of employers and trade unions, is now a very influential body in the economy. It is able to co-ordinate a range of stabilisation policy actions, to a considerable extent free from direct Parliamentary control in the timing of

⁹Unemployment levels in different countries depend very much on the way the Live Registers in these countries are compiled. In Ireland everybody in receipt of unemployment payments is placed on the Register but in other countries the chronic unemployed are removed from the register on the ground that they are not seeking employment. This happens in Sweden and tends to bias downwards the real rate of unemployment. The extent of this bias has not been quantified.

decisions.) We will consider the Labour Market Board and its manpower policies at the end of this chapter; for the moment it is sufficient to note that the adoption of vigorous labour market policies was accepted as the means to make it possible to aim at stabilising demand at a relatively low level without fear of causing unemployment.

Until the late 1960s there was an evident inverse relationship in most countries between unemployment and inflation. As demand for labour increases unemployment tends to decline causing wages and prices to rise. This relationship is formalised in the concept of the Phillips curve.¹⁰ Rehn's labour market policy can be seen as an attempt to change the relationship between unemployment and inflation—to shift the Phillips curve downwards—so that a given target level of unemployment would be associated with less inflation than previously. Lindbeck (*op. cit.* p.156) has found that comparing the 1960s with the 1950s there is no evidence that Sweden's Phillips curve or wage formation curve (the relationship between Wage Increases and Unemployment minus Vacancies) did, in fact, shift down, so this test does not show that labour market policy has been effective. It is, however, quite likely that labour-market policy prevented a potential upward shift of the curve due to other factors. A factor which might have caused such a shift was an increased rate of structural change in the 1960s with increasing numbers being made temporarily redundant due to closures. There was also a slightly rising trend in consumer price increases in the 'sixties which might have been expected to cause some upward shift in the curve due to the increased effect of expectations of further price increases on wage bargaining. Besides, with incomes increasing over time and a progressive income tax system, there is an increasing tendency for unions to seek compensation in wage bargaining for the rising taxes experienced by their members.

¹⁰The Phillips curve relationship between unemployment and inflation is not now as generally apparent as previously. There are a number of explanations for this but it has probably been largely due to the effect of price increases and expectations of further increases on wage bargaining, causing money wages to rise even though unemployment may be quite high and rising.

Another basic feature of the Rehn model which was adopted by LO was that trade unions should use their collective strength to press for wage increases on the principle of solidarity—i.e., they should not accept differences in wages between industries for the same jobs, which arise due to different levels of profitability. Instead unions in sectors with low wages should seek higher than average wage rises while unions in stronger sectors accept less. The advantage of this policy would be that weaker firms would be forced to close and capital and labour would be moved from unprofitable to profitable industries, with the national labour market policy facilitating the mobility of the labour force. This would improve the efficiency and growth rate of the economy. It would also mean that the necessary re-allocations of labour in a growing economy would be achieved not by pulling workers with promises of higher wages, but by pushing them out of weak firms by closure and helping them become re-employed quickly. In this way the economy would avoid the danger of general wage inflation which easily occurs when wage differentials in different industries (even for similar skills) are accepted as a means of re-allocating labour.

Rehn's proposals, though adopted by policy makers, have come in for a good deal of criticism by other economists notably Erik Lundberg and Bent Hansen (Lindbeck, op.cit., p.41). The latter argued that with a solidarity-orientated wage policy, attempts to raise the wages of low income groups in a full employment society may easily be accompanied by wage drift for groups in more efficient concerns so that the attempt to change the wage structure would fail and would in fact give rise to general cost inflation rather than control it. The empirical evidence of the last fifteen years indicates that this in fact has happened. *Negotiated* wage rate differentials between sectors have narrowed under central wage bargaining but wage differentials after wage drift have not narrowed much (Lindbeck, op.cit., p.157). Despite these criticisms, however, one of Rehn's basic ideas has been generally accepted, namely, that the possibility of reconciling full employment and price stability is enhanced if the mobility of the factors of production is increased by a vigorous labour mobility policy.

Instruments of Demand Management

The most important aspect of demand management policy has been variations of public spending—principally public investments since it is difficult to vary other current spending significantly. A problem with varying public investments for stabilisation purposes is the fact that a considerable time lag can occur between the occurrence of a decline in economic activity and the effect of increased investment being felt. As a result the effect of the policy action may come at the wrong time and perhaps even increase instability. This time lag can be broken down into three parts—the *recognition lag* which is the time taken to diagnose a change in economic activity, the *decision lag* which is the time taken for the authorities to decide on action and to receive approval from the necessary quarters, and the *effect lag* which is the time required for a decision to be implemented and make its effect on the economy. It is claimed by Lindbeck that successful efforts have been made in Sweden to reduce these lags. The use of the Labour Market Board as a body with over-all responsibility for employment policy is strategic in this regard.

To reduce the recognition lag, commentaries and forecasts are produced annually by the National Institute of Economic Research and bi-annually by the Ministry of Economic Affairs. Similar forecasts are produced in most countries, but Sweden also uses the Labour Market Board to perform monthly labour force surveys, and every employer is required to notify the County Employment Board in advance of any intention to cut-back production, if at least five employees are going to be affected. This enables the Board to keep up-to-date on labour market developments nationally and locally. The decision lag is reduced by allowing considerable freedom of action to the Board, in initiating public works programmes and other fiscal actions, without requiring immediate Parliamentary approval. Also the Government has the right to vary investment spending (by at least 10 per cent in practice) in the budget year without specific Parliamentary consent. There is also an emergency national budget which is a stand-by budget for public works to be used when unemployment is too

great for normal employment-creating measures. Appropriations are voted for this budget each year and the Labour Market Board is empowered by the Riksdag (The Swedish Parliament) to draw on it when necessary, though this is expected to occur infrequently.

The lag in making specific investment decisions and the effect lag in implementing the projects decided on is reduced by ensuring that a reserve of planned investment projects is always available for immediate commencement. This reserve of public investment projects is a schedule listing Government work projects due to start in the next few years but which could be started earlier if necessary. There are several times more projects available than could be undertaken in one year so as to allow the Labour Market Board a choice among several projects in any depressed area. The schedule, which also includes planned Government orders to industry, is updated annually. Since local authorities as well as the central government need a reserve of projects, the Board makes grants to local authorities to carry out advance planning of investment projects. This system requires little pressure from the Government since, as Lindbeck remarks, "most government agencies . . . nowadays know that if they do not have ready projects when the next recession comes, other agencies will be allowed to fill the vacuum for increased public investment, which means that the agency in question might have to wait for another recession to implement its projects". (Lindbeck, p.103).

There are also emergency public relief works for evening out cyclical fluctuations in manpower demand. The most suitable type of projects include road construction and maintenance, repair to bridges, harbours and channel facilities, preparation of fire-breaks and other such work which can be completed in a short period of time. Because of changes in the labour market, due to a larger number of unemployed young people, women and people with fairly high education levels, a broadening of relief work projects has occurred in recent years. These now include jobs in the service sector such as medical care, office work, teaching, etc. These relief works are also important in reducing seasonal unemployment

which is quite high in forestry and agriculture. The Labour Market Board carries out these relief works, sometimes in association with local authorities, when unemployment cannot be alleviated by measures such as retraining or re-allocation assistance. The number of people in labour market training or retraining courses can also be expanded to cope with cyclical fluctuations. Normally 1.5 to 2.0 per cent of the labour force are on relief works or training courses, but in 1977 these numbers had increased to almost 200,000 or to more than four per cent of the labour force.

The timing of house construction is also decided with regard to seasonal and cyclical unemployment. Since over 90 per cent of housebuilding is financed by Government loans, employment in building is easily influenced by easing or tightening credit. And since most building materials are produced within the country, the employment effects extend to builders' suppliers too. The Riksdag decides a minimum number of housing credits for the coming year, but the county labour boards have the power to grant starting permits in accordance with employment needs; and if it is regarded as necessary the total number of housing credits may be increased by the labour market authorities. According to Schnitzer (op.cit., p.119) the increase in employment in housebuilding in the 1958-59 and 1962-63 recessions was about 20 per cent of the total number of extra jobs created by the various employment-creating measures.

