

Is Sweden a Good Model?

Guest: Per Bylund

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WOODS: In 2001 and 2002, what were the Walks for Capitalism in Stockholm? Can you just tell us about that before we get into the nitty-gritty about Sweden?

BYLUND: Well, certainly. The Walks for Capitalism were some sort of event celebrating the free market, organized by a guy in Australia, I think. These manifestations were held all over the world. Start the first year with 80 cities all over the world, and I was the organizer for the Stockholm manifestation. And of course, the guy organizing this was based in Australia. He figured December would be a really good date, because it's in the middle of the summer and everything. So of course, we had to march for capitalism in the middle of a blizzard both years that I organized this thing. But what we did was basically get people together, show support for the free market and capitalism. We had some speakers there, people chanting, trying to stay warm, basically. I think the first year we managed to get 500 people out in the streets. That's a decent crowd.

WOODS: That's very, very hard to do under any circumstances on any subject, so to march for capitalism in a blizzard in Sweden is really saying something.

You've lived in the United States for a number of years now. You got your Ph.D. at the University of Missouri, and now you're a professor at Baylor University. I notice you're not living in Sweden right now. What made you decide to move to the United States?

BYLUND: I always wanted to move to the United States. Maybe I bought into the myth of the land of the free and all this stuff just like everybody's buying into the myth of Sweden being this socialist utopia. But you know, there is something about America that I just love, and that's why I'm here. That's why my wife is here as well.

WOODS: All right, now that we've got the preliminaries out of the way let's dive right into this. What most people think they know about Sweden is as follows: Sweden has a very substantial welfare state, an incredible amount of government spending, very high taxes, and the results have been pretty good: the Swedish economy has been fairly robust, and if you do polls of the people in Sweden, they seem fairly happy with things. They have no apparent desire for any serious changes, so how can you take a different view? On what grounds do you dissent from this? And secondly, doesn't this demonstrate that our claims about the free market must be overblown if this level of government intervention is yielding you still a more or less livable society?

BYLUND: Well, sure. I mean, first I would correct you and say that what most people know about Sweden would probably be ABBA and the Swedish Bikini Team.

WOODS: Well, that's true.

BYLUND: The welfare state would be third. I would say there's a lot of propaganda. And this propaganda is actually very hard to get rid of, because Swedes, too, believe in the myth. And I think the reason this myth is so hard to kill is that Sweden actually did work very well for decades as a rapidly increasing welfare state. And the reason for that was simply that there was enormous economic growth due to the free market that was actually in existence in Sweden back then. So there is a lot of history that actually supports this myth. It has probably nothing at all to do with what Sweden is like today or what Sweden was like 30 years ago.

WOODS: So in other words, what happened was that Sweden had a relatively free market, and this builds up a lot of wealth. And then in establishing this welfare state it squanders all of this. And that would give the impression that things are going really well. But what's been happening, let's say, over the past 20 or even 30 years in Sweden by contrast?

BYLUND: Sweden had its own depression in the early 1990s, simply because in the 1970s with the economic crisis back then, Sweden ran out of money. There were basically no more world wars to tap into, because Sweden was not part of World War I or World War II. But as a small country in the middle of Europe, it could easily export everything that was produced, so we actually tapped into the world wars and all the destruction of those wars. And by the 1970s with the economic crisis, there was really no reason for Sweden to experience greater growth than any other country. So they tried to increase exports, because that's the only thing that Sweden could actually do to get more wealth. And they did that through writing down the exchange value of the Swedish currency, and they did that a number of times during the 1970s by 10 percent and 16 percent and so forth. And that didn't really work.

And then in the early 1990s, in 1992, there was a lot of speculation against the Swedish currency, as part of other such speculations against the British pound and Portugal and so forth. But Sweden could not stand against this sort of speculation, so they had to let it go. And then it was obvious that Sweden was in really bad shape with high national debt, really, really high taxes, and no economic growth. There was basically no economic growth at all except in the public sector during the 1980s. So what has been going on since then is that all parties in the parliament agreed that they needed to cut back on the welfare state. And that has been going on since 1992.

