

The institutionalization of a new social cleavage

Ideological influences, main reforms and social inequality outcomes of “the new work strategy”

Abstract

The objective of this article is to analyse the ideological influences, main reforms and social inequality outcomes of “the new work strategy”, i.e. the former Swedish centre-right Alliance government’s work-first approach. By studying government bills and reports, official statistics, and research on welfare and labour market policies, discourses, policy measures and their outcomes have been analysed. The main conclusion is that Sweden, the former prototypical “social democratic” welfare state, has adopted a new institutional framework for social protection that we call a “work-first, consolidation state”. The reforms aimed at shrinking the welfare state were implemented by strengthening activation principles in social protection systems as well as a politics of lowering taxes, which has institutionalized a new social cleavage in Swedish society and resulted in a massive redistribution from the public sector to the private sector. We also discuss how the transformation of labour income taxes and social protection systems was legitimized by the Alliance’s discourse on “outsiderhood”, and one ideological influence is located in American discourses of the underclass.

Keywords: the new work strategy, Sweden, de-universalization, outsiderhood, work-first, consolidation state

Introduction

Sweden has often been assigned labels such as “the model country of Social Democracy” (Streeck 2015:23). The aim of policies that have socialized risks has been to loosen citizens’ dependence on families and the market for income through universal and generous welfare benefits (Esping-Andersen 1990). Moreover, there have been extensive service-oriented public investments in areas such as family and care policies, education and active labour market policies (Hort 2015). However, the main conclusion of this article is that reforms of social protection systems have rendered Sweden a less universal and less generous “social democratic” welfare state, while the country has developed into a “work-first, consolidation state”.

Thus, the contribution of the article relates to discussions concerning the de-universalization of the Nordic welfare states. According to Goul Andersen (2012:179), reforms of the Swedish unemployment insurance have made it “substantially less universal”. Björnberg (2012:84) emphasized that reduced social insurance compensation rates have served as incentive for additional private insurances, which in the long run will affect not only the universality of social protection, but “erode the principle of solidarity based on obligatory collective contributions to insurance”. Also, the OECD (2015) has shown that the redistributive effect of income taxes and social transfers among the working-age population in Sweden clearly diminished between the mid-2000s and the early 2010s, thus contributing to increased social inequality. However, if welfare services are included in the analysis of de-universalization processes, the picture is more mixed. Béland, Blomqvist, Goul Andersen *et al.* (2014:746–749) showed that the principle of universality remains strong in Sweden in areas of health care and family policy. In contrast, research on elderly care has pointed to processes of re-familialization (see, e.g., Björnberg 2012). Moreover, other studies have shown policy changes towards less extensive service-oriented public investments, as there have been considerable cuts in spending in areas such as active labour market policies and education (Streeck & Mertens 2013; Bengtsson 2014).

One manifestation of this de-universalization process is “the new work strategy” (*den nya arbetslinjen*)¹, i.e. the work-first approach that was launched by the “Alliance for Sweden” (hereafter the Alliance, including the Conservative Party, the Liberal Party, the Centre Party and the Christian Democratic Party) and implemented during the Alliance’s government (2006–2014). Of key importance was the institutionalization of a new social cleavage between the healthy individuals in employment and those living in “outsiderhood” (*utanförskap*). How can we understand this discursive and institutional shift? How has it been legitimized? How have the main reforms of the new work strategy impacted the universalism of social protection and, thus, affected the government’s capacity to assist less affluent members of society? What does it mean for the re-thinking of the Swedish welfare state model?

To answer these questions, we first analyse how the new work strategy has been legitimized by the Alliance through the discourse on outsiderhood and show its affinities with American discourses of the underclass. Second, we analyse the main reforms in unemployment insurance and sickness insurance, as well as reductions in tax on labour income. Third, the social inequality outcomes of these reforms are outlined. Fourth, and finally, we draw conclusions on what the essential policy changes mean for re-conceptualization of the Swedish welfare state.

1 The work strategy, long a central political principle in Sweden, refers to “efforts at turning all adult citizens into workers” in order to achieve “maximum participation in paid work” (Johansson & Hvinden 2007:336), entailing among other things that various social citizenship rights and entitlements are income-related (Junestav 2004).

The empirical materials of the study

In order to analyse the ideological influences of the new work strategy, we have delineated the empirical material to analyse the affinities between the ways in which outsiderhood has been construed by representatives of the Alliance, by relying on excerpts from secondary literature, and discourses of the underclass in an American policy context, by relying on both primary and secondary literature.² Thus, we have been able to discern whether the Alliance's policies are based on a similar idea as the neo-liberal and neo-conservative discourses of the underclass in the US.

In order to analyse the main reforms of the new work strategy during the Alliance's government rule (2006–2014), we have chosen to study official documents, such as main government bills and reports, and secondary literature on institutional changes in welfare and labour market policies in two main areas of social protection: unemployment insurance and sickness insurance as well as the job tax deduction carried out in five steps between 2007 and 2014.

Moreover, we have analysed the social inequality outcomes of the new work strategy through the study of government reports and OECD data, as well as surveying secondary literature on the distributional consequences of institutional changes in unemployment insurance and sickness insurance in Sweden.

The political-economic context: policies of fiscal consolidation and activation

During recent decades, changes in the political-economic context have gradually shifted policy objectives and measures in Sweden. Neoclassical economics had marked effects on the Social Democratic elite in the 1980s, and a mode of policymaking based on monetarist economic theory followed (Ryner 2014).³ After the recession of 1991–1993, unemployment skyrocketed and austerity measures followed in its wake. Moreover, European Union membership in 1995 meant that Sweden was subordinated to supra-national regulations of budget discipline.

Although the severe economic consequences of the recession were overcome by the retrenchment policies introduced in the mid-1990s, the following decade was also marked by fiscal consolidation that lowered the ambitions of the welfare state (cf. Hort 2015:64). In order to hinder increased state budget expenditures, a central government expenditure ceiling was introduced in 1997 and a surplus target was decided on that (currently) amounts to 1% of GDP on average over a business cycle. Also, a balanced budget requirement for the local government sector was put in place in 2000 (Bengtsson & Berglund 2017).

