

# Egalitarianism in the process of Modern Economic Growth: The case of Sweden

Martin Andersson and Christer Gunnarsson

Department of Economic History

Lund School of Economics

Lund University

220 07 Lund, Sweden

[Martin.Andersson@ekh.lu.se](mailto:Martin.Andersson@ekh.lu.se)

[Christer.Gunnarsson@ekh.lu.se](mailto:Christer.Gunnarsson@ekh.lu.se)

## Abstract

In this paper an analytical framework is developed where the poorly understood question of the long-term relationship between equality and growth is addressed. The authors go on to demonstrate the interconnectedness of egalitarianism and growth through the process of structural change in the case of Sweden during the last two centuries with emphasis on the drive to Modern Economic Growth. The authors argue that while the successful Swedish development obviously is unique and conditioned by specific historical circumstances, valuable lessons could nevertheless be drawn for current LDCs.

The Swedish case demonstrates that the agricultural transformation, spurred by the enclosure movement, paved the way for surplus production and commercialisation through the inclusion of the peasantry. This inclusion together with subsequent institutional arrangements sustained egalitarianism and became fundamental elements in the rise of the Swedish industrial market economy.

During the first half of the nineteenth century (around 1820) the early phase of MEG commenced and was concentrated on agricultural exports and cottage industry. Incomes increased for the bulk of the population and domestic demand for industrial goods rose. However, poverty remained, especially in regions with low rate of commercialisation, and the income distribution became wrenched. After 1870, however, industrialisation became more decisive and absorbed agricultural labour that had fallen behind during the previous phase of social differentiation. Structural changes at this point in the industrialisation process thus became levelling.

By the time of the emergence of the modern welfare state the Swedish economy had in practice completed the transition to MEG. Therefore, the solutions offered by the welfare state were on the hand aimed at remedying problems associated with the modern industrial economy, e.g. unemployment, old-age pensions etc. On the other hand these solutions were only feasible in an already highly developed economy.

In sum, although sometimes challenged, egalitarianism has, both in terms of equality of opportunity and for institutionalising individual rights, played a central role in the rise to modernity in the Swedish case. This, the authors contend, is a valuable implication for today's developing countries.

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## **Bibliography**

## 1. Purpose and background

For some decades after WWII Sweden was time and again referred to as a 'model' in terms of economic and social development. At least until the mid 1980s Sweden was frequently taken to represent the 'middle way' between capitalism and socialism due to its evident achievement in building up a publicly financed (tax-based) welfare state while at the same time preserving the conditions and dynamics of a highly expansive and internationally competitive free-market economy. For anyone looking for historical evidence in support of the feasibility of a 'growth with equity' development strategy the Swedish experience with 'capitalism's most advanced welfare state' (Freeman 1995:17), would then appear to offer an almost perfect match. Although this 'ideal model' has somewhat flaked off in recent decades under the pressures of globalisation and deregulation it is probably true that Sweden remains more egalitarian than most other developed economies. Inter-sectoral and regional income disparities remain fairly limited and the gender income gap has been considerably narrowed. By and large, it appears that equality remains a fundamental trait of society.

While the existence of the Swedish egalitarian society is widely acknowledged there is surely a great deal more disagreement with regard to its roots. Basically, there are two conflicting interpretations of the origins of Swedish egalitarianism. One version emphasises the institutional arrangements of the modern welfare state, which are fundamentally regarded as products of the social democratic political hegemony from the 1930s onwards (for a review see Lundberg 1985; see also Lindbeck 1992 and 1995). This interpretation focuses on the provision of publicly financed utilities via a redistributive system of taxation and transfers. The principal goal of this system has clearly been to provide equality in terms of outcome (equal welfare services to all), but an important aim of, for instance, the publicly funded educational system, which offers schooling at all levels free of charge, has indeed been to provide equality of opportunity. Defining a Swedish model in this way is to lay emphasis on the development of formal institutional welfare enhancing arrangements in the period after WWII, i.e. in an already essentially modernised and industrially developed economy. So, whatever the policy lessons that can be drawn from this experience it would be of less relevance for developing countries undergoing, or struggling to set in motion, a process of socio-economic transformation from agrarian to industrial society.

Thus, an alternative historical interpretation of the Swedish experience may be more relevant for developing countries. This interpretation holds that Swedish equality has grown out of a path dependent process of economic, social and political change, which has involved country specific characteristics and qualities. Hence, the roots of equality can be tracked back in history to a traditional agrarian society with an extraordinarily high degree of freedom for the peasantry and a correspondingly weak aristocracy. This autonomy of the peasantry is taken to have been upheld through a strong, and often absolutist, state that based on the political support of the farmers by and large managed to repudiate the claims of the aristocracy. This strong state was in turn the bearer of the process of institutional change that was to lead up to the formation of the modern welfare state. Thus, according to this view, this historically rooted egalitarianism tended to breed centralism (Rojas 1991; see also Trägårdh 1999). The state used the support from the peasantry as a gadget for establishing central rule and the lineages of modern egalitarianism are routinely traced to this alleged authoritarian political culture. Typical features of this notion of egalitarianism are an alleged weak civil

society and a strong faith in public intervention for provision of social welfare. With this interpretation of the roots of egalitarianism any form of replication of a Swedish model would be deemed futile, since it is taken to be tightly embedded into a very long historical tradition, which reaches several centuries back and which lacks close resemblance with practically all other countries. On the face of it, little can be learnt in terms of development policy for growth with equity according to this view.

Both of these interpretations are, however, little more than expressions of how the Swedish experience can be assessed from the viewpoint of conflicting contemporary ideologies and while the first view is essentially ahistorical, the latter remains to be backed up by solid empirical evidence. The purpose of the present survey is decidedly not to outline the origins and detailed characteristics of the modern welfare state. Nor is the purpose to trace the 'long roots' of Swedish egalitarianism back to the beginning of time. Instead, the purpose is to study the role of egalitarianism (defined in terms of *equality of rights* and *equality of opportunity*) during the period when Sweden was a developing economy, i.e. undergoing a process of economic, social and political modernisation that transformed the society from agrarian to industrial. In Sweden this transformation process occurred approximately in the period beginning in the early 19th century and culminating in the 1930s. It was during this period that the specific politico-economic organisation began to take shape that was to lay the basis for the emergence of the welfare state after WWII.

Based on a reading of accounts and interpretations offered by leading academic research in economic history it shall be demonstrated that egalitarianism had a strong influence on the formation of the modern Swedish economy. However, in contrast to the interpretation of egalitarianism as a top-down project for the benefit of centralism while restraining the development of a civil society, historical evidence points to the opposite, namely that a modern type of egalitarianism in the agrarian economy nurtured not only the rise of a civil society, thus forming the basis for the political voice of the peasantry, but even more so the rise of the modern market economy. Thus, inclusion of the peasantry in the transformation of the agrarian economy and institutional arrangements that sustained egalitarianism were to become fundamental elements in the rise of the Swedish industrial market economy. In this analysis a framework suggested by Simon Kuznets will be applied. This framework suggests that in Modern Economic Growth, MEG, egalitarianism is both a precondition for growth and an integral part of the process of change.

In this view egalitarianism is a central pillar in how the development process is to be understood. The Swedish case can be elaborated upon from the viewpoint of this 'growth through egalitarianism' perspective. The main strategy will be to offer an account of the case of Sweden that explores the contingencies, choices and conflicts in the historical process of modernisation from agrarian to fully developed industrial society. On the basis of this account an interpretive analysis will be presented in order to make the findings and observations from the case of Sweden comparable with other cases.

Thus, the purpose of this historical account is not to offer a blueprint for development. The historical case of Sweden is unique and cannot be replicated. Nor can it be argued that the Swedish experience represents the only, or best, path towards attaining equality in development, neither in terms of outcome nor with regard to the way

egalitarianism can play a leading role in the process of economic modernisation. However, the Swedish experience shows that although an egalitarian socio-economic structure (mainly with regard to distribution of productive resources) was somehow founded before the advent of modernity, equality and inclusion were not irreversibly given preconditions for development. In the process of modernisation, forces and tendencies were working in different directions; some (wrenching) forces tended to increase inequality and other (levelling) forces worked in an equalising direction. In different ways these forces also influenced on the processes of political development and institution building.

The role played by equality in the development process is as much a result of choices and decisions made at critical moments in the process of modernisation as it was a precondition for change. Although Swedish development history cannot be repeated today the kind of egalitarianism it exposes has obvious relevance for modern development policy. The historical manifestation in the process when this egalitarianism was created and maintained may be unique for Sweden, but the type exists in many forms. Thus, the Swedish historical experience may represent one historical variant of a more universal model of equality in development.

In short, the historical evidence indicates that strong wrenching forces were at work in the process of modernisation of Swedish economy and society after 1800. During the initial phases of modern economic growth, inequality tended to rise. Strong population growth and land concentration resulted in a rapid proletarianisation of the rural population. In the first three decades of the century the number of poor increased. From the 1840s onwards living standards appear to have risen as a result of a higher agricultural productivity that spurred the rise of the home market although at the same time inequality was on the rise. From around 1870, levelling forces got the upper hand and inequality appears to have been declining as a result of job creation in the expansive export industries. The inequality and poverty that later called for the institutions of the modern welfare state in the 1930s were on the one hand effects of high unemployment rates in the industrial sector in the 1920s and on the other hand due to the fact that some forty per cent of the labour forces remained engaged in agriculture. This called for previously unknown forms of policy intervention. However, these measures were implemented in an already mature industrial economy.

The principal questions addressed in the report may be summarised as follows:

- What were the changes over time in the pattern of equality/inequality in Sweden from the beginning of the modernisation process up to the establishment of the welfare state?
- What factors, conditions and forms of economic modernisation or political agency led up to the creation of institutional arrangements that contributed to the Swedish equitable pattern of development?
- At what historical moments were these institutions challenged?
- What have been the effects of Swedish egalitarianism on growth?
- What implications does the historical case of Sweden give for our thinking on the relationships between equity and economic growth?

The report is organised in the following way. After having presented our analytical framework in greater detail we go on to outline the preconditions for modern economic

growth before and around 1800. This is followed by an overview of the fundamental traits and a periodisation of the process of industrialisation from around 1830 up to modern times, with an emphasis on the period before WWII. Focus here is laid upon depicting observable indicators of equality and poverty reduction during the transformation process. Thereafter, we return to the transformation process in search of the causal links between equality on the one hand and growth and transformation on the other. Finally, some implications from the Swedish experience on the development debate are provided.

## 2. Analytical framework

Before building a chain of interrelated sequences with regard to equality and economic growth in Swedish economic history, something needs to be said about the concepts used, how they are defined and what weight they carry in the analysis. First, growth and equality are regarded as inter-linked during the process of structural change in a developing economy. Hence, the evolving pattern of equality in an economy is not merely an outcome of the growth process but also a factor conditioning and shaping the same growth process. The type of pattern with respect to growth and structural change that evolves in an economy will determine the degree and type of equality/inequality that will come into being. On the other hand, the type of pattern with regard to equality/inequality that exists or develops will have a decisive impact on the character of the growth process and on the process of structural change. Thus, the causality works in both directions, and the process set in motion is likely to generate positive or negative outcomes depending on the specific circumstances at hand. Therefore, growth and equality are non-separable entities, although the direction of change will be dependent on the character of each specific development process.<sup>1</sup> For instance, forces released during structural change might therefore create tendencies that affect equality negatively or positively, simultaneously or counteractively. Needless to say, this complexity is problematic and for analytical reasons it has to be approached in a dynamic analytical framework that allows for long-term change and that does not anticipate outcomes in analytical models with in-built and pre-determined causal chains. This means that we are assuming that growth and equality are causally linked during the development process, but in what way the causality runs will be determined by the historical context and the process itself.