Besides influencing housebuilding in this rather direct manner, there are a number of other policies designed to influence the timing of private investment. One such policy is support for stockpiling. In recent years when demand for labour was slack the Government has made available a grant to cover 20 per cent of the cost of increasing stocks if firms guarantee to maintain their full number of employees during the grant period. In 1975-76 firms employing about 8 per cent of the labour force used this form of support but recent reports from Sweden indicate that a severe strain has now come on the available funds due to large stock increases which cannot be sold immediately. In actual fact the stockpiling scheme had consequences which were the opposite to those

intended. The excess stocks built up during 1975 and 1976, to prepare for an expected recovery of international demand (which did not materialise) proved instead to be a burden. The adjustment of stocks that became unavoidable with the weak state of demand has tended to increase the strains on the labour market. Hence, stockpiling schemes must be used with great caution if they are not to be counter effective.

Two other policies which were Swedish innovations in fiscal policy are the Investment Reserve and the Temporary Investment Taxes. The basic idea of the investment reserve system is that in prosperous years companies are permitted, at their own discretion, to allocate up to 40 per cent of pre-tax profits to an investment reserve. No corporation profit tax is paid on this amount. Firms may use these funds for investment purposes in recession periods, when permitted to do so. As long as the funds are spent at the approved time, firms escape tax on the amount allocated; as a further incentive, an amount equal to 10 per cent of the investment made is deducted from the firm's next tax return. Participation in the scheme is voluntary, but since the incentive is strong it is widely used. A firm may choose to use its reserve at an unapproved time without permission, but then it is subject to the usual tax plus a penalty tax of 10 per cent. In order to reduce business liquidity in boom years, 46 per cent of each allocation to the investment reserve must be deposited in a blocked account in the Central Bank which pays no interest. Thus the system dampens business fluctuations, by reducing investment when business activity is at a high level, by stimulating investment during recession periods and by reducing excessive liquidity in boom years.

In fact, the details of the working of the system vary somewhat for different types of investment.¹¹ It may be used generally or it may be applied selectively to sectors or regions. An indication of its importance is the fact that investment reserves totalled 4,000 million S.Kr. in 1970, compared with a total gross investment by private manufacturing industry of about 6,900 million S.Kr. per year. The system is flexible

¹¹For a more detailed account of the investment reserve see M. Schnitzer, 1970, or A. Lindbeck, 1975.

in that it can be used without requiring approval from Parliament for each decision to release or withhold funds. This reduces the time lag between recognising an economic change and taking action. Decisions to release the funds are the joint responsibility of the Labour Market Board and the Ministry of Economic Affairs. The Labour Market Board is responsible for implementing the decision.

Early use of the investment reserve was somewhat unsatisfactory since funds were released too late and for too long into the subsequent boom. Also, a general release of funds tended to stimulate the prosperous regions more than the regions of highest unemployment. With experience, however, timing improved and according to questionnaire studies reported in Lindbeck (pp.100-102) the release of investment funds in the 1962-63 recession was well-timed and in 19 months increased private gross industrial construction by 15 per cent of its total annual level. Also, in five months, private investment in machinery and equipment increased by five per cent of annual machinery investment. The release of funds for machines in the 1967-68 recession was also well timed and raised the level of machine investment significantly.

Permission to draw up to 75 per cent of the investment fund has been allowed almost continuously since the winter of 1971/72. In the early years of the 1970s, however, the drawings were not large and the fund continued to grow from 4,000 million S.Kr. in 1970 to 6,700 million in 1975. As the depression deepened in 1976 and 1977 the Government decided that the whole fund could be utilised for employment creating purposes. The funds may be drawn upon for building and construction investments to defray costs expended up to and including the end of March 1979, and to procure machinery and equipment which are delivered before the end of 1978. It is too early yet to say how this new policy will work and the effect it is having on the fund.

Another policy instrument for demand management is the temporary investment tax. This tax was used during the 1950s. In two separate boom periods, a tax of 13 per cent was applied to gross investment in machinery and building (excluding housing) in the private sector. The tax was declared to be

temporary and it was deductible for income tax purposes. According to questionnaire surveys of firms reported in Lindbeck, (p.97), planned investment in industry was reduced by five to six per cent. Reaction by firms was fairly rapid also; one-third made their cuts within a year. In the 1958 recession, after the removal of the tax, private investment expanded considerably but there have been no inquiries to discover to what extent this was due to other factors as well. Since 1958 general investment taxes have not been used, although a *selective* tax has been imposed on certain sectors and investment subsidies have been introduced for a similar purpose. The authorities have relied more on the investment reserve system in recent years.

Although the Investment Reserve and the Investment Taxes are instruments of fiscal policy, they are similar to monetary policy since they work by effecting profitability of investment and liquidity. However, monetary policy probably exerts more influence on investment with *borrowed* funds, while the Investment Reserve system and Investment Taxes clearly have an equal effect on investment financed by undistributed profits. It is clear that the investment reserve system and investment taxes used in Sweden have considerably larger effects on profitability than interest rate variations of the size normally experienced. A further advantage of these two instruments over interest rate changes is that they do not cause the same undesired side-effects as interest rate variations, such as affecting the income and wealth distribution between debtors and creditors, and causing capital movement which may upset the balance of payments. Another point in their favour is the fact that investment funds and taxes may be used quite *generally*, like the interest rate, but they may also be used selectively if required.

The Investment Reserve has been relied on more than investment taxes recently, because timing can be more precise and administration is easier. The administration of taxes could probably be improved, however. The Investment Reserve system has the disadvantage that it favours firms with high profits (since they are likely to have large accumulated funds), and this may not promote efficiency; investment taxes or

subsidies are quite neutral in this respect. But the Investment Reserve system increases total investment over the whole cycle because it allows a considerable amount of tax-free investment, while Investment Taxes will reduce it, unless followed by equal investment subsidies.

Demand Management Policy—The Record

According to Lindbeck (op.cit., pp.92 and 116) and Hansen (1969), demand management policies have, to a considerable extent, shown the counter-cyclical pattern that was intended. This is true of both fiscal and monetary policies considered individually. It is clearly true of fiscal policy in the 1956-1962 period and in the 1970s but in the late 1960s its record was less successful. It seems to be a weakness of fiscal policy that restrictive actions have been too long delayed in booms. Since the Swedish economy usually operates in a narrow band between full and over-full employment, this delay easily leads to tendencies to price increases which frequently continue into the early stages of the succeeding recession. Delay in taking restrictive actions probably tends to occur regardless of the quality of economic advice, since proposals to increase taxes, for instance, take some time to be implemented. Besides, politicians tend to want to be generous with Government expenditure when they can afford it in a boom, rather than cutting back before it seems necessary.

Monetary policy, too, shows a counter-cyclical pattern since the mid-1950s. This pattern can be seen by plotting changes in the money stock, credit to business, or interest rates (assuming an effect lag of less than one and a half to two years) against changes in GNP. The weakness most evident in monetary policy is the opposite to that of fiscal actions; there has been delay in effecting monetary expansion during the downturn of the cycle. A large variety of methods have been used including open market operations, cash reserve requirements, liquid ratios and credit rationing. The latter has had a greater effect on investment than interest rate changes of the size normally experienced in Sweden (or elsewhere). However, while direct control of liquidity is agreed to be useful in the short run in an acute investment boom,

it would not be so useful if it were used regularly, since firms, households and credit institutes would build up liquid assets during periods of deliberate monetary expansion in recessions, and thus be able to resist the subsequent squeeze in the succeeding boom.

Though stabilisation policy in Sweden has attempted to make the market mechanism work more smoothly, it has been criticised for concentrating too much on the demand side of the market while neglecting the cost side, at least until the present decade. Evidence of this neglect is the allowance of successive rises in the general sales tax (introduced in 1960) and increases in social insurance even when cost inflation rather than demand inflation was the main problem. Some cost inflation also occurs when unions are allowed to compensate themselves for higher taxation by wage increases. This arises not only because of increasing taxation rates, but also because individuals are continually moving into higher tax brackets as average real and money incomes grow over time. Hence, even though the progressive income-tax system is a built-in stabiliser on the demand side, it can become a destabiliser on the cost side. Some years ago an interesting suggestion from the Parliamentary opposition, which could partly counteract this effect, was that tax rates should be index-regulated, so that inflation would not lift income receivers into higher tax brackets unless their real incomes had risen sufficiently. This suggestion has not been implemented.

