



Breaking The Myth of 'Good' Big Government

Publish Date:

December 2015

Many progressives and social democrats have clung to the idea that the Scandinavian countries like Sweden offer the world a vision that other countries should replicate, writes Dr Mikayla Novak. It's time to wake up to reality.

The ideological inclinations and passions of the Australian political left have changed substantially since the collapse of the Soviet empire, as progressives and social democrats struggle to find new sources of relevance in the post-Cold War era.

In our contemporary period, the character of political left thought includes a broad scale critique of economic growth and improving material living standards, and an embrace of paternalism in consumption choices, particularly in regard to what individuals choose to ingest or inhale.

But if there is one durable idea maintained by many progressives and social democrats alike, it is that the Scandinavian countries of Denmark, Norway, and Sweden offer the world a vision for a 'mixed economy paradise' and that other countries should replicate the Scandinavian model.



To get a sense of what makes Scandinavia distinctive, we could compare one fiscal indicator—the average tax burden, proxied by the taxation to GDP ratio—to look at the observed variations between Australia and the three countries situated in northern Europe.

Drawing from the latest available comparative revenue data from the OECD, in 2012 Australia had a tax to GDP ratio of 34.2 per cent, which included payments under our compulsory superannuation and workers' compensation schemes, as well as premiums within health insurance mandates.

As Table 1 shows, the tax to GDP ratio for Denmark, Norway, and Sweden ranged between 42 per cent and 47 per cent, making for a sizeable difference in the relative tax burden between Australia and Scandinavia.

When we look at government spending for social welfare purposes—including health, housing and transfer payments for pensioners, the unemployed, and so on—there is also a clear divergence between the more streamlined Australian welfare system and those provided in Denmark, Norway, and Sweden.

As described by Michael Jackson and Tim Colquhoun in their essay for *Australian Quarterly* in 2005, 'many Australian policy analysts and advocates in the 1970s and 1980s were ... inspired by reports from distant Sweden. They spoke of the Swedish Model and found in it the basis for a critique of Australian society and also the blueprint for a better alternative.' The implications of this sort of advocacy should be clear: to align Australian circumstances closer to that found in northern Europe, we must shrug off our reputation as a low taxing country (by European standards), and we ought to implement comprehensive welfare programs as a crucial part of the practical refutation of smaller government.

The leftish love-affair for Scandinavia has a decades-long history, with one of the more totemic examples of this represented in the 'Australia Reconstructed' report of a European delegation coordinated by the Australian Council of Trade Unions and the Trade Development Council.

This sprawling 221-page document served as the manifesto for a top-down renovation of Australian policy institutions to make them more like those found in Sweden and other Scandinavian countries, claiming that high-consensus policy regimes perform better economically with a full-employment objective that 'has widespread community support which enhances social solidarity and social cohesion.' Aside from praising industrial policies—and the substantial education and training spending by the Scandinavian public sector—'Australia Reconstructed' also, unsurprisingly, made suggestions for greater regulatory prescription in the industrial relations policy space conforming to the observed principles found in Sweden.

Persuaded of the need for policy action by the experiences of Norway and Sweden, the authors recommended a sweeping legislative action program, including provisions for labour mobility and security, recognition of trade union representative rights in workplaces, paid education leave, and amending corporate legislation obligating firms to report about their industrial relations

arrangements.

Other prominent Australian academic and political figures during the 1970s and 1980s expressed support for the style of economic and fiscal management in Denmark, Norway, and Sweden. In the late 1970s, the Australian political scientist Francis G. Castles wrote that ‘of all existing societies Sweden comes nearest to the socialist ideal of the good society,’ and he attributed some of this laudatory judgment to the Swedish Social Democratic Labor Party hegemony dominating politics in that country for much of the twentieth century.

Shortly thereafter, historian Donald Horne approvingly asserted that the Australian Labor Party intended to transfer Australia into the ‘Sweden of the South’, whilst others still speculated that the Hawke government drew inspiration from consensual Scandinavian labour-capital relationships for its industrial relations Accord policies.

The policy theme—that Australia should refashion its policies to be similar to those found in the likes of Denmark, Norway, and Sweden—can still be found among figures who could best be described as being aligned with the progressive and social democratic political traditions.

Arguably the most important Australian protagonist today is Deakin University academic Andrew Scott, who has argued for many years (including in his recent book *Northern Lights*) that Australia can learn much from Scandinavia and the Nordic countries (also incorporating Finland and Iceland) more generally.