Secondly, equality/inequality cannot be analytically separated from the problem of poverty. Although a change in poverty may be an outcome of both growth and distribution a change in poverty might also affect the long-term process of growth and structural change, for instance through migration and the size of the home market. A change in poverty also influences the size of the tax base and it is likely to have inducement effects on the formulation and implementation of policies. Thus, the poverty-growth-inequality triangle is a cumulative and mutually reinforcing process that can take both virtuous and vicious shapes (cf. Bourguignon 2004).

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<sup>1</sup> E.g. growth might reduce inequality (Kuznets 1955, Gallup et al 1998); growth might increase inequality (Kuznets 1955, Adelman and Morris 1973); high inequality might reduce growth (De Janvry 1998, Griffin 2002, Alesina and Rodrik 1994); high inequality might stimulate growth (Saint-Paul and Verdier 1993); low inequality might reduce growth (Lewis 1954); and low inequality might stimulate growth (Andersson 2003).

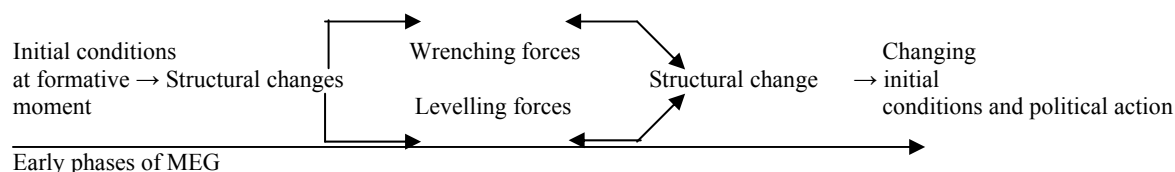
Thirdly, throughout the report equality will be approached from two perspectives: *equality of opportunity* (which focuses on the possibilities of individuals to improve her life conditions) and *equality of rights* (which directs attention to the institutional set-up). We discuss these two aspects separately to the extent that they adhere to different processes. Unless there is a fair amount of equality of opportunity there is no reason to expect economic reforms to be received and responded to equally by economic actors or the fruits of growth to be diffused equitably after the growth process has begun. Equality of opportunity is closely related to individual capabilities (such as literacy or specific skills) but it also concerns access to, and distribution of, property and, not least, the possibility to derive an income from property. Equality of rights is related to the protection by law of individual civil rights. Equal rights and equality of opportunity are sometimes conflicting principles. On the one hand, people may be unable to use their formal rights if the distribution of property is very uneven. On the other hand, redistributive efforts to strengthen the property base of some people will always have to affect some other people's rights in a negative way. This is also the main reason why equality is not always good *or* always bad for growth, but could be *either* depending on the combination of opportunities and rights. It should be noted that rights and opportunities are defined in relation to individuals and not to groups, communities or other collective types of organisation.

Fourthly, the case of Sweden will be analysed in a framework that allows consideration of the long-term changes in growth, poverty and inequality. The basis for such a framework is offered by Simon Kuznets' analysis of the drive towards Modern Economic Growth (MEG). The Kuznetsian framework is utilised for highlighting the structural changes in institutions and the real economy that occur during periods of transformation from agricultural to industrial societies. Although such transformations in the majority of the cases in the North Atlantic hemisphere took place in the 19th century, many countries in the world are still waiting for this transformation to gain momentum. To be sure, the constraints and opportunities of the historical context of the 19th century differ from what the developing world is facing today and tomorrow, but at the same time, the *forces* of change in the North Atlantic hemisphere were not necessarily historically unique. Long-term transformation still requires structural changes. In the words of Kuznets (1964: 103) 'the significant characteristics of the rises associated with modern economic growth are the large and rapid shifts that occur in the structure of an economy – in the relative importance of various industries, regions, classes of economic units distinguished by form of organisation, economic classes, commodity groups in final output and so on'. These shifts are not only conditions of the development process, but also part of the very dynamics of the process, thus warranting its sustainability.

Thus, changes in the pattern of equality are related to the pattern of growth, and vice versa. By patterns of growth we refer not primarily to the *rate* of growth, but to the *type* of growth in terms of where it originates from and what it is incited by, i.e. its driving forces. For instance, growth induced by agricultural growth has different dynamics than growth from industrial activities, growth from capital-intensive mining activities might not create the same effects as growth of labour-intensive manufacturing industry, and home-market induced growth has a different set of implications than export-led growth. These different sets of dynamics in the transforming economy have impacts upon the pattern of equality in terms of *wrenching*

and *levelling forces*, i.e. when the dynamics of the growth process are interpreted in terms of shifts in the relative advancement between sectors and segments of the economy. This follows closely the forces underlying Kuznets' grand generalisation of the inverted U-curve pattern.

### Illustration of the analytical framework:



On the one hand, part of the growth-equality relationship is captured by the dynamics of structural shifts in terms of wrenching and levelling forces, which on the other hand are related to economic opportunities and rights. We thereby try to assess the effects of structural changes (e.g. sectoral and regional development, population pressure, technological and institutional change) on the pattern of egalitarianism (e.g. social stratification, market opportunities). Concurrently, we find it plausible that the effects of equality of opportunity and rights will be factors shaping the type of growth that will come into existence. The rationale of this relationship is grounded in the potential of the individual in pursuing a productive activity in the market place. Just as a piece of fertile land laying in fallow and an engine running on empty are a waste of productive capacity, individuals lacking equal rights or opportunity would make the market work below its efficient optimum, not to speak of the economic inefficiency of social instability and disenfranchised citizens. Equality may therefore play an important role on the supply side of the economy. Equally important is that individuals lacking rights and opportunities do not have the capacity to generate incomes, at least not in the formal sector, which would invigorate the process of market deepening. Hence, demand-side effects also matter. Hence, as a corollary, the possibilities to mitigate the wrenching forces in the growth process are associated with the initial situation and parallel development of equality of rights and opportunity. Although we have no objective and unassailable method that would make it evident as to where to exactly draw the line between patterns of relative equality and relative inequality when it comes to access to productive resources, we find that the extent of individual accessibility to land, markets and education provide reasonable approximations of the pattern of equality.

These forces must thus be specified and treated with regard to a period of societal change that encompasses the actual transformation to MEG. Periodisation of the course of history is an analytical instrument to grasp the mechanisms at work under different forms of dynamics. Thus, backed up by economic historical accounts of Swedish development, we pin down the early phase of MEG, try to assess relevant developments preceding it and go on to divide the process into periods according to distinguishable types of growth with respect to the aggregate growth-equality relationship. In addition, the transformation itself is partly conditioned by a set of initial conditions at the start of the modernisation period. These initial conditions are, however, not primarily interesting as constituting a descriptive account of the case, but more as an analytical device for explaining the characteristics of the forces underlying the process of transformation. As these initial conditions themselves are subject to



change during the passage to development, we also need to investigate how the process of change affects the (formerly) initial conditions. The initial conditions are seen and defined in institutional terms, according to the institutional underpinnings described by Kuznets as *egalitarianism*, *nationalism* and *secularism*. By egalitarianism Kuznets meant a denial of inborn differences among human beings and a distribution of rewards according to accomplishments rather than by social status. In our perspective this is expressed in the sum of the equality of rights and opportunities that accrue to individuals in a society. By nationalism Kuznets referred to the capacity of the state to provide the stability needed for modern economic growth, the presence of an elite dedicated to modernisation and the setting up of formal institutional arrangements that are conducive to MEG. Although this is important we shall not address this issue from the point of view of exogenous institutional change, but rather analyse institutional change as an integral part of a process of socio-economic change. Secularism is the belief that religion and ecclesiastical affairs should not enter into the functions of the state. This was never an issue in Sweden because, in fact, the principal-agent relationship tended to work in the opposite direction since the 16th century. Rather, a peculiarity for Sweden is that since the church was subordinated to the state the clergy, in the long run, in effect, tended to play an almost secularising role.

### **3. The foundation of modern Sweden - Egalitarianism in the pre-modern economy**

The great transformation of Swedish agrarian economy and society to a fast growing and rapidly modernising industrial economy took place during the second half of the 19th century. Between the 1860s and 1914 Sweden had one of the highest rate of per capita growth in Europe, growth being driven by industrialisation and a thriving export-sector. It appears that the fruits of this modernisation were fairly equitably distributed, although, as shall be shown, strong wrenching forces were in force. However, already since the beginning of the century a series of events and circumstances, including fundamental and comprehensive institutional changes, had contributed to creating preconditions for the acceleration of growth that was to follow. What was it then that changed so dramatically? It is often argued that Sweden was among the poorest countries of Europe before the industrial transformation by the mid 19th century (Sandberg 1979). What were then the characteristics of the pre-modern economy and what were the preconditions for modern economic growth at the beginning of the 19th century?

In one sense it would be seriously misleading to portray Sweden by around 1800 simply as an unchangeable land in the periphery of Europe. From the Middle Ages the economy developed from a state of agricultural self-sufficiency and barter trade in a loosely unified nation state to become one of the political and military great powers of Europe in the 17th century, but by the early 19th century Sweden had lost most of her foreign possessions and political influence. At that time the preconditions for economic modernisation had been laid. Still, up to the beginning of the 19th century Sweden remained a basically pre-modern economy in terms of economic structure and institutional arrangements with many traits of backwardness similar to present day LDCs.

In his periodisation of Sweden's economic history from the Middle Ages and WWI

Heckscher (1954) refers to the period reaching from 1720 up to 1815 as ‘the foundation of modern Sweden’. Those were the heydays of mercantilism, when a number of important institutional changes occurred, and the beginning of modern forms of division of labour. In this period the initial conditions were set up for the industrialisation and a rapid growth that was to follow in the 19th century.<sup>2</sup>

In terms of the formal institutions of governance Sweden was certainly not backward or stagnant economy by the early 19th century. The institutions of central and local government had been extraordinarily well developed since the 16th century as an ingredient in the establishment of the modern nation state, in particular under the headship of Axel Oxenstierna during the zenith of the Great Power Era around 1650. The extraordinary coverage and quality of quantitative economic and demographic data, collected for the purpose of taxation, since those days is, in fact, a direct effect of this extensive administrative system. Another example is the establishment of the Bank of the Estates of the Realm, in 1668, the oldest central bank the world. The bank was under the sole administration of the parliament, and has remained so ever since. This parliament, the Diet of the Four Estates, had been in operation since the 15th century.<sup>3</sup> In addition, literacy rates were considerably higher than in practically all other European countries and it has been argued (Sandberg 1979) that this had to do with the peculiarity that the church and the clergy were, in fact, subordinates of the crown. At any rate, a major duty of the clergy was to oversee the collection and keeping of the unique Swedish local population registers from the mid 17th century.

Thus, in this pre-modern society both political and economic institutions were quite sophisticated by European standards and the quality of the stock of human capital was probably well at the level of England. So, the question raised by Sandberg: “If you Swedes were so sophisticated, why weren’t you rich?” is a most valid one (Sandberg 1979:226). It means that there is something beyond formal economic institutions, good governance and human capital that matters for economic growth. The picture is further complicated if we add that Sweden is normally regarded as a resource rich economy with, also in pre-modern times, a record as a leading iron producer and holder of a copper monopoly in the 17th century. Still, it remained comparatively poor.

