Economic Policy, Institutions and Entrepreneurship

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ABSTRACT. Economists have debated the issue of state intervention in the economic process in capitalist economies intensively for decades. Often, however, without considering the effects of state intervention on entrepreneurship. In this paper we undertake a critical analysis of the institutionalist theory of state intervention developed by Ha-Joon Chang. He identifies two key roles for the state in facilitating structural change, namely, firstly, to pronounce a vision for the future (state "entrepreneurship") and, secondly, "management of conflicts" which arise during the process of structural change. We also examine how well the Swedish model of state intervention fits into Chang's model as well as possible drawbacks with the Swedish model not least in terms of reducing the incentives for entrepreneurship. Thirdly, we examine the possibility that, because of radical changes in its economic and political environment, the Swedish model has become less successful in carrying out the two key roles outlined by Dr Chang in the last three decades. Finally, we discuss the implications of these changes for the Chang style interventionalist state. Is there any room left for "structural change management" by the state in the global era? If so, what are the appropriate measures and policy levels for this type of intervention? And, in particular, how can proper institutions and incentives for entrepreneurship be used to facilitate the structural change process?

1. Introduction

Economists have debated the issue of state intervention in the economic process in capitalist economies intensively for decades. The development of Keynesian economics and welfare economics together with an increasing political interest in the distribution of income and wealth led from the 1930s and onwards to an increase in the state intervention in the economic process in all developed capitalist economies. Economists representing various lines of thought rapidly questioned this in many cases substantial involvement in the economic process. Alternative and in most cases more restrictive agendas for state intervention were developed. Certainly, the advocates of market individualism suggesting that in principle every social problem can be resolved by instituting markets and property rights present the most restrictive agenda.

However, any modern capitalistic economy is much more than, and owes its dynamism to considerably more than entrepreneurial individuals and market transactions. A capitalist economy is much more than individualistic atoms and their interactions (Hodgson, 1999). Market capitalism is, for example, to a substantial degree dominated by non-market organisations and their internal relations (Simon, 1991). It also seems as if collective organisation is growing in importance for successful capitalist development (Lazonick, 1991). Furthermore, capitalist success cannot only be attributed to unrestrained free markets but also to institutions combining competition with co-operation (Kenworthy, 1995). It has also been pointed out that highly flexible economies are both flexible and institutionally rich (Streeck, 1989, 1992). Admittedly, the market continues to play an indispensable role in modern capitalist economies but much daily activity is internal to organisations and, hence, outside the market. The advocates of market individualism neglect these aspects of modern capitalist economies.

But if the minimalist approach to state intervention is too limited we have to consider what state interventions are needed and optimal for

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modern capitalist economies to function properly. In this paper we discuss aspects of this issue using an article by Ha-Joon Chang as our starting point. Dr. Chang claims that the Scandinavian, "social corporatist", model might be superior to the rather neo-liberal Anglo-Saxon model in initiating and managing structural change (Chang, 1994, p. 309f). Chang's proposition rests on an "institutionalist" theory of state intervention, where the state is given a more extensive role than in the standard approaches of welfare and neo-classical economics, respectively. In Chang's view, state intervention should be guided by the uncertainties and conflicts which pervade economic life. He identifies two key roles for the state in facilitating structural change, namely, firstly, to pronounce a vision for the future (state "entrepreneurship") and, secondly, "management of conflicts" which arise during the process of structural change.

The purpose of this paper is, firstly, to undertake a critical analysis of Chang's theory as such. Is his call for state intervention, which goes beyond the limits of traditional welfare economics, sufficiently founded? Secondly, we present a Swedish version of the Scandinavian model – the so called Rehn-Meidner model – and analyse how and to which degree it was actually implemented in Swedish economic policy during the period 1950 to 1970, i.e. during the heydays of the model. We also examine how well the model and its implementation fit into Chang's model as well as possible drawbacks of the model. Thirdly, we examine the possibility that, because of radical changes in its economic and political environment, the Swedish model has been less successful in carrying out these two key roles in the last decades. Finally, we discuss the implications of these changes for the Chang style interventionist state. Is there any room left for "structural change management" by the state in the global era? If so, what are the appropriate measures and policy levels for this type of intervention?

2. The theory of state intervention

2.1. *Classical theories vs. institutionalism*

Under which circumstances is it desirable that the state intervenes in the economy to influence the workings of the system? The question is a central as well as a very controversial one in economic theory, and it touches normative as well as positive issues. So let's go to the root; to the fundamentals of economic theory itself. What is the central purpose of the studies of economics? Every basic textbook on economics delivers the same answer: economics is the science of economising on scarce resources. The same goes, hardly surprising, for the neo-classical approaches to state intervention: the state shall intervene so as to further the economising with scarce resources, i.e. to raise the efficiency in the economy.

This is the standpoint presented by Musgrave in his classical work from 1959. Musgrave poses three acceptable purposes of state intervention: correction of allocation, of distribution, and of business cycles. The key word in this last sentence is "correction": Musgrave's theory rests on two very important presuppositions. The first one is that free markets are normally efficient, and the second one is that the state, when it intervenes, does so efficiently. Thus, according to the theory, economic efficiency is normally achieved when the markets are left alone, but when inefficiencies – market failures – arise; the state is the appropriate agent to deal with the problems.

This ancient theory has, of course, been challenged from numerous different perspectives. The most important critique so far has come from the public choice school, which questions the assumption that the state fulfils its tasks efficiently – or even that it fulfils its tasks at all. The most important innovation in public choice theory is to apply the basic assumptions of microeconomic theory to all activities in society, and above all to the agents of the public sector. Among these assumptions the most important one is that all agents – including politicians and civil servants – first and foremost are self-seeking individuals who try to maximise their own utility. The general conclusion of the public choice approach is that state intervention might not be desirable even when market failures are at hand. The public choice school introduces the possibility of government failures and thus represents what could be called a further development of the mainstream theories; the overall structure of the model, as well as the central purpose of achieving economic efficiency, is not called in question.

A more recent challenge to neo-classical approaches to state intervention is the institutional school. Institutionalists are mainly concerned with microeconomic theory, but since the traditional theories rest on microeconomic assumptions, an institutional view can be used to criticise them.

Firstly, the character of the market can be called in question. A functioning market actually needs several different institutions to work, which normally have been neglected by neo-classical theorists. These institutions are of different kinds; the agents are supposed to be self-seeking utility maximisers. As has been underlined by Hodgson (1988), this assumption merely represents one out of several possible behaviours. Institutionalists have also highlighted the fact that rationality might be a bad approximation of the character of economic agents. Norms and past experience of individuals might be as important in explaining economic behaviour as rational choice. Furthermore, the market has to be surrounded by a legal environment of private property rights and free trade laws to function properly. These conditions certainly have to be enforced by an institution outside the market. Markets are created and maintained by the state. The state might also exert an influence over the price structure, since some prices (interest rates, labour costs) even in the most deregulated economies to some extent are set by the state. Since the conditions for a general competitive equilibrium thus are violated, according to the theory of the second best, it is not self-evident that free market conditions in all other cases will be optimal.

These modifications to the neo-classical theories all arrive at the same conclusion: that markets do not necessarily work efficiently. This conclusion holds even outside the domain of the classical market failure, and consequently the market is deprived of its primacy among institutional arrangements.

