



## Swedish Welfare

Sweden is a prime example demonstrating that tax-and-spend welfare policies can work, correct? One hears enough about Sweden's near-miraculous feat of succeeding despite its high taxes and generous welfare benefits that one seldom questions whether Sweden's experiment in socialism has actually succeeded, but wonders instead how it has done so. The answer is that it has not succeeded - in the long term. Nor was it even possible to do so, since economic principles are inviolate.



Sweden is now having to face coming to grips with "the long term." The reason that the welfare state could work marginally well in the short term but not the long term is manifold, but one important reason is the long-term effect economic policies have on people's values. Norms associated with work and responsibility may support welfare states for a time, but those norms are eventually eroded by the welfare states they prop up, leading to the states' downfall. Sweden, often viewed as a role model for welfare societies, offers a good example of this phenomenon.

### Swedish Economic History

Foreign intellectuals often view Sweden as a nation where high taxes and generous government handouts have been successfully instituted and maintained in a growing economy. This is, however, built upon a biased view of Swedish economic history. During the end of the 19th century, the Swedish economy was transformed through a series of free-market reforms that enabled the nation to experience rapid growth. The once-impooverished country had become one of the most affluent in the world by the middle of the 20th century.

Although the Social Democratic (socialist) Party had gained influence in Sweden, for a long time policymakers relied on growth- and work-friendly policies. In the '50s, for example, Sweden still had lower taxes than the United States. It was not until the '60s that the Social Democrats radicalized and attempted to shift the Swedish economy toward socialism. Then, as could be expected, government interference in the economy, high taxes, and generous handouts slowly, but surely, reduced the competitiveness of the nation's economy. Sweden would go from being one of the richest nations in the world to a mediocre industrialized country in terms of wealth. The country became poorer as a result of the tax-and-spend policies, but it did not face immediate catastrophe. The competitiveness and relative wealth of the country remained fairly strong until a welfare mentality had time to take hold of the



Swedes.

How did the change to socialism also change the Swedish people and their value systems? At the end of the 19th century, Sweden was a nation dominated by small farmers who, contrary to many other countries at the time, often owned their own property. Swedes were quite poor, yet had very strong, justice-centered principles and work-related norms reflecting hard work as a value. Society was dominated by a strong Protestant work ethic.

This ethic, linked to their deeply held religious beliefs, motivated generations of Swedes to work hard to support themselves and their families and those truly in need. The work ethic was ingrained in the culture, and Swedes willingly accepted hard work as one's role in society.

When the Swedish welfare state slowly started to rise in the first half of the 20th century and then grow rapidly during the second half, socialism did not compromise the fabric of society as much as in other countries (though compromise it did) - and Sweden became famous as a system where socialism and capitalism worked together fairly well. Sweden benefited from the fact that it had a tradition of effective public service (less bureaucracy than other nations) and, most significantly, had citizens who were imprinted with strong norms not to cheat the system.

As Professor Assar Lindbeck, perhaps the most important Swedish economist, has written, traditional Swedish welfare could rely on a society where individuals shared strong values relating to not overusing the generous welfare system. Welfare programs, however, created a situation much different from what had existed in previous generations. Suddenly, it became quite possible to live a comfortable life relying on government handouts, or even surpass one's living standard by supplementing employment with the combination of handouts and black-market work. And so slowly, over the coming generations, Swedes have adopted their norms to the circumstances.

### **Societal Norms**

The researcher Friedrich Heinemann has recently shown that throughout the world people's norms - their acceptance of personal responsibility, their work ethic, and their honesty - have deteriorated as a consequence of welfare policies. He examined global surveys of values, where people around the world were asked if it can ever be right to use welfare services that one is not entitled to (amongst other questions). The number of respondents who believe that it might be right to abuse welfare systems has increased in many nations during the past decades, particularly in societies with excessive welfare policies.

In the case of Sweden, Heinemann's research shows that the population still had strong norms during the '80s. In a survey conducted between 1981-84, 82 percent of Swedes polled responded that it could never be right to take advantage of public services one is not legally entitled to. However, when the survey was repeated in 1999-2004, only 55 percent of those polled held the same view. According to this measuring stick (not abusing public systems), Sweden had gone from possessing one of the strongest societal norms to possessing the one of the weakest.

There are, of course, many other signs of the deteriorating norms in the Swedish system. In the '70s, some 10 percent of the adult population was not working for one reason or the other, relying instead on taxpayers for their living. Today, this figure has doubled. Many Swedes are being supported by social security, sick leave, etc. An astonishing number of Swedes are on sick leave, given that we are talking of one of the healthiest people on the planet. This increase in out-of-work people is readily explained by the new norms that arose hand in hand with the welfare state. A survey in 2002 showed that 62 percent



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of Swedes believe that it might be acceptable to report to sick leave even though one is not too sick to work. This attitude is in particular shared with the young, whilst older Swedes to a larger degree are clinging to the strong norms of the past.

In Sweden today, socialism remains strong, and even after some very-much-needed tax cuts were implemented both by center-left and center-right governments, average Swedes pay close to three-fifths of their incomes in taxes. Why are such high taxes accepted? One answer is that the taxes and the benefits are much more evenly distributed in Sweden compared to the United States. In Sweden, one pays high taxes even if one's income is low, and one receives quite a lot of handouts even if one's income is relatively high. Some of the money you earn goes to government bureaucracy and redistribution, but some is transferred back to you. The situation is clearly different from the United States where many low-income Americans do not pay any significant amounts in taxes whilst more successful individuals are taxed heavily.

But clearly the social democratic system doesn't really work well nowadays. People are increasingly going around the system, for example paying for private healthcare in foreign countries since the accessibility to Swedish public healthcare is low (although the quality is good). Sweden is a complex country. Many free-market reforms have taken place during the past few decades to salvage the social democratic system, including school vouchers and partially privatized social security. Taxes have been cut, but remain high as it proves much more difficult reducing than expanding government once people have become dependent on public spending.

In the years to come, Sweden - and the rest of the European welfare systems - must face the challenge of dealing with people's adaptation to welfare systems. For the lesson from history is that government-provided welfare can only function when supported by very strong norms relating to work and responsibility - and even then only until the system subverts the norms supporting it. Over time, more and more people will choose government assistance as an alternative to work, hide their income from the state, and overuse generous public systems. When the cultural norms are strong and are firmly rooted in religious principles, it takes time, generations in fact, until people change their values to adjust to new economic circumstances. But when it happens, it is difficult to go back and reverse the norms.

Heinemann's research is worthwhile reading not only for policymakers in European welfare nations, but also in the United States, where work is still highly valued, but where political elites are constantly calling for national healthcare and (in general) expansion of the welfare state.

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