What were the characteristics of egalitarianism in the pre-modern society and to what extent may it have delayed or encouraged an economic transformation? An important aspect of the pre-modern economy concerns distribution of property rights in the main economic asset, land. A typical feature of the economy was that land was more evenly

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<sup>2</sup> According to Heckscher, in the first period, the early Middle Ages, the country was an economically undifferentiated society without any actual division of labour between the free and the unfree, although serfdom still prevailed. The second period, the 14<sup>th</sup> and 15<sup>th</sup> centuries, was characterised by the gradual rise of crafts and mercantile towns and Heckscher holds this period to mark the beginning of a division of labour between town and countryside. The 16<sup>th</sup> century, or roughly corresponding to the reign of Gustavus Vasa, marks a third distinctive period, which Heckscher refers to as the maturity to the medieval economy. In this period the contours of the modern nation state began to take shape, in particular with respect to administrative changes. The Great Power Era between 1600 and 1720, during which the absolutist state was consolidated and the geographical area of the country substantially enlarged, represents a fourth distinctive period. Another important aspect was the confiscation of church property following the reformation. Finally, Heckscher refers to the period 1815-1870 as the Great Transformation.

<sup>3</sup> The freeholding peasantry had political representation in the Diet of the Four Estates since the 15<sup>th</sup> century. The three other estates represented were the nobility, the clergy and the burghers.

distributed than in the more feudal parts of Europe. Feudal tendencies were seldom very strong, in fact not even in the Middle Ages. Even if types of ownership varied, the land was in most cases tilled by peasant cultivators on small plots. A *latifundia* type of agriculture did not develop even on the land owned by the aristocracy. As Heckscher puts it:

“From time immemorial, the overwhelming part of Swedish soil has been cultivated by peasants; ownership by others did not exclude this. In the majority of cases, in other words, the landowning nobility and gentry merely collected their fees from the tenants; they were absentee landlords or rentier, not managers”(Heckscher 1954:29-30).

Both wrenching and levelling forces were, however, at work. At the end of the Middle Ages one fifth of the land was owned by the church, but after the confiscation of church land as part of the Reformation the state was in direct control of some 28 per cent of the land (Heckscher 1954:67). The share of nobility land remained stable at slightly above 20 per cent, whereas peasant freeholders with somewhat vaguely defined, but for the most part enforced property rights controlled roughly half of the land.<sup>4</sup> During the Great Power Era (1600-1720), however, tendencies of feudalisation grew strong indeed, especially around 1650. The military expansion had been exceedingly costly and the debt-ridden crown gave away or sold practically all crown land as repayments of old debts and withheld salaries or in return for services rendered.

Even more important was the virtual assault on the property rights of the freeholding peasantry by the transfer of tax rights to the nobility. By 1652 only 28 per cent of the land remained in the possession of peasants or the crown (Heckscher 1954:117). It is obvious that these land transfers added to inequality. A nowadays familiar argument in favour of privatisation was forwarded, namely that crown land would be more efficiently employed by private owners than by the crown. Dismantling of crown property thus contributed to a huge concentration of wealth in the hands of the aristocracy. The freeholders' right to property was being seriously questioned. The argument was heard that the nobility were the only free subjects of the crown and that the peasants were subjects under the nobility and thereby only indirectly subjects under the crown. Thus, the fears of feudalisation frequently expressed by the peasant estate were by no means groundless.

Feudal tendencies were abruptly ended and reversed under the reform in the state finances, the so called *Reduction* in the 1670s, when the crown confiscated possessions that had previously been alienated. This policy intervention is one of the more important events in Swedish history, since it was to have a fundamental and lasting impact on the course of history. Freeholders and tenants on crown land regained their old status. Around 1700 the nobility, the crown and the freeholders controlled roughly one third each of the land. That the legal status of the freeholders was improved by their escape from the dangers of serfdom is quite obvious. For the nobility the change was also apparent. The reduction curtailed its role as a *rentier* class by attacking its

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<sup>4</sup> There were four categories of land ownership: 1. Crown Land, i.e. the land was directly owned by the state and user right leased to the peasant tenant; 2. Church Land, i.e. land owned by the church and the clergy with exemption from government tax and tenants paying dues to the church; 3. Nobility Land, i.e. owners were exempt from land tax and held the right to collect dues from their peasant tenants; 4. Freeholders, i.e. peasants on 'tax land', paying fees to the crown as ruler of the realm.

right to collect rents. Much peripheral land was handed over and it appears that there was a tendency for the nobility to become 'gentleman farmers' (Heckscher 1954:128). This marked the beginning of the modern manorial system that was to play an important role in the subsequent modernisation of agriculture.

Whether any real improvements occurred in the economic organisation of peasant agriculture is less certain. Throughout the 18th century Sweden remained a basically low-productive agrarian economy. Organisational changes and extension of the area under cultivation led to increasing output and more people could be provided for. The size of the population almost doubled to reach 2.3 million by 1800. But living standards were low and mortality rates high and heavily fluctuating. In the 1750s life expectancy for males was 35 years and for females 38, and by the turn of the century it had only risen marginally to 37 for males and 40 for females (Bengtsson 1992:18).

Whether inequality rose or diminished is more difficult to assess. Changes in land distribution point to increasing equality. In 1815 more than half of the taxable land was in the possession of freeholding peasants, partly due to the effects of the *Reduction* and partly as a consequence of the enclosure movement from the mid 18th century. Enclosures (splitting of the villages, abandoning of strip farming and privatisation of commons) occurred all over Europe but a peculiarity for Sweden is that the process tended to be more equalising. Instead of a flight to the towns (as in England) the enclosures led to new settlements and land partitioning. Availability of virgin land must have been an important factor behind this. With the enclosures it became both technically easier and legally more feasible to establish new farms. The number of taxable farm units appears to have risen by as much as one fifth between 1750 and 1810. This development was spurred by the growth of population that was even faster. The size of the rural population grew by almost one third between 1750 and 1810 (Heckscher 1954: 165).

Thus, it is possible that land partitioning contributed to an equalisation within the peasantry. How much of this was shared poverty? To a large extent the economy remained in a stage of low level equilibrium since greater part of the growing output was used up by the larger population. So, much of the growth appears to have been extensive rather than productivity driven. On the other hand, at the same time a process of mounting differentiation had been set in motion. Reductions in the tax level had meant that an increasing proportion of production could be retained by the cultivators, something that some could benefit from more than others. The population increase, the enlargement of cultivated area and the increasing specialisation and commercialisation provided other incentives for expansion. One aspect was the gradual dismantling of mercantilist trade regulations, which had reflected the old political division between town and country and which had regulated the division of labour in the economy. With commercialisation these regulation became increasingly obsolete. In the towns demands were raised for dismantling of the privileges of the guild system and for freeing of trade, and these interests coincided with commercially oriented farmers who were seeking new markets for their products. As an effect the trade in cereals was entirely deregulated in 1775, although some restrictions remained concerning who could trade, and where (Lindström 1923).

The growth of exchange in the countryside, and between town and country, is in itself an indicator of productivity growth. Obviously, the surplus capacity of the rural

economy must have risen considerably at the end of the 18th century. However, conditions are likely to have differed a great deal between regions and between segments of farmers. It is often argued that modernisation of agriculture was initiated and led by the big land owners, the new gentry. However, contrary to this view it has been shown that in the south the Land Enclosure Act of 1803 was first implemented in peasant-dominated areas (Fridlitzius 1979), which indicates that there was a layer of commercial farmers of considerable size and influence. In contrast, the enclosures were only slowly implemented in other parts of the country, where the old village community appears to have been seen to offer a higher degree of security. Probably, then, there were tendencies towards differentiation within the peasantry in the second half of the 18th century.<sup>5</sup> One segment of the peasant community became increasingly involved in the modernisation process, whereas it appears that many, in fact, were “crowded into an agricultural sector based on poor land and a worse climate” (Sandberg 1979:227).

In terms of rights there was clearly a process towards greater equality in the 18th century. The important and decisive element was the strengthening of *individual* rights, especially for the peasantry. As we have seen the peasants had historically had a strong position in Sweden in comparison with the more feudal parts of Europe. However, the enforcement of their property rights was often arbitrary and liable to change with variations in political cycles. More important is the fact that the protection of the rights of the peasantry fundamentally referred to the collective, the village community, rather than to the individual household. The land alienation to the nobility in the 17th century was carried out in the form of enfeoffment of villages, not individual peasant property.<sup>6</sup> Peasants may have been free from feudal bonds but they were not free citizens. The fact that the peasantry had representation as an estate in the parliament has led to some confusion. The concept of ‘estate’ implies a legal categorisation. It determines the rights and obligations of a category of people, but it does not automatically give individual rights.<sup>7</sup> Therefore, it is important not to confuse this type of egalitarianism in the pre-modern society with the type of egalitarianism that was to play a role in the process of modernisation.

As the process of economic change gained momentum there was a continuous process of individualisation and strengthening of property rights. This necessarily involved a great deal of wrenching in the distribution of incomes and assets. The differentiation of the peasantry and the growth of the landless and semi-landless population were factors that were to play immensely important roles in the process of modern economic growth that followed in the second half of the 19th century. But this change did not come as a bolt from the blue, its foundation had been laid in the process of commercialisation, individualisation and opening up of new opportunities. So, although before the industrial revolution opportunities for individuals to break out of the rural community and economy remained limited, it is obvious that a relatively

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<sup>5</sup> According to Söderberg (1985) there are two alternative hypotheses in the literature regarding 18<sup>th</sup> century trends in social differentiation. One line of argument (Isacson 1979) is that there was long-term downturn in inequality culminating around 1800 whereas other evidence (Herlitz 1974) points in the direction of increasing inequalities in the latter half of the century.

<sup>6</sup> Enfeoffment was the deed by which a person was given land in exchange for a pledge of service.

<sup>7</sup> The concept ‘estate’ is, in fact, similar to the concept of ‘caste’ in that it is a legal classification according to the group affiliation of the individual, but it does not provide any legal rights to the individual as such. A similar problem occurs when, today, legislation is passed that caters for groups or categories of people rather than individuals, be it gender, ethnicity or class.

equal access to resources, e.g. land and human capital, was to play an important role once the transformation got underway. Here one may play with counterfactual hypothesis that modernisation had taken place in a bimodal economy (with highly unequal distribution of assets) but with secure and well-defined property rights. In such a case the extent of exclusion is likely to have been considerably higher and the preconditions for structural reforms within the peasant sector more limited. Thus, Sweden at the threshold of MEG rested more on equality of opportunity than on equality with regard to individual rights, since the latter were to be developed gradually in the process of modernisation.

In sum, in the creation of preconditions for MEG the egalitarian distribution of property probably mattered more initially than the formal protection of property rights. Individual property rights were vaguely defined under the old village community system and it would be unwise to simply trace the lineages of later forms of egalitarianism to the old village-based society. The gradual splitting up of the village community under the enclosure movement paved the way not only for surplus production and commercialisation, but also for a strengthening of individual property rights within the peasantry. Thus, a new type of peasantry emerged. As shall be seen, these rights laid the basis for a number of subsequent processes and institutional reforms.

#### **4. The Great Transformation – The wrenching period 1820-1870**

The decades before and after the turn of the eighteenth century constitute the start, or the formative period, of the drive towards MEG. The increasing rate of population growth in the latter half of the eighteenth and the first half of the nineteenth century put pressure on the economy in terms of its capacity to feed the increasing population. Issues regarding both institutional and technological change came to the fore for accommodating this pressure and for increasing agricultural efficiency. Both population pressure and involvement in the Napoleonic Wars led to increasing grain prices and created incentives for commercialisation, for investments in existing land and for clearing and cultivation of new land. This stimulated a wave of land reform (enclosures) in the Swedish countryside. A second phase, when enclosures had reached greater part of the country, occurred during the decades up to 1850. From the 1820s onwards there was a secular rise in the consumption of industrial goods, which is an indicator of the increasing importance of industrial activities. It is reasonable to explain this change by the increasing surplus capacity in agriculture. Hence, at the end of the 1820s, the low and erratic pre-industrial economic growth changed into a more sustained and productivity induced economic growth with sustained growth in GDP per capita, i.e. Modern Economic Growth (Schön 2000: 118).