At the same time, there was a gradual shift towards an “incentive-strengthening approach” of activation policies. Concerning sickness insurance, activation measures increased with greater demands on long-term ill individuals, as seen in measures and

2 In line with Fairclough (2016:88), we define discourses as “semiotic ways of construing aspects of the world (physical, social or mental) which can generally be identified with different positions or perspectives of different groups of social actors”.

3 In 1990, when the Social Democratic government faced recessionary signs following years of an overheated economy, the government shifted its main goal of economic policy from “full employment” to “low inflation” (cf. Hort 2015:81).

activities to promote (re)discovery of a capacity for work through working-life rehabilitation programmes (Hetzler 2009). Concerning unemployment insurance, a key activation programme at the turn of the century was the “activity guarantee”: a fulltime programme with no definite time limit for persons aged 20 or older who were, or risked becoming, long-term unemployed (Johansson 2006). The programme aimed at increasing control over and surveillance of people’s uses of their time: among its aims, we find that the guarantee should counteract passivity and unemployment cultures (Prop. 1999/2000:98, p. 57f).

Besides increasing instruments of surveillance, the activity guarantee takes the form of a “client contract” in which the unemployed person and the employment officer sign an agreement. However, the contract consists of an asymmetric relation between the state and the citizen that could be defined as an instrument meant to test whether the unemployed individual is an active job seeker. Following this, citizenship rights have become contractual as well as more conditional (Johansson 2006:48–49). We interpret this as a shift in the labour market policies of social democratic governments, which had set the stage for the new work strategy reforms that the Alliance thereafter implemented.

Theoretical perspectives

To understand policy reforms in social protection systems in Sweden, we need to address a more general transformation of European welfare states towards consolidation of public finances, due to immense fiscal pressures resulting from sociodemographic trends, tax resistance and the pressure for low production costs unleashed by the transnational mobility of capital (see, e.g., Gilbert 2004; Streeck & Mertens 2013). A monetarist economic doctrine has prevailed in Europe for decades, where the fight against inflation is the main objective and where social policy spending is limited due to stricter budgetary discipline, fiscal austerity and tax cuts. Here we will discuss Streeck’s (2014, 2015) theory of “the consolidation state”.

The establishment of the consolidation state

Streeck’s analysis (2011, 2014) emphasizes the erosion of the peculiar symbiosis of democratic institutions and capitalistic entrepreneurship that characterized democratic-capitalist states during the postwar period, e.g. full employment policies, nationally coordinated collective agreements, state control over key industries, as well as redistributive fiscal and income policies. He has attributed this development to a series of crises in “democratic capitalism” and the development of different forms of monetary regimes, roughly corresponding with different decades.

In the 1970s, the distribution conflict between labour and capital was offset through an inflation-oriented economic policy that, after a while, resulted in stagnation, recession and high unemployment levels. In the 1980s, there was a wave of liberalization of financial markets, which resulted in a “public debt era” with increased state budget deficits. Due to the expansion of the “debt state”, creditor confidence in whether

debtors could repay their debts began to decline. Thus, in the 1990s, many states implemented policies of consolidation of public finances mainly as a confidence-building measure to remain attractive for international creditors. This, according to Streeck (2015:7), created an opportunity for the retrenchment of the state in the form of cuts in social entitlements and social investments and an increase in the privatization and/or marketization of public services.⁴ At the same time, capitalism once again tried to maintain social peace and meet citizens' consumption needs through a new wave of liberalization of capital markets, with a shift in emphasis from public borrowing and social transfers to increased opportunities for private borrowing and, thus, private indebtedness.

In this process of shifting monetary regimes, the state's relationships of responsibility have also changed: first from a "tax state" to a "debt state", followed by a "consolidation state". By tax state, Streeck was referring to the primary relationship of the state in relation to the electorate. In this sense, elected politicians are mainly responsible to the democratic citizenship/the electorate. However, the dissolution of the tax state occurred when both high unemployment levels was made permanent in many Western European countries and the financial markets became a more important "second active electorate" for the government to take into account. Streeck (2014:80ff) described a transformation from a nationally organized tax state that binds citizens (*Staatsvolk*) to a defined territory with certain basic social rights to the transnationally integrated debt state that is based on contractual ties with investors (*Marktvolk*). Thus, the state has increasingly developed a two-tier liability relationship to both the citizens/democracy and to investors/financial markets. Between these two interests, the state must carefully manoeuvre so that the *Staatsvolk* and *Marktvolk* do not withdraw their loyalty. However, there is an imbalance in these relationships: investors are in a more favourable position as they can withdraw their confidence at any point in time, not just at the next parliamentary elections, as in the case of voters. Thus, there is a structural problem in capitalist states as regards reconciling these two interests and, according to Streeck, democracy is the big loser. Democracy – in its modern national form – requires national sovereignty, but this is less and less possible to maintain for debt states because of their dependence on global financial markets. In the event of a financial crisis, financial market actors ensure governments that their market demands precede citizens' demands. To maintain market confidence, the state has to apply measures of fiscal consolidation. In this way, the politics surrounding the consolidation of public finances is meant to insure the state's second constituency – the financial markets – which are therefore given priority over citizens (Streeck 2015:11).

Streeck's analysis specifically focuses on the rise of a European consolidation state in *Euroland*. However, of specific interest here is that Streeck (2015:23) conceptualized Sweden – despite the country's position outside the international regime of the European Monetary Union and its agreements on fiscal austerity – as the "most advanced

⁴ This was also the era of a more general European policy shift towards an "incentive-strengthening approach" of activation policies to "improve the relative rewards of being in work" (Johansson & Hvinden 2007:335).

case of a consolidation state with a firmly established austerity regime”. According to Streeck (2015:23ff), the Swedish neoliberal consolidation regime has been established during the past two decades and consists of a combination of a fiscal surplus policy, to bring down the accumulated public debt, and regular tax cuts with accompanying spending cuts.