Secondly, the concept of a static general equilibrium can be questioned. The general equilibrium analysis misses the dynamic aspects of the economy. Most economies are in constant change through technical progress, innovation and entrepreneurial activity. This means that there is normally no ideal equilibrium against which market failures can be identified, and consequently the approach of welfare economics becomes useless. This view can be used to justify less state intervention – the market process is too complex to be accommodated by the state. But it could also imply a case for state intervention: if the dynamic markets are characterised by uncertainty and imperfect information, the state might have a strategic position to enhance economic performance. The latter is the view held by Chang (1994), whose theory of state intervention will now be examined in detail.

According to Chang's theory of state intervention the state has two key tasks: an "entrepreneurial" function and, secondly, the mission of mitigating social conflicts. We will deal with these two roles separately. Finally, we will describe Chang's thoughts about the history of economic doctrine, since they put his ideas into a historical context.

2.2. *The entrepreneurial state*

Chang's call for state "entrepreneurship" rests upon some observations of problems facing dynamic economies which are not consistent with the conventional Walrasian model of market equilibrium. The first one is the problem of co-ordination. Since the factors of production are "interdependent in use but dispersed in ownership" (Abramovitz, 1986, p. 402) it is unlikely that the concerted action required to achieve effective structural change will appear spontaneously as a market outcome. Hence, there is a need for a central agent, which can bring about the required co-ordination. Note that the role prescribed for the state thereby in some respects resembles the one attributed to firms in Leibenstein's entrepreneurship theory. Thus, the role played by firms on the micro-level is in Chang's model carried out by the state on the macro-level (cf. Leibenstein, 1968, p. 74ff).

Furthermore, following the Austrian tradition, the term equilibrium as such is called in question. The co-ordinated movement along a path of structural development is not merely a movement between two distinct equilibria. On the contrary, in a world characterised by uncertainty and unpredictability, there will not exist a limited set of options available to the agents. This makes state intervention motivated, to present a "focal point" towards which the economic agents can orient.

There is not much argument provided by Chang why the state would actually be the appropriate body to overcome these two problems. Chang refers to the term "strategic position". This position is normatively motivated – only the state can represent the interest of the whole society – but apparently also efficiency considerations are heeded. Anyway, Chang's approach does not imply central planning in the Marxist sense, since Chang declares that the entrepreneurial vision provided by the state requires a corresponding institution-building, but not material decision-making in individual cases. The institutions shall be constructed so as to encourage risk-taking and gathering of new knowledge along the path of change, which is preferred by the government (Chang, 1994, p. 300).

2.3. *Conflict management*

Chang presents a wide array of political measures to deal with the social conflicts that the process of structural change might cause. We will try to define the assumptions that deliver a case for state "conflict management", describe the various policies recommended and also point out some potential contradictions inherent in Chang's view.

The basic observation, that makes Chang's call for conflict management motivated, is that structural change causes dislocation of resources that could give rise to substantial distributional conflict and, in the long run, political pressure against structural change (Chang, 1994, p. 301f). Because of the uncertainties that characterise a dynamic economy, there is no possibility that the losers get compensated through the price mechanism, and as Chang points out, there is nothing natural about market outcomes, since these – at least partly – are brought about. So the case for a state active in distributional conflicts following economic development seems to be quite strong.

Chang then proceeds by describing several ways of conducting this conflict management. The discussion is somewhat confusing, since it consists of measures that are normally looked upon as counteracting structural change, and not simply mitigating its adverse effects. First of all, there is what Chang call "open defiance" by the state of the market outcome. This defiance can be expressed through trade restrictions or nationalisation of declining industries. Since these strategies are normally very costly and have a conserving effect on the economy, it is doubtful whether they fit into a model of promoting structural change at all.

Secondly, the state may modify the market outcome in less visible ways. Chang mentions monetary policy and general welfare benefits as means to lessen the conflict potential. In the case of monetary policy, one crucial aspect is the time perspective. Chang is remarkably silent on this point. Whereas most macroeconomists today agree that a central bank that enjoys a good reputation can allow itself to expand the money supply in order to overcome a temporary crisis, there is also general agreement that expansionary monetary policy in the long run loses its impact on the economy. But Chang is more interested in the distributional effects of inflation, which he does not define further. The criticism that could be raised on this point is that inflation is probably too diffuse and too unpredictable in its effect to be used for directed compensatory measures.

Finally, Chang (1994) proposes that the state could manage conflicts by "resetting the public agenda and thereby changing the accepted boundary between the economic and the political". It is very unclear on which normative considerations this suggestion is made. The logical foundation is the fact that some prices are politically decided and thereby leave us in a second-best world where the borders between the political and the economic arena are not naturally given. This might be true, but it does not provide a reason for the state to revise these borders deliberately as soon as its own objective requires it. Furthermore, it is not made clear how this "agenda setting" will be helpful in conflict management.

To sum up, then, Chang presents measures that imply varying degrees of credibility in a context of structural change. Anyway, the examples brought up by Chang might be seen as merely – examples. There might be other ways to mitigate conflicts along the lines of open or veiled defiance of market outcomes. We will come back to this point later on.

2.4. *The history of doctrine*

To put Chang's theory in a broader context, we will briefly comment the description of the development of economic theory in the last decades, which he undertakes in a later article (Chang, 1997).

Chang divides the post-war era into three subcategories, wherein different trends regarding state interventionism have been dominating. The extent to which the trends have been influencing practical policy-making varies between Anglo-Saxon and other Western countries, as does the timing of different trend shifts. Nevertheless, according to Chang, certain tendencies have been predominant at about the same time throughout the non-socialist part of the world.

The first period stretches from 1945 to 1970 and is what Chang calls "the age of regulation" (Chang, 1997, p. 704). This period is characterised by a markedly more optimistic view of state intervention than in the phases before and after. During this era, policy was considerably activist in many fields; governments undertook Keynesian stabilisation policy and nationalised important industries. There were some differences between Western Europe and the U.S. regarding antitrust regulation, partly because of the "catch-up" objective predominant in European economic policy, partly due to differing theoretical approaches to market power.

The development of welfare economics in these years – above all with respect to public goods, externalities and natural monopolies – presented a strong case for an active state. In part this development served merely as a justification for regulations that were already being in place, but it also delivered arguments for further state intervention. The record of this period in terms of economic performance is, as Chang concludes, highly successful.

For the next two periods – the "transition period" (1970–80) and the "age of deregulation" (1980–present) – Chang notes a marked shift towards anti-interventionism in Western economies. The shift took place in economic theory and in the political debate, and, somewhat later, in the policy-making in most countries. It is interesting to note that, despite being an institutionalist, Chang does not analyse the possible real-world economic trends that could underlie this paradigm shift. The relation between causes and effects are – deliberately, it seems – blurred. For instance, a "changing political climate" is addressed as the main reason for the popular opinion that existing regulatory regimes did not work well, whereas the existence failings in these very regimes are put into question (Chang, 1997, p. 709). One might wonder, then, what real world events lie behind this political change, but Chang is remarkably silent on this point. It is easy to get the impression that Western governments were actually misled by right-wing economists to undertake the policy change. The neglect to take real world development into consideration clearly contradicts his own statement that "what a society regards as the legitimate system of rights differs across time and place" (Chang 1997, p. 718).