As in most countries in Western Europe the economic and social changes that took place in the Swedish society during the 19th century laid the foundation for the rise of the modern society. Doubling of the population size and the industrial revolution were two fundamental characteristics of the century. With modernisation followed institutional reforms such as the compulsory school system, the bicameral parliament with the emergence of a modern political system, the final abolition of mercantilist trade regulations, emerging labour market legislation and an embryonic social security system. The industrial breakthrough is often thought to have occurred during the

second half of the century and to have been driven by the export sector. According to one influential view “economic expansion was stimulated by a very keen foreign demand for Swedish export goods, and the export industry’s growth rate exceeded that of the home market industry” (Jörberg 1973:441). The same author goes on to argue that “Sweden’s industrial development was in high degree a process of adaptation to events outside the country’s frontiers /.../ only to a lesser extent was it an independent process of economic expansion” (Jörberg 1973:439. See also Jörberg 1969). Thus, the industrial expansion is taken to have been export-led. It was “a large exogenous increase in the international value and economic usefulness of its natural resources and the availability of technological opportunities” that paved the way for Sweden’s industrialisation (Sandberg 1979:227).

Thus, according to the export-led growth thesis the rate of economic growth was slow and structural change minimal before the sudden rise in foreign demand after 1850. This view has been challenged, or at least modified. It has been argued that previous research underestimates the role of the domestic market and that an industrial expansion, especially in textile production, gained momentum before the 1850s, although the drive towards industrialisation accelerated in the second half of the century (Schön 1979).

What is the significance of an altered interpretation for the growth-equality-growth nexus? Basically, if industrialisation is export-led the home market may be too small to function as an engine of growth. This in turn may be a consequence of the type of agrarian transformation that precedes or coincides with industrialisation. If the growth of the modern (industrial) sector attracts underemployed labour from the agrarian sector and there is no real competition for labour between the sectors, the industrial sector could be supplied with labour without having to offer higher wages (the Lewis model). Simultaneously, this implies that the terms of trade between agriculture and industry are changing to the disadvantage of agriculture, which means that the gains from exchange are transferred to and accumulated in the industrial sector. If there is technological change and economies of scale apply in such an economy there is likely to be a process of polarisation in the agricultural sector. More efficient units of production will gain while farmers on smaller units will eventually tend to become landless or semi-landless.

Because of the uneven distribution and the falling real incomes of the lower classes the total income generating capacity of agriculture will in the long run be insufficient for the sector to serve as a growing market for manufactured goods. Growth of domestic demand will occur only as a multiplying effect of export growth. Thus, in a process of export-led growth: (1) growth of exports precedes growth of the home market, (2) the development of the manufacturing sector precedes the growth of the agrarian sector and (3) agriculture serves as a source of capital accumulation and labour supply, whereas its role as a market for consumption goods is limited. As an utmost consequence economic growth is highly unlikely to occur without a rising demand from foreign markets. The internal forces at work will be entirely on the supply side, i.e. improvements, which make the economy apt to respond to foreign demand, such as investments in education or infrastructure.

If, in contrast industrial growth is driven by an expansion of the home market a different set of mechanisms would apply. This presupposes a different type of agrarian

modernisation, one which allows the sector to function as a market for manufactured goods as well. Normally this type of development requires some kind of productivity improvement in agriculture (measured as output per worker), another characteristic being that it occurs either with a more even distribution of assets, or with a differentiation among the peasantry that allows for a rise in productivity and income for large segments of the rural population. Also this type of change could lead to exclusion and polarisation between the very resource-rich and the extremely resource-poor. However, a major difference between the two types of transformation is that in the latter form productivity improvements occur also on middle-sized and smaller farms. Since incomes may be rising, the sector may be competing for labour with industry. In addition, the terms of trade will not necessarily develop in favour of the industrial sector. Due to the competition for labour, industrial wages will have to be raised as well. As a consequence, the purchasing power increases among both agricultural and industrial workers, thus constituting a substantial contribution to an enlargement of the home market for consumption goods. Thus, industrial development need not precede the modernisation of agriculture. In addition, the home market for manufactured consumption goods is growing which means that the growth of exports need not precede the growth of the home market.

The significance of equality for a home market-led growth process is obvious. Schön (1979) argues that the increasing consumption of textiles was due to a rise in incomes that must have originated in agrarian changes. The enclosure movement spurred commercialisation and investments on large and middle-sized holdings. At the same time population growth gave rise to a rapidly growing number of landless. Initially, productivity gains accrued mainly to larger land owners, which according to Schön, is reflected in the growing consumption of finer qualities of cloth. Later, as the enclosure movement gained momentum, and reached over the country, large segments of the peasantry could also gain from the new opportunities, which is indicated by the growing consumption of manufactured cloth of plain quality. In this sense the enclosure movement was not an equalising force, but it paved the way for a broadly based expansion of the home market via institutional and organisational changes that allowed for productivity growth. The existence and importance of rural cottage industry during the early 1800s (Schön 1979, 1982, Magnusson & Isacson 1982) supports the view that there was an early growth of the home market for manufactured goods. Therefore, it is reasonable to conclude that there was a rise in domestic demand and that it was spurred by increasing incomes among the peasantry.

How well does this view accord with other evidence? Even the proponents of export-led growth would agree that the agricultural transformation preceded industrialisation, although there would be some disagreement with regard to effects of the technological and institutional changes that occurred. Agricultural modernisation laid the foundation of a long-term improvement in living standards during the decades to come and there was an augmentation of purchasing power in the home market before industrialisation was being spurred by the growth of foreign demand in the 1850s. Aggregate indicators point in the same direction. After 1830 the long-term decline in infant mortality was sustained and accelerated (Bengtsson 1992; Bengtsson & Ohlsson 1994). The first half of the 19th century was marked by increasing production through land clearance, whereas productivity improvements appear to have been more limited. Still, it appears that an introduction of new tools and crops prevented labour productivity from decreasing during the times of rapid population growth (Gadd 1983).



Production was, thus, of an overwhelmingly extensive character. Still, agrarian capital accumulation on particularly small farms (larger farms had access to non-agrarian capital) was on the increase after 1830, a process taking place without becoming a burden for the non-agrarian sectors (Martinius 1970). Intensified land use and the development of forestry are indications of increasing surplus productive capacity. At the same time they were a major factor behind the increase in investments and the productivity improvements in the agricultural sector. This encouraged a development led by the home market and with enhanced savings, credit institutions soon emerged in the countryside. These developments were, however, unbalanced and led to a social differentiation within the agricultural sector and between regions. So, what happened to poverty and inequality?

As shall be shown, the first half of the nineteenth century was predominantly wrenching, not least due to the fact that the increase in population resulted in a higher share of landless people. Another important factor behind the wrenching tendencies was the fact that also discrepancies of regional economic growth were growing, which is a natural development of initial industrialisation when imbalances are significant (and perhaps also desirable, see Hirschman 1958). These processes are also reflected in data on rural poverty and it is towards these accounts we now turn.

Estimations of the rate and development of rural poverty during the 19th century have been done on the basis of data registering rural people exempted from tax payment due to economic inability (Lundsjö 1975). Poverty is then defined as the lack of resources beyond what is necessary for subsistence. Although such data does not exist for the whole country it is clear that regional differences (between east and west) initially were quite substantial and that the proportion of poor initially was greater in the western parts. There was, however, a trend towards a narrowing of this gap. In the east, the number of poor rose marginally during 1825-60 but from a relatively lower level. The poverty reduction in the western parts took place despite a higher population growth (the bulk of which took place among the lower segments of the peasantry).

One explanation for the narrowing of the poverty gap between the regions may be that the rate of productivity growth was higher in the west because the backlog was greater (due to the low capital intensity) and because of the stimuli of international demand in this region. The agricultural sector in the west was more smallholder based, whereas larger estates dominated on the eastern plains. The relatively more bimodal system in the east therefore came to host a stronger increase in the number of landless (Utterström 1957). However, as industrialisation became more profound after the 1860s, the rate of poverty reduction became stronger in the east, while the share of poor in the total population in the west decreased more modestly. Judged by this evidence, the share of poor in the whole population was only slightly reduced between 1825 and 1860 but poverty remained a characteristic of the Swedish rural economy. Poverty reduction, however, was stronger in initially relatively poorer regions.

According to a similar study, in areas where agriculture was not commercialised, and in areas isolated from markets there was no reduction in the share of people living in poverty between the 1820s and the 1870s (Söderberg 1982). The absolute number of poor therefore rose considerably in such areas. After the mid-1800s, poverty was more forcefully reduced nationwide, even if success depended on the pace of

industrialisation and commercialisation of agriculture. According to Söderberg, therefore, poverty was most effectively fought by the mechanisms of industrialisation, i.e. opportunities for wage employment and market integration.

Incipient industrialisation created income opportunities for a small, yet growing, segment of the population and in agriculture the net effects of productivity growth and export opportunities were greatest for those farmers who were advantageous in terms of ownership and location. There are thus strong indicators supporting the view that the first half of the 19th century was overwhelmingly wrenching (see also Söderberg 1985). For instance, in the southernmost parts of Sweden, the incidence of poverty between the 1820s and the 1870s was below the national average, but poverty was not decreasing and there were large and increasing income gaps (Söderberg 1978). It has even been argued that living conditions may have worsened for the poorest segments of the agrarian society, i.e. the growing number of landless and semi-landless (Bengtsson 2004).<sup>8</sup> In sum, the early phases towards modern economic growth created a social differentiation within agriculture. These wrenching tendencies were reinforced by the fact that population growth was un-proportionally fast among the strata that lacked ownership to land.

Around 1830, less than one tenth of the Swedish population resided in urban areas. The Swedish economy was thus significantly rural and based on agricultural activities while the urban economy was not directly dependent on, positively or negatively, on the agricultural sector, i.e. urban centres had come about neither as an effect of a productivity-based release of labour (positively) nor a result of rural-to-urban migration due to agricultural backwardness (negatively). Instead, the urban centres were products of yesteryear mercantilist institutions. Before the industrialisation process gained momentum in the 1850s, and hence before the massive rural-urban migration flows, poverty in urban centres seems to have been lower than in neighbouring rural areas (Söderberg 1982).

It is interesting to note that inequality in Stockholm during the same period seemed to be marginally levelling, a trend that was a continuation of the distribution of income in Stockholm since early eighteenth century. Taken together this trend mirrored the relative decline in the wealth and number of persons of rank (Söderberg 1985). The wrenching forces were thus at work in rural Sweden but not in the urban economy. The wave of migration to the towns had not started during the first half of the 19th century, since the engine of the early industrialisation was not found in urban industry but rather in rural industries tightly connected to the agricultural sector. In 1860, 89 percent of the population still lived in rural areas and it was around this period that the rate of growth of the urban population exceeded the growth rate in the countryside. Around 1870, the differences in the incidence of poverty between urban and rural areas had largely disappeared due to out-migration from backward rural areas and as an effect of increasing agricultural incomes.

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<sup>8</sup> These findings are based on empirical studies of Western Scania in the extreme south. Western Scania and the eastern plains resemble each other in that both these regions were partly more bimodal agricultural systems than other agricultural parts of Sweden. They were also decidedly more monocultural in that production was heavily specialised on cereal. Proletarianisation and landlessness were thus stronger in these parts after enclosures. Forces of industrialisation were particularly important for poverty reduction in such areas.

The diversification of economic activities in the rural areas produced a social stratification due to unbalanced growth in the initial phases of industrialisation. For instance, in areas where large landholdings catering for the export markets were predominant, market opportunities were principally seized by landowners, whereas the landless were growing in numbers. Similarly, more peripheral parts of the country were not taking part in the early advancements due to high transportation costs. In this sense, the growth process could not produce a decline of the number of poor, due to the fact that still large numbers did not have access to, or had not become involved in, the growth process. On the other hand, as we have seen, the share of the poor in the total population did not increase despite the fact that population growth in the lower segments was considerable.