The transition to a consolidation state that is more receptive to market pressures, according to Streeck (2015:19), needs to be “accompanied by a redefinition of the responsibilities of government and the purposes of public policy”. When governments feel increasingly forced to give up their political ambitions to change citizens’ life chances by raising revenue, the market enters as an increasingly important force for the distribution of life chances (cf. Streeck & Mertens 2013; Streeck 2014, 2015). Thus, the consolidation regime means that the discretion to reproduce “social democratic” welfare state institutions, i.e. universal and generous income benefits and extensive social services, is shrinking. Thus, we also need a theoretical perspective of processes of de-universalization.

De-universalization

One starting point for analysing the de-universalization of social protection systems is the work of Esping-Andersen (1990:47), in which three welfare regime types are singled out based on what he considered variations in the “de-commodifying potential of social policies”. De-commodification refers to the degree of emancipation, or individual independence, from market dependence. Crucial dimensions of social policies that determine the de-commodification potential are the access, duration and adequacy of income replacement, as well as the range of entitlements that are on offer. In addition to de-commodification, Esping-Andersen (1999:45), in a later text, discussed de-familialization as a complementary concept, which refers to “policies that lessen individuals’ reliance on the family”.

Besides variations in de-commodification and de-familialization, different welfare state regimes are also structured by various systems of social stratification. As stated by Esping-Andersen (1990:57f), the institutional structure of welfare states in each regime type will “produce its own unique fabric of social solidarity”. Thus, we will also analyse how the current institutional make-up of the Swedish welfare state structures social citizenship through institutionalization of a new social cleavage.

Concerning de-universalization, we draw on Goul Andersen’s (2012) concept. To understand the notion of de-universalization, we first need to understand the meaning of universalism. As stressed by Anttonen, Häikiö, Stefánsson *et al.* (2012:1f), universalism is often connected to the Nordic welfare states and their efforts to extend social insurance schemes to all citizens. This inclusivity of universalism is one important criterion, in addition to eligibility, duration and adequacy. This also means that in different operationalizations of universalism, different criteria lead to different specifications. We hereby follow Goul Andersen, who analysed universalism in terms of “matter of degree”, where the development of particular welfare schemes is analysed as “movements towards or away from” universalist ideal types (Goul Andersen 2012:166).

In a study of unemployment protection schemes, Goul Andersen singled out six criteria for the universalist ideal type. *The first criterion* concerns whether entitlements are clearly defined rights in the law, as well as the strictness of eligibility criteria. This aspect concerns the proportion of the labour force that could access unemployment benefits or that needs to apply to social services for means-tested social assistance or must rely on private sources of support. *The second criterion* relates to whether rules apply in the same way to all who are able and willing to work; e.g. whether there occurs “targeting within universalism” when entitlements are connected to age, childcare responsibility, etc. *The third criterion* is the degree of state subsidy vs. member financing of benefits as well as fixed vs. risk-dependent contributions. The universality of the system decreases when the state subsidy is lowered and when risk sharing among unemployment funds is low and, thus, contributions are no longer risk neutral. *The fourth criterion* is the inclusiveness or exclusiveness of means testing. *The fifth criterion* concerns the adequacy of benefits, that is, a declining compensation rate is a sign of de-universalization. Finally, *the sixth criterion* is related to inclusiveness and whether benefits are provided to a large majority of the unemployed. Goul Andersen (2012:170) stressed that the crucial issue is the degree of coverage among people with high unemployment risk.

Thus, de-universalization is understood as processes where benefits from social protection systems are characterized by stricter conditionality, shorter duration, less coverage, more targeted means testing, lower adequacy, and less inclusiveness.

Results

Part 1: Ideological influences of the discourse of outsiderhood⁵

We commence with the results and analysis of the symbolic forms, or ideological-discursive context, that have legitimized institutional change under the new work strategy. In Bourdieu’s (1991/2015:166) terms, the state has the ability to impose principles of classification or “principles of vision and division”. Throughout history, states have institutionalized these principles to distinguish categories of the population that symbolize a threat to the social order and the work ethic and, thus, must be controlled and disciplined in order to be deserving welfare recipients, such as the redundant population, the social outcasts and the dangerous classes (Morris 1994:2).

We will specifically discuss the ideological influences of American discourses of the underclass on the Alliance’s discourse of outsiderhood, which has contributed to the legitimization and, thus, institutionalization of a new social cleavage in Sweden. In Bourdieu’s terms, this institutionalization can be seen to follow from working life becoming a “site of consecration”, i.e. “a site where differences are instituted between the consecrated and the non-consecrated” (Bourdieu 1991/2015:168). Thus, in the case of the new work strategy, the consecrated are healthy people performing paid

5 This part of the article is partly based on two earlier papers by Bengtsson (2002, 2012).

work, while the non-consecrated are those equated with “welfare dependency” and outsiderhood, referring to the recipients of social transfers: sickness benefit, sickness or activity compensation (disability pension), unemployment insurance compensation for unemployment or from labour market policy measures, as well as municipal maintenance support.⁶

Thus, with regard to the discourse of the Alliance in Sweden, the main social cleavage was said to go between employed people and those currently inactive in paid work and positioned as outsiderhood. As mentioned, we will analyse affinities between the Alliance discourse of outsiderhood and American discourses of the underclass since the 1980s.⁷ According to Winlow and Hall (2013:47), the work of right-wing political scientists in the US, such as Charles Murray, has had a considerable influence on US and European policymakers. Moreover, US policy-making is based on a fundamental *Idea*, going back to Enlightenment liberal philosophy, according to which “[T]he freedom of the individual from state intervention remains sacrosanct” (Winlow & Hall 2013:37). The idea permeated so-called poor-law debates in the 18th and 19th centuries and concerned whether welfare demoralized the poor, damaged their willingness to work and eroded family life (Katz 1993:15). Policymakers and academics have returned to these themes time after time across history, such as in the 1980s in the US, due to a neo-liberal and neo-conservative offensive, which was specifically related to the anti-welfare state rhetoric of “welfare dependency”.

