

## **Scandinavian Unexceptionalism: Culture, Markets, and the Failure of Third-Way Socialism**

Nima Sanandaji

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Despite the current popularity of Bernie Sanders, as of the late 20th and early 21st centuries, leftist ideology is increasingly in tatters. A hundred, or even eighty, years ago it was difficult to refute idealistic claims by socialist partisans of what could be achieved by organizing social institutions on the lines of democratic or even undemocratic socialism. There was just too little history of such experiments in action to judge them by. Purely theoretical refutations of socialism, such as those by Mises and Hayek, that market pricing was necessary for calculation of costs and the efficient use and allocation of resources, even though they turned out to be right, could be easily ignored or disputed at the time by academic socialists.

Driven by the strength of the socialist ideal, such experiments came to pass, however, and, over time, historical evidence on their performance accumulated. The record is not good. Russia managed to assimilate the old Czarist Empire and then Eastern Europe into the USSR. It even managed to industrialize, though mostly through copied technology and stolen (nationalized) capital of Western firms promised monopolies if they invested there. However, the murderous brutality and tyranny of the system could not forever be hidden. Where peoples of the same race and culture were divided into bordering communist and free nations, as with East and West Germany and North and South Korea, the contrast became starker over time. Barriers had to be built to keep the citizens of the communist nations in, and the flow of population, when it occurred, was in one direction only.

The inefficiency of socialist organization and central planning could not be hidden forever either, though an amazing number of Western economists, including Paul Samuelson, were fooled right to the end. The USSR collapsed of its own weight in 1989–90. Likewise in Mao's Communist China, the inefficiency of production and massive starvation as communal agriculture was instituted and private farming prohibited (45 million dead over 1959–61) could not be hidden. Worse, for their leftist sympathizers in the West, subsequent Chinese leaders, with the examples of free and prosperous Taiwan, Singapore, and Hong Kong on their borders to learn from, began reforming their economy to allow private property and capitalist enterprise with market pricing. To the embarrassment of socialists everywhere, China quickly began feeding itself and growing economically at rapid rates. This saved that nation from the inglorious collapse that the Soviet empire experienced.

Other evidence chipped away at leftist ideology in the postwar period. For one, the postwar recovery of Europe was characterized by large-scale, self-conscious liberalization of the political systems and economies of Germany, Italy, and other nations. What followed was many years of rapid economic growth, slowing only when the social democratic parties came to power and began raising taxes to expand their welfare states. Even the United States had to remove its wartime price controls in 1948–49, against the opposition of the progressives and socialists in the Democratic Party, before its postwar recovery really set in. After that the socialists and their progressive allies could only carp (erroneously) that it was the Marshall Plan subsidies that were responsible for postwar economic recovery of Europe and hope their students bought it.

Just as important was the massive, enduring international effort by Western democracies under the General Agreement on Tariffs and Trade (GATT) to remove trade barriers through multilateral negotiations. Those trade barriers, beginning with the Hawley-Smoot Tariff of 1930, and continuing with the trade war it caused, had helped transform a U.S. recession into an international depression. After the war, the GATT tariff reductions gave rise to modern globalization that benefited every nation participating in the world trading system, and helped reduce poverty worldwide. Socialists, who had long argued that trade was a tool of exploitation by which capitalist nations impoverished underdeveloped nations, were reduced to complaining that the per capita income in poorer nations (most of which are in the

Southern Hemisphere) was not rising much faster than in rich ones, so that incomes of rich and poor nations were staying unequal. Since China and India (both Northern Hemisphere nations) had a huge fraction of the world's poor, and both of those nations have now long been growing more rapidly (through economic liberalization) than have most of the prior developed capitalist nations, much convergence has occurred and another fallback position of the ideological left has been overrun.

Long before the transformation of China and the subsequent fall of the USSR, however, the most perceptive of socialists and their progressive cousins in the West realized that they needed real world examples on which to root their claims for socialism as a superior practical system, and such examples would have to be found among European nations most closely approximating democratic socialism. Indeed, there were some Nordic nations with democratic socialist policies—in particular large and generous welfare states—that seemed to have better policy outcomes than more market-oriented nations such as the United States. Thus, members of the left literati often claim that citizens of Denmark, Finland, Norway, and Sweden, despite having very high levels of taxation and expenditure on generous welfare state policies, enjoy very high incomes, along with lower poverty, greater equality, longer lifespans, lower crime rates, greater work ethics, and more social cohesion than Americans experience.

For several decades now those claims have been powerful and influential. In part this is because it has been hard to find detailed data on those nations, so one more or less had to take the leftist factual claims at face value. Now comes a book from the Institute of Economic Affairs in England, *Scandinavian Unexceptionalism: Culture, Markets, and the Failure of Third-Way Socialism* by Nima Sanandaji, a Swedish researcher of Kurdish heritage. If this book achieves the distribution and recognition that it should, the last redoubt of socialist ideology in the alleged actual existence of well-functioning democratic socialist welfare states will collapse. Sanandaji is systematic and innovative in the use of historical and empirical data in explanation of the Nordic experience.

Sanandaji points out that the Nordic culture that developed in the particular historic, religious, and geographical context of those nations is key. The Nordic nations were relatively homogeneously Protestant, in contrast with the predominantly Catholic nations in the rest of Europe. Also, with the exception of Denmark, the

feudal system never really took hold in the Nordic nations. The Nordic agricultural economies were dominated by small independent farmers who owned their land. Because of the cold climate in northern Europe, they had to work very hard to make a living. Nevertheless, they did, and prospered. These factors resulted in a culture characterized by high levels of trust, self-reliance, and social cohesion, including strong families imbued with an equally strong “Protestant” work ethic.

