



Episode 338 – Did Sweden Succeed Because of the Existence of Government?

Guest: Johan Norberg

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WOODS: Sweden is a topic that comes up with surprising regularity in the United States, and it comes up not because people have some interest in Swedish history and culture, I am sorry to say. It's because they want to use Sweden as an ideological bludgeon with which to beat people who are skeptical of state power. So I want to talk to you, as somebody who was born in Sweden, who is speaking to us from Sweden right now, who is very knowledgeable about Sweden, to help us clear this up for an American audience. I would like to know first of all, are Swedes aware that their society is held up as a model for how political organization and the economy ought to be arranged?

NORBERG: I think we are aware of that. We have noticed throughout the years that people actually tend to like Sweden for some reason, perhaps because we're kind of small and insignificant, and we're not very threatening. So people tend to think of Sweden as a nice, decent place, peaceful. We don't bother people. And then they tend to like different things of what they see. I thought of Sweden a kind of Rorschach test—a kind of psychological test where you have some ink which doesn't portray a particular picture or anything, but you see what you like to see. You see what you think about in the back of your mind and in your subconscious. So some people see this as a nice, open economy—a globalized, free-trade economy. Others look at the government and think, oh, it's the perfect, big government, socialist country. And others see other things. It could be free love or the pop music. People tend to like Sweden. That's something we're very aware of.

WOODS: You have an article alleging that Sweden actually succeeded economically not because of welfare state spending and government intervention, but both in spite of those things and prior to those things. So can we go back and look at the history of Sweden? When do we begin to see robust economic growth, and what was the role of the state at that time?

NORBERG: When you start to think of when was Sweden really a successful economy that the rest of the world looked at, and you would say you begin to notice Sweden in the 1950s, '60s. In 1970, Sweden is one of the richest countries on the planet. I think the per-capita income is the fourth most prosperous on the planet, and that's after a 100-year period of rapid economic growth—one of the fastest in the world. Probably only Japan beat us during those years. So you would have to say that this starts sometime in the 1870s, which is interesting, because at that

time Sweden had gone through a liberalization and deregulation process. During 1840 and 1870, we had a major political movement of classical liberalism—of a *laissez faire* liberal attitude where they wanted to reduce government to open up to free trade, deregulating industry and so on.

And it's sort of a funny anecdote. The minister of finance, who was one of the pioneers of these reforms, he left in the mid-1860s after having really liberalized and opened Sweden up, and then his opponents said that, oh, now you're leaving because you don't want to see the failures that you brought upon us and the problems that Sweden will run into now after these reforms. And what happened was that growth really took hold. If you want to look at one particular set of numbers, between 1860 and 1910, right before the First World War, real wages in Sweden increased by 25% per decade in the manufacturing industry, and that's much faster than before and much faster than afterwards, which is interesting because that's 20 years before the Social Democrats ever get power in Sweden. So the real boom happened during this *laissez faire* period. Public spending was still below 10%, and Sweden was one of the most open economies in the world.

WOODS: This seems to be, by the way, a common feature of, let's say, a lot of left-wing commentary. They'll look at a snapshot of a society in a particular year without looking at the video, so to speak, of that society. What had been going on prior to that? We see this in the debates over the regulatory state in the U.S., for example. We'll look at a regulatory agency, and we'll see that after they created it, the result was that, for example, there are fewer workplace fatalities. What they don't ask is: what was the trend in workplace fatalities before we got this institution? It was already falling. So, likewise, in the story of Sweden, we don't get what you just told us about the growth in wage rates and so on and so forth before all the interventions came, but that is half the story. That's three quarters of the story.