One main proponent of limiting federal social spending was the political scientist Charles Murray. He conceived of the 1960s as a paradigm shift in social policy with the discovery of “structural poverty”. However, in Murray’s (1994:182) terms, a policy that turns all poor individuals into victims of their circumstances leads to homogenization and, thus, blurs the distinction between the “deserving” and “undeserving” poor. Murray, on the contrary, argued for a minimal welfare state because he saw welfare as something that not only hinders, but also *creates* an underclass. Influenced by English philosophers such as Bentham, Murray saw welfare dependents as calculative decision-makers, i.e. “[T]hey understood how to work the welfare system to advantage”

6 The total number of days when a person receives various social benefits is aggregated into so-called full-year equivalents. The sum of these correspond to the number of “individuals” in outsiderhood. Thus, this does not indicate a real number of people, but a calculation of lost labour power during a year (Bengtsson 2012).

7 We have chosen to study a specific source of influence on the Alliance’s policymaking, but it is probably a result of manifold ideological influences. Davidsson (2015:363, our translation) showed that the contemporary Swedish work strategy and the discourse of outsiderhood “reactivate ideas and beliefs that were fundamental” in the problematization of Swedish poor relief in the mid-19th century. Other probable influences are discourses on social exclusion in the European political and academic debate (cf. Lister 2004; Winlow & Hall 2013). A path for further research would be to analyse the influence of the “New Labour” Government’s “work first approach” (which also exemplifies the strong influence of American policy paradigms, see Daguerre 2004) and its use of social exclusion, combining a “moralistic discourse”, emphasizing individual values and behaviour, and a “social integrationist discourse” that is “focused primarily, and sometimes exclusively, on exclusion from paid work” (Lister 2004:77–78).

(Katz 1993:15; cf. Winlow & Hall 2013:49). In this line of reasoning, lack of work incentives undermines the work ethic, i.e. the distribution of social benefits works as a disincentive to paid work, and norms of self-sufficiency and personal responsibility are dissolved. Thus, in Murray's perspective, social benefits create a "culture of dependency" devoid of any work ethic.

Another influential political scientist at the time, Lawrence M. Mead, emphasized a new social citizenship concept that increases the demands on social benefit recipients. However, in contrast to Murray's view on a marginal state, Mead prefers a strong, authoritarian government (Katz 1993:16). Thus, the social problems of the poor should be solved through increased state control and surveillance (Morris 1994). The conflict here is also between social benefits and work. The state distributes too much of the former and demands too little of the latter – the poor seem to have lost their ability to work and to perform normal civic duties. The state should instead force the needy to work (cf. Katz 1993:16).

In the discourses presented here, generous benefits and allowances are said to result in the creation of an underclass. The Alliance's policies are based on a similar idea, as outsiderhood is considered a result of "welfare dependency". For example, the former Minister of Finance, Anders Borg, said in a parliamentary debate that the former government's labour market policies "lock people into long-term outsiderhood", and a former leader of the Liberal Party, Lars Leijonborg, in a proposition to the parliament, described benefit dependency as "the worst scourge of those who live in outsiderhood" (Davidsson 2010:158–159, our translation).

Instead of seeing the work strategy as integrated with state-funded income security during illness and unemployment, the Alliance deliberately contrast a "work strategy" and a "benefit strategy", where the latter is said to have been created by social democracy due to its overly generous, unconditional welfare policy (Davidsson 2010; Bengtsson 2012). The Alliance paints herein an image of a zero-sum game, i.e. welfare is perceived as an issue of expenditure and not as a question of redistribution or investment in people. As we will see in the subsequent part of the article, this discourse has legitimized a radical transformation of labour income taxes and social protection systems in Sweden.

Like Murray and Mead, who believed that overly generous social policy creates an underclass deprived of a work ethic, representatives of the Alliance stated that the social transfer system forces people into outsiderhood. The solution for breaking this state of welfare dependency is increased market dependence, or commodification of labour. This means that public responsibility for society's ills will shrink in favour of increased individual responsibility. Moreover, responsibility will be increasingly transferred to the family and civil society. The latter was expressed by former Prime Minister Fredrik Reinfeldt in response to how those who felt they were forced to leave the unemployment insurance, as a result of (among other things) sharply increased private contributions, are to make a living when unemployment increased after the financial crisis of 2008: "[...] what happens is that people find other bases for their livelihood if they don't get it through unemployment insurance [...] They get support

and assistance from parents, a partner or in some other way. Ultimately, there are other safety nets that will help them.” (Mellgren, Delling & Hennel 2011, our translation).

That the underclass discourse of welfare dependency has become powerful in the US is not surprising, as the country is an example of a liberal welfare state regime with a selective welfare policy, mainly based on “negative freedom”, i.e., in Berlin’s (1958:127) terms, “the “negative” goal of warding off interference” or individual “liberty *from*” state interference. According to Rothstein (1994), various welfare policy arrangements, whether general or selective, are grounded in different moral logics. A general welfare policy focuses on what is “generally just” when it comes to citizens and will “try to provide citizens with *basic resources* based on the principle of *equal consideration and respect*, allowing them to be fairly equal in terms of their basic ability to act as autonomous citizens in society” (Rothstein 1994:190, our translation, emphasis in original). Here, the entire citizenry is covered by the policy, which is not the case in a selective welfare policy, which discriminates between different social groups and focuses on how the problem of “the other” is to be solved. Instead of what is *generally just*, it is about what is *particularly necessary* for those in need. In welfare systems specifically geared towards selective welfare arrangements, the dividing line between “us” and “them” becomes sharper, leading to a socio-political discourse about responsibility and morality in the group of benefit recipients (Svallfors 2000:46). This allows the figure of thought of the deserving and undeserving poor to take root more easily, as well as words like welfare dependency, which “bring to mind abuse, laziness and passivity.” (Davidsson 2010:152, our translation).