The EFO Report

While the cost side of the market was neglected in the 'fifties and 'sixties it has come in for greater consideration in the present decade, and much of this policy discussion is certainly relevant to Ireland. An internationally noted document on the connection between wage increases, inflation and the national economy entitled "Wage Formation and the Economy, 1970", also called the EFO Report after its authors, Edgren, Faxen and Odhner was published in 1970. This work was inspired by the Norwegian Aukrust model which appeared shortly before. The EFO report's model

divides the economy into two sectors, one which faces foreign competition either in exporting or in competing with imports, and one which is mostly shielded from foreign competition. In Sweden, manufacturing industry makes up most of the competing sector which accounts for about one-third of GNP; wholesale and retail trades, agriculture plus the public services make up most of the shielded sector which accounts for about two-thirds of GNP. It is a fact that the annual increase in output per worker is considerably higher in the competing sector than in the shielded sector largely because manufacturing lends itself much more easily than services to technological improvements. Indeed in many services, such as public services, measurements of productivity increase are difficult to make, misleading or meaningless.

Prices in the competing sector of a small economy such as Sweden are assumed to be determined in the much larger international market. This means that wages in the competing sector may increase at a rate equal to the sum of the increase in international prices plus the increase in output per worker in this sector, without cutting into the share of profits. If wages rise by a greater amount than this, the profit share will shrink, or if profits resist being squeezed, price rises will tend to occur which cannot be sustained against international competition. Consequently, output and employment will fall. On the other hand, if wages rise by a smaller amount than this, the share of profits will increase in the competing sector leading to excess demand for labour. Given a well organised trade union movement, this situation is unlikely to last long before wages increase by the amount obtainable i.e., the sum of the rise in international prices plus the rise in output per worker. Another consequence of determining wage increases in this fashion is that increases in public sector pay must be covered in part by tax increases. It is accepted by the LO and the TCO that this is the price that must be paid for a wage solidarity policy.

In a full employment economy such as Sweden, employers in the shielded sector also have to pay this wage increase to keep their labour force and to avoid labour conflicts. So price increases will follow here equal to the increased unit

wage cost minus this sector's productivity increase. Since the rate of increase of output per worker in the shielded sector is comparatively low, its rate of price increase is, in practice, greater than in the competing sector. (But this need not always be so, if wages were a sufficiently small part of the costs of production in the shielded sector and, if other costs did not increase at the same rate as wages.) The rate of inflation for the whole economy is given by the sum of the increase in each sector weighted by its share in national expenditure; i.e., the international price increases of traded goods weighted by the competing sector's share, plus increased unit wage costs minus growth in output per worker in the shielded sector weighted by its share. Since this analysis says nothing about monetary policy, it assumes in effect that demand in money terms and the supply of credit adjust to cost increases to maintain full employment.

According to Lennart Forseback, (op. cit., p.73) "the main purpose of the EFO Report was to try to establish a method of determining a wage rise that, while satisfying employee demands for an unchanged share of total production results, would also be consistent with reasonable price stability, full employment and balance of foreign trade". Accordingly, the report recommended that wage demands should be based on the average increase in output per worker in the competing sector *plus the increase in international prices of traded goods*. Wage increases of this size would ensure that Swedish firms could continue to compete on unchanged terms on international markets and therefore output and employment would be maintained. But it would not avoid inflation for the reasons mentioned above. In fact, price stability in a small open economy is very difficult, if not impossible, to achieve in present circumstances. For price stability in such an economy, it would be necessary for the domestic currency to appreciate *sufficiently not only to neutralise price increases of traded goods but also to cause prices of these goods to fall far enough to compensate for rising prices in the shielded sector*. Currency revaluations on this scale would, of course, easily lead to a decline in exports, unemployment, and foreign payments deficit. But although inflation is unlikely to be

avoided in present circumstances, it is important to note that inflation may be at quite a high rate in a small open economy without losing international "competitiveness", as long as the relationship between overall costs and productivity in the competing sector is the same as those in its major trading partners.

According to Lindbeck, (op.cit., p.160), wages in Sweden in the period 1960-71 rose just slightly more than the "room" indicated for increases in the EFO Report. The result was that the share of profits in the national income was reduced by a small amount and no loss of output or employment resulted. However, during the recent recession, wages have risen much faster than the room allowed, industry lost its "competitiveness" and as stated in Chapter 1, it was necessary to devalue the currency substantially and adopt various other policies in order to protect employment and balance of payments. In countries where, in recent years, wages rose by less than the "room" available—principally Japan and West Germany—balance of payments surpluses have emerged with consequent pressure to revalue.

An important implication of the EFO Reports is that in a small open economy demand management policy has limitations as a means of influencing prices or employment. (The authors of the Report claim that their theory for price determination dominates all traditional demand-side explanations; but, in fact, the implicit assumption, in their analysis of an accommodating demand level to maintain full employment is of some importance, as is pointed out by Branson and Myhrman (1976) in their evaluation of the EFO analysis.) Substantial inflation is unlikely to be avoided if international prices are increasing rapidly in terms of the major currency to which the domestic currency is linked, unless the balance of payments is strong enough in surplus to enable revaluation to be implemented. Employment depends substantially on whether unit wage costs in the competing sector allow industry to meet international competition successfully. (The importance of this factor for employment increases with the openness of the economy.) Thus the EFO Report has focused attention more on costs than on demand management, in such economies.

In view of the fact that Swedish stabilisation policy was based largely on demand management for many years, with apparently satisfactory results, it seems pertinent to ask why so much attention has been given to the EFO analysis, which suggests a quite different policy emphasis. The answer appears to be associated with the changed conditions facing the Swedish economy today as compared with those in the past. Demand management policies were introduced into Sweden in the 1930s when there was no inflation and unemployment was at a high level. Also Sweden's involvement in foreign trade was lower then than now. In these circumstances the policies worked well and indeed continued to work in post-war years. When, however, world inflation rates started to increase towards the end of the 1960s, wage rates in the competitive sector also rose above the EFO norm with a resulting increase in the level of unemployment. Similar results obtained during the recent depression. It has become apparent, therefore, that under these conditions the existing policies are not adequate. They require supplementation by a wages restraint policy. The importance of the EFO analysis is that it lays down a rate of wage increase which should allow Sweden maintain its share of international markets. It also points out the difficulty of preventing inflation in an open economy when international prices are rising.

At the time of writing, a statutory form of incomes control has not yet been introduced in Sweden and as pointed out above, wages have increased above the "room" allowed by the EFO norm with very serious results. It remains to be seen, therefore, whether in the future, wage claims will continue to exceed the levels necessary for stabilisation purposes, or whether the bargaining process will return to the voluntary moderation of previous years. In view of the increased awareness of the role of labour costs, it is a question also for the future whether Government control of wages will evolve in the absence of voluntary moderation.

The EFO analysis is clearly relevant to Ireland although some factors here are different from those in Sweden. The principal difference is that Ireland's economy has a relatively larger foreign trading sector. Therefore the importance of

controlling wages and other costs is greater, while the scope for demand management is less than in Sweden. It would be useful to concentrate demand management policy in Ireland on sectors, such as building and construction, which have a large effect on domestic economic activity. We should recognise too that price changes are largely determined, in the long run, outside this country, except that, among other things, we can control the effect of indirect taxes and we have the option of exchange rate variations. A significant difference between Ireland and Sweden is that Ireland has not got full employment. Because of this the EFO analysis of inflation—particularly the mechanism for transferring wage rises from the competing to the shielded sector—is less likely to apply. But even if this mechanism does not apply exactly, it probably operates to some degree. It might be useful also to identify the competing and the shielded sectors in Ireland, and aim to base wage rises on the “room” for increases in the competing sectors. To achieve this aim it would be necessary to gain trade union agreement.

Manpower Policy and the Labour Market Board

In most industrial countries, at least up to the present recession, manpower policies have not been greatly developed. Such policies were mainly seen as instruments appropriate to growth targets. Swedish ideas on this matter have, however, been different. Though they have used manpower policies¹² actively in conjunction with stabilisation strategies, they claim also that such policies are an essential aid to the proper working of the labour market.¹³

As stated in an earlier section, Swedish manpower policy has concentrated strongly on encouraging mobility so that structural unemployment does not occur in particular regions or occupations and bottlenecks caused by inadequate skills

¹²Manpower policy is often defined to include all policies relating to the labour market such as demand management and industrial relations policies. The latter are treated elsewhere in this report. Here we deal with policies attempting to influence mobility, skill and occupational or geographic structure.