A central levelling force was thus in its infancy and would gather full strength in decades to come, a force revolving round diversification of rural economic activities, increased agricultural labour productivity and enhanced rural purchasing power. The changes in the agricultural economy had raised the level of income and stimulated the emergence of production of locally produced simple consumer goods (for instance textiles). These early industrial activities were well underway and developed further alongside the widening of the market in the 1850s. It was now that the modern offshoot of cottage industry came in terms of modern factories. In its footsteps wage employment became more common and income from industrial work tended to raise real wages for workers relative to farmers. The increasing importance of waged labour thus constituted a wrenching force due to social differentiation between industrial and agricultural labour. On the other hand, in terms of differentiation within the agricultural sector, the lowest segments – the landless – now found increasing opportunities, while the larger farmers also could take advantage of the expansion of market and the larger domestic demand.

Far from all farmers, however, were able to benefit fully from the agricultural transformation due to different possibilities to apply productivity enhancing methods. Thus, the conditions in the agricultural sector proper were also in all likelihood best characterised as wrenching. However, as industry continued to expand and agriculture was under pressure to increase its labour productivity, levelling forces soon became dominant.

In sum, revolutionary changes occurred in the Swedish economy and society in the period 1820 to 1870. Structural changes in the agrarian sector combined with high population growth were the main driving forces of change. Although industrialisation began to gain momentum, especially after 1850, changes in production organisation as well as living conditions concerned mainly the rural population. Between 1800 and 1870 the agrarian population grew by almost one million people. Technological improvements and new settlements, both of which had been made possible through the land reforms (enclosures), helped raising productivity and living standards among the freeholding peasantry. It seems that these improvements were instrumental in spurring the expansion of domestic demand that preceded the rise of export-oriented growth that followed in the second half of the century. However, modernisation also involved a considerable degree of social differentiation.

So, on the one hand part of the rural society became increasingly involved in and played an important role in the modernisation process. The rather equitable distribution

of land among the freeholders helped creating a broad basis for modernisation and market expansion. On the other hand, poverty was widespread among the landless, in fact also in the regions where poverty levels were lower than the national average, such as the manorial regions in the south and the east. Thus, strong wrenching forces were at work and obviously the equality of the old society was challenged, if not yet shattered. The capacity of the old village community to provide the institutional arrangements needed, whether for encouraging markets exchange, for education of the young or for provision of social security and poor relief was seriously challenged. New arrangements were needed if equality of opportunity was to remain a factor of importance in the transformation the economy. As we shall see the strength of and relative equality among the freeholding peasantry remained an important factor of change. Institutional arrangements for schooling, poor relief and credits were set up within the local rural community and institutional change appears to have been driven by a demand from below for such changes rather than by top-down decrees.

## **5. The Great Transformation - The levelling period 1870 – 1920s**

Most scholars agree that it was around 1870 that the preconditions for the industrial breakthrough had been established (Gårdlund 1942, Heckscher 1954, Jörberg 1969, Martinius 1970). After 1870, agriculture was in relative decline and manufacturing for exports became a driving force (Schön 2000). It might, however, be more correct to suggest that the Swedish industrial revolution took place during the second half of the nineteenth century during three distinctive spurts: 1850s, 1870s and 1890s. Exports had been expanding since 1850, but domestic market expansion was still more impressive (Schön 1982). Industrial activities, mainly raw material and rurally based, were intensified during the 1850s due to the agricultural transformation and domestic demand and the advantages provided by the Crimean War and British demand. It was also during the 1850s that construction of railroads began, important not only for the transportation of tradable goods, but also for the diffusion of capital inputs and new technological equipment.

If we are to speak in terms of an actual industrial revolution, or most decisive spurt, the 1890s might be a more correct periodisation. During the 1890s, the Swedish economy had become integrated and a new generation of Swedish industries became strong injections in the industrialisation process. It must, however, be remembered that Sweden at this point was still a largely agricultural economy, especially in terms of employment, but also in terms of the contribution to total GDP.

The choice of 1870 as a watershed is however not only in accordance with most research on the industrial breakthrough, it also characterises a change in the dynamics of the industrialisation process, namely that the levelling forces after 1870 seem to have gathered more strength than the wrenching forces.

With the expanding industry wages and income became more important for the pattern of equality than wealth per se. The rise in real wages after 1870 naturally caused the middle classes to grow (Söderberg 1985). Equally important is that the wage gaps between males and females and between skilled and unskilled workers started to shrink (Bagge et al. 1935). These levelling trends should be seen as a sign of the dramatic increase in industrial production and demand for labour at the end of the nineteenth

century. The equalisation of wages in the industrial sector contributed to the levelling trend, but what about the income gap between agricultural and industrial labour? Since Sweden remained a largely rural society and the agricultural sector still employed the largest part of the workforce, a gap between the sectors could be expected to have a great impact on the general pattern of inequality. To explain why it did not, we need to examine the changes taking place in the agricultural sector.

As we have shown the distribution of land was generally highly unimodal and characterised by small-sized, family-owned farms. In 1870, 85 percent of all farmers were also free-holders. Approximately half of all farms were between 2 and 10 hectares and farms larger than 20 hectares constituted a mere 8 percent of the total number of farms and ploughed roughly 11 percent of total land (Bagge et al 1935: 186). The large estates were to be found on the fertile soils of the plains in the far-south and mid-east. Although leasing of land was not a dominant agricultural arrangement in Sweden, leaseholders were more common in areas of large estates and where large companies owned much land, as in the north. The smallest farms were most frequent in forest districts in the lower-north and upper-south of Sweden. While the small farms predominantly employed family labour and hence did not rely as much on the availability of wage labour, the larger farms increased productivity by land-improvements (e.g. drainage) and application of machinery. Concurrently, the utilisation of labour per hectare was obviously much higher on small farms, where mechanisation was introduced later and off-farm employment was more important for total household income. Another form of off-farm employment, or off-farm income, was the use and exploitation of non-arable land during the agricultural low season.

In terms of *absolute* numbers engaged in agriculture, 1880 is the turning point when the numbers start to decline. However, a disaggregation of the data reveals that there was a marked decline in the number of people in the lowest social segment from 1870. Freeholders and lease-holders were not declining in absolute numbers until after 1910. The crofters (cf *inquilinos*) and servants on the other hand were declining after 1870 at the same time as day-labourers (temporary agricultural wage-earners without holdings) became more numerous (Bagge et al 1935: 194-203). When industrialisation and urbanisation gained strength in the 1870s, not only did the crofter class decline, a labour market for agricultural wage labour emerged as well.

As we have seen, the industrialisation process was intimately connected to the development of the agricultural sector in several ways. Rural industry responding to increasing domestic demand played an important role in the early phases of industrialisation. The rise in domestic demand is therefore a key factor, but the international context also came to play a decisive role, not least through the effects of changing relative prices.

The international decline in prices after 1875 occurred for several reasons, although lowering of transportation costs may have been the main cause and Swedish exports became severely affected by the competition from Russian and American producers. The decline was, however, greater for cereals than for fodder grain due to the fact that transportation of livestock was less developed (although on the rise) and that the pattern of consumption was changing from bread to meat (Engel's Law). This change of relative prices produced gainers and losers and, hence, changes in the distribution of income among different strata of the agricultural population and between urban and

rural populations. Grain production, the most important agricultural activity, was generally undertaken by larger farms while smaller ones focussed on cattle and dairy-farming (Bagge et al 1935: 185). Although a decline in prices put pressure on the whole agricultural sector, the more diversified small-scale producers, who were not solely dependent upon selling cereals on the market, but rather sold a wider range of goods were probably less affected than large-scale producers of cereals, whose alternative was to switch to fodder grain and to increase productivity. The fact that small-scale agriculture had shifted to animal-related production and the demand for dairy-products was rising made the demand for labour more evenly spread out during the year (whereas grain production was more seasonal). In addition, small-scale farmers also generated income from forestry and subsidiary agricultural occupations.

The rise in real wages in industry from the 1870s onwards occasionally led to an even stronger rise of agricultural wage labour (Jörberg 1972). In the 1860s, agricultural wages were about half of the wages received by skilled industrial labour, but the demand for labour in agriculture forced wages upwards, although not to the level of the industrial sector. The need for more skilled labour came in response to opportunities for surplus production, i.e. rising aggregate demand for food. Urban population more than tripled between 1860 and 1910 (Kuuse 1970). The declining prices made real wages rise for the non-agricultural population and the rise in aggregate demand gained agricultural actors that were most productive. Thus, industrialisation and urbanisation absorbed agricultural labour, the pressure for increased productivity became stronger resulting in a more intensive use of labour as well as mechanisation.

Since land clearing during the second half of the nineteenth century largely was completed, intensification of land use became all the more important in order to increase production. Fertilisation (artificial manure) had its major breakthrough during the 1880s and imported fertilisers soon initiated domestic production. In conjunction, new seeds (e.g. high-yielding and temperature patient varieties) were introduced (Kuuse 1970). These advances in land productivity also required and induced advancements in labour productivity. The seizing of these opportunities were, however, not equal. Surplus production was predominantly taking place on larger and mid-sized farms. This not only stimulated domestic industrial production of fertilisers, tools and machinery (through backward linkages), but also, and more importantly, the rise of the food manufacturing industry (through forward linkages). Parts of the agricultural population (the lowest stratum) continued to be eliminated by the forces of rationalisation of agricultural production and subsequently absorbed in industry, while small-holders stayed put and increasingly had to rely on income from diversified occupations.

During the 1890s, the traditional sources of export revenue, however, came under increasing pressure but the new industries rapidly took over the role as the driving force in the economy. Iron industries and saw mills thus gave way for engineering, paper/pulp and consumer goods industry. After the great flows of emigration to America during the latter half of the nineteenth century, labour began to be a scarce resource and real wages subsequently rose faster than GDP per capita. This resulted in higher consumption and a stronger domestic market. From the 1890s to the mid-twentieth century, Sweden held a top position in per capita growth rate.

The availability and importance of capital imports during this period clearly facilitated investments as export revenues had been declining during the 1880s. Through this means, wages could also continue to rise and consequently broad-based consumption. These capital inflows were organised by the banks, which were imperative in the expansion of the domestic capital market and the evenly distributed pattern of savings that emerged. According to Schön (2000: 206) “It might seem paradoxical, but equality in the distribution of income and a strong position of the banks are two sides of the same coin” (translated from Swedish).

During WW I Sweden practically did away with her accumulated foreign debt, while the public deficit rose dramatically. Thus, there was a change in the 1910s from capital imports to domestic savings. The increase in the savings ratio had to do with the fact that the debt changed from being foreign to domestic after 1910 and hence interest payments stayed within Sweden. In addition, the national social insurance market had its breakthrough during this period. During the interwar period, the Swedish economy, like the other North Atlantic economies, experienced severe fluctuations between expansion and contraction of the national economy. As an effect, the rates of unemployment increased immensely after the crisis in the early 1920s and stayed at a high level throughout the decade.

The rise of the strength of the working classes shifted focus from the peasantry as the bearer of further structural change. As we have seen, the agricultural sector could take advantage of the deepening of the market through its rising purchasing power and modern inputs in the form of mechanisation became crucial for the growth of productivity. Scarcity of labour also pushed up agricultural wages. But there is no escape from the fact that the relative importance of the farmers was under a process of secular decline. This became apparent in the growth of the industrial sector. In terms of production volumes, the agricultural sector was twice as large as the industrial in 1890 – in 1930 the relationship was the reverse. These structural changes signified that a modern society had emerged. As such, toppled with the instability of the 1920s and 1930s, the institutional order was put under great strain.