Chang also observes that the era of deregulation has coincided with an overall slowdown in economic growth in Western countries. This general statement is hard to reject. But when he turns to specific comparison of different regulatory regimes, he concludes that "Despite some sectoral success stories, the two leading countries in deregulation, namely the U.S. and the U.K., have not succeeded in markedly improving their economic performance after their deregulation drives" (Chang 1997, p. 715). It is hard to see how Chang is able to combine this statement with real world facts. Although one might question the American and British success stories in other respects – e.g. Chang's "conflict management" argument – it is hard to deny the fact that American and British economic performance has been significantly better than the European and Asian development during the last decade.

Summing up, Chang's description of the development of doctrine during the post-war decades seems to be quite correct in respect of general trends. However, his refusal to take real world facts into consideration – at least to the extent that they contradict his theses – makes the picture incomplete and, above all, incompatible with the institutional objective to explain institutional development from the viewpoint of economic change. It might be, of course, that Chang regards the retreat from interventionism as a mistake, but the theoretical basis and the facts in favour of this proposition are missing in his works.

3. The "Swedish Model" in theory and practice

There seem to be almost as many definitions of the so-called "Swedish model" as there are users of the term.[1] It has been used to describe very different aspects of Swedish economic policy in varying time perspectives. The term itself seems to have its origin in the writings of the American economist Marquis Childs, who in the thirties considered Sweden to be some kind of ideal middle way between capitalism and socialism. The term has also been used to signify the very special compromise between capital and labour, which was significant for the Swedish economy from the signing of the Saltsjöbaden Agreement in 1938 and until – at least – the early 1970s. Finally, the term often refers to the model developed within the Swedish labour union movement in the first decade after the Second World War; a model that also is known by the name the Rehn-Meidner model (Meidner, 1994). In this paper, we define the "Swedish model" as the Rehn-Meidner model and the further developments of it, since this is the dimension of the Swedish economy that corresponds most closely to the attributes that Chang stresses in his writings.

In this chapter, we will try to define the model, analyse how and to which degree it was actually implemented in Swedish economic policy during the period 1950 to 1970. We also examine how well the model and its implementation fit into Chang's model as well as possible drawbacks of the model.

3.1. *The background*

Before taking a closer look upon the "Swedish model", it is important to consider the background from which it emanated: firstly, the general economic and political conditions facing the Swedish labour movement after the Second World War, and secondly, the ideological traditions and constraints characterising it at the same time.

Politically, the prospects of an offensive policy on the part of the labour union movement after the Second World War were good. The social democratic government had been in office since 1932 – except for the coalition government during the war, which included all democratic parties. Since the constitution favoured the biggest party, and, to a certain degree, lagged the election results, the chances for the Social democrats to remain in office were also quite good. Furthermore, the relations between the government and the blue-collar workers' central organisation were close at the time.

Economically, there was increasing agreement in the debate that the economic policy of the first post-war years was a failure. The Swedish economy of 1945 was highly regulated due to the war. In the first couple of years, the government deregulated in some areas, but the price controls and the capital market regulations were retained. The goal of government policy at the time was – in face of the anticipated post-war slump, to keep aggregate demand high and to repress inflation by administrative means. Since this anticipation was highly mistaken, a high excess demand for commodities and labour arose, which, inter alia, led to huge deficits in the current account. Thus, the government had to fall back on even more regulations to keep inflation down, and consequently some direct controls were reintroduced in 1947–48 (Lindbeck, 1975, p. 25ff).

There are several reasons why the economic policy of the first post-war era had such a bad record. The most important might be the incorrect forecasts about the general business conditions. But also theoretical aspects are noteworthy; the government seems to have had an exaggerated belief in the importance of costs as triggering inflation, and thus the role of the aggregate demand was neglected. The situation led to a rising awareness that new principles were needed, which were more consistent with the goals of allocation and stabilisation policies in the new economic setting (Lindbeck 1975, p. 30ff).

Rudolf Meidner has characterised the preferences of the Swedish labour union movement as giving top priority to full employment and economic equality. These goals were to be pursued in harmony with the general prerequisites of political democracy, market economy (i.e. vast nationalisation was not an important issue for the trade union movement)[2] and free trade. The labour union also stressed economic efficiency insofar as the full employment goal was not allowed to conflict with price stability, and equality was not to conflict with efficiency. These goals and constraints all seem reasonable; the crucial issue was how to realise them. Rehn and Meidner actually managed to construct a model that – at least in theory – complies with all the objectives listed above (Meidner, 1994).[3]

The model, when it was presented to the labour union movement, marked a turning point in the general economic policy of the movement. It was originally developed to redefine the role of the labour union movement in line with new situation of full employment that emerged after the Second World War. It was incorporated in the economic program of the Trade Union Confederation (LO) in 1951.

3.2. *The instruments*

In the Rehn-Meidner model, the full employment target is in the first place a responsibility of the government. By keeping the aggregate demand in the economy low, profit margins of the companies would shrink enough to keep wage demands of the labour unions within the restraints necessary to curb inflation. The negative effects on employment that would be the consequence of this policy should be counteracted by an active labour market policy (Meidner, 1994). The active labour market policy is in many respects a Swedish innovation, and it is characterised by an ambition of doing more than just paying people for being idle. Several different measures have been tried, and generally two different kinds of programmes can be distinguished: supply-oriented and demand-oriented programmes, respectively. The supply-oriented programmes try to adapt the workforce to the market conditions through, for instance, retraining projects or transfers to further the spatial mobility of labour. Demand-oriented programmes are more defensive insofar as they strive to offset the effects of the restrictive demand management more directly: subsidies are used to encourage companies to invest and hire more workers, above all in areas with high unemployment. Beside these two major forms of labour market policy, we find programmes designed to help disadvantaged groups, who need extra support on the labour market (Rehn, 1985, p. 72ff).

The objective to increase equality was seen as a shared responsibility of the government and the labour union movement. The government was to pursue a general welfare policy by expanding the public sector and raising taxes. This aspect is left aside here, since it falls outside the model in a stricter sense. The other strategy to achieve equality was addressed to the labour union movement. By pursuing a solidarity wage policy in central wage bargaining, the economic differences between different groups were to be diminished (Meidner, 1994).

The concept of a solidarity wage policy has never been clearly defined. The original idea was "equal pay for equal work", but attempts to practise it stranded on the lack of a reliable work evaluation mechanism. A perfectly functioning market does represent such a mechanism, but finding administrative routines to achieve the same result proved to be hard. In their pioneering work of 1951 – "Fackföreningsrörelsen och den fulla sysselsättningen" – Rehn and Meidner presented some guidelines for work evaluation (difficulty of job, skill required, safety conditions, etc.), but soon this line had to be abandoned. Because of this the labour movement resigned on this part and restricted itself to promoting wage increases for the low-income earners. "Equal pay for equal work" slowly turned into "equal pay for all work" (Meidner and Öhman, 1972, p. 10f).