¹³This idea is now spreading. There seems to be growing realisation that employment policy will play a vital role in employment in future. (See for example *Outlook for Employment in the European Communities to 1980*. Brussels: EEC Social Affairs Directorate.)

may be avoided. The agency responsible for Swedish manpower policy is "The National Labour Market Board" (AMS) a Government agency whose directorate includes representatives of Parliament as well as of labour and management. The AMS has played a powerful role in promoting adjustment to both business cycle fluctuations and structural changes. Through its local employment offices it provides an impressive variety of services to the unemployed and to those threatened with unemployment. It provides job retraining courses and scholarships, runs public works programmes during general recessions, and in areas of high unemployment, and distributes various relocation grants to enable workers to move if necessary to new jobs.

It operates an employment service which is active in the spheres of vocational guidance, placement of workers and the dissemination of labour market information to job seekers and employers. It also handles Government regional development policies in the areas where the latter are applicable, and organises "special" relief works for people with medical or other handicaps—such as the elderly—who find it difficult to get employment in the ordinary way.

The retraining programme is very highly developed, having a capacity of reaching some three per cent of the labour force in any one year. Unemployed persons as well as those employed in establishments or industries which are in decline attend training courses. During these courses allowances are paid which compensates for most of the earnings foregone. The length of the retraining period varies greatly depending on the type of training. The more usual training period is about four or five months but in some cases it can continue for a number of years.

Mobility policies are also highly developed. The movement of persons from high unemployment regions is encouraged by mobility allowances, setting-up grants and subsidies for the maintenance of two houses. Such allowances have been used in most European countries over the past few years, but European manpower programmes generally are small by Swedish standards. In fact, Sweden's highly developed labour market policies cost about six per cent of total state expendi-

ture in 1976 and a much higher percentage in 1977. In the latter year the number of unemployed persons was kept at about 75,000 (or 1.5 per cent of the labour force) by very heavy state expenditure on labour market policies. In January the Government decided on a package totalling 1.5 billion Krona for the relief of unemployment and again in October 1977 a further 2 million Krona was spent on a similar package. These packages included funds for relief works and a variety of measures for providing unemployed youth with training and jobs. Industrial orders from the central Government were brought forward and a state grant of 20 per cent was provided to encourage local authorities to bring forward their industrial purchases. Grants towards training were also increased. These contributions played an essential part in maintaining a moderate level of unemployment in 1977. During the year the number of persons engaged on relief work, sheltered employment or labour market training averaged between 150,000 and 200,000 which is more than four per cent of the labour force. Compared with 1976 there was a particularly rapid increase in the training of employees threatened with lay-offs.

The increase in Government expenditure on employment policies has placed a heavy burden on the Swedish exchequer. The tax burden has become so heavy that the possibility of achieving restrictive effects via further tax increases has become more and more limited. A re-assessment of existing policies and the choosing of new priorities for public undertakings is therefore necessary. Nevertheless, Swedish policy-makers and advisers believe that despite current problems a comprehensive manpower policy is an essential element of any long-term policy or strategy. Apart from raising the productivity of labour, it facilitates the dismantling of restrictive practices and thus assists the re-allocation of resources to changed circumstances. It has been found that employees seldom resist the closure of inefficient and obsolete establishments if an effective re-training programme exists whereby they can acquire new skills (at almost no personal cost) which will obtain for them new and remunerative employment. It should be stated, however, that manpower policy of itself does

not create employment; it merely provides the skills that are in demand, and facilitates mobility. The ultimate aim must be to devise stabilisation policies which will prevent booms and depressions.

Chapter 7

The Statsforetag Group of Enterprises

STATSFÖRETAG is the holding company for most of the state-owned commercial Swedish enterprises which operate in the legal form of ordinary share companies.¹⁴ The Board of Directors is appointed by the Government and usually includes trade union officials, higher civil servants and employers. The organisation is officially Government owned and any dividends declared go to the Government.

While the group does have certain social responsibilities it is run on strictly commercial lines. It competes on the home market as well as exports. It is allowed to grow, acquire new companies and to enter new areas. It is also expected to be profitable. To a great extent it operates much like any profit or growth seeking, large, diversified multi-company group.

The Statsforetag was formed in 1970 in an effort to improve efficiency, and organisation within the state-owned commercial companies and to improve co-operation between them. Before 1970 the state took a hand in the administration of some 30 separate and quite different commercial organisations. These companies had become owned by the state for a variety of reasons; it was not as a result of a conscious policy to involve the state in commercial activity. Some were outgrowths of monopolies which the state had broken up and could not sell off. Others were maintained for regional and social considerations.

In 1969 it was decided to reorganise the entire sector and in June of that year a bill proposing the setting up of Statsforetag was introduced into parliament. The urge for change was motivated partly by the fact that of the 30 companies involved only two were operating at an acceptable level of

¹⁴See list of companies in The Statsforetag Group in Appendix 2 of this chapter.

profit. Thirteen were running at a loss and the remaining 15 had very low profit ratios.¹⁵ In addition, the 30 companies were responsible to eight different Government departments which led to confusion and conflicting priorities.

The new bill set up a "single administrative umbrella", i.e., Statsforetag, for the companies. Statsforetag would be responsible to only one Government department, i.e., the Ministry of Industry. Thus, there was a buffer created between the individual companies and the Government. This permitted the personnel of the separate companies to get on with their managerial and commercial functions and the parent company undertook the responsibility for reporting to Government. The new structure became operative on 1 January 1970.

According to the bill, the goal of the state-owned enterprises is "to achieve a maximum of expansion with strict regard to good profitability". (OECD, 1971). In addition, the group is expected to provide job security, encourage job satisfaction and foster worker participation in the management process. The group is also expected to assist in meeting social requirements, such as the need for regional development. In this third area the group consults with the state and then responds to certain needs and priorities perceived by the state. The response of Statsforetag in this area is expected to be "planned and executed" in a strictly businesslike way. If there are social costs involved these are underwritten separately from business costs. In other words, the social costs of, say, regional investment is taken into account when the results of the group are being analysed. Statsforetag is expected to maintain strict accountability for resources used and to clearly distinguish between social action and business performance.

The parent company, Statsforetag AB itself,¹⁶ is certainly no large bureaucracy. In fact, although the group numbers over 70 companies (with main subsidiaries) and employs over 40,000 people, the parent company employs less than 50 persons, which includes clerks and typists.

¹⁵See The Statsforetag Group of Sweden, 1976. Stockholm: Statsforetag AB.

¹⁶The group is called Statsforetag, but the holding company itself is also called Statsforetag AB.

The small size of the parent company is possible because management is extremely decentralised. Thus, each company has its own management and board of directors, and within very broad limits, is allowed to organise its own affairs. This decentralisation of authority is in keeping with the principle of strict accountability. Managers have almost total freedom but in return they are held responsible for their decisions.

The parent company keeps check on what is happening in the diverse group by an arrangement whereby each key member of the Statsforetag (Head Office) corporate staff sits on the board of at least one company, and often several in the group. Therefore, a parent company representative participates in, and is aware of, every board decision in the subsidiaries. But apart from this, and in line with the decentralisation policy, Statsforetag keeps away from day-to-day operations and confines itself to monitoring results and performance at regular intervals.

While independence of action for the member companies is almost total it is not complete. The parent company retains ultimate authority in three important areas. Statsforetag has the right to appoint or to dismiss all board members of subsidiary companies. It also makes the final decision on the allocation of subsidiary profits. And, finally, it can refuse requests from subsidiaries to participate directly in raising extra finance or to give guarantees for such finance.

It will thus be realised that subsidiary profits are at the disposal of the group and not the company which actually makes them. Aside from the above three areas, the Statsforetag management has no ultimate authority. Nonetheless, there are certain formalities which are observed. First, the parent company must be consulted on any diversification intentions on the part of subsidiaries. Secondly, it insists on reviewing all projects involving external finance. Thirdly, it reviews the appointments of managing directors and principal officers in the subsidiaries. Fourthly, it must be consulted before any change in employment policy is made which would cause substantial redundancies. It must be emphasised that in these four matters the parent company has no formal or legal veto power.

