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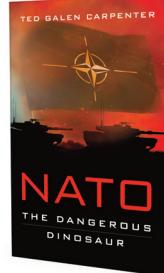
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Cato Policy Report

JANUARY/FEBRUARY 2020. VOL. XLII NO. 1

Sweden's Lessons for America

BY JOHAN NORBERG

When asked if he can mention a single example of a country where socialism has worked, Sen. Bernie Sanders (I-VT) says yes but indicates that it's not the Soviet Union of his honeymoon or any other country where the government actually owns the means of production. Instead, he says, "we should look to countries like Denmark, like Sweden and Norway." Likewise, Rep. Alexandra Ocasio-Cortez (D-NY) fiercely rejects any suggestion that she wants to turn the United States into Venezuela. Apparently, she prefers to turn it into a big Sweden or Denmark.

Sooner or later, American socialists always return to Sweden and other Nordic countries. There's a good reason for that. For some reason, the countries that socialists originally tout always end up with bread lines and labor camps. But there's always Sweden: decent, well-functioning, nonthreatening, and with impeccable democratic credentials.

There is just one problem: Sweden is not socialist.

If Sanders and Ocasio-Cortez really want

to turn America into Sweden, what would that look like? For the United States, it would mean, for example, more free trade and a more deregulated product market, no Fannie Mae and Freddie Mac, and the abolition of occupational licensing and minimum wage laws. The United States would also have to abolish taxes on property, gifts, and inheritance. And even after the

recent tax cut, America would still have to slightly reduce its corporate tax. Americans would need to reform Social Security from defined benefits to defined contributions and introduce private accounts. They would also need to adopt a comprehensive school voucher system where private schools get the same per-pupil funding as public ones.

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On November 13, attendees in the F. A. Hayek Auditorium got a special screening of *Created Equal: Clarence Thomas in His Own Words*, followed by a question and answer session with the filmmaker, Michael Pack. The film appeared in select theaters at the end of January and will be broadcast on PBS in May.

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If this is socialism, call me comrade. So why is it that so many people associate Sweden with socialism? For the same reason they associate it with ABBA and free love: their perceptions are stuck in the 1970s. At that time, it was reasonable to say that Sweden was moving toward socialism. But that was an aberration in Sweden's history—an aberration that almost destroyed the country.

In the 1970s, many outsiders took a serious look at Sweden for the first time, and they were astonished to find a country that combined massive government intervention in the economy with a very high standard of living. Sweden seemed to have squared the circle. But it was like the old joke: How can you end up with a large fortune? You start with a larger one.

As early as 1950, Sweden had become the fourth-richest country in the world, and there was nothing mysterious about its progress. Sweden was also the fifth-freest economy at that time, according to an analysis by Robert Lawson and Ryan Murphy at the O'Neil Center for Global Markets and Freedom at Southern Methodist University's Cox School of Business. In 1950, taxes were just 21 percent of Sweden's gross domestic product (GDP), lower than in the United States, and roughly 10 percentage points below the level in countries like Britain, France, and West Germany.

SWEDEN'S LIBERAL REVOLUTION

This era of smaller government was the result of a much earlier transition. In the mid-19th century, the Swedish government had been taken over by a group of classical liberals led by the minister of finance, Johan August Gripenstedt, who credited Frédéric Bastiat with having opened his eyes to the superiority of free markets. In a short time, these liberals abolished the guild system, tore down trade barriers,

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deregulated business and financial markets, and started to dismantle the legal discrimination against women. They also implemented open immigration and emigration, which instantly led to Swedes lining up for any ship that could take them to America. There, they picked up ideas about human liberty and business organization that would inspire their compatriots back home even more.

Gripenstedt had promised that his reforms would help to turn his desperately poor country into one of the richest in Europe, but he was widely mocked when he left government in 1866. Conservative critics called him a coward for leaving just when people would begin to see how his policies had destroyed the country. Critics insisted that dismantling government controls would wreak havoc on the economy and that foreign competitors would leave Swedish industry in ruins.

But Gripenstedt was proven right. The reforms kickstarted Sweden's industrialization. From 1870 to 1913, Sweden's GDP per capita increased by 2 percent annually, 50 percent faster than the rest of Western Europe. And during this period, public spending did not surpass a tenth of GDP. Then Sweden sat out two world wars, while keeping markets open and taxes low and expanding the size of the government more cautiously than others.

The Social Democrats quickly became a pragmatic party after they came to power in 1932, and some Social Democrats were in fact more consistent free-marketeers and

free-traders than many on the right. The party knew that large, multinational companies brought in the goods, so they provided very hospitable conditions and generous deductions for capital costs. Swedish socialists let the market stay free to create wealth and settled for redistributing part of that result—but not so much as to threaten wealth creation.

