

FINANCIAL POST

Scandinavian unexceptionalism

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Sweden. Home to IKEA, the Swedish Chef, those tasty meatballs ... and the most comprehensive cradle to-grave welfare system in the western world. Touted as a "third way," the socialist-capitalist hybrid was to have been compatible with the growth and prosperity of free markets whilst simultaneously offering an unparalleled social safety net. The idea of Sweden, and indeed all Nordic countries, as a kind of utopia lives on.

This is in spite of the evidence, sadly. In a new book, Swedish author Nima Sanandaji provides further fodder to reconsider the welfare states of all Nordic countries. *Scandinavian Unexceptionalism*, published in 2015 by the UK-based Institute of Economic Affairs, argues that Scandinavia thrives thanks to a historic legacy of economic, social and cultural strength and community cohesion, not because of their welfare states.

Some Canadian activists and policymakers hold up Scandinavian countries as models to emulate. Sanandaji instead writes the opposite, that Sweden could learn a lot from us: "Canada is a role model for Sweden, since it has successfully moved towards a model that rewards work and entrepreneurship." Between the 70s and the 90s Sweden fell from fourth richest nation in the world to 13th. (Following free-market reforms at that time, they climbed back up to 10th by 2010.)

In 2004, only 38 of 100 businesses with the highest revenues in Sweden were privately owned. And only two of those 38 opened their doors after 1970. (IKEA, for example, began in 1943. Incidentally, its founder, Ingvar Kamprad, moved his wealth to the Netherlands and IKEA is owned by a family-controlled foundation in Liechtenstein, says Sanandaji.)

Meanwhile, net job creation in Sweden between 1950 and 2000 was close to zero in spite of the increase in population.

High rates of hidden unemployment dog the Scandinavian countries, too. This happens when the government classifies individuals on various government programs as "employed." The Swedish government reported unemployment rates of about five per cent in 2004, but a Mc-Kinsey report in 2006 showed in reality unemployment was somewhere closer to 17 per cent.

So why would Scandinavians accept such high taxation, such intrusion, at the cost of their own ingenuity and employment? The obvious answer is ideological support for social welfare. Less obvious, Sanandaji muses, is the extent to which they knew what was happening.

Indirect or hidden taxes include things like social security contributions. Across Scandinavia, indirect taxation has risen drastically. In Finland, between 1965 and 2013, hidden taxes like the Value Added Tax ("VAT") and mandatory social security contributions rose from eight per cent of GDP to 22 per cent. In Denmark, indirect taxation rose from four to 10 per cent; in Norway from four to 18 per cent and in Sweden, indirect taxes rose from four to 19 per cent.

Consider the true story of a Swedish dentist who practised only three days a week in the late 1980s. The remaining two days weren't worth it; the returns would have been taken entirely by taxes.

The book gives statistics showing the decline in motivation, an increase in sick time and early retirement in spite of good physical health. According to the World Values Survey, in Sweden, there has been a substantial increase in the percentage of people who believe abusing government benefits isn't always wrong.

Shockingly, we learn why Sweden has such a high level of wealth inequality: "The reason for this uniquely uneven wealth distribution is that many Swedish households depend on government safety nets and thus have limited savings," writes Sanandaji.

Not only this, but Sweden has experienced a steep decline in education outcomes, even inviting the OECD to investigate why. Swedish students show a lack of motivation to work hard, with increasing rates of students showing up to school late.

Certainly, in global context, Sweden, Denmark, Finland and Norway remain remarkable nations. Poverty there is not what it is in developing nations around the globe.

For all the calls to emulate Sweden, it is wise to read this myth-busting empirical assessment. We like to believe Scandinavia proves socialism works, yet it appears the limitless spending, big government programs and high taxation function exactly as most economists would predict: Big governments run out of money, while running their people into dependency, necessitating economic reforms toward a more frugal course.

While some Canadians look to emulate Sweden, it's good to consider those Swedes, like Sanandaji, looking to become more like Canada.

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