



After decades of liberal, socialist policies, Swedes saw the writing on the wall and turned from welfare to tax cuts and belt tightening. Is there a lesson for the rest of the world in their success?



Sweden's Conservative

By Lotta Moberg and Richard W. Rahn

THERE'S A CONSERVATIVE MODEL FOR countries trying to get out of the current financial and economic crisis. Surprise — that model is Sweden.

Some four decades ago, Sweden became the global poster child for a rich, democratic welfare state. It was also well on its way to spending itself into financial pauper-hood. But before going over the financial cliff, the Swedes made many necessary corrections, all without having to endure the kinds of painful austerity measures, street protests, and riots roiling much of Europe.

As a result, Sweden is in far better economic and fiscal shape and has recovered from the global recession

much faster than most countries. The Swedish economy grew at a rate of about 5 percent in 2010, and a blistering 8.7 percent in the last quarter of 2010, compared to the estimated 1.7 percent for the rest of Europe and 2.8 percent in the United States for the year.

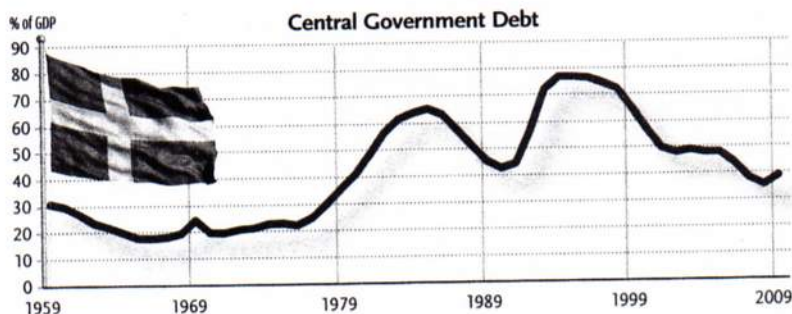
The unemployment rate in Sweden, while high at 7.1 percent, is significantly below the euro area's 10.1 percent and the United States' 9.4 percent.

The Social Democratic Party had been building the Swedish welfare state since the 1930s. The goal was to have the state save its people from many ills by protecting them from unemployment and swings in the economy. The public sector was used to lower unemployment

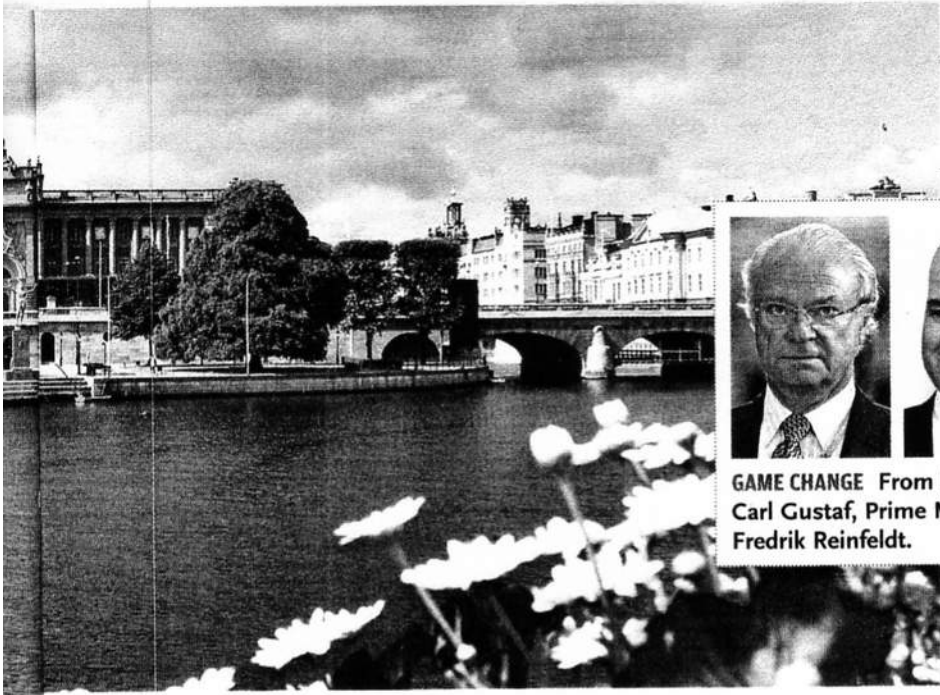
and boost the economy in bad times through government spending. This appeared to be working just fine until the industrial job market declined in the '60s and '70s. With the rise in unemployment, the social welfare system expanded rapidly while an ever-larger share of the workforce was employed in the public sector.