There is, in theory at least, a lot of room for subsidiary managers to make important decisions which could be against the corporate management's wishes. In practice, however, this has never happened. The system of consultation, monitoring and feedback of attitudes usually ensures that important decisions arrived at by the corporate management will be agreed upon. There is a strong sense of "all pulling together" in the group. There is to a large extent "management by consensus". Strict adherence to the principle of operational hegemony and managerial consensus practically amounts to an article of faith within the organisation, and one which management believes gives Statsforetag one of its principal strengths.¹⁷

As stated earlier Statsforetag is expected to be commercially successful, i.e., an adequate return on equity and growth in profits are expected. But personnel goals are also important objectives. To these ends employee participation is actively encouraged. Employees of the group take part in decision making at every level from the shop-floor to the board-room. Statsforetag provides appropriate training for the worker representatives to ensure they take an effective and responsible part in deliberations.

Job security for employees is another major objective. It will be readily understood that providing job security in a period of rapid technological change combined with a sound commercial performance is a difficult task. The problems involved have been discussed with the employees' trade union and an interesting agreement arranged. The union accepted that job mobility was an essential part of the modern industrial world and agreed that it was unrealistic to expect that each worker should have the same job and perform the same functions throughout his working life. It accepted that skills became redundant and industries obsolete and that workers may be forced either to learn new skills or to relocate. Statsforetag for its part, agreed to allocate corporate resources for manpower planning within the group. It also undertook to train workers in new skills and, where necessary, to relocate them with as little break as possible in their employment.

¹⁷The Statsforetag Group of Sweden, p.14.

Statsforetag also plays an important role in other areas of the national economy in fulfilling its social objectives. The group has invested greatly in the depressed regions of the economy. Subsidiaries in the group have promoted industrial development in those sectors with unusually high capital requirements and where uncertainty is great, such as in nuclear technology and petrochemicals. Statsforetag co-operates closely with the Swedish National Development Company in assessing the appropriate products for the markets of future years, in such areas as environmental protection, process techniques, data systems and transportation.

Companies Included in the Group

The Statsforetag Group of enterprises is quite large. In 1974 it had 29 main subsidiaries and employed 41,000 persons which is about three to four per cent of total manufacturing employment. In terms of sales it is among the ten largest Swedish companies. The range of activities is quite diverse as can be seen from Table 1 and Appendix 1.

Table 7.1: *Number of companies in the Statsforetag Group, 1974*

Mines	2
Steelworks	1
Shipyards and engineering	6
Forest and wood industry	3
Chemicals and pharmaceuticals	3
Consumer goods	1
Service companies	6
Development companies	3
Others	4
<i>Total</i>	<i>29</i>

Source: Statsforetag 1974 Group Review, p.3. Many of the above companies have themselves subsidiaries so that there are in excess of 70 companies operating within the group.

As can be seen from Appendix 1 the largest companies in terms of employment are ASSI (wood and lumber), LKAB (iron ore), Norrbottens Järnverk (steel), SARA (hotels) and Uddevallavarvet (shipbuilding). Notes on these are given below. ASSI was actually set up as a wholly state-owned company in 1941. It has numerous subsidiaries both in Sweden and abroad. It also has sales companies in various countries. The company is Sweden's largest producer of lumber products and fibre board. About 80 per cent of its production is exported.

LKAB is one of the largest exporters of high-grade iron ore in the world. Through a subsidiary it also produces lead, zinc, tungsten and copper. The company is also involved with oil and uranium exploration. The LKAB mine, in Kiruna, north of the Arctic Circle is the largest underground iron ore mining activity in the world.

Norrbottens Järnverk is one of Sweden's largest integrated iron and steel works. It has subsidiaries in West Germany, Norway and England. Its products include pig-iron, building materials, coke products and steel goods. The intention is that this company shall become a subsidiary of a new company called Svenska Stal AB during 1978. The formation of this company represents an initiative for arriving at a viable commercial steel industry in Sweden that in time should be able to hold its own above all on the domestic market. Proposals for financial collaboration by the state are to be presented to Parliament. It is envisaged that the new concern will have a share capital of 2,000 million Krona and a reserve fund of 800 million Krona.

SARA is a hotel and restaurant company. It is the largest chain of such enterprises in Sweden, operating over 120 establishments. The company has recently diversified into catering for factories and plants. It is currently (1977) providing about two million meals per year to 30 industrial establishments around Sweden. The company has also moved into the travel and holiday field.

Uddevallavaret is one of the largest shipyards in Sweden. It specialises in dry cargo vessels, bulk carriers and tankers up to about half a million tons (dry weight). A subsidiary

of the company produces marine engines and other engineering products.

For textiles and clothing a new company called AB Eiser is to be formed. For this purpose it is proposed that Statsforetag AB, the holding company, receive 190 million Krona from the Government. Another company, Svenska Data AB, is to be formed with state aid funds in order to establish a competitive computer industry.

The range of products and services provided by the Statsforetag group can be seen from Appendix 2, where the member companies and their principal products are listed. There are two other particularly interesting companies in the group. The first of these, the Swedish Industrial Development Corporation (SID) was established by Statsforetag. It is located in New York. SID's objective is to contribute to the growth and profitability of the group by facilitating and assisting group activities in the USA. SID also identifies new opportunities existing in America which are transferable to Sweden. It also acts for Statsforetag companies seeking new ventures in North America and for American companies interested in Sweden. The second company, Svetab, was created by Statsforetag to act as a venture company whose subsidiaries were to provide employment in the underdeveloped regions. Svetab is also responsible for consulting with the state and with the group companies on matters of social responsibility. It has, however, not been an unqualified success: only a few enterprises have been set up with its help.

Development of Statsforetag

Since 1970 the group has grown greatly. Employment in 1974 was 41,300 compared with 34,100 in 1970. This increase, however, is partly due to the acquisition of existing companies and is therefore not entirely due to internal growth. Yield on capital employed grew with some fluctuations from 6.2 per cent in 1970 to almost 12 per cent in 1974. Sales in current prices rose by 124 per cent in the same period.

Up to 1975 the group as a whole had been profitable¹⁸ but

¹⁸Prior to the current recession the steel company Norrbottens Järnverk and a few other smaller firms operated at a loss.

in 1976 an overall loss was experienced for the first time. In that year the consolidated account of the 30 or so companies was in the red to the tune of £58 million. The only major Statsforetag unit to maintain profitability in 1976 was a tobacco company. The earnings decline is mainly due to the effect of the recession on earnings in the basic industrial operations—mining, shipbuilding, steel, paper and pulp. Hence, though Statsforetag had been set up to free the Government from the day-to-day management of state companies and to endeavour to make them profitable it has not succeeded in the latter objective in times of depression. In the last year the state has had to bail out most of the firms involved. In other words an organisation like Statsforetag works well in good times but when economic conditions disimprove it becomes pretty powerless.

Lessons for Ireland

Recently there have been suggestions that a State Development Corporation be set up in Ireland to facilitate the creation of employment.¹⁹ More specifically the Statsforetag group has been put forward as a model worth emulating. (Halligan, 1976). The reasoning behind such suggestions appears to be that private enterprise is unwilling or incapable of creating sufficient employment opportunities. Therefore the state should become directly involved in commercial life with freedom to expand and compete on equal terms with the private sector.

It is important to stress, however, that the Statsforetag group was not set up primarily as a development corporation or as an employment creating agency. While it does have certain social objectives (discussed above) its principal objective is commercial viability. In other words, it is state capitalism under another name. It differs from a private company mainly in that ownership of the assets are in state hands.

We feel that this is not really what Brendan Halligan had in mind when he talked about a state development corpora-

¹⁹This was one of the main planks of the National Coalition Parties election programme in 1977:

tion. What he seems to suggest is the bringing together of all the commercial state enterprises under one unified administration in order to facilitate co-operation and goal achievement. This sector would then be allowed and indeed expected to grow so as to create the job opportunities required. The emphasis would appear to be on job creation rather than economic viability.