WOODS: Well, to what extent? I mean, do people notice the cutbacks? Are they American-style cutbacks, which means no cutbacks at all?

BYLUND: There are cutbacks. Basically most of these cutbacks are due to enforcing and introducing limits to the social welfare system. So before 1992, there was basically no limit to how long you could live off the public sector and government subsidies. But now, you cannot go on unemployment, for instance, longer than—I think it is 300 days. That was basically unlimited before. Now there are actually some checks and controls before you get handouts. That was not the case before. So there are some very obvious differences for people living in Sweden. I don't think they have noticed the major differences or the real change in how the system actually works, and that's probably because the Social Democratic Party that has ruled Sweden for 80 years or so were the ones doing the cutbacks. And then it is legitimate for anyone who loves the welfare state. These are the Social Democrats doing the cutbacks.

WOODS: Well, what about unemployment itself? What have unemployment rates been like in Sweden? What are they like now or when did they peak? Have there been any disemployment effects of any of these social welfare policies as far as you can see?

BYLUND: That's really hard to say, because right now, of course, unemployment is really high. And the reason for that is the financial crisis. Sweden has actually been one of the strongest countries out of the financial crisis these recent years. Probably because we dealt with our own crisis in the early 1990s, so the national debt went down from 80 percent of GDP to 35 percent of GDP in only 15 years. Not so much because we paid it off, but because we stopped borrowing and we had economic growth. Sweden has not really recovered since the early 1990s in terms of unemployment. And now I think the official numbers are something like 25 percent for young people and could be around 12 percent or so for everybody, which is not a lot comparing it to other countries in Europe right now like Greece and Portugal and Spain. But it's still really, really high.

WOODS: The data you're talking about raises a key epistemological question for economists, because suppose we saw youth unemployment at 25 percent in 1977, at the height of the Swedish welfare state,

and the general run of the population hitting 12 percent unemployment. Surely we'd be inclined to say, well, this just goes to show the difficulties of the welfare state. But over the past 20 years, when there has been at least a modest attempt to try to privatize, deregulate, lower spending—when we see at least in these financial crisis years unemployment so high, we're inclined to say that's because government is still too big. But it's easy to imagine how somebody who disagrees with our point of view might look at these statistics and tell another story.

BYLUND: Right, I think that is true, and I think that is one thing that the current government is actually struggling with a little bit, because the Social Democrats have been experts at hiding people in the statistics. We saw earlier, prior to 2006, a lot of people who were 25 years old and had retired. The reason was that they were in early retirement, because they could not get a job. So the government basically took them off the books and placed them in retirement. That does not go on anymore, which means that those people actually show up in the statistics now. And since the early 2000s, there's a non-socialist coalition of parties in power. And they are trying to get people into the books, and they are struggling simply because there is a financial crisis. There are a lot of people who are hidden simply because they're put in all these programs that they're trying to get rid of. And that pushes unemployment rates up, obviously.

WOODS: You've written a little bit about what you're calling Sweden's Great Depression. You're talking about the problems in the 1990s that Sweden had. As happens in the United States, the blame was placed on so-called deregulation, but you found a rather different explanation, one more in line with the Austrian theory of the business cycle, to account for why Sweden had the problems in the early 1990s. So why don't you say a little something about that?

BYLUND: Well, it certainly looks that way. We're in the middle of a research project right now that I'm doing with two guys in Sweden, looking into what actually caused the crisis. There was a fair amount of deregulation prior to the crisis. There's no doubt about that. But it also seems that the Swedish central bank printed a lot of money prior to the big crisis. It seems like Sweden is a really good case for exemplifying the Austrian business cycle theory. We haven't really gotten to see all the details yet in this research project. But it looks very promising.

WOODS: The Austrian business cycle theory is familiar to almost everybody listening, but just in case, why don't you take 60 seconds to give people the *Reader's Digest* version, if I may use an American colloquialism.