By the time of the oil crisis in the '70s, Sweden had become notoriously unfriendly to business, with excessive regulation and prohibitively high tax rates. To "protect" domestic industries during the crisis, huge amounts of tax revenues were wasted on dying sectors, most notably the shipbuilding industry. To keep up with the spending, the maximum marginal income tax rate had reached 87 percent in 1979.

The Swedes were not oblivious to the state of their economy and began reforms before reaching the abyss. During the '80s, the financial market was deregulated, but the Swedish currency was repeatedly devalued to cover structural problems in the economy. The result was high inflation and increased borrowing by households and businesses. The economy overheated, ending up in



SCALING BACK After years of big spending, Sweden has pulled its debt back to 1980s levels.



GAME CHANGE From left: King Carl Gustaf, Prime Minister Fredrik Reinfeldt.

share of students has grown from 1 percent to 10 to 15 percent.

The Swedish growth rate is still limited by high tax rates, labor, and housing market regulations, but these problems are being tackled. The Swedish people saw big government creating misery, and they were

able to reduce spending and regulation. They also saw high taxes were killing capital investment.

Sweden led the world in creating the first fully democratic semi-socialist welfare state that many countries have tried to emulate. Now, it is showing the world a way to unwind a disastrous economic experiment in a democratic and relatively painless way. □

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Turnaround

a crisis in the beginning of the '90s.

However, it had become apparent well before the crisis of the '90s that there was a need for serious reform of the Swedish economy.

There was already a plan on the table for a tax reform. Many other reforms followed after careful consideration by nonpartisan commissions. Not only did this avoid haphazard plans, it also saved the face of the Social Democrats, who set up a commission to make the difficult reform decisions for them.

By accepting commission proposals as pragmatic solutions, the Social Democrats contributed to the liberalization of the economy while paying lip service to equality and protection of middle-class needs.

In the '90s, tax rates were again reduced while numerous government-owned companies were privatized. A voucher system was established which enabled Swedish parents to send their children to the school of their choice.

The rules for receiving sick benefits were tightened so that generally healthy people were no longer entitled to unlimited sick time. The pension system was reformed from

a pay-as-you-go system to, basically, a defined contribution system.

Gift and inheritance taxes were abolished. Most reforms were made as an implicit agreement between the political blocks, and the Social Democrats privatized many of the formerly state-owned companies.

The identity of Sweden as a socialist country was dealt its final blow when a right-of-center government was elected in 2006, and again in 2010. During the last 74 years, left-wing governments had ruled the country for all but nine years.

The new government continued liberalizing the economy. The Swedish wealth tax was abolished. Social insurance benefits were lowered, a tightening of unemployment benefits instituted, and the health insurance system reformed. These reforms helped keep the government budget in balance. The public debt ratio, which at one point had reached 76 percent of GDP, is now down to a very manageable 36 percent and expected to fall to only 26 percent in 2013. The place has also become a model for school choice programs. Since school choice was implemented in 1993, education's private-sector

10 Other Things You Probably Didn't Know About Sweden

1. Sweden is the second-largest, per-capita consumer of coffee in the world.
2. There are more McDonald's restaurants per capita there than any place in Europe.
3. Swedes are credited with inventing the pacemaker, GPS, matches, ball bearings, ultrasound tests, the zipper, and dynamite.
4. Thanks to its proliferation of communal music schools, Sweden is the third-largest exporter of pop music in the world.
5. Nearly 8 percent of Swedes play golf on more than 500 courses.
6. The per-capita proportion of personal computers in Sweden is the highest in Europe.
7. Sweden has the highest percentage of working mothers in the developed world.
8. The country has the world's highest number of nuclear plants per capita.
9. Sweden is the third-largest European country in land area, after France and Spain.
10. Swedes can pay taxes by text message. □