It could be argued that there is no major conflict between the goal of job creation and economic viability; that unless the enterprise is viable the jobs cannot be maintained. Under a system of private enterprise the latter statement is true but the experience of certain state enterprises in Ireland, and indeed in Sweden, does not necessarily lead to this conclusion as regards such enterprises. Once the state is the employer, commercial viability often does not seem to be a major priority. More and more the taxpayer is obliged and indeed expected, to continue to subsidise state and semi-state concerns. Nor is it very realistic to expect that in future, governments will turn over a new leaf and make commercial viability the main criterion. Workers know that if jobs (and votes) are at stake the state will pick up the tab regardless. Under these circumstances there may be little interest in productivity improvement, or re-organisation to meet changed circumstances, losses could grow apace and the cost to the exchequer would be enormous.

Appendix 1

*Number of employees in principal Statsforetag companies
average 1974*

<i>Company</i>	<i>Total 1974</i>
ABAB	983
ASSI	5,922
Berol Kemi AB ¹	695
BS Konsult AB	118
Ceaverken AB	346
AB Kabi	1,649
Kalmar Verkstads AB	502
Karlskronavarvet AB	1,618
Liber Grafiska AB	866
Linson Instrument AB	42
LKAB	8,183
Norrbottnens Järnverk AB	4,770
Nuclear Steam S G AB	—
Nyckelhus AB	77
AB Oljetransit	6
SARA	5,413
Skövde Gasbetong Försäljnings AB ²	—
SMT—Pulmax AB	903
AB Sonab	796
Statsforetag AB	45
AB Statsgruvor	214
Stigtex AB	180
SID—Swedish Industrial Development Corporation	7
AB Svensk Torvförädling	73
Svenska Lagerhus AB	26
Svenska Skifferolje AB	1
Swedish Tobacco Company	2,727
Svetab	1,274
Uddcomb Sweden AB	531
Uddevallavarvet AB	3,332
<i>Total</i>	<i>41,299</i>

¹Formerly MoDoKemi AB

²Acquired 1974

Appendix 2

Statsforetag companies and products, 1976

<i>Company</i>	<i>Principal Product</i>
ABAB	Security Service
ABAB Lokalvard	Contract Cleaning—industrial and service
Abene AB	Milling-Machine
ACO Lakemedel AB	Pharmaceuticals
Anderssons Finsliperi & Mekaniska AB	Tool Manufacture and Service
ASSI	Saw-Mill
Berol Kemi AB	Chemicals
BS Konsult AB	Construction Consultants
Ceaverken AB	X-ray Films
Edströms Industrier AB	Wooden Flooring and Stairs
Ekströms Livsmedelsprodukter AB	Confectionery, Food
Elkapsling AB	Metal Casings
ESSBO, Svenska Bomaterial AB	Management Company in Construction
Etri Fönster AB	Weather Glazing
Flexer Sacks Ltd., England	Paper and Plastic Sacks
AB Forshammars Bergverk	Mines and Processes Quartzite
AB Förbandsmaterial	Medical Products
Förenade Well AB	Corrugated Board and Packaging
AB Grummebolagen	Toiletries
Hema Industrier AB	Car Roof-Racks, Ski-Holders
Hermods Skola	School
Hvilans Mekaniska Verkstads AB	Hoisting Equipment
The Kabi Group	Pharmaceuticals
Kabi Blood Products Division	Blood Proteins
AB Kabi Diagnostica	Radio-pharmaceuticals
Kabi Pharmaceutical Division	Antibiotics, Vitamins
AB Kalmar Kök	Kitchen, Bathroom Fittings
Kalmar Verkstads AB	Rolling Stock
Karlskronavarvet AB	Shipbuilding (war ships)
Kryotherm AB	Heating and Ventilation
Kumla Mekaniska Verkstads AB	Plate-Rolling Machines
LiberFörlag	Publishing
LiberGrafiska AB	Publishing
LiberKartor	Publishing
LiberLäromedel	Publishing
LiberTryck	Publishing
Lidhults Mekaniska Verkstads AB	Fork-Lift Trucks
Linson Instrument AB	Medical Electronics
LKAB	Iron Ore Mining

continued

Appendix 2 continued

<i>Company</i>	<i>Principal Product</i>
Nordtool AB	Woodworking Tools
Norrbottnens Järnverk AB (NJA)	Steel Products
Nyckelhus AB	Pre-Fabricated Houses
Nyland-Holmsund	Flooring Materials
Perfonit Ltd., England	Chipboard
Por-Pac Plast AB	Plastic Products
Pullmax AB	Sheet Metal Machinery
AB Recip	Pharmaceuticals Marketing
Rockwool AB	Insulation
SARA	Hotels and Restaurants
Scanfors AB	X-ray Film
SID, Swedish Industrial Development Corporation, USA	USA Market Consultants
Sinjet AB	Brushes
Skandiaverken AB	Diesel Engines
Skandinavprojekt (Skandinaviska Projektlednings AB)	Construction Management
SMT Machine Company AB	Electronic Lathes
The SMT-Pulmax Group	Machine Tools
AB Sonab	Electronic Communications and Stereos
AB Statsgruvor	Mining
Stigtex AB	Yarns
AB Svensk Torvförädling	Peat
Svenska Broomsbandsfabriken AB	Brake-Lining
Svenska Lagerhus AB	Warehouses
Svenska Tobaks AB	Tobacco Products and Snuff
Svetab	Venture Company
AB Thörns Mekaniska Verkstad	Custom-Made Tools
Tuolluvaara Gruv AB	Mining
Töreboda Limträ AB	Wood Products
Uddcomb Sweden AB	Nuclear Technology
Uddevallavarvet AB	Shipbuilding
Ursvikens Mekaniska Verkstad AB	Sheet-Metal Machinery
Vitrum AB	Pharmaceuticals
AB Broderna Wikstroms Mekaniska Verkstad	Hydraulic Presses
Örebro Pappersbruks AB	Pulp, Paper, Plastics

Source: The Statsforetag Group of Sweden 1976, Stockholm: Statsforetag AB, Hamngatan 6, FACK S-103.

Chapter 8

Specific Lessons for Ireland

MOST of the factors which contributed to Sweden's development after 1860 were not present in Ireland until a much later date. In the first place Sweden had her own Government and could therefore shape her destiny for better or worse. Ireland, on the other hand, did not achieve independence until 1922 and up to that time we had a rather unstable political system, with recurrent agrarian and other disturbances. In addition, there were many natural factors which even in normal circumstances would place Ireland at a disadvantage.

For example, high rainfall made for a difficult agricultural technology and our proximity to a low-priced British market, caused low prices for farm produce. As a result, Irish agriculture remained relatively underdeveloped. More important, we had few natural resources comparable to Sweden's ore, timber or water power. Investment was low and indeed a large part of Irish savings was invested in Great Britain or elsewhere. As a result, the development of industry was quite slow and much of it, such as that which occurred in the 1930s, was only viable when protected by quotas and tariffs. Incomes and living standards in Ireland improved very slowly. The rate of natural increase in population remained high and substantial emigration continued until the 1960s. Unemployment has been and remains a chronic problem.

At the present time, possibly the most important difference between Ireland and Sweden is to be found in the stability and harmony of the Swedish labour market compared with our relatively fragmented system. Some people explain the labour peace in Sweden in terms of innate national temperament which is submissive to authority. Indeed, Roland Huntford (op.cit., p.12) suggests that Sweden is well on the way

to becoming a society in which people are conditioned from infancy to fit into a given role without questioning authority or adopting unconventional behaviour.

Though this is an extreme statement of the Swedish national characteristic, nevertheless it tends to make us wonder if there is not some innate difference between the Irish and Swedish mentalities; and if this is so, is it not futile to cite Sweden as an example for us to follow? Certainly there is some risk in all prescriptions of this nature. Despite the doubts expressed, however, the authors believe that there are important lessons to be learned from Sweden. While we agree that there may be basic attitudinal differences at the moment between the two peoples, we cannot accept that these are fixed, innate characteristics. The Swedes, with their long history of self-government and peace, have evolved in a certain way, but had circumstances been different they would very likely have evolved differently. The Irish mentality and ethic is due to a completely different set of stimuli but there is no reason why it too will not change over time in response to the new circumstances of self-government, improved education and long-term peace. Changes of this kind will, of course, come very slowly but we must not despair. Much is happening already and further major changes are likely to occur in the future.