NORBERG: Exactly. That's an incredibly important point. A lot of people look at Sweden and say, and especially, they used to do that when we were at the peak of the big government and the welfare state in the 1980s and a time like that, and they said that, look, Sweden is very prosperous, and at the same time, taxes and spends heavily. It's a very almost socialist economy, and yet, they are rich. Why is that? Well, it reminds you of the old joke: how do you get a small fortune? Well, you just start with a big one, and then you make a couple of mistakes, and then you end up with a small fortune. We had this tremendous growth during the years when Sweden had the most open economy and the smallest government, and even when the Social Democrats began to get power in the 1930s, they understood this economic model, and they didn't want to interfere too much, and they were actually heavily influenced by a couple of famous classical liberal economists. So most of the time, they were open for business and chose free trade. As late as the early 1950s, Sweden had lower taxes than the United States did—lower taxes and less public spending than in the United States and the rest of Europe, and that sort of gives you a perspective on why this happened. You built this big fortune under these circumstances. In early 1970, Sweden was one of the richest countries, and then the

Social Democrats began to regulate—hike public spending, increase taxes, and so on, but they could only do that because we already had that wealth because of this free-market period, and also, obviously because Sweden had stayed out of two world wars, which meant that our industry was intact, and we exported to both sides, and the young men of the country were still sort of alive and able.

WOODS: I think a skeptic might come back at you and say, if Sweden really had been doing that well, then how could the arguments for the welfare state have gotten any traction?

NORBERG: Yeah, and that is a good question. It's one that both historians and economists think about quite a lot when that happens, but actually, it follows a fairly normal pattern in most countries around the world. You get rich, and then you sort of begin to take that wealth for granted. He who has satisfied his thirst turns his back to the well in a way. You begin to take it for granted. You don't think of the preconditions for creating more wealth building these new businesses, and the kind of fierce competition and openness that it takes. So instead, you begin to demand all of it at once. You begin to build these pressure groups who want more access to this wealth and more evenly distributed wealth, and that's, I think, what began to happen in the 1970s. We were so rich so that we thought that we can't make any mistakes anymore. We could throw out the economics textbooks, and we also could begin to think of other things like a fairer distribution of all of these things—how to make sure that everybody got a piece of the action.

WOODS: And that is one of the arguments that is made by Americans today, American progressives. They will say: whatever else you can say about Sweden, it has more economic equality than we see in the United States.

NORBERG: And that is true, partly because of more redistribution, but also, I think, even here you need this historical perspective to understand where we're coming from. Sweden had a fairly equal distribution compared to many other countries during this openness period as well, partly because it's a very small—even today just 10 million inhabitants—and a small country, and a homogenous country, which meant that there weren't these huge diversities when it came to wealth. Sweden didn't even have a feudal period like the other European countries. So we were all in a way property-owning farmers when we started out. So we had a history of more equality, more trust—societal trust between people, many of those aspects that actually also made it easier to begin to accept more of a big government. Because when that happened in other places, people were very suspicious. What happens when they take our money away? Will they just divert it to their own use? Will it be inefficient? Will it be bureaucratic and so on? Wealth has always had in a way a fairly efficient and non-corrupt public sector in the civil service. And a lot of trust: you don't think of the government historically as someone who is there to loot and take it all away from you. They are more like your neighbors, in a way. So you trust them, and then you trust them a bit too much, and of course, all power corrupts in some way. And that's what happened during these years when the government grew rapidly in the

1970s and the 1980s and the public spending actually doubled in just two decades from 30% to 60%, and that was really the start of the welfare state in Sweden.

WOODS: What was economic performance like in the wake of these programs? What did Sweden endure economically? Was it prosperity? Was it less prosperity than before? Was it outright disaster? How would you describe it?

