

Swedes warm to Ireland's low-tax regime

Sweden is a model for the Irish left, but some there are looking to Ireland for a way forward, writes Marc Coleman, Economics Editor

A few days back, Swedish people around the world celebrated the festival of Saint Lucia, the closest thing Sweden has to St Patrick's Day. In recent months a growing number of people on the left in Ireland have been celebrating another aspect of Sweden: in the run-up to the recent march in support of the Irish Ferries' workers, Socialist TD Joe Higgins cited wage levels paid to staff by Sweden's Stena Line as a noble contrast with the downward trend in wage levels of other ferry companies.

Sweden was also a rallying point for the Irish left in October, when EU Commissioner Charlie McCreevy - no darling of the left - dared to criticise Sweden's tough labour legislation. But Sweden's capacity to inspire admiration on the left goes beyond issues of labour law.

The recent protests were not just about seafarers' wages. The strength of public sector union participation indicates that it was also a challenge to the idea that Ireland should have low taxes and a small public sector. Banners at the big march in Dublin addressed a range of topics from childcare to health provision, policy areas where Sweden is seen as a model.

Many hope that Irish Ferries will rekindle a new form of the old Boston versus Berlin debate. Berlin has long since lost its lustre. But in seafaring tradition, trade unionists are looking north to that most constant of stars in the social democratic constellation - Sweden.

The economies of Ireland and Sweden share some similarities, but not many. At 4.5 per cent, Ireland's growth is a clip ahead of Sweden's 3.6 per cent but both are good performers. In per capita terms, both have broadly similar average living standards. Spending on the provision of public services is roughly the same in both countries, accounting for demographic influences. But in Ireland public spending accounts for one third the entire economy, in Sweden it accounts for almost 60 per cent. Sweden's vastly more generous welfare system, which consumes two-fifths of the economy, is what explains this difference.

Although not much more generous, spending on public services is more efficient in Sweden. And its system of centralised wage bargaining is more transparent:

every citizen has the right to read the prime minister's e-mails. Social democrat Goran Persson is an economist who is keen to embrace reform.

When Sweden's manufacturing industry was facing decline in the 1990s, the government rejected the idea of protectionism and instead brought in tax credits to help affected workers take up new jobs elsewhere. But more than any other area, this is where Sweden's model is most criticised. Employment there fell last year by 0.5 per cent while in Ireland it grew by 3.1 per cent.

In Sweden unemployment is 6.4 per cent compared to 4.4 per cent in Ireland, and this probably disguises an underlying rate that is far higher.

Swedish critics of its economic system, such as Johnny Munkhammer of the free-market Stockholm Network, pin the blame for this on the extent of taxation in Sweden. To pay for its generous welfare system, taxes there account for one-half of the economy, compared to 30 per cent in Ireland.

Such critics are growing in number. In November a delegation from the Swedish Confederation of Business visited Ireland to examine our economic system. I participated in this visit and heard several of them speak warmly about our low taxes and light regulation. Having had the pleasure of visiting Sweden twice, I was eager to return the compliment. I praised Sweden's excellent transport system, education system and good record of research and development. Having worked with Swedes, I also mentioned how I have always been struck by their diligence, integrity and transparency as colleagues. But our Swedish guests were still adamant that they had much to learn from Ireland.

If Sweden's economic system has brought benefits to that country, it is perhaps because it has up to now been consistent with something deeply rooted in the Nordic character.

The Global Leadership and Organisational Behaviour Effectiveness research project is a study conducted in 1993 to examine the effect of national culture on managerial and economic behaviour. It found that Swedes were more inclined towards collectivism, and less assertive as individuals, compared to other nations.

It rings true that the Swedes have up to now been more collectivist in outlook: The name of its economic system, *volkshemma* (people's home), evokes the image of a village group sitting around a fire in a communal wooden lodge, protected from the harsh Nordic winter outside.

Swede Assar Lindbeck is one the world's leading economists. Lindbeck says the future of Sweden's economic system is now in doubt. He cites several reasons as to why this may be so, including the effect of complacency and the ambitions of politicians to expand the size of government in order to increase their own

power.

He also suggests that high welfare provision may be reducing the old stigmas that once attached to not working.

But if some see the collectivist and communal approach to welfare as an opportunity to free ride, some like Johnny Munkhammer see it as a frustrating obstacle to meritocracy. "The proportion of workers to unemployed and retired people must shift, so the few are no longer attempting to sustain the many," he says.

Sweden's system of centralised bargaining is also coming under pressure. Technological change, and young people's changing values, are leading to more individualised approaches to work.

But with one of the world's highest standards of living, Sweden has as much baby as it has bathwater. As former Swedish prime minister Carl Bildt puts it, things are good but could be better. "There is an acute need to look at the economic challenges facing some of the older European economies. We can do much better, why aren't we?"