Reforming the Welfare State: Recovery and Beyond in Sweden. By Richard B. Freeman, Birgitta Swedenborg and Robert H. Topel (eds.). Chicago and London: The University of Chicago Press, 2010. Pp. xi, 336. ISBN 978–0–226–26192–8

Sweden is regarded by many casual observers as the archetypal welfare state. What may come as a surprise – to both its admirers and critics abroad – is that Sweden reformed its welfare state in substantial and more market-oriented ways in the wake of the severe crisis in the early 1990s and has continued to do so. In the book *Reforming the Welfare State: Recovery and Beyond in Sweden*, edited by Richard Freeman, Birgitta Swedenborg and Robert Topel, 17 scholars provide an analysis of the Swedish Economic Model, its adaptability to changing economic circumstances and the lessons to be learned for Sweden and other countries. Most of the contributions are co-authored by Swedish and American economists and the book is a follow-up on a previous volume, published in 1997, with a similar approach. A common theme in both volumes is to highlight the workings of the Swedish Model by contrasting it to the more market-oriented American economy.

Economic inequality is the topic covered in the chapter by Anders Björklund and Richard Freeman. While inequality in earnings and income increased moderately into the early 2000s, the authors note that Sweden remains one of the countries with the lowest income inequality. Despite the low returns to education, Sweden ranks second among OECD countries (after Korea) in degrees awarded in science and engineering. According to Björklund and Freeman, this could possibly be explained by the low cost of attending Swedish universities.

Sweden's family policies are among the most generous in the world. In their contribution to the book, Ann-Sofie Kolm and Edward Lazear examine how policies like subsidized child care, paid parental leave, in-work benefits and tax relief on substitutes for household goods and services affect work patterns and labor income for women. Swedish women with small children participate in the labor force to a larger extent than do American women with small children and the authors argue that a large welfare state such as Sweden's depends on the possibilities to combine work and fertility. I found this chapter particularly enlightening, as it clearly unveils some of the important trade-offs associated with the family policies: For example, while rules for parental leave, once in existence, contribute to more women with children being in the labor force, an increase in the generosity of the rules, in terms of payment and duration, may lead to *less* labor supply provided by these women, with potential negative long-term consequences for their careers.

Increasing wage inequality since the early 1990s was largely driven by a move toward decentralization of wage formation, but probably also by technical change, according to the chapter by Peter Fredriksson and Robert Topel. In addition, the authors point to international migration as a source of increasing pressure on the egalitarian wage distribution – at both ends. On the one hand, there has been a sizable shift to more of low-skilled immigration, which posits a challenge to the system with high union-bargained minimum wages, especially in service sectors with a potential to absorb immigrants. On the other hand, the high-skilled are over-represented among Nordic immigrants to the United States, in relation to similar countries of origin. The latter observation speaks to the risks of brain drain.

Swedes work fewer hours than Americans. Yet much of earlier research in the field seems to indicate that labor supply, at least among males, is fairly unresponsive to changes in taxes and benefits. Surveying recent research, Thomas Aronsson and James Walker come to the conclusion that while hours are not strongly affected by taxes, before-tax income seems to be reduced, and there is also emerging evidence to suggest that social insurance programs in Sweden contribute to fewer hours worked.

High taxes on consumption and labor income may affect the mix of production activities, as evidenced by the time use data examined by Steven Davis and Magnus Henrekson. Americans enjoy more leisure time than Swedes, despite more market work put in by Americans. For Swedes spend more time in unpaid domestic work, especially food preparation and cleanup. The authors also present cross-country evidence suggesting that tax-sensitive industries producing time-saving goods and services, like retail and hotels and restaurants, have lower employment and output in high-tax countries. Recent reforms in Sweden, Davis and Henrekson contend, could contribute to expanding market work. The reforms include the introduction of earned income tax credit, reduction of payroll tax rates for young people and lower taxes for the provision of household services.

There are four other chapters in the volume, written by Anders Forslund and Alan Krueger, Lars Ljungqvist and Thomas Sargent, Stefan Fölster and Sam Peltzman, and Edward Leamer, respectively. Forslund and Krueger discuss the apparent failure of active labor market programs to contribute to the recovery of employment after the crisis in the 1990s. Ljungqvist and Sargent argue that a welfare state with stringent employment protection experiences higher unemployment in times of turbulence than countries with less protection and that turbulence, defined as the probability that an involuntarily displaced worker loses human capital, has increased in Sweden. The contribution of Fölster and Peltzman deals with the deregulation in various markets, such as taxis, postal services, telecommunications, railways, electricity, and aviation and the authors claim that deregulation was largely successful in terms of lower prices and/or increased productivity. Leamer documents the increasing competition with emerging economies, especially China, that Sweden is facing in international trade.

The most important message that *Reforming the Welfare State* conveys is that Sweden learned from its mistakes and adopted its policies, with little increase in inequality. Sweden’s economic performance during the recent financial crisis may constitute the most convincing evidence that the reforms have paid off. Throughout the book, the discussion builds on careful analysis of available evidence and there is no shortage of thought-provoking conclusions. This makes the book useful and engaging reading, not only for researchers well acquainted with the Swedish Model, but also for those with a more general interest in the challenges confronting the modern welfare state. Thanks to the mostly non-technical presentation, the book should be accessible also to the informed non-specialist.

Given the breadth of the subject, it is of course not difficult to come up with topics that could have been mentioned or covered in more detail. For example, Sweden’s relatively uneven wealth distribution is not discussed (see Roine and Waldenström, 2009). Arguably, the safety net of the welfare state reduces the perceived need for precautionary saving, but the absence of an income buffer among many households against unforeseen, albeit not too uncommon, economic events is something that could deserve some attention in an account of economic inequality in Sweden. Moreover, gradual developments in employment protection legislation since the 1980s, to the effect that Sweden now ranks among the OECD countries with the most liberal rules for temporary work, while protection of regular jobs has remained relatively stringent, seems to have gone largely unnoticed (see Skedinger, 2010). Finally, the book has little to say about the political economy of welfare reform. Many of the reforms were not brought before the electorate in election campaigns, but were part of crisis management. Was the crisis in the early 1990s necessary for the reforms to be undertaken?

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References

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