## **6. The Emergence of the Welfare State – the second wave of levelling**

The unstable economic situation during the 1920s in Sweden was intimately connected to the changes taking place in the international economy where the gravity of world development turned towards the US and new patterns of competitive pressure had turned inflationary tendencies during WW I to deflation in the 1920s. The traditional mills and factories were hit hard by these fluctuations, whereas the new industries of the 1890s (whose debts in the 1910s had been inflated away) in alliance with the large commercial banks (that could strengthen their position after the bank crisis had forced smaller banks into bankruptcy) gained during the period.

Costs of living fell during the early 1920s and nominal wages soon followed suit (Myrdal 1933, Bagge et al. 1935). Labour unions also accepted wage reductions in light of the fact that real wages were not reduced. Still, wage differences in industry grew dramatically and reflected the differentiated strength within the industrial sector (Lundberg 1994). During the 1920s, conflicts on the labour market were legion due to the wrenching tendencies produced by the fall of profitability among important

segments within industry. At the same time, the 1920s was a period of profound structural change in which the new development block (electrical motors and machinery and consumption) progressed and certain remnants of traditional rural industry (iron, steel and saw-milling industries) and construction withered. Concurrently, institutions and relationships between the different actors on the labour market picked up strength, a trait that became central in the welfare model in the decades to come.

The gap between rural and urban areas was aggravated during the 1920s due to the steep fall in prices for agricultural products. Since the scope for productivity increases was slimmer in agriculture compared to industrial production and the fact that surplus production in agriculture due to restricted trade during WW I made it difficult to find markets in the 1920s, the agricultural sector fell increasingly behind. The secular rise of per capita income also came to act unfavourably to agriculture due to the inelastic demand for agricultural products. However, if we are to speak of any winners among the agricultural population in relative terms, women left agriculture to an increasing extent because formerly female occupations became masculinised and employment opportunities increased in the cities.

Rural areas, however, still managed to endure in spite of the relative decline of agriculture and, more generally, levelling forces were counteracting the rural-urban income gap and the social differentiation among the working classes. Two processes seem to be of particular importance: the changing role of the state after the crisis in the early 1930s and the opportunities provided by the new industries for rural industry. The advance of electrification and transportation in conjunction with the industrialisation centred round the new development block created opportunities for the countryside to once again constitute an arena for market deepening. The new large industries needed a wealth of subcontractors who could specialise in the production of a certain input. The industrial structure in Sweden became characterised by large state of the art export-oriented engineering industry on the one hand and small-scale industries supplying the large ones or meeting the demand for service and consumption locally and domestically on the other.

The changes taking place during the decades prior to WW II clearly put pressure on the Swedish economy for a new institutional set-up. In Sweden, as in other industrialising nations at the time, the swift and dramatic changes in the world economy produced instability and social tension as large segments of the industrial proletariat faced weak labour laws and unemployment without safety nets. In Sweden the emerging industrial society had been absorbing labour into industrial production at a great scale in a relatively short period of time. This process had far-reaching social and political consequences since when low-productivity agriculture died out and became replaced by wage dependent workers, old structures of family based security also became dismantled. Hence, as industrial employment opportunities suddenly disappeared in the 1920s, due to the loss of export opportunities and the definitive elimination of the old style mills and factories predominately situated in rural towns, the forces of transformation created tendencies of exclusion that had to be accommodated by new institutional arrangements. In addition, the closed economy during WW I followed by erratic markets in the 1920s and 1930s had produced wide differences between sectors in terms of profitability and wrenching forces came to dominate the income distribution structure. Thus the levelling tendencies after 1870 had come to a halt and



the old pattern of equality of opportunity was gradually getting undermined while equality of rights not yet had made its impression in the national legal framework. It therefore seems safe to suggest that although in retrospect there was a clear continuity of stability and equitable growth from the late nineteenth century onwards, the interwar period surely constituted a critical moment under which no direction of development was unconditionally staked out.

When the depression hit in the early 1930s, financial institutions were in disarray, unemployment figures soaring and clashes between workers and employers had become quite frequent and violent. It was in such circumstances that the Social Democratic Party (SDP) gained popular support and came to power with a promise of a new deal for the economy at large that would be inclusive and that would lay restraints upon heavily fluctuating markets – the so called People's Home (*folkhemmet*). The fight against unemployment now became the major concern and, influenced by Keynes, the economic policy revolved around the idea to increase aggregate demand and stimulate the expansion of public utilities and infrastructure. The SDP also, to enjoy parliamentary majority, engaged in log-rolling with the Farmer's Party (Bondeförbundet) by subsidising and protecting the ever more hard pressed agricultural producers in order to ease the effects of the strong fall in agricultural prices. In the mid 1930 agricultural employment remained substantial, in fact in numbers exceeding industrial employment.

The politico-economic structure that was set up from this time onwards is what is normally associated with the modern Swedish welfare state model. From its humble beginnings in the 1930 it expanded to include a variety of aspects political economy and to become the most extensive and advanced welfare state in the Western world. The so called Swedish model can of course be defined in many ways and analysed from a variety of angles, but let us concentrate on a few aspects that are particularly important for the issue of equality. A first aspect is the fundamental principle that the welfare insurance system should be publicly funded via a extensive income tax transfers. This system is in itself redistributive and income compressing. It is basically a system for ex post-redistribution, i.e. redistribution of the fruits of growth. However, in the Swedish context income transfers had a special meaning, namely to push up domestic demand, which via accelerator effects would stimulate investments and growth. So, initially there was strong growth enhancing mechanism built into the redistributive system.

A second aspect is public sector involvement in terms of provision of free education, health care etc and other public services. To a considerable extent the rationale behind such interventions were fairness and the intrinsic value of equality of outcomes as such, especially in health care, but with regard to education an equally important aspect is to provide equality of opportunity. Thirdly, the model was strongly focused on labour market regulations, first by centralised wage negotiation system between employers and unions organisations and secondly by the so called solidaric wage policy that was being implemented from the early 1950s, both of which had a strong wage compressing impact. Strikes were few, largely due to the fact that the trade unions were encompassing in character and largely disciplined by the leading Social Democratic party that held office for 40 successive years (for a discussion see Olson 1990).

Fourthly, industrial policy played an important role in the attempts to speed up and sustain the structural transformation of industry from the 1950s onwards. The solidaric wage policy that aimed at removing cheap labour was one important ingredient in the speeding up of the structural transformation, another being the investment funds generated by the public work pension system that was effective from around 1960. Finally, the rationale of full employment, the slogan on the ruling party, was not only equity for the sake of justice and fairness but even more so the fact that the entire system rested on the assumption that people were participating in the labour market. Participation in the labour market, and the compressed income structure, were thought to contribute to a sustained domestic demand at the same time as the very foundation of the social insurance rested on the assumption that people had work and were able to qualify for social benefits (whether for unemployment, health insurance or pensions).

The rules on the labour market that became institutionalised by agreements between the unions and employer's association were characterised by reciprocity and consensus rather than labour laws and conflict. As a result, general wage increases (and later wage equalisation through the solidaric wage policy) became accepted in conjunction with policies for industrial expansion, rationalisation and labour market stability. The public sector had an important role to play partly by pushing up demand, partly due to the fact that it was in the expanding public sector that most of the new job opportunities were created from the 1950s onwards. Although the fundamental cause behind economic growth from the 1930s onwards is perhaps not to be found in the expansionist fiscal policy per se, but rather in the possibilities given by the widespread and thorough penetration of electrification and motors, the de facto political commitment to institutionalise a way to raise the general standards of living surely was pivotal. The expansion of extensive social policy, housing and health care raised the quality of the stock of human capital as well as it in itself created employment opportunities. Additionally, the protection of the large mass of small scale farmers not only strengthened the link between increased purchasing power and industrial employment it also helped to avoid a potentially explosive situation of large scale underemployment during times when ideological extremes attracted disadvantaged masses elsewhere in Europe.

The solidaric wage policy later became a strong levelling instrument by compressing the distance between high and low salaried labour. In effect, the share of wages of total value added varied greatly between high and low productivity industries with conversely corresponding variations in the share of profits. In this way the pressure for rationalisation became omnipresent and lower productivity industries not able to improve profitability were gradually eliminated. These mechanisms made the system efficient and sustainable as long as the private industrial sector expanded. At the same time, high levels of profits were heavily taxed while the capital and foreign exchange markets were nationally regulated. Through this means savings and parts of the profits were socialised and directed towards furthering the development of the large scale project of the People's Home. In this way an alliance was formed between the dominating political parties, the unions, big business and the public sector. It is interesting to note that the highly profitable large scale private industries actually became tremendously powerful, not least through the indirect support from the dominating SDP. Paradoxically enough, a strong wrenching force, export industry, was actually encouraged since it constituted one necessary prerequisite for the working of the general levelling via the system of transfers.

However, it is important to remember that Sweden was not only made up of big business, big unions and a colossal public sector. As mentioned above, small scale private enterprises, particularly in smaller towns, also constituted an important source of employment opportunities. These enterprises were often labour intensive family businesses supplying goods and services to the local or the national markets as sub-contractors to export industries or as contractors in the emergence of the local public sector arrangements. In addition, agriculture due to being subject to various support and protection still engaged a large part of the working population, although this sector was severely constrained under a secular process of decreasing returns. However, during WW II agriculture fared relatively well due to the lack of trade and the policies for self-reliance. After the war the politics of self-reliance was maintained under the conditions that the agricultural sector should undergo a process of productivity catch-up in relation to the rest of the economy. This process consisted of the penetration of motors and machinery in agriculture and forestry and the corresponding liberation of labour. From WW II to 1970, the agricultural population was reduced from roughly one million to a quarter of a million (Schön 2000). Consequently, labour productivity increased dramatically as smaller agricultural units disappeared to the benefit of mid-sized mechanised units. From the 1950s onwards, both industry and agriculture were thus exposed to continuous rationalisation and while the decline of agriculture signified a lack of dualism, the strength of industry became the most fundamental backbone behind the full-fledged Swedish model of the 1950s.

### **6.1. The threats against the modern welfare state**

This system was not without weaknesses. In the longer run the workforce was gradually being transferred to the public sector, which put great strain on the public sector wage bill and also, given that the system was financed by income taxes, put increasing pressure on private industry to produce a taxable surplus. Because of the concentration and export orientation of industry the economy became increasingly dependent on export revenues and the capacity of the export industry to remain internationally competitive. Tax rates were very high, especially the tax on labour income. This of course made labour costs very high, which on the one hand stimulated investments in new technology and on the other threatened the competitiveness of export industry. In the mid 1970s industry went through a structural crisis as shipbuilding, steel and other basic industries were being challenged by new competitors, in particular from Asia. One recipe that was attempted at several occasions was depreciation of the *krona*. In fact, up to the early 1980s this was the major instrument used to keep up international competitiveness. Furthermore, the devaluations of course spurred inflation and rising labour costs also in the public sector.

There are a number of explanations for the reductions in the welfare system that became necessary during the 1990s. One explanation focuses on the generosity of the welfare systems as such (Lindbeck 1995). According to this view the welfare state has had a tendency to destroy its own foundations. Lindbeck traces the threats to the system to the danger of inbuilt disincentives in the welfare state that come to the fore as habits, norms, ethics and attitudes tend to change over time when new generations enter working life and immigrants come to the country because of the generous

benefits. In this view some people would prefer living off benefits to regular employment. A somewhat similar view often expressed in political debates focuses more on the potential disincentives inherent in the methods for financing the system, the high tax rates, that have tended to penalize income on labour at the same time as people were encouraged to join the labour market. The combined effects of potential disincentives to work and temptation to overuse the benefit system may indeed be seen as a serious threat to the welfare state.

