



Scandinavian Unexceptionalism

How Sweden's wealth, work and motivation have suffered due to the welfare state

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Given how often Sweden is held up as a shining example of equality, social welfare and economic success, the IMFC is examining these claims in the coming weeks. Today Andrea Mrozek reviews a new book that reveals the economic realities across Scandinavia. Economic prosperity affects families, so we start our Swedish series here.



Sweden. Home to IKEA, the Swedish Chef, Swedish meatballs...and the most comprehensive cradle to grave welfare system in the western world. Touted as a "third way" in economic systems, it 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 as a kind of utopia remains.

This is in spite of the evidence, sadly. In a recent book, Swedish author Nima

Sanandaji provides further fodder to reconsider the welfare systems 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.¹

A drop in wealth

Some Canadian activists and policymakers hold up Scandinavian countries as models to emulate.² 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."

Sweden fell from fourth richest nation in the world in 1975 to 13th by the mid-90s. Following free-market reforms at that time, they climbed back up to 10th by 2010.³



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 1970.⁴ (IKEA, for example, began in 1943.)

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Also in Sweden, net job creation between 1950 and 2000 was close to zero in spite of the increase in population.⁵

Then there are the high rates of hidden unemployment. This happens when the government classifies individuals on various government programs as "employed."⁶ The Swedish government reported unemployment rates of about five per cent in 2004, but a McKinsey report in 2006 showed in reality unemployment was somewhere closer to 17 percent.⁷

Some of the most interesting sections of the book explore why Scandinavians accept such high taxation. The obvious answer is ideological support for social welfare. Less obvious, however, is that much of the government revenues collected are hidden from taxpayers.

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 percent of GDP to 22 percent.⁸ In Denmark, indirect taxation rose from four to 10 percent; in Norway from four to 18 percent and in Sweden, indirect taxes rose from four to 19 percent.⁹

A drain on motivation

Consider the true story of a Swedish dentist who practiced 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.¹⁰



Shockingly, "Sweden exhibits the highest 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."¹¹

There are additional issues in Sweden in particular that go unaddressed. Sweden has experienced steep decline in education outcomes, inviting the OECD to investigate why. Not only were education outcomes falling, but Swedish students show a lack of motivation to work hard, with increasing rates of students showing up to school late.¹²

Ultimately, this book about Scandinavia must be taken in global context. Sweden, Denmark, Finland and Norway remain remarkable nations, and poverty there is not what it

is in other places around the globe.

Yet for all the ballyhooing about the success of Scandinavia, it is wise to read this myth busting empirical assessment. Where many would like to believe Scandinavia proves socialism works, in actual fact, the limitless spending, big government programs and high taxation functions 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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¹ Sanandaji, N. (2015). *Scandinavian unexceptionalism: Culture, markets and the failure of third-way socialism*. London: Institute of Economic Affairs.

² Anderssen, E. (2013, October 23). What the world can teach Canada about building better daycare. *Globe and Mail*. Retrieved online from <http://www.theglobeandmail.com/life/parenting/what-the-world-can-teach-canada-about-building-better-daycare/article15036667/?page=all>

³ Sanandaji, p. 27.

⁴ Sanandaji, p. 23.

⁵ Sanandaji, p. 33.

⁶ Sanandaji, p. 40.

⁷ Sanandaji, p. 41.

⁸ Sanandaji, p. 45.

⁹ Sanandaji, pp. 44-45.

¹⁰ Sanandaji, p. 75.

¹¹ Sanandaji, p. 60.

¹² Maclean's. (2015, May 8). What the failure of Sweden's schools can teach Canadians. Retrieved from <http://www.macleans.ca/news/canada/what-the-failure-of-swedens-schools-can-teach-canadians/>