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Beguiling curves of the Swedish model

By Richard W. Rahn
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When considering the Swedish model, one can be forgiven for thinking of a comely statuesque blond with blue eyes. However, to economists and policy junkies, the Swedish model refers to the "third way" between socialism and capitalism many on the American left laud as the ideal.

Does the Swedish model work as advertised? According to a new paper by the highly regarded Swedish economist, Nils Karlson, the "model has become quite different from what was intended and to what many people still believe to be the case."

The extent of the failure of the Swedish model are both shocking and little known. For example, no new net jobs have been produced in the Swedish private sector since 1950. (By contrast, the U.S. created more than 60 million new private-sector jobs during the same period, from 52 million in 1950 to about 115 million in 2002.) "None of top 50 companies on the Stockholm stock exchange has been started since 1970."

Again, contrast this with the U.S. where many of our biggest companies had not been born or known of in 1970, such as Microsoft, Intel, Wal-Mart, Home Depot, Cisco, etc., Mr. Karlson's litany of failures of the Swedish model include: "Sweden has dropped from fourth to 14th place in 2002 among the OECD countries (i.e., affluent industrialized countries) in terms of GDP per capita since 1970."

In addition, "well over 1 million people out of a work force of around four million did not work in 2003 but lived on various kinds of public welfare programs, such as, pre-pension schemes, unemployment benefits, sick-leave programs, etc." Finally, "a majority of the adult population are either employed by the state or clients of the state in a sense that they have a majority of the income coming from public subsidies."

A half-century ago, Sweden was a great success story. One hundred fifty years ago, Sweden began a transformation from a poor agricultural society to a rich industrial society. The economy was deregulated, taxes were lowered and tariffs abolished. Modern limited liability company laws and a patent system were adopted. The result was from 1890 to 1950, Sweden was the world's fastest-growing economy, and developed a number of globally known and respected companies. During this time, Sweden was a low-tax country where the total tax burden reached only 21 percent of gross domestic product by 1950 (currently total taxes are approximately 30 percent of GDP in the U.S.).

The outlines of the Swedish "third way" welfare state began appearing in the 1950s. As late as 1960, taxing and government spending in Sweden, as a percent of GDP, was only slightly larger than in the U.S. But then the welfare statists went into full bloom. Taxing and spending surged in Sweden during the 1960s, 1970s and 1980s until the mid-1990s, when tax revenues were more than 50 percent of GDP and government spending had reached a whopping 66 percent by 1995 (a peak from which it has slightly declined).

The rise in taxing and spending was coupled with increased market regulation, "social engineering" and state planning. All the taxing, spending and regulation had a number of unintended consequences, such as undermining volunteer organizations as people increasingly turned to the state for help. Job security legislation made employers more reluctant to hire. Fewer new firms were created, new inventions and innovations declined, and real costs of providing goods and services rose. Increasing taxes on labor undermined work incentives and increased the "black" or underground economy.

In addition to cataloging the economic decline resulting from the rise in the Swedish welfare state, Mr. Karlson argues that perhaps the most damaging consequence of the "third way" is the loss of "dignity" among the Swedish people. Mr. Karlson takes a classical approach and argues every individual has a "unique value" and a "good society" requires individual liberty, personal responsibility and respect for the liberty of others.

As the welfare state undermines the ability to engage in productive activity to support oneself, and individual liberty and responsibility, there will be a corresponding loss in dignity. This loss of dignity debilitates both the individual and society.

The Swedish model teaches us good intentions are not enough when trying to create a humane, compassionate and prosperous society. Failure to fully understand the economic and social consequences of policies that increasingly regulate and tax productive activity was the Swedish model's fatal flaw.

Unfortunately, this same ignorance of the consequences of taxing, spending and regulation is rampant among far too many of the American political and media class. The good news is the Swedish model is not totally useless; it is a fine model of what not to do if only we can get the American people and their opinion leaders to understand it.

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