More than other countries, Sweden held on to free trade, and international competition made sure that businesses kept restructuring and innovating. The trade unions allowed old sectors such as farming, shipping, and textiles to go gently into that good night, so long as new industries were born to replace them.

A century after Gripenstedt's resignation, his widely mocked hopes for Sweden had been fulfilled. It was now one of the freest and richest countries in the world.

It also happened to be the perfect place to experiment with socialism.

THE SOCIALIST EXPERIMENT

Gunnar and Alva Myrdal, the two leading Swedish Social Democratic thinkers of the 20th century, thought that Scandinavian countries were uniquely suited for a generous welfare state. They were wealthy countries with competitive businesses that could fund it all. They also had homogenous populations with a strong work ethic, noncorrupt civil services, and a high degree of trust. If it did not work there, it would be difficult to believe it could work anywhere.

Slowly but steadily, the Social Democrats intervened in education and health care and created social security systems that provided pensions, unemployment, paternal leave, and sick leave benefits. Most benefits were proportional to the amount paid in so that the middle class would have an interest in supporting the system.

But soon, with coffers filled and riding on an international socialist wave, the Social Democrats accelerated their takeover of

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business and civil society. Between 1960 and 1980, public spending more than doubled, from 31 to 60 percent of GDP, and taxes skyrocketed. The government started regulating businesses and the labor market in detail. The Social Democrats even began experimenting with a system to socialize major companies, “the wage earners’ fund.”

This is the version of the Swedish model that came to the world’s attention, and the version that Bernie Sanders remembers. At the precise moment that socialism attained its highest international prestige, here was a small, democratic country that seemingly proved that socialism and wealth could be combined.

But it was like taking a snapshot of Elvis Presley at the same time and concluding that the way to become the king of rock ‘n’ roll was to eat banana and bacon sandwiches with prescription drugs. The way Sweden behaved when it reached the top was the opposite of what had got it there.

PALME’S HELL

This was a moment of Swedish glory only in American and European newspaper reports. In reality, it was Sweden’s *Atlas Shrugged* moment. Talent and capital stormed out of Sweden to escape taxes and red tape. Swedish businesses moved headquarters and investments to more hospitable places. IKEA left for the Netherlands and Tetra Pak for Switzerland. Björn Borg and other sports stars fled to Monaco. The famous novelist Vilhelm Moberg, who had settled in Switzerland, complained that the Swedish government was a “monster without morality or sense of poetry.” The legendary filmmaker Ingmar Bergman left for Germany after having been falsely accused of tax evasion.

“This is hell,” Prime Minister Olof Palme said behind closed doors, referring to the wage earners’ fund that he couldn’t even get himself to believe in. The Swedish economy, which had gotten used to outpacing all the

other industrialized economies, now started lagging behind them significantly. In 1970, Sweden was 10 percent richer than the G7-group of wealthy countries on a per capita basis. In 1995, it was more than 10 percent poorer. During that period, not a single net job was created in Sweden’s private sector.

The bottom line is that socialist policies didn’t even work in Sweden, despite Gunnar and Alva Myrdal’s hopes. Massive government intervention had undermined not only productivity and innovation but also the very foundations that made Sweden look like the best place to experiment with it. The celebrated work ethic remained intact for those who had grown up under a system of free markets and personal responsibility, but it was eroded in new generations who had only experienced high taxes when they worked and generous benefits when they didn’t. The people were turning into “a population of cheats,” exclaimed a disappointed Gunnar Myrdal.

The share of Swedes who said it is acceptable to lie to obtain public benefits increased from 5 percent in 1960 to 43 percent in 2000. After generous sick leave benefits were implemented, Swedes who were objectively healthier than any other population on the planet were suddenly “off sick” from work more than any other population—suspiciously often male workers during hunting season and big, international sport events.

For a while, a debt- and inflation-fueled boom kept the economy crawling along. But when that ended in 1990, Sweden suffered a spectacular crash. Unemployment surged and the budget deficit soon reached 11 percent of GDP. For a few days in 1992, the

Central Bank tried to defend the Swedish currency with an interest rate of 500 percent.

THE COUNTER-COUNTER-REVOLUTION

By this time, one spectator had already concluded that Sweden’s experiment with semi-socialism was “unsustainable,” “absurd,” and “rotten and perverse.” This was not the view of an ideological opponent of the project but of someone who spoke from bitter experience: the Social Democratic Minister of Finance Kjell-Olof Feldt.

