

Business Europe / *By Jacob Arfwedson & Johnnu Munkhammar*

Searching for a Swedish Model

Sweden is once more hailed by advocates of the European social model: a large public sector, high taxation enabling redistribution of revenues, and a generous system of social benefits during unemployment, sick-leave, parenthood leave, retirement, etc. This supposedly occurs while maintaining high economic growth, a dynamic industry including world champions in high-tech and consumer goods—IKEA, Ericsson, Volvo, Saab, H & M and others.

In reality, the cradle-to-grave welfare model is causing increasing problems and is questioned and revised. Growth is low, dependency on government is high and the expected welfare services are deteriorating. Over the past decade a series of comprehensive reforms have taken place; taxes have been lowered, private competition in welfare services allowed, and pension systems have been changed. But the steps are too small and too slow.

Between 1890 and 1950, Swedish economic growth was the highest in the world. Politically, Sweden was what would today probably be referred to as a neo-liberal country. Taxes as a percentage of gross domestic product increased to 20% from below 10%. In 1950 the tax take was the same as that of the U.S. and below the average in Western Europe. By 1980, however, the tax pressure had been raised to about 50% of GDP. The state had grown enormously.

Most leading politicians know that it was harmful to expand the state so dramatically. Sweden today lives off the

*The only growth has
come in government size.*

successes of the past, before big government. Only one of Sweden's 50 largest companies today was founded after 1970.

The problems are mounting. The government insists that Sweden can maintain high taxes with high growth. In fact, Swedish growth has been declining for 50 years. Currently, Swedish growth is well below that of the countries of Eastern and Central Europe, but also lower than that of, for example, Britain, France, Spain and Denmark. In terms of per capita private consumption, Sweden is 19th among the 30 OECD countries.

If economic growth were a consequence of high taxes and centralized power, Central and Eastern Europe would have been content to cement and applaud the Iron Curtain; North Korea, Cuba and Burma would be world champions of economic development. They are not. Still, the Swedish government argues that such a model is a condition for prosperity and welfare.

Advocates of big government also claim that Sweden has some 75 % of the population of working age in employment. Unemployment referred to as being low; about 6 %, not far from U.S. levels and lower than the EU average. The true picture is totally different, however. The largest trade union, LO, a strong supporter of the Social Democrats for more than 100 years, recently admitted that real Swedish unemployment is closer to 20%-25%.

Of the Swedish population of working age (5.8 million), 2.2 million belong to the category "not at work," of which 1.4 million live off government handouts. In 2004, this amounted to 39% of the population of "working age"—that is, almost four out of 10 people of working age don't go to work.

In the European social model, health care, child care, elderly care and education are publicly funded and often provided by public monopolies. In fact, good welfare services are the most frequently used argument for the big state. But in Sweden, all those welfare services together only amount to about 28% of the total public expenses. The largest share, 42%, of public expenses, represents various transfers—sick-leave, pensions, child contributions, housing contributions, company support, unemployment benefits, etc.