NORBERG: Yeah, somewhere in between, I would say. And again, you have to consider the fact that Sweden had already outdone the whole world, basically, and it was one of the richest countries on the planet. So we had done a few things right and could carry on for quite some time, and even during these years when they began to increase public spending and taxes and regulate the labor market, and so on, they always had an open economic model. Even the Social Democrats knew how Sweden was dependent on exports and imports as a small country, dependent on actually quite a large multi-national company. So they needed that openness for competition and a bit less of regulations as well, but what happened then is that growth began to slow down from 1975 till 2000. Sweden only had some 60% of the accumulated growth that the United States had and only some two-thirds of the rest of Europe. So actually, at exactly the point in time when the rest of the world were saying, look at Sweden, they're fantastic, Sweden began to lag behind the others. And in the year 2000, Sweden had gone from having been the fourth-richest country on the planet on a per capita basis to being the 14th-richest country on the planet; still not awful, not a disaster in any way. But it was now more mediocre rather than leading the world. And you could begin to see the problems long-term for this model. Incredibly, in the mid-1990s, Sweden had not created a single job, a single net job in the private sector since 1950. So all the growth in employment and investments had basically taken place in the public sector.

WOODS: That is an amazing statistic.

NORBERG: Yeah, and something that actually shocks Swedes quite a bit and shocked the Social Democrats a bit, I think, too, because they always understood that you could tax and spend, but only if you had something that functions well that you can tax. So that actually started a big discussion in Sweden on how to take Sweden a bit more back to the model that created this growth from the start, and we had a period in the 1990s and has in a way continued where we began to go back to the future in a way and began to reform Sweden in more ways. Marginal tax rates were cut. We had public pensions that were cut and partially privatized. School vouchers were introduced and providers welcomed in the public sector, and at the same time, deregulating product markets partly as a result of a big economic crisis in the early 1990s where we had our first real, awful the inflation boom that crashed. Then afterwards, there was a lot of consensus on reforming Sweden again.

WOODS: I know that Americans know that Sweden has a substantial welfare state, but that's really all we know. Are you able to paint a picture for us of exactly what it consists of? What kind of programs are we talking about? How generous are the benefits?

NORBERG: It's a welfare state that tried to be, at least for a couple decades in the 1970s and '80s, a really cradle-to-grave welfare state, trying to heavily subsidize child care and preschool and things like that and maternal leave for a long period, and then obviously the schools and then free universities without any kind of fees, and the healthcare system has been socialized, even though there have been fees there to try to ration it in a way, and at the same time, a big social security system that takes care of things from sick leave to unemployment insurance to a pension system that has been fairly generous. All of these things are still quite generous if you compare it to the American system, but at the same time they have been scaled back because what happened in the 1990s and the 2000s, early 2000s, was that we began to see some of the problems here when we have generous benefits. It could be from 80% at some point even up to 100%. If you have generous benefits like that like sick leave, it means that people are off sick more often and especially on Mondays and Fridays. We began to see that Sweden, which on objective measures has one of the healthiest populations on the planet, we're off sick more than any other country on the planet.

So it was scaled back. There was a new understanding that we need incentives to deal with that and that people react on incentives, but the background is that Swedes didn't want to rely on these systems. We have this history of social trust and a bit of social control. You are basically one of the property-owning farmers in a tiny village. If you live on the welfare system, you live off your neighbors and your relatives, and they don't like that, and you don't like that, and you're ashamed of it. So Sweden could build more generous systems like that because people didn't really use them that much. They still wanted it to work. It was a matter of self-esteem. They would never use it or rarely use it even if they needed it. But then, of course, what happens after you've had these systems for a couple of generations is that the cultures begin to change when you change the incentives so people are brought up in an entirely different system where they see that work is difficult, and you are forced to pay heavy taxes, but at the same time, it's easy to be off sick or unemployed, well, that begins to change that work ethic, which was an important precondition for Sweden's wealth and for the welfare state. So that's something we are dealing with right now. We've just had eight years of center-right government that has tried to scale back these benefit systems and implement more controls, and at the same time, lowering taxes on work to change the incentives.

WOODS: What is the current political picture in Sweden? Has there been a backlash against this center-right government?

