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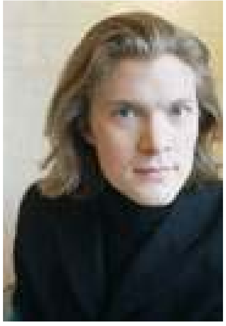

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The New Zealand Centre for Political Debate

Sweden, the Untold Story

The rest of the world often looks to Sweden as a model a form of socialism that managed to produce wealth. The third way. The best of both worlds.

This is based on a serious misreading of Sweden's economic history. If anything, Sweden grew rich by having a more open and liberal market economy than other countries. Its economic success story began in the late 19th century, after a fundamental shift towards free markets and free trade. Real wages for factory workers rose by about 25 percent per decade between 1860 and 1910. And during this era, public spending in Sweden didn't surpass 10 percent of GDP.

As late as 1950 Sweden's taxes and public expenses were lower than in the US and in West Europe as a whole. And in contrast to most other countries, Swedish parties on both sides always saw the benefits of free trade, and never turned away from international markets. The trade unions were relatively positive to competition and restructuring, and allowed old sectors to pass away without government support and protection, as long as new jobs were created.

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These policies, and the fact that Sweden stayed out of two world wars, meant that the industry could produce amazing results. In 1970, Sweden had the 4th highest per capita income in the world, according to the OECD statistics. Being one of the richest countries in the world was not a result of a big welfare state, it was its precondition.

It was at this stage that Swedish politicians began to regulate, tax and spend. Public spending almost doubled 1960-80, from 31 to 60 percent of GDP. Not because Sweden made fundamentally different choices than other European countries, but because we were richer than others, and so had more to redistribute.

This also happened to be the time when Sweden began to run into economic troubles. 1975-2000, while US per capita income grew by 72 percent, and Western European by 64 percent, Sweden's grew by no more than 43 percent. From having been no 4 in the OECD list 1970, Sweden fell to no 14.

Gunnar and Alva Myrdal, the intellectual parents of the Swedish welfare state, explained in 1934 that no place offered better circumstances for heavy government intervention. A homogenous and well-educated country with a strong industry and a Protestant work-ethic meant that if it couldn't work there, it couldn't work anywhere. What they hadn't foreseen was that the welfare state undermined these good circumstances.

The international knowledge and service economy made it more important to invest in human capital and individual creativity. High taxes however, reduced the incentives to invest in education and skills, and to take risks and start businesses. Since 1970, not a single job has been created on net in the private sector in Sweden. The sectors that could grow, such as health care and education, have suffered under public monopolies and a lack of investments.

Important reforms were undertaken in the early 1990s to deal with this: an independent central bank, lower marginal tax rates, school vouchers, the opening up of public services to private alternatives and an early deregulation of the telecom sector created new opportunities for companies like Ericsson. This has contributed to better growth than in the rest of Western Europe, and has allowed us to climb a few places on the OECD list. In the EU, Sweden is most often on the side of more free trade and deregulation of the economy.

But unfortunately, the problems run deeper. Younger generations and a steady flow of immigrants have faced distorted incentives and have not developed the work ethic that grew out of a completely different situation. Especially since labor market regulations and high de facto-minimum wages make it difficult for them to ever enter the labor market.

In the early 1990s, in a deep economic crisis, Sweden had an unemployment rate at about 12 percent. The official rate has been halved since, but the whole difference has been offset by a dramatic increase in health-related absenteeism. Swedes are healthier than almost all other people, but we are also "off sick" more often than any other people. In 2004, generous sickness-benefits absorbed 16 percent of the government budget.

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A researcher at the main trade union, LO, recently left his job when he was not allowed to publish his estimate that almost 20 percent of the Swedes are unemployed, openly, or hidden in labor-market projects, long-term sick-leave and on disability benefits. It creates a terrible social exclusion that you can't see in macro statistics on unemployment and wages, since the excluded aren't counted in the workforce and don't earn any wages.

This might go on for a while, if the rest of the population works harder. But the long-term social consequences might be devastating. A report from the Liberal Party ahead of the election 2002 showed that more than 5 percent of all precincts in Sweden had employment levels lower than 60 percent. In some neighborhoods, children grow up without ever seeing someone who goes to work in the morning. Pockets of unemployment and social desperation grow, especially in areas with many non-European immigrants. This segregation is a hotbed of crime, racism and conflict. "A bomb waiting to explode" is one of the most common metaphors when social exclusion in Sweden is discussed.

Sweden is not a puzzle or a paradox, it's actually pretty clear cut: Sweden does very well in sectors with market incentives and competition. And it does very bad when it comes to the spheres ruled by an anti-market logic. So the rest of the world should look at Sweden, but not just to learn from our successes, but also our failures.

Johan Norberg is a freelance free-marketeer and the author of several books, including the award-winning book Till världskapitalismens försvar (In defence of global capitalism) (Timbro 2001), now translated into the world's major languages. Soon it is published in 22 different countries. The book is the basis for a television documentary on UK Channel 4 called Globalisation is good. In 2002 he was voted the 19th most influential opinion-maker in Sweden.

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Regards

Muriel Newman
(founder & director of NZCPD)