Writing for the academic website *The Conversation*, Scott has said that ‘Sweden and the other main Nordic nations continue to provide living proof that economic prosperity can be combined with social equality and environmental responsibility.’ He cites the degree of income inequality, workforce participation rates, subsidies for children, schooling achievement, skills retraining, and taxation levels as grounds to ‘support the argument that Australia should look to the approach adopted by these Nordic countries when developing our own policies.’

Similar sentiments have been expressed in recent years by the likes of left ist commentators such as Fred Argy, Ross Gittins, Ian McAuley, and Miriam Lyons.

But does the ‘Great Scandinavian Dreaming’ by the Australian political left stack up to the reality—is it even a reasonable suggestion? Perhaps the most authoritative answer to those important questions has been best encapsulated in recent scrutineering of the Scandinavian model by Swedish author of Kurdish origin, Nina Sanandaji.

In his paper ‘Scandinavian Unexceptionalism’—written for the London-based Institute of Economic Affairs—Sanandaji helpfully reminds the proponents that ‘Scandinavian countries have never been an exception to the normal economic rules’. This is an important point when appreciating the nature and causes of Danish, Norwegian, and Swedish prosperity.

Many commentators on the left seem to attribute the observed levels of economic prosperity, income equality, and good social outcomes to the high taxes and extensive government spending

of today, when in fact these beneficial outcomes were forged and entrenched when Scandinavia had a much smaller public sector prior to the 1960s.

In other words, the left are confusing correlation with causality—a classic but commonplace mistake to make.

SCANDINAVIA'S OBSERVED BENEFICIAL OUTCOMES WERE FORGED AND ENTRENCHED WHEN IT HAD A MUCH SMALLER PUBLIC SECTOR

For example, Sweden enjoyed the highest economic growth rates in the world between 1870 and 1936 but, since then, Sweden's international growth ranking has been sliding as tax rates ballooned to fund cradle-to-grave welfarism.

One of the greater indictments of the Scandinavian experience, as Sanandaji reports, is the dispiriting rates of entrepreneurship during the era of big government in Europe's north:

In 2004, 38 of the 100 businesses with the highest revenues in Sweden were entrepreneurial: in other words started as privately owned businesses within the country. Of these firms, 21 were founded before 1913. Additionally, 15 were founded between 1914 and 1970. Only two had been formed after 1970. If the 100 largest firms are instead ranked according to how many people they employed, none of the largest entrepreneurial firms were founded after 1970.

Two Scandinavian companies that are adjudged by many as paeans of ingenuity and innovation—Finland's Nokia and Sweden's IKEA—were founded in 1865 and 1943, respectively, prior to the post-1960 era of substantial government intervention.

Numerous economic researchers have observed that the high degree of trade openness maintained by the Scandinavian countries have helped them economically 'compensate' to some extent the malign effects of extensive fiscal policies.

But it needs to be recognised that in recent decades Denmark, Finland, and Sweden have been compelled to experiment with market liberalisations, simply because openness to trade can only take countries so far in maintaining prosperity.

Sanandaji poignantly states that Scandinavia would be even more prosperous with lower taxes, citing several studies detailing the disincentive effects of a heavy tax load on workers and businesses.

It is also important to recognise that persistent welfare benefits of a comprehensive scale, such as the redistributive programs in Scandinavian countries, do come with a great cost in the long run: generous welfare policies have created new social problems, though with a substantial time lag as might be expected. The combination of



high taxes, generous government benefits and a rigid labour market has led to dependency on government handouts among large subsections of the population. Families have thus become trapped in poverty. The policies have, in particular, limited the ability of the societies to integrate immigrants into their labour markets.

The economic integration issues facing some migrants in Denmark, Norway, and Sweden are problematic but it should be emphasised that it is not the fault of migrants that the Scandinavian model is serving them hardships.

When we expose the economic and fiscal systems of Denmark, Norway, and Sweden, and even Finland and Iceland, to the torchlight of critical scrutiny, we do find that the performance of these countries leave much to be desired.

Scandinavian prosperity was built on a foundation of relatively small government from the late nineteenth century to the mid-twentieth century.

It was subsequently subjected to free-riding by complacent high taxation and comprehensive welfarism from the 1960s.

Since the 1980s, there has been a tentative reform program, including lowering tax burdens and liberalising labour and product markets, but more needs to be done for Scandinavia to return to, as Sanandaji puts it, 'the free-market roots that have historically served them so well.'

If people of progressive and social democratic ideological ilk in this country are to make a worthwhile contribution to turning around our fortunes, a vital part of this will be for them to wake up to the reality that the Scandinavian model is not anywhere near as wondrous as it is made out to be.