Besides promoting equality, the solidarity wage policy can – alongside with the active labour market policy – be seen as an instrument to further structural change. Since companies in growing industries are normally able to pay higher wages than companies elsewhere, the alignment of wages all along the line will speed up the process of eliminating unprofitable companies and industries. This effect was supposed to promote growth, which in turn would make real wage increases possible. This line of reasoning obviously deviates from traditional economic theory, in which wage differentials are seen as a precondition for an optimal reallocation of labour (Rehn, 1985, p. 66). Furthermore, since the squeezing of profit margins probably hamper investments in private enterprises; Rehn and Meidner stressed the importance of collective capital accumulation to accommodate the process of structural change (Rehn, 1977, p. 215).

It is interesting to note that the ideas of Rehn and Meidner actually imply a supply side approach from the political left. Rehn and Meidner clearly rejected the tendencies to "vulgar Keynesianism" in other parts of the labour movement. Their policy recommendations do not include anti-cyclical budget policy, and they wanted the active labour market policy to become an institutionalised part of the Swedish economy; not just a measure to fight unemployment in hard times (Rehn, 1985, p. 72). Furthermore, it is noteworthy that the labour union movement actually concentrated on the solidarity wage policy and refrained from demanding a greater part of the national product for the wage earners as a whole. This last issue was of secondary importance until the debate on "wage earners' funds" started in the seventies.

3.3. *The implementation*

3.3.1. *A restrictive demand policy*

The idea that the government should keep aggregate demand low seems to be the part of the Rehn-Meidner model that met the most difficulties when it came to implementation. This was above all due to the fact that the government was unwilling to accept the model in all its aspects. However, after 1961, there was a definite ambition on the part of the government to pursue a restrictive demand policy (Rehn, 1977, p. 218).[4] Despite this, there was a tendency to follow the model in recessions but not in booms, which led to cost inflation in booms. In the boom of 1964–65, for instance, the Minister of Finance was unwilling to slow down economic activity. When measures were finally put into action, they were not effective until the recession of 1966–67. But then the Minister of Finance proved steadfast and refused to pursue an expansive economic policy.

For the sake of completeness, monetary policy, although not regarded by Rehn and Meidner as an appropriate instrument for the purposes of stabilisation policy, also has to be taken into consideration. The limits of the national monetary policy were set since Sweden, after a devaluation of 30% in 1949, had joined the Bretton Woods currency board. In the first few years after 1950, the Central Bank tried to pursue a tight monetary policy at low interest rates. This was supposed to work through extensive controls in credit markets. From the mid-50s and onwards, there was an increasing tendency to allow fluctuations in interest rates, and the general trend was increasing interest rates. Still, the credit market regulations made monetary policy useful as an extensive tool in stabilisation policy. The impact of monetary policy was counter-cyclical – credit rationing made private investment drop in booms – and it worked more quickly than fiscal policy (Lindbeck, 1975, p. 108ff). The Keynesian approach of anti-cyclical stabilisation policy was not abandoned in practical policy-making, and innovations in fiscal policy (like the investment funds) were clearly designed so as to change the timing of investment activity. Still, as far as the balance of the government budget is concerned, the sixties implied a tendency towards fulfilment of the recommendations of Rehn and Meidner. Despite the counter-cyclical trend in public spending, throughout the decade, the impact of fiscal policy on aggregate demand was, if automatic effects are included, almost always negative.

To sum up, then, the recommendations posed by Rehn and Meidner were only partly carried out in practice.

3.3.2. *An active labour market policy*

The social democratic government rather easily accepted the concept of an active labour market policy. The first breakthrough came in the recession of 1957–58, when comparatively big resources were devoted to labour market measures. The programmes introduced were supply-oriented as well as demand-oriented ones (Rehn, 1977, p. 222). Throughout the sixties, the share of GDP devoted to the active labour market policy rose strongly and continuously, despite some disagreement on the part of the government regarding the need for an extensive labour market policy in booms. Above all the supply-oriented programmes grew in this period, as well as the part directed toward disadvantaged groups (Rehn, 1985, p. 72f). The sixties also faced a growing awareness of the negative consequences of rapid structural change for some groups. This led to increasing protests in stagnating regions, and finally also to a softening of the policy pursued (Rehn, 1977).

To summarise, the active labour market policy was pursued in accordance with the intentions of the model. Sweden has for several decades devoted more resources to active labour market policy than any other country. Despite this, the policy has in parts been criticised by Rehn and

Meidner themselves for being inconsistent with the goal of anti-inflation. This criticism has been considered, anyway, and resources have been directed toward more labour-intensive measures (Rehn, 1985, p. 77f). But even if the labour market policy on the whole was consistent with the model, it can be called in question whether the extensive industrial policy of the seventies was harmonising with the commitment to offensive structural change. Anyway, this industrial policy is one of the features of Swedish economic policy that Chang accentuates as an example of "conflict management" in a changing economy (Chang, 1994).

3.3.3. *Solidarity wage policy*

If the reduction of wage differentials in general is taken as the purpose of solidarity wage policy, the ideas of the Rehn-Meidner model were realised in this field as well. The development was slow in the fifties, but then accelerated in the sixties, when wage differentials between the sexes and between different groups decreased rapidly. In 1960 the so-called "Women's agreement" was concluded, according to which the special wage rates for women were to be phased out in the next few years. Accordingly, women's earnings increased from 70% of men's earnings in 1950 to 83% in 1971 (Meidner and Öhman, 1972, p. 24).

Wage differentials between different groups also shrank. The period from 1965 to 1970 represents a particularly fast change in this respect; in these five years the wage differentials between different occupations shrank by 20%. Behind these figures might, of course, hide wage differentials within the different groups (Meidner and Öhman, 1972, p. 24f).

3.3.4. *Collective capital accumulation*

Also in the field of capital accumulation, the recommendations of Rehn and Meidner were carried out. This was above all due to the public pension reform in the late 1950s. The reform introduced a pay-as-you-go system, with public buffer funds that were supposed to cover up for demographic and economical irregularities. These funds expanded rapidly in the first years, since the new pension system had hardly any expenditures. Accordingly, the public share of total savings rose sharply between the early fifties and the late sixties: from 30 to 50%. However, the total savings remained constant during the same period, which raises the question if the expanding public savings crowded out private savings or if private savings declined for other reasons. No clear judgement is to be found in the literature on this point (Lindbeck, 1972).

3.4. *Criticism of the Rehn-Meidner model*

The Rehn-Meidner model can be critically assessed from various points of view – ideologically, theoretically as well as regarding its verisimilitude of successful implementation. In this section we will give a short overview of the criticism that has been brought up in the debate regarding the Rehn-Meidner model. We begin with the doubts that have been expressed by Rehn and Meidner themselves, and then turn to criticism brought up by other influential Swedish economists.

3.4.1. *Rehn and Meidner*

The weak points discussed by Meidner concern above all problems with implementation. As mentioned above, the lack of a practicable work evaluation system was regarded as the most important weakness of the solidarity wage policy. But Meidner also points at the difficulties to prevent wage drift even with a highly centralised wage bargaining. Thus, efforts to improve wages of low-wage groups might become inflationary as other groups try to compensate themselves. Furthermore, Meidner mentions the rapid expansion of white-collar unions as one threat to the model; less homogeneity on the labour market would make solidarity wage policy harder to pursue (Meidner, 1994).