As Sanandaji says, these cultural features were fertile soil for economic success, particularly when married with classical liberal institutions and market economies, and that is what happened. Though Sanandaji does not make a point of it, I suspect this marriage, taking place in the late 19th century, was in part also a demonstration effect of the amazing development of the U.S. economy and consequent loss of many of their young Nordic citizens through emigration to America. He does mention that Sweden, largely poor before 1870, lost many emigrants to the United States in the 19th century. In any case the Nordic nations liberalized their economies with zeal in the 1870s, and over the next century achieved strong economic growth. Using Angus Madison’s database of historic, per capita GDP, Sanandaji shows that Sweden, with its small government policies, grew more rapidly from 1870 to 1936 than any other nation in the industrialized world, though it fell to about the average growth rate of those nations after 1936. The growth pattern of all the other Nordic nations was similar, including the fact that there was a marked slowing of their economic growth after they developed their very high taxes and large welfare states in the 1960s and 1970s. Finland, where a great deal of oil wealth was discovered that helped finance their welfare state and maintain economic growth, was a partial exception.

The key point about all this, as Sanandaji demonstrates, is that the favorable social outcomes of superior life expectancy, higher real incomes, greater trust and social cohesion, and even low poverty and greater income equality in the Nordic nations in comparison to the United States, had all largely been attained in the liberal periods *before* the development of their large and generous welfare states. Indeed, in one of the most telling demonstrations in the book, Sanandaji cites several demographic and sociological studies in the United States showing that, among the Nordic populations here, all those same favorable outcomes (strong families,

large life expectancy, strong work ethic, high incomes with low income inequality, etc.) are not only experienced, but are actually experienced to *greater* degrees than among the stay-at-home citizens of the Nordic nations. Clearly it is not heavy paternalistic compulsory income redistribution, but a favorable culture that has generated those outcomes among the Nordic peoples. Given that favorable culture, to the extent that democratic socialist versus market institutions make a difference, markets appear to be better, not worse.

Sanandaji has several chapters documenting the economically and culturally debilitating effects of the development of the generous Nordic welfare states, with their very high levels of taxation and expenditure. He shows that the former enormously entrepreneurial character of those economies was nearly destroyed. Creation of new and dynamic firms essentially stopped as rising tax rates reduced the financing of new enterprises. For just one example Sanandaji gives, of the 100 highest-revenue firms in Sweden in 2004, 38 had started as privately owned firms within the country. Of those, 21 had originated before 1915, 15 were created between 1914 and 1970, and only 2 had come into existence during the period of the large welfare state after 1970. Sanandaji also shows that as taxes and expenditures on income redistribution rose to enormous levels, private-sector investment was crowded out and job creation in the private sectors of the Nordic states plummeted, while rising in the public sector. Eventually further expansion became impossible to fund and public-sector job creation began falling also. And, of course, overall economic growth fell in the Nordic nations (partly excluding Norway) relative to other OECD nations.

Some other chapters demonstrate that the heavy welfare states had all the destructive social and cultural effects in Nordic society that they have had elsewhere. The shares of their populations dependent on government transfers, initially very small, steadily increased. Many people who are long-term unemployed but healthy enough to work are classified as too sick or disabled to work and given early retirement deliberately to hide them from the unemployment statistics. The whole work ethic and related social values have materially declined. In the 1980–84 World Values Survey, 82 percent of Swedes and 80 percent of Norwegians agreed that “claiming government benefits to which you are not entitled is never justified.” In the 2005–08 survey, the proportions agreeing with that statement (only

including Swedes) had fallen to 55 percent. A survey from 2001 showed that 41 percent of Swedes felt that it was all right to claim sickness benefit if they were not really sick but merely stressed at work. Indeed, since the late 1980s, studies show that during major athletic events an enormous number of Swedes claim sick benefits. Studies in Nordic nations also show that welfare dependency is becoming intergenerational as dependent parents pass their attitudes on to their children.

The good news, saved for the last, is that several of the Nordic governments, having become aware of all of these socially and economically destructive trends, have undertaken important reforms to strengthen their markets, reduce taxes, and back away from the extreme generosity of their welfare states. Those reforms are already having beneficial effects.

But enough is enough. It is best not to reveal too much of what is in this excellent book, leaving much to be discovered by the reader. In particular, Sanandaji's intermittent comparisons of the large welfare state Nordic nations with Iceland, a Nordic nation that has relied on small-government policies, are not to be missed.

If I find anything to criticize about this book, it is that Sanandaji seems to reject only very large welfare states, and to tacitly accept small to moderate ones. In this Sanandaji is, I suppose, in good company, since that is the position of most nonsocialists—and even conservatives—now. It has even been the position taken even by some famous defenders of liberal institutions such as Hayek and Friedman. But it is unsatisfactory to many of us who wish for more principled rejection of compulsory government income redistribution as a monumental evil in its very nature, and to whom it seems that moderate and small welfare states must have all of the same degrading and destructive effects on economy, culture, and morality that the heavy welfare states do, merely more slowly. Also, one wonders what private-sector alternatives may have existed in Nordic history. Sanandaji's book would profit from a chapter on private charities in the liberal period of the Nordics. Also, one wonders whether the system of fraternal societies that developed in Britain and America to privately perform so many welfare functions, arguably better than the government can, developed to any degree in the Nordic nations.

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