He concluded: “That whole thing with democratic socialism was absolutely impossible. It just didn’t work. There was no other way to go than market reform.” And this was the conclusion of people across the political spectrum. A center-right government under Prime Minister Carl Bildt from 1991 to 1994 implemented a radical reform agenda to get Sweden back to its classical model. But Social Democrats also embraced many reforms.

They reduced the size of the government by a third and implemented a surplus target in public finances. They reduced taxes and abolished them on wealth, property, gifts, and inheritance. State-owned companies were privatized, and markets in financial services, electricity, media, telecom, and others were liberalized. Sweden also joined the European Union to get tariff-free access to its most important markets. In Brussels, Sweden became a leading voice for fiscal restraint and deregulation.

Sweden implemented choice and competition in the public sector and created a school voucher system. And, to the disbelief of foreigners, Social Democrats and center-right parties agreed to end the pay-as-you-go system in social security and replace it with defined contributions and private accounts. Now pension payments are dependent on the development of the economy, not on politicians’ promises.

It was transformational. Between 1980 and 2000, Sweden improved by 2 points on the 10-point scale of the Economic Freedom of the World Index, compared to 0.5 for the Reaganite United States and 1.8 for Thatcherite Britain. Of course, Sweden started from a lower level, but it was still a fairly steep climb.

Since then, the Swedish economy has once again outpaced its neighbors. Even though the reforms were painful for many sectors and groups, they were a boon for the general public. Between 1970 and 1995, when the world thought of Sweden as a worker's paradise, inflation ate almost all their wage increases. Since 1995, on the contrary, real wages have increased 65 percent.

"The Social Democrats' success formula is socialist rhetoric but center-right policies," as Björn Rosengren, a Social Democratic minister of industry summarized.

Public spending and taxes are now down to normal West European levels. Social spending is 26 percent of GDP, compared to 29 percent in Belgium and 31 percent in France. But it is still much higher than in the United States. The Swedish government provides citizens health care, childcare, free colleges, and subsidized parental and medical leave.

TAXING THE WORKERS

The reason this has not been a larger drag on the economy is something that Swedes are not proud to admit. The tax system is not built to squeeze the rich—they are too few,

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Swedish socialists learned a lesson.
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and the 1970s showed that the economy is too dependent on them. Instead, Sweden squeezes the poor. They are loyal taxpayers, they can't afford tax attorneys, and they never move their assets to the Bahamas.

Ninety-seven percent of Swedish tax revenue from incomes comes from proportional payroll taxes and flat regional taxes, set at around a third of everybody's income. Just 3 percent of the total income tax revenue comes from "taxing the rich" specifically. The U.S. system is much more progressive. According to the latest Organisation for Economic Co-operation and Development comparison, the top 10 percent in the United States pay 45 percent of the income taxes. In Sweden, they pay less than 27 percent. If Sanders and Sen. Elizabeth Warren (D-NH) complain that the U.S. rich don't pay their "fair share," they would really hate the Swedish model.

In addition, more than a quarter of government income derives from taxes on consumption, in which the poor pay just as much as the rich for every item bought. This includes

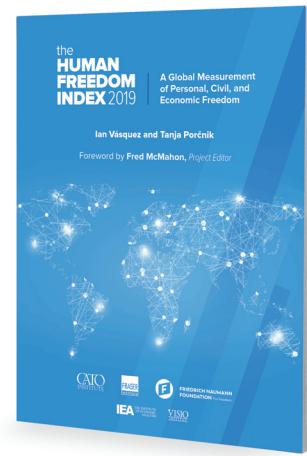
a 25 percent value-added tax on most goods.

Swedish socialists have learned a lesson that socialists in other countries have a very hard time understanding: You can have a big government, *or* you can make the rich pay for it all. You can't have both.

So that is the real story of the Swedish model. *Laissez-faire* economics turned a poor backwater into one of the richest countries on the planet. Then it experimented with socialism briefly in the 1970s and '80s. This made the country famous, but it almost destroyed it. And learning from this disaster, the left and the right have, in relative consensus, liberalized Sweden's economy more than other countries, even though it is still far from its classical liberal past.

Sweden's history is worth remembering when, as shown in a recent Pew poll, 42 percent of Americans express a positive view of socialism. In fact, 15 percent of self-described Republicans have a positive view of socialism. That's easy for them. They never experienced it. At the same time, another poll showed that no more than 9 percent of Swedes call themselves socialists. So, astonishingly, it seems like there are fewer socialists in Sweden than in the GOP.

One Swede who refuses to call himself a socialist is Göran Persson, the Social Democratic prime minister from 1996 to 2006. Why? Swedish television asked him at one point. "Oh," he replied, "you just become equated with so many crazies." ■



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