From a theoretical point of view, Meidner discusses the possibility of an inflationary bias inherent in the solidarity wage policy itself. If prices are rigid and productivity growth uneven, the policy of levelling wages might speed up inflation (Meidner and Öhman, 1972). Meidner also heeds the limits of solidarity wage policy as a measure to improve economic equality: it does not consider income differences that derive from variations in employment. Consequently, Meidner approves the concept of a "solidarity employment policy" in his later works; a term that is not clearly defined (Meidner and Öhman, 1972, p. 37). Rehn has brought forth some hesitancy regarding the effects of an active labour market policy. Firstly, the measures might crowd out regular employment in the private sector. Secondly, if not due attention is paid, local job creation might work inflationary. If laid-off workers are occupied in capital-intensive production, the programmes might put an upward pressure on wages. Anyway, Rehn noted in 1985 that job-creating measures had been geared ever more towards public service employment, which has helped solving these two problems (Rehn, 1985, p. 77f). Whether this change of emphasis is consistent with the principles of the model, is of course another question.

3.4.2. *Other economists*

One of the most important opponents of the Rehn-Meidner model was Erik Lundberg. Lundberg's approach was primarily of a theoretical character; he called the assumption that wage claims are guided by the profit margins in industry, in question. According to Lundberg, wage increases depend on aggregate supply of and aggregate demand for labour, which in turn is determined by the profits of marginal firms. Thus, the profits of marginal firms, and not the average profits of all firms, define the limits for wage increases. Since the Rehn-Meidner model seeks to help marginal firms with selective measures, the efforts to keep average profits low will have no impact on wage increases. There seems to have been some empirical evidence supporting Lundberg's point of view (Lindbeck, 1968). Furthermore, Lundberg criticised the model because of its effects on resource allocation. Lundberg stressed the importance of wage differentials for allocational purposes. He feared that the combination of a solidarity wage policy and selective job-creating actions might in fact hamper the necessary reallocation of resources, since it decreased individual incentives (Lundberg, 1952, p. 7f). This argument was countered by Rehn, who claimed that the differentials necessary to fulfil that function were considerable and thereby inconsistent with the solidarity principle, and that the process of reallocation through wage differentials worked too slowly to be helpful in structural change (Rehn, 1952, p. 44f).

Lundberg also criticised the model on political grounds. He argued for monetary policy as the primary instrument for stabilisation purposes, firstly, because of its more general character, and secondly, because government intervention to the extent prescribed by Rehn and Meidner would concentrate too much power in the hands of the government (Lindbeck, 1975, p. 43f). Lindbeck, who claims that extensive government intervention would distort the balance of power in society too much in favour of the government, also brings up this line of argument. Lindbeck also regards lack of knowledge as a problem; too complex and extensive government intervention would require an amount of knowledge that is not possible to centralise (Lindbeck, 1972, p. 33f). To Rehn on the other hand, centralising the power in the hands of the government was a crucial precondition for achieving the goals of equality and redistribution of wealth.

Bent Hansen pointed at the peculiar effects of the model in the short run. The solidarity wage policy, said Hansen, would cause unnecessary high unemployment in weak industries in times of temporary low profitability. Furthermore, if these short-run trends reversed, the active labour market policy would merely lead to a movement of labour back and forth. Finally, Hansen brought up the ideological objection that workers should be allowed to decide for themselves individually whether to stay in an unprofitable industry or to move forth to expanding branches (Lindbeck, 1968).

One important aspect, that seems to have been overlooked by Rehn and Meidner, is the incentives on the part of the factor capital. What will make successful industries grow, if profits are squeezed? What will get entrepreneurs going in an economy that is deliberately pressed to depressive tendencies? Lindbeck touches upon these questions in an article from 1972, where he focuses on the bad conditions for SMEs in the Swedish economy. Lindbeck argues that the economic policy of the 1960s brought about rapid elimination of obsolete industries, but that the new investment required to cover up for the resulting unemployment had failed to appear. Lindbeck is also of the opinion that the solidarity wage policy has contributed to the slow rate of investment in potentially profitable industries. According to Lindbeck, the cure for these problems is to re-establish the private incentives in the economy, i.e. to allow profits to increase again. This could be done through an abolishment of employer's contributions or through investment subsidies. Since this approach apparently clashes with the egalitarian ideals of the labour movement, Lindbeck suggested promoting employees' shares in private companies (Lindbeck, 1972, p. 21ff).

Another aspect of this problem is the increase in public saving and the decrease in private spending that followed in the tracks of the pension reform in the late 1950s. One would expect that in the long run the growth dynamics of an economic system would be influenced by a substantial reduction in household saving (Lindbeck, 1995a, p. 11). The reason is that private entrepreneurship requires private equity capital, and this presupposes domestic private saving, in particular for the establishment of small firms.

The egalitarianism for which the solidarity wage policy is an expression and that also was a fundamental motivation for the building up of the Swedish welfare state during the post-war period probably also directly and indirectly influences policies towards entrepreneurship. As entrepreneurs often strive to become affluent, and in some cases succeed, they may easily come to be regarded as "alien" figures in a highly egalitarian welfare state. Lindbeck (1995, p. 489) believes this is what happened in Sweden in the "egalitarian" 1960s and 1970s. It is notable how the Swedish tax policy favoured the ploughing-back of profits in companies at the expense of dividend payments, apparently in the belief that this would limit the income (or at least the consumption opportunities) of the owners. Also the tax burden on small entrepreneurs became amazingly heavy during this period with an extremely low after-tax return.

3.5. *Conclusion*

Clearly, the Rehn-Meidner model fits fairly well into Chang's theory of state intervention. The model presented a vision for the whole economy – reduced wage differentials and rapid structural change – and provided the relevant instruments. Economic agents could adapt to the constraints implemented by the model, and thus the uncertainty of the economy was diminished. The major drawback of the model seems to be its complete ignorance regarding private entrepreneurship and incentives; the private sector was merely considered a kind of natural resource that would automatically produce the workplaces needed to compensate for the ones disappearing.

There is some empirical evidence that the model was successful in achieving its goals. Employment increased substantially in high-wage industries throughout the sixties, and diminished in the low-wage industries, and the trends were more significant than in the United States. The public expansion cannot account for all of the change; also the engineering industry increased its relative importance compared to other industries. The reason seems to have been that the low wages for qualified workers induced an excess demand for all kinds of labour in high-wage industries. Consequently, an exceptionally high level of employment was maintained despite diminishing wage differentials (Edin and Topel, 1994, p. 114ff).

4. New developments – new models?

In this section we will analyse the breakdown of the Rehn-Meidner model. First, we present the gradual departure from some of the recommendations of the model that took part in the seventies. After that, we try to disentangle the different economic transformations that might have induced this changing bias. We also discuss how "state entrepreneurship" and in particular "conflict management" to mitigate the effects of structural change might be pursued in the new global economy. Finally, we discuss how the basic objectives of the Rehn-Meidner model could be brought into accordance with the constraints facing economic policy in a globalised economy.

4.1. *The Seventies: new biases in economic policy*

The seventies mark a clear turning point in Swedish economic history. This is of course true for most OECD countries, since during this decade external shocks hit them in very similar ways. Still the Swedish case deserves special interest, since the Swedish reactions to the new economic realities deviate from those of most other Western countries. There is no doubt that Sweden was hit especially hard by the consequences of the two oil price shocks.