However, although these explanations may be important for understanding the incentives mechanisms of the system at individual level it is important to remember that a number of other mechanisms have been at work that from a structural point of view have posed far more severe threats to the system. The rapid expansion of tax financed public sector employment put increasing strain on the private sector and, in particular, the sector exposed to foreign competition. Although public sector employment was in itself a way both to sustain demand and to maintain a tax base it is always problematic if productivity growth is slower in the sector which hosts an increasing proportion of the workforce. More important was that the mechanism of income structure compression was gradually undermined by the growth of public sector employment. The Swedish model was based on centralised wage negotiations and solidaric wage setting over and within sectors. As the public sector expanded wages and salaries in the public sector tended to follow the levels and trends of private export industry. When from the 1970s onwards international competition hardened the solidaric wage policy became unsustainable between sectors as well and within. Centralised wage bargaining was gradually abandoned in the 1980s and with the vanishing power of national unions solidaric wage setting became obsolete.

So, in the 1990s the dramatic changes in the global economy had severe impacts on the functioning of the Swedish welfare model as well as on income distribution. Income differentials were clearly much greater by the turn of the millennium than in the heydays of centralised negotiations and solidaric wage policy. Most of the principles and instruments of the welfare state, both the redistributive and the growth-enhancing mechanisms, had been set up at a time when the scope for national economic policy was clearly much greater than it was to become from the 1980s onwards. In Sweden, the most fundamental principle of the welfare state, i.e. full employment, had to be abandoned. In years following the financial crisis in 1992 open unemployment rose from 2 to 8 per cent of the labour force and numerous jobs were lost both in private export industry and in the downsized public sector. In the old days employment had been kept artificially high also in recessions by means of fiscal policy interventions. Under the new conditions, including the stabilisation pact of the European Union, which compels member states to minimise budget deficits and keep inflation down, these traditional policies are unfeasible.

With the rise in unemployment and increasing numbers of outsiders there are today large welfare dependent segments of the population that have never really entered the labour market. In this sense Sweden has become much like any other country of Western Europe. This is in itself a further threat to the sustainability of the system since, traditionally, the benefit system in the Swedish model was tightly connected to and dependent on the fact that people had work. Of course, ageing will add to the problem when the large population cohorts born in the 1940s reach retirement and at the same time employment opportunities are shrinking. That income inequalities

between insiders and outsiders to the labour market have increased is obvious but there has also been a rising trend in inequality also among the working population in the absence of the solidaric wage policy mechanism. In sum, although the Swedish welfare state might have lost its old dynamics of equitable growth it has significantly contributed to a new set of initial conditions for future growth. How equitable this pattern of growth will be will largely depend on institutional arrangements yet to evolve.

## **7. Dualism avoided**

To answer the question why dualism did not gain a foothold in Sweden, we need to put the early phases of MEG in a perspective of market widening and market deepening. If the industrialisation exclusively was a result of export expansion or market widening, the process would have produced marked disparities between industry and agriculture and interregional differences. The agricultural sector would only contribute on the supply-side in terms of capital and labour flows. As we have seen signs of dualism also surfaced as export opportunities were opened up in for example the forest-related industries in northern Sweden. Real wage differences between industrial and agricultural labour were also large. These dualistic tendencies were, however, not solidly established.

Industrial expansion commenced in the 1820s and since international demand at that time was limited, domestic consumption was strong enough to stimulate the rise of industrial production. This demand naturally had its roots in the growth in agricultural incomes. “[T]he expansion of textile consumption reflects an internally generated growth which certainly had its roots in the agrarian revolution. The enclosure movement, an increased level of investment and employment, growing incomes, and new social conditions are all ingredients of such a dynamic process” (Schön 1982: 59).

A gradual social shifting of demand to the lower classes, or market deepening, thus paved the way for subsequent outward orientation. Therefore, export industries were seldom operating in an enclave-like manner since the domestic market was integrated through the secular forces of the agricultural transformation (bottom-up) as well as political initiatives (top-down) for transportation and electrification. The initial conditions for Sweden’s industrialisation process were characterised by a weak traditional elite and a growing equality of individual rights. The relative decline of the agricultural sector and rise of the industrial sector was thus marked with relatively few structural impediments, i.e. the commercialisation process was relatively inclusive right from the start.

The first typical difference between the modern and traditional sector, thus, never became yawning but rather corresponding jointly to market opportunities. At the same time, possibilities given by exports were not restricted to the few, but could be exploited, directly or indirectly, by the many due to the early integration of the domestic market. Initial dualism was thus largely avoided. As industrialisation continued, the typical features of wage differentials, urbanisation and population pressure were also present in Sweden, but their effects did not generate cemented inequities since the increase in standards of living was comprehensive. The Lewisian turning point (a sustained rise of real wages and full employment) was also reached

relatively early as labour supply diminished due to thorough industrialisation after 1890s, previous large-scale emigration to the US and owner-operator farmers with opportunities for subsidiary income.

When employment opportunities in industry declined in the 1920s and productivity among the large segment of small-scale farmers fell increasingly behind industrial productivity, wrenching tendencies threatened to produce dualism. Once again, however, these tendencies could be counteracted by a new phase of industrialisation and the active role played by the state after the 1930s to cut down low-productivity activities and transfer value added from the high productivity sector in the form of wages to the remaining, necessary, low productive sectors. This meant that the required full-scale modernisation of agriculture made the small-scale farmers redundant and forced them to seek job opportunities elsewhere. Fortunately, the industrial development was progressing at full speed and could accommodate the labour flow.

## **8. Institutional changes during Modern Economic Growth**

By the late nineteenth century equality of opportunities had been enhanced considerably. Job opportunities had opened up outside agriculture and emigration had taken care of the problem of surplus labour to the extent that conditions of labour shortage had developed. A more equal distribution of income and assets thus evolved with the modernisation process. The transformation from a pre-modern to an industrial economy had, however, put heavy pressure on the institutional arrangements of society. Let us see how some of these pressures were met.

### **8.1. Education**

Access to education is often held up as a key factor for equality of opportunity. It is a well-known fact that Sweden already at the threshold of modernity had a large stock of human capital of high quality. Sandberg (1979:225) writes:

“Around 1850 Sweden had a stock of human capital wildly disproportionate to its low income level. This situation contributed significantly to the speed of the growth spurt that occurred between that time and World War I. In the short run, this large human capital stock allowed Sweden to take fuller advantage of the new opportunities for exports which appeared around 1860. In the longer run Sweden benefited because it is easier to achieve a rapid human accumulation of physical capital than of human capital.”

In this view Sweden was a very poor and immobile economy/society with basically only one big asset, its well-educated population. Sweden was a poor but ‘sophisticated’ country, by 1850 in fact the most literate country in Europe, according to Sandberg, who goes on to argue that during the process of industrialisation “Sweden substantially lived off the economically excessive stock of education and training at all levels that had been accumulated prior to 1870” (Sandberg 1979:231).

That educational levels were high by comparative standard is beyond dispute. But Sandberg’s account is probably inaccurate, and it is so for at least two reasons. First, he probably overestimates the rate of literacy, since much of what he calls literacy is in

fact related to the capacity to read and quote passages from Luther's Small Catechism. Functional reading abilities were probably less developed in the pre-modern society. Second, Sandberg ascribes the high level of literacy to the role of the church and clergy as carriers and transmitters of learning in the peasant society. Although this holds some truth a more important factor was the demands raised, nationally and locally among the rural community itself, for better schooling. With the transformation of the rural economy the demand among the peasantry for reading and writing abilities grew stronger (Nilsson 1995). Many became involved in market exchange and when intimacy and security of the old village community was being dissolved it was imperative for outward-looking people to be able to cope with conditions of the wider world. So, demands for and initiatives to set up local schools often came from leading segments among the peasantry, often the larger and more commercially oriented farmers. When the act of 1842 that required all parishes to set up primary schools was ratified the process was already well underway. Thereafter, pressure was laid upon the local parishes to provide for and finance the development of the school.

Thus, the rising demand for better education can be seen in the perspective of an emerging civil society that developed alongside the agrarian economic transformation. Sandberg is of course right that a large stock of human capital was instrumental in speeding up the modernisation process once it had began but he is wrong in his assumption that the accumulation of human capital was exogenous to the modernisation process. Thus, contrary to Sandberg it might be argued that the Swedes were not so poor after all in the 1860-70s, nor were they, however, extraordinarily sophisticated before the transformation had begun.

The Swedish experience with a large stock of human capital in the modernisation process may have relevance also from a development perspective. If we follow Sandberg's way of reasoning, the fact that Sweden already by the start of the industrialisation period was well-equipped with a skilled workforce was both capital saving - because catch-up investments in education during the industrialisation period would have been costly and returns would have been visible only slowly - and productivity enhancing. A logical conclusion is that money spent on education will be well spent, especially on primary and secondary education. Education increases the stock of human capital and, in addition, it contributes to equality by raising the quality of the labour force virtually by eliminating low-skilled labour. So, a focus on education in development can never be wrong. However, from the Swedish experience we learn that the development of the stock of human capital coincided with, or followed from, the process of commercialisation and early industrialisation. So, although education was to some extent a prerequisite for development it was just as much a characteristic of the process itself. This means there is no guarantee that a one-sided focus on education in a development policy would produce growth enhancing results unless other parameters are put in place as well.

## **8.2. Political institutions**

The political institutions changed dramatically during the 19th century. By 1800 absolutism still reigned, by 1900 the contours of modern parliamentary system had become discernible. The Diet of the Four Estates that represented the legal classification and stratification of the old society was abolished in 1866 and replaced by a bicameral parliament. Universal suffrage was remote, however, since votes to the

parliament were distributed according to economic capability, meaning that economically stronger persons could hold up to 40 times as many votes as a smaller farmer. To this should be added that people without economic resources, landless and labourers had no right to vote whatsoever. The wrenching forces at work in the economy during 1820-1870 were clearly mirrored in the political sphere and it was not until industrialisation and urbanisation had gained momentum, and with it the rise of the labour movement, that modern political institutions, including the right to organise trade unions, were set up and formalised. Universal suffrage for men and women was ratified by the parliament as late as in 1921.

The strong tendency to set up centrally organised unions to handle disputes and other matters related to the labour market is a strong and typical trait of Swedish society. In fact, it was for a long time a leading principle and one of the cornerstones of the Swedish model of the welfare state (Lundh 2002). As we shall see, after the violent and turbulent years in the 1920s and early 1930s the need to establish harmonious relations on the labour market was to become extremely important. Sometimes this centralisation is taken to indicate a typical top-down attitude in Swedish political life, meaning that the Swedish type of egalitarianism is a product of a paternalistic state intervention and neglect of civil society associations. The account given here of the role of egalitarianism in the rise of modern Sweden does not, however, lend much support to such views.

Traditionally, most political decisions are taken locally, in the old days in the parish assembly. Local self-government has a long tradition. Traditionally, research has sometimes seen local self-government as an extended arm of the state or, conversely, as a self-reliant harmonious and unchangeable union of peasants and priests. In one sense there is a historical continuity in the institutional forms of local government (Aronsson 1992). For many centuries the parish assembly was an area for interaction between estates, villages and individuals at the same time as it was the contact organ between central and local forms of governments. The very existence of such an area is of course a recognition of the relatively strong social position of the common people (especially the freeholders) in Swedish pre-modern society. In this context the role of the church is particularly interesting. After the reformation and the confiscation of church property, financial responsibility for the church, the vicarage and the parish treasury was laid upon the local peasantry. This gave the peasants a particular influence over the doings and deeds of the clergy since the church could not solely be considered as the concern of the priests. Thus, in a sense the peasantry 'owned' their churches and the church was made an integral part of the local unit of political governance. So, it is not altogether far-fetched to argue that the local clergy came to play a role in the process of secularisation of life in Sweden. At any rate, it is clear that the contrary did not apply, i.e. religion and ecclesiastical affairs did not have a commanding impact on the functions of local government.