The word benefit dependency also serves to obscure, as a large proportion of those who the Alliance define as being affected by outsiderhood actually contribute to their own upkeep, as they receive payments from the social insurance systems. These forms of compensation are, in other words, insurance indemnities funded by employers’ and employees’ contributions and taxes. Thus, the public sector may be seen as an insurance company. The principle of universal welfare policy has been prominent in the Swedish welfare state, but with a welfare policy discourse on *outsiderhood created by benefit dependency*, the moral logic of a selective welfare policy emerges more clearly.

Hereafter, we will describe the reforms enacted in unemployment insurance, sickness insurance and taxes on labour income, which, albeit gradual, have implications that seriously contest the notion that the Swedish welfare state still includes universal welfare benefits. We will show that reinforced benefit conditionality, lesser benefit generosity, in terms of both replacement rates and benefit periods, have affected the coverage of social protection systems in the population, and induced individual risk management, thus rendering the social protection system less generous and less inclusive.

Part 2: The main reforms of the new work strategy

Tax reductions on labour incomes

In 2006, after twelve years of Social Democratic rule, the Alliance received the majority of votes in the parliamentary election. During its government rule, some major tax reforms stood out: the property tax was abolished, the top marginal tax rate was reduced and the tax on employer contributions was lowered (cf. Hort 2015:60). The main employment-promoting tax reform of interest here, intended to strengthen job incentives and the cash/work nexus, was the job tax deduction: a tax credit paid to all wage earners without the need to apply for it. This measure is dissimilar to those in most other countries where the deduction is aimed at those with the lowest wages (Bennmarker, Calmfors & Larsson 2013:5).

The job tax deduction is independent of the jobholder's earlier labour market status, and it is the income of the individual that is the criterion for qualification. Between 2007 and 2010, the job tax deduction was carried out in four steps, and a fifth step was added in 2014. This means that the average tax on all incomes and the marginal tax rates for low incomes were lowered. In 2014, the deduction meant an annual state financial income loss of around SEK 100 billion (Prop. 2013/14:1, p. 536).⁸

It should be emphasized that the job tax deduction is an “in-work benefit” that is part of a policy to remove the “unemployment trap” by increasing the income gap between benefit income and employment income (cf. Holden 2003:314). This is in line with the discourse on fighting of outsiderhood – welfare dependency – using spending cuts. Thus, lowering benefit generosity and strengthening of the benefit conditionality of unemployment and sickness insurance are the other important sides of this policy shift. In the following two parts, we will describe the major reforms enacted in these insurances.

The major reforms of unemployment insurance

One early reform was to dismantle the possibility to qualify for unemployment insurance through university studies, which had been possible since 1998, thus ending the possibility to re-qualify through activation (cf. Goul Andersen 2012:176–177). This meant that nearly 40,000 unemployed former students (mostly young people) lost their previously earned rights to basic unemployment benefits (Lorentzen, Angelin, Dahl *et al.* 2014:47). As a criterion for the process of de-universalizing social protection systems, this reform affected the *inclusiveness* of unemployment insurance.

Unemployment insurance, which covers both employees and employers, consists of a basic insurance and an income-related insurance. The basic insurance is valid for the person who satisfies the “work condition”, but is not a member in an unemployment

8 The direct budget cost of this deduction amounted to 2.53 per cent of GDP in 2014. The prognosis for the costs of the job tax deduction was SEK 113 billion in 2018, which can be compared to the government proposal of spending SEK 73 billion on the labour market policy area in the same year (Prop. 2017/18:1, pp. 662, 2449). In mid-October 2017, EUR 1 was equivalent to approximately SEK 9.5.

fund or has not been a member long enough. The income-related insurance requires both a work condition and a “membership condition”, that is, having been a member of an unemployment fund for at least 12 months. In Goul Andersen’s (2012) terms, strictness of eligibility criteria is one criterion of the de-universalization process. In 2006, the work condition was raised from 70 to 80 hours a month over a 6-month period (during the 12-month period prior to unemployment).⁹ Moreover, instead of the obligation to accept a job in the whole labour market from the hundredth day, this obligation came into force already the first day a person is registered as unemployed. Accordingly, the caseworker has the power to force the benefit claimant to resettle in a region very distant from her current dwelling. Also, in 2013 new rules were implemented requiring that the unemployed person show that she is an active job-seeker by submitting monthly reports to the employment office on job-seeking activities (Arbetsförmedlingen 2014). These new regulations on monthly activity reports shifted the attention of caseworkers from other tasks, such as employer contacts, to spending time on control and surveillance (Hollertz 2016).

The threat of sanctions is another important aspect of reinforced conditionality in unemployment insurance. In 2013, new rules were introduced with three degrees of misbehaviour, where use of sanctions increases for each level depending on whether the person “misbehaves when searching for jobs”, “extends the period of unemployment” or “causes unemployment” (Arbetsförmedlingen 2014). The main change was that the degree of sanctions is related to different degrees of misbehaviour. This also means that there were more forms of misbehaviour that could be punished, thus demanding a more comprehensive control apparatus, exemplifying a “distrusting welfare state” (cf. Valkenburg 2007). Moreover, for behaviours considered to denote a high degree of misbehaviour, the sanctions implemented by the Alliance were tougher compared to the regulations of 1997. Thus, even though the work strategy has traditionally been a key principle in Sweden, conditionality increased as eligibility criteria tightened and sanctions became tougher and more elaborate.

The process of de-universalization was also reflected in reduced benefit generosity, challenging the *adequacy* of social benefits, which gives incentives for private income protection complements (cf. Goul Andersen 2012). An illustration of this reduced benefit generosity was the introduction of decreasing compensation over time in 2007 as part of a policy aimed at strengthening the motivation of the long-time unemployed to more intensely seek employment and as a cost-saving measure.¹⁰ After the first 200 days, the ceiling for unemployment insurance decreased from 80% to 70% of former income, i.e. for those who did not exceed the ceiling of the highest daily allowance (the maximum until September 2015 was SEK 680 per day, and it was paid five days

9 The alternative qualifying condition is having worked 480 hours for six consecutive months and then at least 50 hours per month. This replaced the former condition on having worked 450 hours during the same period and at least 45 hours per month.