BYLUND: The Austrian business cycle theory says that when government or banks create more money, and increase the credit in the market, that means that you will get a lot of malinvestments—people, entrepreneurs investing in projects which should never have seen the light of day, basically. And since they are investing at earlier prices, they're investing as if all the capital goods are actually out there, but they're not. And sooner or later, they're going to see how much there actually is, and they're going to figure out that all these projects cannot be completed. And then the market will see a lot of bankruptcies. It's really a theory of the unsustainable boom that is caused by increasing and ill-expanding credit, and this is exactly what we saw happen in Sweden in the late 1980s, prior to the depression in the early 1990s.

WOODS: Suppose you had to give a 90-second opening statement in a debate over the proposition, "The Swedish welfare state demonstrates the viability of a third way between capitalism and socialism," and you are arguing in the negative, how would you do that? Ready? Go.

BYLUND: That's not an easy question.

WOODS: Do your best. Debates never are.

BYLUND: Yeah, I guess that's true, but 90 seconds—I'm more of the long-essay type of guy.

WOODS: That'll make it more fun.

BYLUND: Yeah, I guess so. I mean, there's a fair amount of luck going on in Sweden throughout the first 100 years. There's a scholar at Lund University, Andreas Bergh, who's written a book on the capitalist welfare state, showing how there's basically a century of fairly good markets with good market institutions, and the government never interfered with that.

WOODS: Can you give us the dates of this century you're talking about?

BYLUND: Sure. It's 1870 through 1970.

WOODS: Okay.

BYLUND: So it's basically up to the economic crisis in the 1970s. There really is no third way or a middle ground or anything like that in Sweden. First, having a very free market and enjoying the growth of this free market, the government could expand and actually did expand very quickly, but always less than the growth in the market. And they always left these capitalist institutions unharmed and untainted until the 1970s. It was really a market society with a layer of welfare state on top. Granted, it is more like a wet blanket, but this blanket was not very thick. They made sure that this blanket was always thinner than the growth that the market created, which meant that it could actually be sustainable for a while until the 1970s crisis. Because that's when the welfare state suddenly increased very rapidly, and there was no more economic growth. That's when we finally saw the real effects of the welfare state.

WOODS: I'm putting up a resource page. I do this sometimes when I make a YouTube video, and I don't have time to cover every detail. So I make a page with articles and resources for people who want more information. I'm going to do one for Sweden, and so anybody who wants to know a little bit more about this, with statistics, it's going to be LibertyClassroom.com/Sweden. There you'll have some links that'll be of interest to you listeners.

There's a paper that was written in the UK last year. I don't have the researcher's name in front of me right now, but I'll have that up on that resource page. At any rate, this person is saying that a lot of the favorable outcomes that people associate with the Swedish welfare state in fact either predate it. For example, high levels of equality in Swedish society and various other favorite social outcomes—these were evident before you had the extensive welfare state. Also, descendants of Swedes who came to the United States in the nineteenth century also are characterized by favorable social outcomes like a low poverty rate and low unemployment. In other words, the Swedes seem to prosper where they go no matter what the circumstances are. So it doesn't seem right to say the Swedes prosper because they had this big welfare state. They prosper anywhere.

Then there are the of moral and cultural effects of the welfare state, which I know you've written about a little bit, that you can't quantify or capture in any numbers. I read a piece that you wrote that I think conveyed this very vividly. So maybe we might close with any reflection you have on that type of issue.

BYLUND: I think people do what they have an incentive to do, and unless they have to work hard, and if they can rely on others they will, and they will learn how to. If they grow up, and everything they learn is from a welfare state for generations—which is the case in Sweden— you will lose the ability to think of yourself as the only person you rely on. I think we're seeing that in Sweden right now, where everybody is just requesting assistance from everybody else, but no one is actually assisting anyone. I think that can be pushed back, and I think that is actually what is going on in Sweden right now as well ethically.

With the cutbacks —and, actually we have seen in the last five or eight years in Sweden a lot of tax cuts, and I mean real tax cuts, not just cuts in the rate of increase—people are learning to take care of themselves again, so there's definitely an ethical or moral dimension to the welfare state. If you have a nanny state,

people will stop taking care of themselves. They will stop looking out for each other. And they will just wait for big mom the government to help them out. And that of course means all of the market will stop, and there will be a horrible society. Sooner or later, it will implode, and I think that is basically what Sweden did in the early 1990s. So you have to recover.