

## Sweden: The Sensible (and Slowly Shrinking) Welfare State

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Sweden must be a schizophrenic country. Something strange is happening, after all, if a [statist like Jeffrey Sachs](#) and a rabid libertarian like yours truly both cited it as a role model in [our remarks last month at the United Nations](#).

So who's right? Well, it depends what you care about.

- Jeffrey and other folks on the left are correct in that Sweden has a big government financed by high tax rates. According to [OECD data](#), only France and Denmark have a bigger [burden of government spending](#). And the [OECD also shows](#) that Sweden's top income tax rate of 56.6 percent is the most onerous in the industrialized world.
- But if you look at non-fiscal policy variables, Sweden ranks as one of the world's most free-market nations. [Like Denmark](#), it compensates for a big public sector with [laissez-faire policy in other areas](#), including [nationwide school choice](#) and a [partially privatized Social Security system](#).
- And if you look at the direction of reform, Sweden is moving in the direction of smaller government, [rejecting Keynesianism](#), [lowering tax rates, and reducing the burden of the public sector](#).

In a [column for Bloomberg](#), Anders Aslund elaborates on Sweden's efforts to reduce the size of the state.

*Not so long ago, Sweden could claim world leadership in unmitigated Keynesian economics, with a 90 percent marginal tax rate and a welfare state second to none. ...but in the last two decades the country has been reformed. Public spending has fallen by no less than one-fifth of gross domestic product, taxes have dropped and markets have opened up. ...no turnabout has been as dramatic as Sweden's. From 1970 until 1989, taxes rose exorbitantly, killing private initiative, while entitlements became excessive. Laws were often altered and became unpredictable. As a consequence, Sweden endured two decades of low growth. In 1991-93, the country suffered a severe crash in real estate and banking that reduced GDP by 6 percent. Public spending had surged to 71.7 percent of GDP in 1993, and the budget deficit reached 11 percent of GDP. ...Sweden's traditional scourge is taxes, which used to be the highest in the world. The current government has cut them every year and abolished wealth taxes. Inheritance and gift taxes are also gone. Until 1990, the*

*maximum marginal income tax rate was 90 percent. Today, it is 56.5 percent. That is still one of the world's highest, after Belgium's 59.4 and there is strong public support for a cut to 50 percent. The 26 percent tax on corporate profits may seem reasonable from an American perspective, but Swedish business leaders want to reduce it to 20 percent.*

Interestingly, the Swedish people and the Swedish elite (just like the Estonians, as [discussed in my takedown of Paul Krugman](#)) seem to understand that there's no going back to the statist era of the 1970s and 1980s.

*Where are the left-wing intellectuals to challenge this new order? They have disappeared. The old socialist research organizations have closed down. The Center for Labor Market Studies was a state institution that generated propaganda, not research, and the government closed it. The Trade Union Confederation had a sophisticated research institute, which it eliminated for not being sufficiently political. The union economists, who dominated Swedish economic debate in the 1970s and '80s, have been replaced by bank economists. The free-market right has influential research centers in Stockholm. After many years of absence from the debate, I attended a conference on the Swedish economy in the southern city of Malmö last month. ...the 180 speakers represented the full range of Swedish views. I was amazed to hear how far the consensus had moved to the free-market right, even among Social Democrats and trade-union leaders. ...The Social Democrats haven't only joined the free-market consensus, but seem to attack the current government from the right, pushing for a better business environment. Gone are demands for the restoration of social benefits. Opinion polls have rewarded the Social Democrats for their right turn with sharply improved ratings.*

In other words, Sweden is a lot like Canada – a nation that took a misguided turn to the left but since then has [moved significantly in the right direction](#).

I'm not willing to trade places with either nation, but that may change at some point. The [Bush-Obama policies of bigger government and more intervention](#) have made America less attractive, while other nations have learned from their mistakes.

If Sweden adopts a [flat tax](#) and figures out how to cancel winter, I may have to move there.

P.S. Sweden's government-run healthcare system [can be quite emasculating](#).