10 The maximum benefit duration for unemployment insurance is currently 300 days (the only exception is parents with minor children in the household, who may be eligible for 450 days).

a week). With continued unemployment, the individual was transferred to the so-called Job and Development Programme (after 300 days) and then received 65% of her former income.

Another illustration of reduced benefit generosity was the introduction in 2008 of an increase from five to seven waiting days, i.e. the initial period of the unemployment benefit when the insured person does not receive any compensation (Ferrarini, Nelson, Sjöberg *et al.* 2012:45). This may also be seen as an increased effort to discourage programme take-up, which restricts the notion of welfare entitlement (cf. Cox 1998:6–7).

The major reforms of sickness insurance

In addition to the stricter work requirements for unemployment insurance, stricter activation principles have also been introduced in the sickness insurance system. In Swedish activation policies, the work capacity of people on long-term sick leave has long been evaluated in relation to work extending their ordinary jobs, but in the 1990s more restrictive criteria were introduced (Björnberg 2012:76). The social democratic government emphasized that sickness insurance should function more as “readjustment insurance” rather than income protection *per se*. However, in 2008, even stricter work requirements were introduced (Seing 2014).

To start with, the possibility of considering age, education, place of residence or similar circumstances in the assessment of work capacity was removed (ISF 2013:76). But the most significant policy reform of stricter conditionality was introduction of the “rehabilitation chain”. It should be seen as a cost-saving measure aimed at “making the sick leave process more efficient” (Prop. 2007/08:136, p. 1, our translation). Moreover, individual responsibility was emphasized, as benefit claimants “must recognize their own clear responsibility for trying to return to work” (Prop. 2007/08:136, p. 34, our translation). An endpoint for illness entitlement was introduced, compared to earlier when those with long-term illness were often transferred into early retirement. Also, from that point onward, work capacity was assessed by the Swedish Social Insurance Agency against a fixed time schedule: First, until day 180 work capacity was assessed against any task the employer offers at the workplace; second, work capacity was assessed against the labour market as a whole (day 181–365), which meant that a person on sickness benefit could be forced to change jobs and profession if the new job better matched his/her estimated work capacity (Seing 2014:25f.). The maximum period of sickness benefits was 365 days, with exceptions granted for persons whose work capacity was *permanently* reduced following chronic disease and other irreversible injuries; that is, only in cases where work rehabilitation would not result in a recovered work capacity (Prop. 2007/08:136). The fact that even people with fatal diagnoses might have to leave the sickness insurance system or be forced to seek employment aroused wide public debate and criticism in Sweden, especially in the years following introduction of the rehabilitation chain.

One criterion of a universalist welfare state is inclusiveness – i.e. that social benefits are provided to the large majority of people who are unemployed or sick (cf. Goul Andersen 2012:170). However, the reforms of Swedish social protection systems made

them less inclusive. The sickness benefit – corresponding to hardly 80% of the former income – was paid for a maximum of 365 days (in rare cases a prolonged sickness benefit could be granted for an additional 550 days with a compensation level of 75%). After 365 days in the rehabilitation chain, the entitlement ended and the person was obliged to return to work or was transferred to the Public Employment Service for participation in the so-called work introduction programme. However, many persons ended up “between the cracks” of the social insurance systems, as they were classified as too sick to participate in activation programmes and too healthy to be eligible for the sickness benefit (ISF 2013).

A main point we make is that the major reforms in social protection systems during the new work strategy entailed policies of de-universalization and dualization of social status. Thus, people in need of social protection were attributed a social stigma as benefit dependents, while desirable behaviour in paid employment was rewarded by tax credits. This contests the idea of the universal social citizenship feature of the social democratic welfare regime type: universalism of “middle-class” standards has been a guiding principle as it has “equalised the status, benefits, and responsibilities of citizenship” (Esping-Andersen 1990:68). The developments during the Alliance described here led to various social inequality outcomes, which we will discuss hereafter.

Part 3: The social inequality outcomes of the new work strategy

The growth in inequality in Sweden during the past decades has seriously contested the “egalitarian” Swedish welfare model, which is known for its extensive capacity to redistribute income. According to the OECD (2015), the growth in inequality in Sweden increased by as much as one third between the mid-1980s and the early 2010s. Actually, the growth during this period was the largest among all of the OECD countries. This reflects long-term institutional changes in welfare state policies, but of central interest here is that the main reforms of the new work strategy, regarding both social transfers and tax reductions on labour incomes, considerably weakened the role that the tax and benefit systems have had for income redistribution in Sweden. OECD income distribution data on the disposable income adjusted for household size, measured using the Gini coefficient, has shown that between 2007 and 2014, income inequality increased by more than 2 points in Sweden, which was more than the increase seen in most other OECD countries (OECD 2016). This is a notable result in light of the “comparatively favourable situation of the Swedish economy” after the financial crisis of 2008, given “the solidity of public finances before the eruption of the crisis” (Scarpa 2015:107). Also, the OECD (2015) calculations show that, before the mid-2000s, the redistributive effect of income taxes and social transfers among the working-age population used to range between 35% and 40%, but by the early 2010s the effect had weakened to approximately 28%. The effects were seen in diluted social insurances and a higher proportion of uninsured and “ex-insured”¹¹ in the labour force.

11 We here introduce the term “ex-insured” (*utförsäkrade*), which refers to people whose period of social insurance benefit has expired.

Diluted social insurances

Given the reduced benefit generosity of the social insurances, social inequality increased in the Swedish labour force. The generosity of sickness insurance, which had been falling since the early 1980s in terms of the net income replacement rate of an average industrial worker, further decreased during the Alliance government rule. The income ceiling was raised in 2006 by the Social Democratic government, but with the Alliance in cabinet later the same year, it was lowered to the former level (Ferrarini, Nelson, Sjöberg *et al.* 2012:36). This had gendered effects, because in 2014 women made up 66 per cent of those on long-term sick leave (Försäkringskassan 2015:9). With the introduction of an endpoint for sickness benefits, benefit duration in 2010 was below the OECD average, which had not been the case since the 1950s (Ferrarini, Nelson, Sjöberg *et al.* 2012:38).