Over time, as population grew and demands grew stronger for communitarian solutions to a variety of issues, the competence and responsibility bare of the parish assembly began to widen. It had to resume responsibility for a whole range of activities in the financial, social and secular spheres. The greatest and structurally most decisive change came with the economic transformation and the changing social rural structure in the course of the 19th century. The social differentiation of the community was to have a deep impact on the working of the parish assembly. Political influence was



reserved for those who had the means to contribute financially to the decisions taken, i.e. those who were in possession of a taxable property. The growing numbers of landless was of course a heavy burden on the local authorities, especially after the decree from 1847 that stipulated that all parishes should provide various forms of poverty relief (Olofsson 1996).

Thus, the poor were left outside the local political arena, they became objects of poor relief and other control measures but they had no say in the process of decision making. Instead, the parish assembly developed into an arena for peasant interests. Thus, on the one hand it was in the assembly that the landed peasantry could have its voice heard against the nobility and the clergy. On the other hand, there seems to have been a gradual shift in the political balance towards a great deal more influence for the wealthier peasants. As we have seen, the homogeneous peasantry no longer existed and political influence was shifted towards the segment of bigger landowners among the farmers. In fact, many a farmer appears as 'landlord' or 'estate owner' in the protocols from the parish assemblies, titles that had traditionally been reserved for the nobility.

Civil society organisations clearly developed alongside, and as part of, the development of the market economy. With modernisation the role of local government changed dramatically. In many parts of the country industrialisation took place in small communities, new towns or municipalities. Thus, there was a need to set up forms of government that suited these new agglomerations. Much of the social organisation in these communities appears to have been organised from below, in the form of voluntary associations for a variety of purposes (schools, sewage, poor relief). There simply was no central organisation at hand that could resume responsibility for such tasks. In fact, many of the public services in the modern society are modern phenomena in the sense that their provision previously had to be managed voluntarily, by civil society associations.

It is obvious that the distribution of property, mainly land, was the organising principle in the process of institutional development. Access to resources defined property rights and the development of political rights sprang out of property rights. The fact that rights and opportunities were fairly equitably distributed in the process of modern economic growth can thus be explained by the equal initial distribution of productive resources. As the industrial and urban economy emerged, employment opportunities opened up that tended to have an income equalising effect, but at the same time proletarianisation left large groups with weak political rights and largely outside any form of effective welfare or social security system.

An implication from this discussion is that the initial distribution of assets matter a lot for how institutions for rights and opportunities will develop. Protection of property rights is a welfare enhancing and equalising device if resources are shared by many but the effects will be the reverse if the initial asset distribution is highly unequal as is often the case in bimodal agrarian systems. Furthermore, as the economy becomes more industrial a growing number of people will be left with basically only one productive asset, their own labour. In that sense labour market participation per se is poverty reducing and potentially also equalising. However, market forces do not build social security systems. Thus, in the modern economy it is only via a process of

democratisation that rights can be developed and shared by the majority of the population, including the resource poor.

It cannot be argued that political institutions in Sweden had been established before the advent of industrialisation and rapid economic growth. 'Good governance' came with the process; it was not a condition for it. The arrangements associated with the Swedish welfare state are clearly more top-down in character and results of political decisions at national level. It should be remembered, however, that the institutions of the welfare state was set up in one of the world's most developed economies, in fact in one of the most remarkable 'success stories' during the 1950s and 1960s.

## **9. Interaction between equality of opportunities and rights and economic development - Implications from Sweden**

The development process is intimately connected to and to some extent conditioned by the scope of equal rights and opportunities. At the same time, the development process itself is a constant struggle between forces that are either wrenching or levelling. In trying to distil lessons from the Swedish case, we therefore need to pinpoint specific situations where human agency has been vital, either as bottom-up or top-down processes, for altering or reinforcing the direction of change.

What we are primarily interested in is how equality is related to the process of growth and how levelling forces can be stimulated and wrenching forces mitigated during the process of growth.

Let us start with the first problem area. Equality of rights and opportunities are indefinitely evolving processes emerging through the long haul of history. The struggle to achieve the egalitarian society is present in both the developed and developing world and has been so at least since the birth of the modern nation-state. What seems to be the difference between the developed and the developing world is that relatively equal rights and opportunities were a more prominent feature at the start of the process of Modern Economic Growth among the former nations. At least, this ought to be a valid thesis in the cases of north and mid-west USA in the mid-1800s, Japan in the late-1800s, Taiwan in the early to mid-1900s, whereas many attempts towards development conversely seem to have been hindered (or delayed) by grave inequalities. Russian, Latin American and some South European nations are cases in point. This thesis seems to be a plausible explanation also in the case of Sweden, and we, therefore, have tried to assess the impact of equal rights and opportunities analytically, by regarding them as initial conditions, i.e. how the pre-modern history can be summed up as a stepping stone towards MEG. In the real world (as opposed to the analytical), equal rights and particularly opportunities are of course seldom fixed or static, but under pressure for change. Thus, they constitute, after a passage of time, initial conditions anew.

Concretely, and according to the periodisation chosen in this study, initial conditions were setting the stage at the start of MEG around 1820, just as the initial conditions around 1930 influence the emergence of the modern Swedish welfare state. Both rights and opportunities arose from both bottom-up processes and top-down initiatives and while equality of rights requires more formal arrangements compared to equality of opportunities, which might take a more spontaneous form, both rights and

opportunities need to take the shape of a social contract to be authoritative. Although they were part of processes, state level actions were vital during the enclosure movement, for establishing the freedom of trade, for compulsory schooling, and for healthcare and social policy in modern times.

In what way, then, do equal rights and opportunities matter? First of all, we have argued that equal rights and opportunities are interrelated and equally important. It is, however, important to note that they are, by themselves, not sufficient for stimulating development. For instance, equality of rights between individuals are pointless if productive capabilities are not at hand. By the same token, equal opportunities might not make much of a difference if you are not allowed to transform your capabilities into productive activities. In Sweden, relative equality in rights and opportunities were central pillars in the emergence of the integrated market economy in the sense that the majority of the population was included in the growth of the market, both as producers and consumers. A large segment of land proprietors was benefiting from commercialisation and also played a major role in deepening that process. However, the least advantaged, the landless, were only indirectly involved in reaping the fruits of early development. As development proceeded, spurred by the commercialisation process, industrialisation absorbed this segment. Industrial waged labour then became the way to equalise opportunities, especially when real wages secularly started to rise. The provision of public goods (e.g. infrastructure), also equalised differences between regions and rural-urban population.

In understanding the wrenching and levelling forces during the development process, the logic underlying the Kuznets curve has shown to be highly pertinent. As we have shown, wrenching and levelling forces were simultaneously active from the start of MEG onwards. According to the analysis here, the reasons behind the levelling tendencies after 1870 are found in two distinct processes of the Swedish development path. First, market deepening as a result of possibilities of agricultural intensification and commercialisation provided by the enclosures, produced a gradual increase in purchasing power also for the lower income segments, which spurred industrial activities concentrated on domestic demand. The second, and for the levelling tendencies necessary, complementary process was the diminishing supply of supernumerary labour produced by the spread of waged labour to the landless and emigration overseas. Both industry and agriculture now faced increasing international demand, producing employment opportunities and increasing real wages. This process was certainly facilitated by the universal spread of elementary education. During the decades to come, industrialisation continued to absorb labour and incomes continued to rise for the population at large. The growth process after 1870 was thus not only pro-poor, it also compressed the gap between different income segments at the lower end of the social strata.

Levelling forces also emerged through the integration of the Swedish economy per se. The development of for instance credit markets and social security institutions lessened short term economic stress at a gradually more comprehensive pace. The spread of infrastructure also facilitated the diffusion of technology and shortened the distance to the markets. Both social and political institutions came to include an ever increasing number of less advantaged people through the spread of opportunities and risk moderating devices. Civil society had acted as a vehicle of change behind the wave of

formal institutional innovations coming to existence during the latter part of the nineteenth century.

However, sudden and dramatic changes in the markets during the interwar period threatened the levelling trend through their harsh impact on pushing structural change, resulting in unemployment and large differences in profitability. At this point the mechanisms of inclusion and egalitarian growth after the depression were not as market driven as during the period after 1870, but were rather developed by acts of substitution through a social contract around which widespread support was gathered. Once this model had been jelled and stability restored after WW II, a market driven development generated the surplus needed for covering the expenses of the Swedish Welfare State.

So what can be distilled from the Swedish case as implication for current developing economies? We believe the Swedish case has much to offer in this respect and that studying the processes of change of successful cases has its particular merits when it comes to the importance of long-term forces and showing that the recipe for success is, in its details, autochthonous and idiosyncratic. The fundamental implication is therefore to steer away from mono-causal perceptions of change and away from notions that imitation is possible. Simultaneously, the Swedish case implies that although the universal problem of backwardness and inegalitarianism cannot be solved by a quick fix, it can be solved and within the realm of that solution, equality of rights and opportunities play a decisive role.

The role equality of opportunity in the growth process is important for its impact on poverty. The growth taking place in Sweden during the early phases of MEG did not reduce poverty to the same extent as it did in the latter half of the nineteenth century. Why? It is plausible that the relatively low poverty elasticity of growth was due to the limited access to markets during this period. Growth was concentrated in already relatively advantaged location and hence came to benefit the already relatively advantaged farmers. During this period we cannot conclude that growth was good for the poor as little as we cannot conclude that it was not. After around 1870 when opportunities had been more thoroughly spread through industrialisation and education, growth became decisively more pro-poor.

The dynamics of equality for conditioning further growth are also suggested by the secular growth of domestic demand among the lower classes shown by the development of cottage industry during the middle of the 19<sup>th</sup> century. Although Sweden was, and still is, a significantly outward oriented economy where export dependence occasionally has been strong, the igniting sparks of industrialisation came from within.

With regard to the development of equality of rights, current-day literature stresses the importance of getting the institutions right and good governance as a growth propelling force. No doubt, the Swedish experience confirms the primacy of equality before the law, enlightened policy-making, autonomous bureaucracy, accountability, rule of law and a strong civil society. The most important question for a developing country is, however, how and when such features emerge. In Sweden, it is clear that many modern institutions became formally institutionalised during the decades around the turn of the nineteenth century, i.e. well after the advent of the modernisation process. Although

rule of law has a long tradition in Sweden and property rights were effectively specified in the pre-modern economy, the relatively equal distribution of land played a more important role than did well-defined property rights per se. The right and access to education is related to both equality of rights and equality of opportunity. In Sweden universal primary education was statutory already in the 1840s and reading abilities quite widespread due to the role of the church in diffusing literacy. Making primary school mandatory was clearly an act of pushing forward equality of rights. However, it seems as if the spread of literacy was an endogenous development as it was part of the demand for schooling within the peasantry as modernisation was underway. Correspondingly, the rate of return of reading abilities is dependent upon the same process of modernisation. Accordingly, the implication is that education might not initiate a growth process but rather be intimately interlinked with it, and once the process has gained momentum, widespread reading abilities could constitute a part of a levelling or pro-poor growth force as the poorer segments' access to the markets, technology and labour markets is facilitated.

To conclude, although we cannot on the basis of just one case determine that egalitarianism breeds growth generally, we are comfortable in maintaining that egalitarianism does not inhibit growth. In fact, the Swedish case implies that it might even be more likely that egalitarianism increases the possibilities for sustained growth and increased standards of living. Egalitarianism comprises a cumulative dynamic of inclusiveness of market institutions, growth and social stability through equal access to rights and opportunities. The Swedish case testifies to the strength of these forces and should inspire policy-makers in the less developed world to attain a more equal distribution of rights and opportunities.

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