The Role of Emigration in Development

Since Ireland and Sweden have both experienced heavy emigration in the past, it is interesting to consider the role which emigration plays in development. It is often argued that emigration from Ireland puts a break on progress; that the most progressive people leave, and that real development and growth will only come about when emigration is eliminated. The Swedish experience seems to be at variance with this argument. Between 1860 and 1914 over one million Swedes emigrated to America; yet despite this exodus, Sweden experienced its first big wave of industrialisation in the beginning of the 1870s. Some writers on Sweden (Kayfetz, 1974), (Huntford, op.cit., p.46) suggest that emigration enabled this industrialisation to take place; that it reduced consump-

tion so that people were able to save and invest; that repatriates and letters home brought American influence to Sweden, and that all these factors contributed strongly to the industrial revolution.

There is certainly some truth in the above suggestions. Until the start of emigration the mass of the population had been steeped in a peasant type national tradition. Acquaintance with the American scene opened up new vistas. Also the relief of population pressure must have contributed in some way to savings and investment. There was, however, more to the question than this. Her abundant supplies of iron and timber enabled Sweden to avail of the new markets which became available at the end of the nineteenth century, particularly a greatly increased demand for timber. New inventions in pulp and steel manufacture, together with improved transport and infra-structure, contributed further to the development.

Conditions in Ireland now are altogether different from what they were in Sweden at the end of the last century. We have been losing people steadily since the Great Famine in the 1840s and despite a high birth rate we now have a lower density of population per square mile of agricultural land than any other country in Europe. Also, since it is the younger and more able-bodied people who leave, we have an abnormally high dependency ratio. Our demographic pattern is, therefore, very unbalanced, and if we are to make any worthwhile progress, this imbalance will have to be improved. We must try to prevent a resumption of large scale emigration in future years, though, of course, this is easier said than done.

More Recent Developments

As in most countries the great depression of the 1930s proved a most challenging time for Swedish policy makers. There was heavy unemployment resulting in great labour unrest. Strikes and lock-outs were commonplace. In May 1931 five strikers were shot dead by the Army at Adalen. It was an event which horrified all Sweden. As a result, there was a general resolve to end labour conflict as far as possible.

The Social Democrat Government was elected in 1932 on a promise of industrial peace and the ending of unemployment. If it was to remain in power it had to fulfil these pledges and this it did. Industrial peace was entrenched within six years. The ending of unemployment was slower. This objective was not achieved until the end of the war.

Swedish economists contributed greatly to policy making during the great depression. They were among the first to advocate counter-cyclical policies for the control of slumps and booms and they had the satisfaction of seeing their recommendations introduced and proving successful. Irish economists at the time had no such far-seeing recommendations to make but even if they had it is doubtful if they would have been adopted. We were a new state, barely feeling our way. We had just come out of two wars—the war of independence and the civil war. Times were unsettled. There were threats of para-military activity by those who did not accept the new state. It took a lot of resources to maintain law and order in face of these challenges. In addition there was little skill, managerial ability or investment capital available so that even if we had real peace we could have done little in the circumstances of the time. We were not yet ready for development.

The present high level of unemployment is presenting us with both a need and an opportunity to do something about emigration and employment. The country is relatively peaceful. We have acquired a good deal of industrial and managerial skill and we know how to raise money for investment. But more important, we have a large pool of articulate young people. These are at once the driving force and the danger. In these days young people are not prepared to stand around too long looking for jobs. They will put pressure on the Government to do something, but if something is not done they are unlikely to remain passive.

The Swedes were lucky in that they were able to achieve their objective of full employment without revolution of any kind. Despite strong pressures from right and left they maintained a mixed market economy with a high commitment to social welfare. We may not be so lucky. If the level of

unemployment continues to remain high there are likely to be strong demands for revolutionary changes. Resistance will be difficult. It is of the utmost urgency therefore that more jobs be provided quickly.

Labour Market Policy

Trade union policy in Sweden is concerned primarily with employment. Other trade union functions, while pursued actively, are considered of secondary importance. In order to achieve the main aim, the unions have become actively involved in the formation of policies for job creation and have negotiated procedural agreements with management which place greater restriction on the use of industrial action than those specified by law. Centralised collective bargaining which developed in Sweden during the 1950s was motivated by a concern on the part of the trade unions for price stability in the economy. Thus this bargaining procedure was seen as the way in which the unions could maintain their interests against employers without damaging the national economy, as might well happen in a free-for-all situation.

A further important aspect of trade union policy in Sweden is the approach to manpower policy. The unions accept that industry must of necessity rise and fall with changes in supply, demand and technological innovation and that redundancies must inevitably occur in various areas. The Labour Market Board on which the unions are represented continually tries to anticipate such redundancies and through re-training and mobility programmes encourages workers to move to alternative employment, though in recent years this movement is becoming more difficult to accomplish.

In Ireland there is less willingness to recognise that business is always in a state of flux and that a number of closures are inevitable every year. In this climate of thought there is little planning for redundancies. Far too often activity begins only when a business is in serious trouble and even then the demand is usually for Government grants to keep the ailing firm going rather than for the creation of new jobs in viable industries. Also, in Ireland workers are reluctant to move to new areas when a firm closes. Unfortunately, the Irish trade

unions, unlike the Swedish, have not tried to change attitudes in this regard. Swedish trade union aims include matters concerned with education, research and development, taxation, consumer policy, working conditions and the environment, in fact any aspect of public policy which relates to the "quality of life". Perhaps the most interesting current issue on which the LO is trying to form public policy is capital formation, i.e., the giving of profit shares to workers in the form of stock options. This topic is important because it has a bearing on prospects for wage restraint. If wage earners as a group can expect a definite benefit from large profits, they are likely to restrain wage demands more than if profits are believed to benefit only a relatively small number of shareholders. If this scheme is adopted, ownership of Swedish industry and the right to distributed profits will gradually be transferred to the wage earners' collective fund. Thus the employees, through their unions, will come to own and control industry while the market economy remains intact. This may appear to be a revolutionary proposal but many economists are coming to the view that it is the only way to maintain both full employment, industrial peace and a stable price level; that it is a practical means of forming what Vanek (1971) calls a "Participatory Economy".

It is interesting to note that in Ireland we are now trying to achieve the same type of rapport between workers and employers as exists in Sweden. The most recent development towards this end has been the move towards the introduction of industrial democracy in some semi-state organisations. Under these schemes workers' representatives become Board members and share responsibility in running the business. How successful these schemes will be is not easy to predict; they may well be ahead of their time. In Sweden the rapport which exists between employers and workers has been built up over a long period through sophisticated bargaining arrangements. Board representation is the final stage of the process. To try to superimpose this stage in Ireland without first doing the preliminary groundwork to break down the hostility between management and unions may prove disastrous. We feel that participation should be built from the

ground up rather than from the top down. We should, therefore, hasten slowly in this area.

A development, however, which should be explored to a greater extent than at present is the establishment of workers' co-operatives as mentioned in the Green Paper "Economic and Social Development 1976-1980". The objective of the co-operatives (of which there are already a number in existence in the country) is to associate the employees more closely with the enterprise by having the business controlled and managed entirely by the workers. As the establishment on a wide scale of workers' co-operatives is a rather advanced form of industrial democracy we cannot expect it to come about very quickly. It is heartening to know, however, that some efforts are being made in this direction and that Irish governments are at last including them in their plans.

Industrial Policy

To an outsider Sweden does not appear to have a very sophisticated industrial policy. Up to recently very little direct aid was given to firms. There is, however, an amount of Government intervention in the capital market and towards this end it tries to increase domestic savings through an obligatory insurance pension fund into which contributions are paid by employers on behalf of employees. This fund, which was commenced in 1960, is now the biggest in the Swedish capital market and a large proportion is lent to the productive sectors of the economy. The recent Irish Green Paper "A National Income-Related Pension Scheme" makes suggestions for Irish pension schemes similar to those in Sweden. The maintenance of a specific pension fund, however, does not appear to be under contemplation here. Whatever scheme is adopted will be on a "pay as you go basis" on the same lines as a UK scheme due to come into operation in 1978. At a recent symposium on the Irish Green Paper,²⁰ W. A. Honohan said that if the pension scheme was to be used as a means of financing national investment "the rate of con-

²⁰Symposium on the Government Green Paper, "A National Income-Related Pension Scheme", Speaker: W. A. Honohan, Dublin: The Statistical and Social Inquiry Society of Ireland, 16 December 1976.

tribution would have to be much higher than is required to meet current pension expenditure and so they would have to include an element which in effect was a compulsory contribution towards national investment". In Honohan's view we should not jeopardise the pension scheme by combining it with a national investment fund. The cost of the pension will come quite heavily on lower paid workers and they might not be able to afford the joint scheme. For the present, therefore, it is felt that investment funds should come from other sources. Once the scheme comes into operation, however, the idea of using it to fund national development should be re-appraised.