The reforms had also made the unemployment insurance less generous. The net income replacement rate of an average industrial worker in Sweden decreased from 61% in 2006 to 42% in 2014 (OECD 2017). Moreover, in 2015 only 10% (formerly full-timers) received an unemployment benefit of 80% of their former income. In other words, 90% were then under-insured. By comparison, thirteen years earlier, 25% were under-insured (SO 2016:3). The fact that wage increases had eroded the replacement rates was primarily because the nominal income ceiling for unemployment insurance was not raised between 2002 and 2015: There is no automatic indexing, which means that the value of the compensations decreased greatly relative to wage development during the period.¹² Additionally, the basic part of the unemployment insurance was also nominally unchanged from 2002 until the new coalition government raised the daily allowance (from SEK 320 to SEK 365) in September 2015. As an example of the decreasing value of this compensation, measured as a proportion of the Swedish average wage, the basic part of the unemployment insurance decreased from 55% in 2002 to 43% in 2010 (Calmfors & Marthin 2011:14).

Finally, measured as a proportion of the Swedish average wage, the highest daily allowance of the unemployment benefit in 2010 was on a much lower level compared with two or three decades previously (Calmfors & Marthin 2011:14). As underlined in an opinion piece by representatives of the trade union *Akademikerförbundet SSR*, the net income of the highest daily allowance for unemployment insurance had been lowered to the same level as the compensation for social assistance (Kjellberg 2016:80). In terms of de-universalization, the mentioned policy changes have seriously challenged the adequacy of benefits (cf. Goul Andersen 2012). Also, another effect of this dilution of the unemployment insurance was the increased demand for alternative private insurances, not least group-based insurances offered by trade unions as a strategy to gain new members.

12 The new coalition government of the Social Democratic Party and the Swedish Green Party decided to raise the nominal income ceiling in September 2015. This meant that the proportion who received 80% of their former income increased by 20 percentage points (SO 2016:3). But it also meant that 70% of the unemployed were still under-insured.

More uninsured or ex-insured in the labour force

Due to enforced benefit conditionality in the social protection systems, more people have ended up uninsured, e.g. young people who do not qualify for benefits because they have no employment history and people on temporary contracts or part-time employment,¹³ or ex-insured, e.g. those expelled from the sickness insurance. Among those who no longer qualified for the stricter work condition for unemployment insurance that was introduced in 2006, a clear majority were women, as a significantly greater proportion of women than men have short-term and part-time employment on the Swedish labour market. Concerning sickness insurance, the distribution of ex-insured, due to the introduction of the endpoint for sickness benefits, is also socially structured. In 2010, among these individuals, approximately seven out of ten were women, nearly six out of ten had secondary education as the highest level of education, and almost five out of ten had a mental disease as a main diagnosis (ISF 2013:38). According to official statistics, 14% of the working age population was estimated to lack an adequate income qualifying for the sickness benefit, and for 4–5% this was the case on a long-term basis. This was more common among women, young people, single parents, those with low education and foreign-born persons (Försäkringskassan 2013:10, 20).

Concerning the unemployment insurance, several reforms resulted in an extensive loss of membership, thereby increasing the risk of receiving a very low income during unemployment. From the end of 2006 to the end of 2014, the proportion of the labour force not belonging to any of the unemployment insurance funds increased from roughly 17% to 29% (Kjellberg 2016:60). The consequence was that these non-members were only eligible for the lower, basic part of the insurance, that is, *if* they qualified for the work condition, which was rather difficult as the eligibility criterion had become stricter. Between early 2006, before the Alliance won the parliamentary elections, and June 2013, the proportion of the unemployed who actually received an unemployment benefit decreased from around 80% to 38% (Kjellberg 2016:61).

We have seen that several policy decisions made by the Alliance resulted in the extensive loss of membership to the unemployment insurance funds. The reason many people felt forced to leave the funds was reforms that raised the cost of being a member: Member contribution financing substantially increased to all funds as the membership fee of 40% was no longer tax deductible (this was also the case concerning the tax deduction for union membership fee of 25%). As a result, the average monthly membership fees were elevated: from about SEK 90–105 per month in 2006 to about SEK 330–365 per month in 2007 (Kjellberg 2011:74).

Besides the fact that contribution financing increased substantially relative to tax financing, the system of financial equalization between high- and low-fee funds was

13 Lorentzen, Angelin, Dahl et al. (2014:48) showed that the percentage of young people who either qualify for the basic part or for the income-related part of the unemployment insurance decreased from 45% in 1999 to 10% in 2010, and that most of the decline took place between 2004 and 2010.

abolished (Kjellberg 2016:77f.). With the introduction of risk-dependent contributions, the system became even less universal (cf. Goul Andersen 2012:168). These reforms were part of a wage restraint policy, meaning that trade unions within industries with higher levels of unemployment, and, thus, higher membership fees, are supposed to restrain their wage demands.¹⁴ The differentiated fees should be seen as part of a national activation policy in another way, i.e. as an incentive to seek employment in industries and professions where the level of unemployment – and correspondingly the unemployment insurance fund fee – is lower (Calmfors & Marthin 2011:6). Also, the introduction of differentiated fees had distributional consequences, as it dismantled the earlier solidarity policy of risk-pooling. It contributed to a more unequal income distribution as “there is a negative covariation between average income and unemployment in the different funds” (Calmfors & Marthin 2011:7, our translation).

Another effect of the reforms was that the significant increase in the number of unemployed who were not entitled to an unemployment benefit, or who had very low compensation, put higher pressure on social assistance: “the last social safety net”. Broström (2015:229) emphasized that the extensive changes to unemployment insurance showed a markedly increased proportion of unemployed among social assistance recipients across the period 2007-2012. In 2013, 47% of all social assistance recipients were unemployed (Johansson, Thorwaldsson, Nordmark *et al.* 2014). In Salonen’s terms (1997, our translation), this rollback of welfare state commitments is an example of “a shift from social insurances to social welfare”.