NORBERG: I would say so. We had an election in September, and it wasn't really won by the center-left. The combined three parties on the center-left, they didn't gain more than one percentage point on something like that since the last election, but what happened is that we had a big new populist, anti-immigrant party that captured 13% of the vote, and they are playing on the same kind of discontent as the Left does in a way that, look, this has gone too far with Sweden. We have opened up. We have deregulated. We have scaled back the welfare state too much. We want to go back to the 1950s in a way. So the center-right has lost a lot of

votes there, but there's no large majority for really changing the system or going back to the big government system, partly I think because even the Social Democrats have accepted much of this model. It's very difficult for them to change some of the basics because what happens when you begin to reform is that you build new pressure groups; people who are interested — parents, families who are interested in freedom of choice, the private schools, the voucher systems and things like that.

So even though there's been some backlash, it isn't being changed to a dramatic extent, I think. The bigger problem is that somehow the reformers lost steam. They lost energy after having done what they set out to do. They didn't try to where you have a strong, classical liberal vision on how to get Sweden further. In the last period, they seemed like we're done here basically and only talked about responsibility for public finance and so on and sort of lost the vision thing, and that bodes ill, I think, for the climate of ideas in Sweden for the long-term because then we can get back to things like, okay, the system seems to be working fairly okay. We can now turn our backs to the well again and begin to hike public spending in certain sectors and so on. But if you look at the broad picture right now, if you look, for example, at the economic freedom of the world index, in four of the five spheres of economic freedom, Sweden is more economically free than the United States, which tells us something about how the public perception. I think the American perception of Sweden should be updated.

WOODS: Well, I am certainly going to link to your article, *How Laissez Faire Made Sweden Rich*, on the show notes page for this episode, which will be tomwoods.com/338. I also want to mention that I've read your books *Financial Fiasco*, on the financial crisis, and your book *In Defense of Global Capitalism*. And of course, the term global capitalism is a bogey man term. It's a term that's supposed to scare people. You embrace it brazenly in the title of that book. It's just a relentless presentation of how globalization, contrary to the propaganda has vastly improved, people's standard of living all over the place. Can you tell us about any current projects that you're working on?

NORBERG: Well, there's a constant need to update these things because it's a strange story because on the one hand, you can see that all those numbers—all the data that I looked at *In Defense of Global Capitalism* is improving even faster now. We are really seeing the fastest economic and social progress the world has ever seen, and we're seeing it in the countries that liberalize the most. 5,000 people are lifted out of extreme poverty every hour of every day. So it's a tremendous progress. At the same time, you see the same arguments being upheld again and again about how the economy is a zero-sum game and how capitalism runs amok, and we have to control it and so on, so there's a need to update that, and I'll be coming back to that in book form, I think, but I am also trying to get the message through to a broader audience with television documentaries. Right now there's one on energy on PBS stations in the United States—*Power to the People*—about the choices we're facing when it comes to energy. But I am also working on things like looking at India's economic and social progress where you can see the same thing where they have reformed. They can see tremendous progress. Where they

haven't reformed, we still see stagnation. So, in a way, the socialists are right. As their saying goes, there is an unequal distribution in the world, and it's because of capitalism, but not in the way they think of it. It's the unequal distribution of wealth in the world is because of the unequal distribution of capitalism. Where you have capitalism, you see this progress. Where you don't, you see stagnation, poverty, and misery.

WOODS: I am going to link to your website, which is I believe is johannorberg.net.

NORBERG: Quite right.

WOODS: Okay, so that's how people can find out more about you, your work, your writing, your projects. I will link to that also at tomwoods.com/338. Well, it's been wonderful talking to you speaking to somebody directly from Sweden—what Americans ought to know about Sweden. Maybe that should be the episode title. I haven't finally decided.

NORBERG: That's not bad.

WOODS: Yeah, it's pretty good. Just a little primer for Americans before they go shooting their mouths off, they should really know the whole story. Thanks so much for your time today.

NORBERG: Thank you.