



Sweden's Economic System -Democratic Socialism? Really?

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March 16, 2023

Capitalism is sick and dying, or is it?

‘Democratic Socialism, that’s how we fix the world's economies.’

I often hear this being touted as the ‘be-all and end-all’ of economic systems, the silver bullet that will kill the capitalist problem.

The capitalist model has gone a little wonky, as greed and corruption are rife within the system and those with the money get the greatest say over almost everything. What about the little guy?

The average guy in the street?

Unbridled capitalism is a harsh and unforgiving system. If you don't work, you don't eat, but what about those in society suffering from some disease or those that cannot find a job through no fault of their own?

Capitalism brings with it brilliant innovation, and innovation makes our lives a lot easier. The competition inherent within capitalism makes innovations better and cheaper. But as with everything in life, there are two sides to every coin. The innovation that capitalism drives, the profit motive inherent in the system can also 'innovate' us out of a job, out of a purpose for being.

The competition in the labour market marches to the supply and demand drumbeat, and as the supply of labour increases, prices (also known as wages) fall.

Labourers see their earnings drop, and their jobs may even disappear because of technology. Robots will do much of the hard labour that humans do now, and they'll do it faster and with less error.

Robots don't need time off, or a lunch break, they don't need emotional support. You can see where I am going with this.

We have reached a point now in capitalist-run economies where things need to change. That's where 'democratic socialism' enters the discussion. A system that is fairer, that cares more for the little guys, like Sweden. If we could just do what Sweden does, the world will be a lot better.

What does Sweden's economic system really look like?

Recently I watched a video of someone who wanted to find out how the Democratic Socialism of Sweden actually works, and I found it rather enlightening.

Johan Norberg, a senior fellow at the Cato Institute, was on hand to answer questions.

The first words out of his mouth are that Sweden is not a socialist country.

Sweden is not a democratically socialist country either, it is democratic but not socialist. The difference between Sweden and the USA that I could see from the discussion was that Sweden uses capitalist free market economic principles, but the government has a hand in the redistribution of the proceeds.

Sweden's socialism experiment

Sweden, according to Johan, did experiment with socialism for about twenty years, and according to Johan, it ended in a spectacular failure.

Johan went back through Sweden's history and discussed the 1970s when Sweden was one of the richest countries in the world, with low taxes and exceptional innovation due to free market competition.

Then politicians in Sweden regulated businesses and they increased government ownership of businesses. Sweden forgot what had allowed them to rise as an economic power, and greater government bureaucracies and regulations took their toll. Higher taxes started to bite. Swedish politicians began to redistribute everything.

In this period, the size of the government doubled, as did government consumption of GDP. The wastage was phenomenal.

Sweden was lucky enough to pull out of this system of democratic socialism, which had failed.

They then reduced taxes, reduced the size of government, and deregulated the product markets to allow for entrepreneurship and innovation, and competition.

Sweden does not redistribute wealth from the rich to the poor.

The government taxes you when you are working and you are given money when you stop working, this differs greatly from redistributing from the rich to the poor or the lazy. (I am not saying poor people are lazy, my disclaimer at this point.) They redistribute the taxes you paid while working to you over your life cycle from working to nonworking age.

Back in the 1980s. Marginal income tax in 1980 was 90%, and then they lowered taxes. Higher tax rates just caused the wealthier to develop strategies to avoid tax.

Very few firms actually paid the 90% they moved their income streams offshore and rewarded their employees in different ways.

The tax system was ineffective at extracting money from the wealthy as the wealthy moved their money out of the country.

Sweden gets most Tax revenue from the middle class and the poor

Johan continues that the middle class and the poor do not move their money out of the country and thus form the largest tax pool.

Tax breakdown

Payroll tax is around 30%, and then a local and regional income tax is at 30% too. (The government taxes 60% of your earnings).

Both taxes are flat taxes and not progressive, so the more you earn, the more you pay because taxes are a set percentage for everyone.

VAT which is a consumption tax on goods you consume is at 25%.

So the poor and rich pay 25% tax at the store, it's just the 25% will be more in actual tax revenue from the rich as they buy more expensive goods and in greater volume, but essentially everyone pays at the same tax rate.

Sweden supports private business

Sweden is second only to silicon valley for privately owned, start-ups, per capita, meaning innovation and private business ownership is the core of their economic model.

Anomaly -Sweden's trade unions are supportive of business

Johan says that Sweden's trade unions recognize that restructuring and short-term labour pain (not in the pregnancy sense, in the economic sense) is what will drive more jobs and opportunities in the future.

In the 1970s and 1980s, big innovative businesses like Tetrapak, Ikea, and Volvo left for tax haven 'business supporting' countries like Switzerland and the Netherlands, etc.

Entrepreneurs and innovators left the country too. Even the Swedish sports people left the country, searching for lower tax havens and geographies that were more supportive of innovation.

Johan said it was a terrible time, there was no creation of jobs in the private sector for 30 years.

Private Healthcare benefits the Swedes

Public healthcare had major problems, the service was terrible, waiting times for medical procedures, and just medical treatment was slow and weak, and this taught Sweden that they really needed choices for healthcare including the choice for private healthcare.

Sweden concluded government healthcare failed, just like the NHS is failing in the UK.

Education is not free in Sweden

They use a different model in Sweden, but they pay for it in taxes and public funding.

Sweden still has a huge amount of student debt and Sweden still has huge student debt, some of the highest student debt in the world.

The ROI on education does not work out, there are some courses that will not deliver the benefit to the country in economic terms, and the problem arises when you have what we call 'professional students' who don't actually apply what they have studied to increase GDP.

Students don't pay fees but take out loans to live.

Sweden does not have elite-type colleges and less good colleges. Sweden has more even standard colleges, they don't have elite colleges like the Ivy League colleges, but also don't have lower standard colleges, so all colleges provide a similar level of education as they are taxpayer-funded.

Sweden avoids the worst colleges but also does not have the best colleges.

Going green on power — Sweden

Sweden is all about sustainability and protecting the planet.

Sweden's power mix is interesting.

A lot of nuclear, hydropower, and wind power, nuclear is 40% of Sweden's power.

Nuclear is essential for a net zero economy.

Sweden will attempt to reach a carbon-neutral status by 2045. It will not happen in the next ten years. Sweden only has 10 million people, so think of that to get perspective.

The USA wants to adopt the Swedish economic model

If the USA was to be more like Sweden, the following changes to the US economy would be required, according to Johan:

1. Deregulate markets
2. Abolish occupational licensing
3. Increase free trade
4. Reform social security
5. Privatize pensions
6. Private and public schools to receive the same funding
7. Abolish taxes on property, gifts, and inheritance

Recap

There is no silver bullet, and different economic models result in different outcomes for different countries and cultures. What politicians keep pushing is an oversimplification and not well thought through. Taking a 'deeper dive' into different economic and business models delivers more sobering insights than the headlines we often read or listen to.

The utopian dream is rather messy and difficult to achieve and has some skeletons in the closet when examined more closely.

Let me know if your thoughts on this if you live or have lived in Sweden.