In addition, the majority of unemployed who did not qualify for unemployment benefits did not receive any public support whatsoever (not even from the social services), and thus had to rely on private sources of financial support such as family and friendship networks (Calmfors & Marthin 2011:14; see also Hort 2015:49). Following heavy criticism, the increased and differentiated fees were abolished in 2014, but the ideological foundation of the reform proved that, in Swedish social protection systems, universalism is no longer necessarily a cherished principle.

Concluding discussion

We have shown processes of de-universalization of social protection systems in Sweden, which we interpret as part of a monetary regime wherein consolidation of public finances is the highest priority, even for states that have a comparatively low national debt, such as Sweden. According to Streeck (2015:23, 25), these kinds of changes in the Swedish fiscal policy framework have resulted in a leaner, consolidation state where “the foremost objective of national economic policy” is to preserve the confidence of

14 Besides reforms within social insurances, in-work benefits and subsidized employment for low-wage service jobs were two major strategies to reach the underlying policy goal, as the government expressed it, to “improve wage setting” (Prop. 2009/10:1, p. 38, our translation). This means, literally speaking, that these reforms pressured the reservation wages downwards, i.e. the lowest wage an unemployed will be prepared to accept when offered a job.

international financial markets through “an ironclad commitment to a fiscal surplus generated and continuously renewed by spending cuts, to bring down the accumulated debt”. However, political commitment to the consolidation regime was a fact a decade before the Alliance’s won in the parliamentary election in 2006. Thus, the Social Democratic minority governments paved the way for a fertile political-economic soil for fiscal austerity (cf. Hort 2015:64). The new direction of fiscal policy, and the development of labour market policies at the end of the 1990s and early 2000s, towards more conditional and contractual citizenship rights, set the stage for the Alliance’s reforms.

However, should the new work strategy only be seen as a continuation of policies of social democracy in an established consolidation regime? Our interpretation of the main reforms and the social inequality outcomes of the new work strategy is that partisan politics in Sweden still matter. In 2006, a large budgetary surplus had been accumulated, but despite this the policy implemented was strongly oriented towards paying off the national debt (cf. Streeck 2014:124). When the government, besides focusing on “debt service” to its lenders, undertook a politics of lowering taxes – especially the job tax deduction – it had to continue with spending cuts affecting social benefit claimants. This means, in other words, that the fiscal consolidation needed following the debt service to creditors, while simultaneously lowering taxes, was made possible by implementing less generous social benefits and increased qualification requirements in social protection systems. As shown by Bengtsson (2014), this also concerned active labour market programmes, with a huge reduction in the per cent of GDP that was invested in unemployed persons. We should stress that the Alliance decided upon their major reforms in the social protection systems before the Great Recession of 2008–2009, i.e. these reforms were not enforced by international creditors due to poor prospects of the Swedish economy. Instead, these reforms were deliberately aimed at shrinking the welfare state through the massive redistribution from the public sector to the private sector.

Of outmost importance to understanding this policy shift are the institutionalization and legitimization of the new work strategy reforms. In contrast to the principle of universal welfare policy underpinning the “social democratic welfare state” (cf. Esping-Andersen 1990), the Alliance’s discourse of outsiderhood (a state created through benefit dependency) carries the moral logic of a selective welfare policy. Thus, we share Streeck’s conclusion (2014) that the Alliance – under the guise of needing to pay off public debt and implementing demand-side, “structural reforms” in institutions of social protection – implemented a policy intended to gradually dismantle the universal welfare state.

To sum up, to conceptualize essential changes in the social protection systems analysed here, we suggest that Sweden, the former prototypical “social democratic” welfare state, has adopted, under the new work strategy, a new institutional framework for social protection that we may call a “work-first, consolidation state”. Thus, the institutional changes analysed in the present article should not be described as “marginal adjustments” but as signals of a “fundamental change of course” (cf. Gilbert

2004:13–14). We can illustrate this fundamental change of course with the “considerable fall of the redistributive effect of Sweden’s tax and benefit system”, as observed by the OECD (2015:1). Thus, the government’s capacity to assist less affluent members of Swedish society, by equalizing economic life chances, has clearly diminished. This also means that an increasingly number of people have to rely on social assistance as their last resort. Others have to rely on family support, which can be seen as an example of the “re-familialization” of welfare (cf. Björnberg 2012).¹⁵

The implemented policies analysed here have institutionalized a new social cleavage in Swedish society, i.e. increased the differences between the healthy working population and those in “outsiderhood”. The policy shift has proved itself politically consequential, as the policies have dissolved the commonality of interests between the broadly defined working class and the middle class. Thus, this development has created sharper dividing lines between insiders and outsiders (cf. Korpi & Palme 1999:56).¹⁶ This counteracts coalition-building between poorer and more affluent citizens and may result both in opposition to expanding the welfare state and in less redistribution. Moreover, in an age of austerity policies, it becomes increasingly difficult to reconcile the interests of insiders and outsiders. Extensive spending on active labour market programmes and social benefits that favour outsiders might divert resources that could be spent on reducing taxes or social services, something from which insiders would benefit to a higher extent. For the Swedish Social Democratic Party, which traditionally had a stronghold both among insiders and outsiders, this “insider-outsider dilemma” has increased. Thus, one probable outcome of the new work strategy policies is that social democracy will now, as well as in the future, have to adapt more strongly to pro-insider policies in order to keep, or to seize, governmental power.¹⁷

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15 This is because social assistance is calculated on the basis of the household’s economy, and a person with a partner with a relatively good income will thus not be entitled to the benefit.

16 The insider-outsider dilemma refers to a socioeconomic cleavage that sets insiders, those who have stable and protected employment, against outsiders, those who are more vulnerable to unemployment (Lindvall & Rueda 2012).

17 Accordingly, Lindvall and Rueda (2012) showed that the Social Democratic party lost a great deal of support from insiders in the 2006 election, because insiders were attracted to the Alliance’s work-first approach.

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