The 1970s started with a homemade recession that seems to have brought Sweden out of the pace of the international business cycle. A temporary upswing in late 1969 was effectively stopped by a restrictive monetary policy on the part of the central bank (the so called "idiot stop"). The subsequent years were characterised by a slowdown in economic growth and a rise in unemployment, both of which were exceptional for Swedish standards. Anyway, inflation was effectively dampened. The bad experiences from these years resulted in a strongly expansive stabilisation policy as the first OPEC crisis struck the Western countries. Accordingly, Sweden managed to postpone the downturn for a while, but as the recession finally came, it was deeper and lasted longer than in comparable countries. Furthermore, excessive increases of wages and pay-roll taxes in 1975–76 pushed Swedish industry into a profitability crisis which could only be cured by the devaluation of 1977. As the upswing finally came in 1978, the second oil crisis was already waiting around the corner (Lundberg, 1994, p. 13ff).

The seventies also represent a turn in the economic policy in Sweden. The development goes from a policy that is to a high degree based on generality and cohesion, to more and more reliance on discretionary measures. This development can of course be seen as a response to changing economic realities, but it also reflects the fact that the new constitution that was finally passed in 1974 made governments considerably less powerful than before. Finally, the changing bias can be regarded as a general change in values; as exceptionally high living standards were achieved, economic growth lost its precedence on the economic agenda (Lundberg, 1994, p. 30ff).

The changing bias in Swedish economic policy meant that some features of the Rehn-Meidner model were abandoned completely, whereas others were carried out even more than before. The solidarity wage policy was pushed even further, leaving Sweden with one of the most equalised wage structures in the world around 1980 (Lindbeck, 1998, p. 29ff). This process was reinforced by the progressive income taxes which produced a considerable "fiscal drag" during periods of high inflation, and by the expanding social security system (Werin, 1980, p. 106ff).

The fiscal policy of this period is characterised by discretion and launching of new concepts, formerly unknown to Swedish economic policy. The first innovation was the attempt at a general incomes policy which was undertaken in the aftermath of the inflation boom in 1975. The second – and most important – new concept was the industrial policy which led to sharply increasing intervention in private industry after 1976. The vast government programmes that were introduced covered a variety of objectives (regional policy, labour market policy, environment, research, etc.) as well as measures – from price subsidies to regular nationalisation (Bergström, 1980, p. 181ff). This policy, mainly aimed at keeping dying industries alive, was accompanied by a new job security legislation, which extended the rights of the workers considerably. Consequently, the progressive aspects of the fiscal policy of the sixties were reversed. This new fiscal policy was restricted by a rather passive monetary policy. The Swedish crown was overvalued for most of the decade, originally due to an appreciation in connection with the pegging to the German Mark. The subsequent inflation rate made the exchange rate unsustainable, resulting in rather defensive devaluations in 1977 and 1981.

The labour market policy, finally, was expanding throughout the decade. More and more resources were devoted to active labour market programmes. Anyway, the policy was increasingly directed to support employment in weak industries, instead of enhancing labour mobility. There was an outspoken ambition to avoid bankruptcies in major companies, and, consequently, employment was subsidised in several industries. The most important shift on the labour market was the great expansion of the public sector, which accounts for all the increase in employment during the period (Lundberg, 1994, p. 30). Public employment increased by 576 000 between 1970 and 1988 (Henreksson, 1996, p. 84).

The Swedish economic policy of the seventies can thus be summarised as conservative, discretionary, specific in means and discontinuous. This pattern deviates quite clearly from the more general and progressive approach of the sixties. The changing emphasis was confirmed through the eighties, which were also characterised by sudden changes between expansionary and restrictive policy (Jonung, 1994, p. 248). It seems that it was not until the mid-nineties that a new paradigm has been established, this time fulfilling the rather monetaristic aims of price stability and budget discipline.

4.2. *Changing realities*

Starting around 1970, some new trends have been increasingly visible in the global economy, which radically change the prerequisites for a national economic policy. These trends are not yet fully tangible and to some degree they seem to contradict each other (Sternberg, 1999, p. 3ff). Nevertheless, we will in the following highlight some of the transformations that are relevant to the Swedish model.

Firstly, the increasing internationalisation has made big business corporations less dependent on the national state. This is especially important in the case of Sweden, since the country has traditionally been characterised by a very significant dependence on large companies. The rising interdependence of national economies is particularly important in the integration process of the European union. Following the common market and the EMU, we will probably observe even more restructuring of markets in the future. Transnational mergers and outsourcing have become a part of everyday economic life. This means that an interventionistic state has to take the location problem into account: national companies can no longer be regarded as "natural resources".

Secondly, the development of the capitalist economies has induced an increasing relative demand for skilled labour. In core sectors of these economies, the processes of production and their products have become more complex and sophisticated. Increasingly, advanced knowledge or skills are required in many processes of production. Education and skill levels are being raised in many sectors to cope with the growing degrees of difficulty and complexity (Hodgson, 1999). This growing importance of human capital in modern economies makes a policy based upon wage equality troublesome; somehow the incentive problems have to be solved.

However, this greater knowledge intensity has further implications. Alongside general skills, there is an increasing reliance on specialist and idiosyncratic skills. The use and transfer of information are becoming ever more extensive and important in economic activities. Uncertainty is increasingly intruding into economic life. Increasing complexity in an open and dynamic economic system brings with it the need for increased organisational and individual flexibility and adaptability. This in its turn implies both information and incentive problems that have to be solved.

Thirdly, SMEs and new firms have gained importance. This can be explained by the interactions between new technologies and changes in consumption patterns. Technological change no longer creates the same economies of scale in production. Sometimes small units are more suited to incorporate new technologies. Furthermore, new demand patterns decrease the role of mass consumption. As elementary needs are easily satisfied, economic growth will take place in areas where in which individual traits are important and where image is predominant (Sternberg, 1999, p. 6). This means that the competitive advantage of a company might be embodied in unique assets created by means of marketing or research (Jakobsson, 1998, p. 13f). Furthermore, there is a tendency within big corporations to decentralise power in order to exploit the advantages of market mechanisms. The concept "internal enterprise" has found various forms of application in different firms, but they all come down to handling the specific problems that arise with increasing complexity of production, especially as knowledge becomes the most important factor of production (Halal, 1999, p. 59ff). These aspects are hard to combine with the Swedish tradition of favouring big corporations. Furthermore, the Rehn-Meidner approach of regarding resources as easily transferable between industries and sectors becomes problematic in this perspective.

Fourthly, several Western European countries have reached a point where further expansion of the public sector has become more or less impossible in the face of the huge costs and inefficiencies that such a policy would imply. This is especially true in the case of Sweden. Consequently, employment growth has to take place in the private sector (Jakobsson, 1998, p. 15).

Although not explicitly in conflict with the Rehn-Meidner model, this alteration breaks with twenty-five years of Swedish practice, where all net employment growth has taken place in the public sector.

Fifthly, in the last decades of the twentieth century there has been a rapid economic growth in a number of developing countries, despite certain temporary setbacks, such as the Asian crisis during the late 1990s. New technologies have taken root and there have been substantial advances in skill levels. This has led to a situation where a huge global workforce in the developing world now takes on, at much lower wage costs, much of the manufacturing work formerly confined to the developed countries. The developed world now, for example, imports cheap but sophisticated manufacturing goods and software from India and East Asia. Accordingly, all along the predictions of the Heckscher-Ohlin theory there has in Europe been an increase in unemployment levels in the manufacturing sector (and elsewhere) and in the U.S. a pressure downwards on real wages in the manufacturing sector (Wood, 1994, 1995). Sweden seems to have been hit harder in this process than most other developed countries. Since 1970 the real ppp-adjusted GDP/capita has grown more slowly in Sweden than in most other OECD-countries.