Regional Development Policy

As stated in Chapter 3, Sweden has a very well developed regional policy. We have tried to develop a similar type policy but we do not seem to have been as successful as the Swedes, mainly because we have had less to spend. One thing is clear, successful regional policies cost money and if a country is not rich it cannot afford such policies. It is doubtful if Ireland can finance a successful regional policy from its own resources. We need help from abroad and the only source appears to be the EEC Regional Fund. When we joined the EEC we had hopes that this fund would be used for the development of remote regions. The reality, however, has not been up to expectations. The fund has been used in areas throughout Europe which are anything but remote relative to the more peripheral EEC areas. We must try to have this tendency reversed. Strong EEC countries must be made realise that remoteness grants are absolutely essential if peripheral regions are to remain viable.

Agriculture and Forestry

There is not a great deal which Irish farmers can learn from the Swedes. Because of the warm dry climate, Swedish farmers rely heavily on arable crops, and have very little pasture. In Ireland because of our high rainfall we must rely heavily on the production of grass and grass products which require a very high level of skill. The most interesting feature

of the Swedish economy is the extent to which forestry and other operations are used to complement farming.

Unfortunately, the number of private forests in Ireland is rather small but it would appear that the climate of opinion in favour of expanding the forest area is now better than at any time in the past. Experience has shown that Irish farmers are no longer interested in carrying out farming operations on marginal land. Each year more and more of this land is becoming derelict and there is no reason why it should not be put under trees, either by the farmers themselves or by the Forestry Department. Figures are not available for the cost of creating jobs in this way but it should not be any greater than that from more conventional industry. We understand that studies on this topic are being carried out by the Forestry Department. It is an exciting area and we hope that some useful recommendations will emerge.

Stabilisation Policy

In Sweden the central objective of the economic policy over the years has been the maintenance of a high level of employment. The main threat to employment has generally been regarded as short-term cyclical fluctuations in the economy and consequently stabilisation policy has been the main focus of attention.

It is in this area that Ireland can probably learn most from Sweden. In many ways our policies over the years seem to have a destabilising rather than a stabilising effect. Referring to the slow rate of growth in the 1950s Kennedy and Dowling (1975) state that the chief cause of this seems to be the failure to secure a satisfactory rate of expansion in aggregate demand. In particular they say that "the massive cut-back in public investment in 1957 and 1958 unnecessarily deepened and prolonged the depression in the economy".

Nor according to Walsh (1977) has the depressing experience of the years 1956-58 taught us much. In those years he says "government expenditure was cut savagely during a period

²¹See Walsh, B. M., 1977. *The Construction Industry at the Crossroads*. Address to the Confederation of Construction Industry, Dublin: Jury's Hotel.

when external factors were causing a decline in domestic demand. Unfortunately, the same coincidence was evidenced once again in 1967 although the rise in unemployment was much less pronounced then. In the very severe recent recession we notice the same phenomenon re-appeared”.

The implementation of counter-cyclical policies is, however, not a simple task. It requires very careful planning, and up-to-date information must be available in order to time the projects properly. In addition there is the problem of integrating incomes policies with stabilisation measures. The creation of a fast rate of increase in domestic demand without a corresponding increase in exports means taking risks with the balance of payments and external reserves. It may also cause a sharp increase in the rate of inflation.

The Statsforetag Group of Enterprises

As shown in Chapter 7, Statsforetag is a holding company for all the state-owned commercial enterprises which operate in the legal form of ordinary share companies. While the group does have certain social responsibilities it is run on strictly commercial lines and is expected to be profitable. The group is now quite large. In 1974 it had 30 main subsidiaries and employed 41,000 persons.

Up to 1975 the group as a whole had been profitable but in 1976 an overall loss was experienced for the first time. It is expected that some, but not all, of the firms will return to profitability at the end of the recession. Those not doing well will be wound up unless they are maintained strictly on regional policy grounds. Shipbuilding is a case in point. The shipyards, which once produced a tonnage second only to that of the Japanese, are already undergoing a 30 per cent reduction of capacity, but it is felt that further closures are inevitable.

It is our opinion that the creation of a Statsforetag type organisation is not a simple solution to the unemployment situation in Ireland, though it may have some contribution to make if the aim is the achievement of profitability and not

just the propping up of lame ducks. If it is to be an organisation for the subsidisation of loss making enterprises, we are better without it.

Final Conclusion

Sweden has attained her present level of development, not through any specific policy instrument or set of instruments, but because her people made a definite commitment to full employment in the 1930s and have stuck to that commitment since. All other economic objectives have been subsidiary to this. The success of the full employment policies has depended to a large extent on the attitudes of the trade unions. The unions realised early on that in a democracy real power in the area of labour policy rested with them and not with the Government. Hence, if full employment was to be attained they (the unions) would have to back the idea to the ultimate limit.

In their efforts to subscribe positively to the aim of full employment, the Swedish unions have had one great advantage. Members appear to have had a common political philosophy. For better or worse they have continued with a market economy and have tried to keep wages and salaries at competitive levels through centralised collective bargaining. Economic analysts are employed to forecast trends, calculate the appropriate wage levels and recommend suitable policies. These recommendations are considered by the unions and employers, modified where necessary and then recommended to the Government. It is the unions and employers therefore who initiate policies and not the Government. The latter do no more than implement the policies. That the policies have proved reasonably successful for a long period is a tribute to the expertise of the economic analysts. They seem to be able to make good forecasts and time accurately the counter-cyclical policies.

Unfortunately, the recent recession has shown up serious weaknesses in some of the policies which heretofore had proved successful. The present non-socialist Government has been forced to bring into public ownership a far larger part of Swedish industry than the Social Democrats ever did. There

was little else they could do, however, in the circumstances. After a long period of affluence, people had become over complacent and things had got out of hand. Recent official pronouncements indicate, however, that lessons have been learned all round and that things can be expected to return to normal when world conditions improve.

It is our belief that if Ireland is to develop economically in the years ahead, we also must make a commitment to full employment. But this commitment must be a total one and must be made by all our people—Government, opposition, employees, employers and self-employed. In this connection it is pertinent to quote from the NIEC Report on full employment which says:

“Full employment, with rising standards of living, reasonable stability in prices and equilibrium in the balance of payments, can be achieved in Ireland only if there is the will to achieve it, and the willingness to give it precedence over subordinate and sectional objectives. While full employment cannot be achieved quickly, it can be achieved within the lifetimes of most of those who are now at work. Once achieved it will assure greater continuity in employment and an expanding environment for initiative and enterprise, and bring with it all the opportunities and benefits that are associated with living in a growing community. Given the ease with which Irish emigrants can find work in neighbouring countries, however, there will be no compelling pressures to force all sections of the community to make the changes and take the actions that are needed to achieve full employment. The Irish community can, therefore, decide to pursue, or not to pursue, full employment. The danger is that full employment will be demanded as a goal without any genuine or full acceptance of the disciplines, actions and policies by which alone it can be realised. Some, discouraged by past failures may regard the full employment projection for 1980 as unrealistic, and therefore feel themselves excused from any obligation to work for its achievement. Some will accept it but want to proceed as if it could be wished or talked into exist-

ence. Others may accept the goal, but be so content with the present that they have no urge to change their ways of doing things or to expend greater effort. Still others may accept both the end and the means but assume that while the end is for their benefit the means are wholly for others to devise and implement." (NIEC, 1967).

Perhaps our review of Swedish policies may help to change attitudes in this regard and stimulate readers to think differently about employment. Let us hope that Irish people like the Swedes can be persuaded to give precedence to the ideal of full employment over other but less important objectives. A final suggestion would be that while Ireland may not have the natural resources of Sweden we do have access to the same fund of knowledge as the Swedes. The constraints on the application of that knowledge will be of our own creation.

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