Sixthly, we must acknowledge that the global revolution in the organisation of work and production is also affecting Sweden. This revolution is among other things driven by substantial reductions in the costs for freight and passenger transportation, a widespread application of information technology and a rapid introduction of Japan-inspired models of production (Matzner and Streeck, 1991; Sabel, 1991; Hall, 1999). Inspired by these developments and a more general need to adjust to changing world markets, a growing number of firms have begun to re-organise their corporate structures. This reorganisation includes shop floor relations and linkages with customers and suppliers so as to secure greater flexibility in production, better quality control, lower costs, and higher returns from learning by doing.

4.3. *Scope for state intervention in the globalised economy*

With the changing realities described in the previous section taken into consideration, is there scope left for varying national degrees of and approaches to state intervention? And, in particular, is there scope for state "entrepreneurship" and "management of conflicts" along the lines suggested by Chang (1994)? Or does the era of globalisation necessarily require a "race to the bottom" in the competition for attractive investment?

The general answer to these questions seems to be that even if national governments may be or appear to be hampered in the face of an internationally integrated financial system; they continue to have weapons in their policy arsenal (Frieden, 1991, p. 450f). These weapons may not be as sharp or as numerous as before, but they exist. Hence, it is motivated to explore the scope for state intervention.

4.3.1. *State "entrepreneurship" in the globalised economy*

Clearly the claims that the national state or the national economy is dying are highly exaggerated. Even though we witness a redefined role for the state in the light of the new economic setting – borders, local traditions and structures still matter. And economic success does not necessarily require a laissez-faire policy of deregulation and privatisation. This becomes especially clear as we observe the newly industrialised countries of East Asia. Contrary to common misconceptions, these states are highly interventionist (Dicken, 1999, p. 40ff). Thus, the national success stories in these cases often rest upon ambitious governments setting the agenda for economic change and then mobilising the required resources.

But even if scope for state intervention does remain in the globalised, post-fordist world, it is not that certain that the nation-state is the appropriate level for intervention. If capitalism goes through a major metamorphosis of simultaneous centralisation and disintegration, there is a strong reason to believe that national economic policy-making should do the same. The strategic position of national governments is obviously mere history in the sense that multinational firms have gained the upper hand of the nation-states in various aspects. This could motivate giving up national authority to supranational bodies like the European Union. Accordingly, the main features of stabilisation policy as well as the "entrepreneurial" role assigned to the state by Chang might be performed with superiority by these supranational institutions. At the same time, the decentralising tendencies of mature capitalism might also warrant empowerment of the local and regional political arenas. The increasing signs of co-operation between local enterprises that are prominent within the theories of social capital might be answered by a vivid "civil democracy" (Pestoff, 1999, p. 306). These local arenas would have the opportunity of channelling entrepreneurial spirits and thus enhancing the workings of local business clusters and the like. Furthermore, a functioning civil democracy will be egalitarian in the sense that it can counteract centrifugal social forces.

However, even if we accept that part of the state "entrepreneurship" is better performed at the supranational level in a world with free capital mobility and also that part of the state "entrepreneurship" can be taken over by the supra-national and regional levels, there might still be important areas for state "entrepreneurship" left. In a situation where the need for organisational and individual flexibility and adaptability increases there is also an increased need for information. This increased need for information is partly the result of growing complexity within an integrated economic system. A more complex world results in increases in uncertainty because calculable estimates of future events become more difficult (Beck, 1992). Unfortunately, also democratic institutions have difficulties coping with the increased complexity, bringing further uncertainty (Zolo, 1992). However, even with this background and given that it is becoming more difficult and more costly for individuals to transfer from one specialist skill to another there seems to be a substantial need for state "entrepreneurship". As an example there is certainly a need for visions for the future that provide guidelines for individuals, firms and educational institutions concerning the importance of life-long learning, the role of basic general skills, the importance of learning how to learn, the long-run skill trends, and so on.

4.3.2. *"Management of conflicts" in the globalised economy*

Chang's second category of state intervention concerned "management of conflicts" which arise during the process of structural change. One objective of the Rehn-Meidner model was to secure that resources were allocated from sectors with low productivity/profitability to sectors with high productivity/profitability. This is a general problem which industrialised economies have been confronted with for many years although increased global competition in recent years has exacerbated the problem. However, the problem has also got new dimensions including a need for adjustment to new ways of organising productive activity so as to take advantage of a more rapid pace of technological innovation and more flexible ways of organising work and economic transactions.

Rapid technological advances in e.g. telecommunications and microprocessors make many new kinds of business practices possible and threaten to render obsolete firms that do not adopt such technologies rapidly enough. We are also seeing a revolution in the organisation of production, based on team production methods, just-in-time inventory systems, new forms of subcontracting, and the like, which entail many changes in intra- and interfirm relations. Again, firms that fail to adjust run the risk of losing out to their competitors.

As remarked above, another major force behind the structural change in recent decades is increased competition from developing countries hurting in particular employment and real wages in the manufacturing sector. In a developed country like Sweden the acquisition of alternative, viable skills for which there is a sufficient demand at higher real wage levels is necessary to combat unemployment and to raise income levels. Given the institutional and cultural conditions in Sweden, it is not possible to compete with the newly industrialised countries in terms of lower costs. Instead, the strategy must be to concentrate on knowledge-intensive, high quality, goods and services.

These developments suggest that in order to manage or perhaps minimise conflicts due to sectoral and structural adjustments the capacities for structural adjustment and possible adjustment paths for individuals, firms, sectors and nations should get more attention. This perspective brings two factors into focus. The first factor is the entrepreneurial function, and the second factor concerns the education and retraining of labour. Traditionally these factors have been used for conflict management in a reactive way, i.e. they have been called upon when the adjustment problems are already acute. However, here we argue that these factors should also be used in a proactive way to minimise potential conflicts.

In a world of rapid changes the entrepreneurial function is vital to secure that resources are allocated to new competitive uses. Productive entrepreneurship introduces new knowledge or combines old knowledge in radically novel ways to improve economic performance (Nelson, 1986, p. 173; Baumol, 1968, p. 65). A crucial condition for entrepreneurship to be a productive activity is that the rent accruing to the entrepreneur should be durable but not permanent (Schumpeter, 1987). In general people pursue rents primarily because they value the quiet life that follows from the acquisition of a monopoly position, and not because they are devoted to the cause of productivity growth. Therefore, if the monopoly position (and the accompanying rent) is too quickly eroded, there will be little incentive to innovate. However, if the monopoly position lasts too long, the cumulative dead-weight loss due to its existence will ultimately cancel out the initial productivity gains made in the process through which such a monopoly position was established. Hence, it is a fundamental prerequisite for productive entrepreneurship that an institutional framework is created that ensures that the rent from entrepreneurial behaviour lasts long enough to motivate people to capture it but short enough to force people to keep improving productivity (Richardson, 1960, ch. 3).

Given that entrepreneurs all the time enter into new fields of activity it is of importance that the institutional framework also allows the transfer of profits from one field of activity to another without too heavy losses in terms of taxes, etc. As was mentioned above one major aspect of the institutional framework in Sweden discouraging entrepreneurship in Sweden is the double taxation of dividends.

At the same time as the institutional framework must encourage productive types of entrepreneurship it must also discourage unproductive types of entrepreneurship. Unproductive types of entrepreneurship occur where individuals or enterprises engage in profit-seeking activity by using asymmetric information, establishing legal barriers to entry or reinforcing a monopoly situation through political, financial or other organisational constraints on the entry of potential competitors (Baumol, 1990). Unproductive entrepreneurial activities are characterised by the fact that they are transaction cost generating activities (Chang, 1994a). To the extent that unproductive entrepreneurship becomes established in the routines of the enterprise, the tendency to seek re-distributive rather than creative activities will eventually undermine the wider economy's growth potential (Olson, 1982). This in turn suggests that enterprise governance cannot be separated from entrepreneurship. In the light of rent-seeking behaviour, firms must be subject to "external" monitoring – by government agencies, banks and others – and selective pressures must be available to the monitoring agency to re-establish creative routines (Chang, 1993).

It is obvious that if entrepreneurship is to be a truly purposive activity in an uncertain world, the institutions that support it must provide an enabling environment (Chang and Kozul-Wright, 1994, p. 862). Whilst including an appropriate incentive system to encourage the willingness to make bold commercial initiatives and to take risks – "the creative role of markets" (Kaldor, 1989) – they must also provide the preconditions by and through which change can be understood and implemented and purposeful activity thereby made possible. To this end institutions must function so as to reduce uncertainty, and to regulate conflicts, which, to some degree, surrounds all economic activity.

However, entrepreneurship also requires a bundle of social capabilities and these capabilities are the result of the social institutions and social policies of a country (Olson, 1996). The social capabilities make possible the continuous assessment and improvement of economic activity (Abramovitz, 1989). In particular, searching out available information and creating new knowledge requires constant learning and experimenting by economic agents, either individually or as groups (Amsden, 1989; Norton, 1986). Moreover, because these kinds of purposeful entrepreneurial actions cannot be exclusively identified with one individual or firm, entrepreneurial capabilities will only be fully developed and made effective within a wider network of institutional relations regionally, nationally and/or internationally. Hence, the institutional framework must also encourage the establishment of the linkages necessary to ensure the flow of knowledge and capabilities between economic units (Hodgson, 1988; Johnson and Lundvall, 1989; Murrell, 1992).

Creating a set of institutions that generate an optimal degree of productive entrepreneurship in an economy is no simple task since the institutions in support of entrepreneurship can be described as a network of rules, regulations and linkages of which many are informal in nature. Hence, a government can only influence part of those institutions that shape entrepreneurship in the economy. But we claim that even if the power of the government to influence the institutional framework is limited in various respects, the creation of an institutional framework that supports productive entrepreneurship is a strategic policy when it comes to managing conflicts due to structural change. Entrepreneurship is the best instrument to secure that resources that have become idle are put into productive work as soon as possible.

The process of structural change is also a process of creative destruction, where not only old machinery but also old skills, old forms of knowledge, and so on, become obsolete. It is obvious that productive entrepreneurship directly contributes to the destruction of existing capabilities and institutional routines and threatens the livelihood of groups and individuals who have invested in particular jobs, fixed capital assets, specific skills and local ties. Since "skill production" has long lead times, the existing education and skills of the labour force might be a major impediment to the birth and expansion of new firms and industries. Given the uncertainties involved in human capital investments, state "conflict management" must involve substantial support for investments in education and retraining to increase the relative and absolute supply of skilled and educated workers, whatever complementary measures are deployed (Gottschalk, 1997; Johnson, 1997; Topel, 1997). In the face of rapid and dramatic global and technological changes, massive increases in effective expenditure on education and training are required to reduce both unemployment and inequality generated by structural change. Given the institutional conditions in Sweden and the very limited educational premiums in Sweden it is difficult in the short and medium term to imagine any real alternative to state supplied education.

It must also be emphasised that there is a strong link between human capital formation and entrepreneurship. Human capital is an essential input in the production of basic knowledge and, hence, the basic source of innovative activity (Nelson and Phelps, 1966; Verspangen, 1991). A larger stock of human capital also makes it easier for a country to absorb and/or imitate those new products and ideas that have been discovered elsewhere (Nelson and Phelps, 1966; Easterlin, 1981, Abramoviz, 1986).

4.3.3. *Is there scope for a new "Swedish model"?* Now, let's turn to contents. Following the lines of argument above, there might still be scope for a new "Swedish model" that harmonises with the traditional values of the labour movement and still recognises the recent trends of the global economy. What would this model look like? Revisiting the ideas of Meidner, the model should bring about *full employment* and *economic equality* in harmony with the general goals of *price stability* and *economic efficiency*.

Since price stability seems to have been achieved in most Western countries, the stumbling blocks that remain are full employment and the potential conflict between economic equality and efficiency. According to the discussion above, the *full employment* target might qualify among the issues that are best dealt with on a supranational level. The reason for this is the similarity of employment problems within the major trade blocs, and the problems of "external effects" that would arise if countries should try to undertake powerful action individually. Accordingly, the European Union is the appropriate agency for mobilising corporate activities like the German and Dutch “Bündnis für Arbeit”. However, as long as different countries operate quite different institutional frameworks, there is still scope for a national policy. This applies in particular to the institutional frameworks for entrepreneurship and human capital formation.

Finally, we turn to the issue *of economic equality*. In the post-Taylorist world, where work is characterised by co-operation, constant human capital investment and flexibility, wages cannot be equalized all over the board without disastrous effects on efficiency.

So how is equality to be achieved in this new economic setting? One way forward might be to redefine the concept of equality. Instead of aiming at complete levelling of incomes, the aim could be to strive for rather equal life-cycle incomes. This goes for the wage structure as well as the social transfer system. If inter-temporal transfers – like social insurance – were isolated from interpersonal transfers, a high gain of efficiency might be expected. Similarly, if wages were allowed to rise with age and even with education, adverse effects on individual incentives could be eased. There is no obvious reason why this policy should be socially unrighteous and incompatible with social democratic ideals. It simply means replacing one concept of equality with another.

Notes

[1] Some authors use the term “the Scandinavian model” to characterise the welfare systems that were developed in the Scandinavian countries during the post-war period (Sandmo, 1991).

[2] The political branch of the labour movement, i.e. the social democratic party, seems to have been more positive (or rather: eager) regarding nationalisation. The election campaign of 1948 was characterised by the “socialisation debate”, and the Minister of Finance Ernst Wigforss countered the writings of Rehn and Meidner with the argument that nationalisation of a huge part of the Swedish industry was the only way to secure full employment in the long run (Rehn, 1977, p. 208).

[3] Among the objectives that motivated the actions on the part of the Trade Union Confederation one might also add the less heroic lust for power. As Meidner pointed out, a situation with full employment and a national incomes policy would make the trade-union movement useless (Öhman, 1974, p. 19f).

[4] In the same year, anyway, the public committee on stabilisation policy presented policy recommendations that implied less emphasis on fighting inflation.

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