

# Scandinavian Idol



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## Why is Swedish and Scandinavian idolatry so prevalent in Australian political debate?

Since William Lane's disastrous attempt in the mid-1890s to create a socialist Australia in Paraguay, Australian social-democrats have looked offshore for their idols. This year marks the twentieth anniversary of the trade union mission to Scandinavian countries which culminated in the *Australia Reconstructed* report, a report which extolled Sweden above all others as a nation of unsurpassed social-democratic virtue. Since then, it has been used as an aside in numerous speeches, op-eds and policy papers—'If Sweden can do it, why can't we?'

But does Sweden vindicate the Social-Democratic model? Sweden, and its Scandinavian neighbours, have long been touted as the archetypal well-functioning welfare states—stable, democratic, and, most indicatively, competitive.

Ericsson and Ikea, models of successful globalising companies, originate in Sweden. Both symbolise innovation and international competitiveness, Eric-

sson the high-tech mobile phone industry (joined by its regional competitor, the Finnish Nokia), and Ikea, the radical-consumer-centric model of low-price, semi-disposable furniture.

But competitiveness in global markets is clearly not the major appeal of these Scandinavian countries to those who lean left around the world. Instead, it seems to hold the holy grail of social-democratic politics—record-high levels of social spending, a 'consensus' model of democratic governance, and internationally incomparable levels of trade union involvement in the political process.

It is no surprise that the Scandinavian model is much referenced as the ideal. *Australia Reconstructed*, presented a contrarian case to boost welfare and labour market restrictions at just the time Australia was moving away from that model. In May this year, RMIT academic Andrew Scott presented a paper to Melbourne University's Contemporary European Research Centre

arguing that the Scandinavian model described by *Australia Reconstructed* still had much to offer Australian policy-makers.

As the report is, in Scott's words, 'still the most comprehensive policy manifesto ever published by the Social-Democratic left in Australia', its influence in the union movement and left-of-centre parties in Australia more generally is still significant. Scandinavian idolatry has lasted well into the twenty-first century. In the past six months, Stephen Smith has used Sweden as an example to attack recent workplace reforms. Wayne Swan has used it to condemn Australia's R&D policy. In a speech in Melbourne to the Australian Institute of Company Directors late last year, Kim Beazley argued that social-democracy can still work, because Nokia and Ericsson produce high-quality phones. Praise for the Scandinavian model is a regular feature of Parliamentary and intellectual debate around the country.

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But the tributes paid to the Scandinavian, particularly the Swedish, model by the ACTU researchers came at a peculiar moment in Swedish history. While not yet self-evident, it was clear that the Swedish model was in trouble. The Business Council of Australia, who replicated the ACTU's Nordic retreat in October 1986, found that the Swedish economy was in dire trouble, having begun a slow but perceptible decline since the beginning of the 1970s and, even in the economic environment of the 1970s and 1980s, was more prone to stagflation than other comparable nations around the world. (A summary of the findings by the BCA, 'Avoiding the 'Swedish Disease', by the head of the mission, Peter McLaughlin, appeared on these pages in April 1987.)

Less than five years after the debate over *Australia Reconstructed*, Sweden's economy nearly collapsed. The economy went into deep recession, official unemployment figures skyrocketed, and the budget deficit rapidly increased. The economic crisis forced sharp cuts in welfare expenditure, and stopped to a halt the welfare expansion that had characterised the country over the previous few decades.

It is true that many other nations, Australia included, experienced economic crises at this time. But it is also the case that the source of these crises was more often than not the outdated social-democratic restrictions on the economy. The magnitude of the crisis in Sweden was therefore remarkable—the more inflexible you are, the less ready you are for the fall.

### A brief history of the Swedish Model

Sweden is, surprisingly to outside observers, one of the great examples of liberal modernisation in the world.

Until relatively late by Western standards, the Swedish people were agrarian and dispersed. The aristocratic and political elite had little control over the economy. A series of land redistribution

reforms in the late eighteenth and early nineteenth centuries broke up the feudal villages and set the stage for what became a modernisation with an unusually wide popular base. A massive liberalisation of economic barriers was instituted mid-century, beginning with the liberalisation of shipping and mining in the 1830s, until 1864, when the final barriers to trade and enterprise were eliminated. Democratic reforms and the removal of aristocratic privileges followed from the

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1860s onwards. Having shut down the old monopolies, strengthened rights to private property, and removed regulatory barriers and corporate subsidies, Sweden experienced one of the most rapid modernisations and industrialisations in the developed world.

With rapid growth, came calls for increased social regulations. In 1912, a universal workers protection law was passed, followed by a basic pension, universal accident insurance, new poor and unemployment relief system, and significant increases in health funding.

Out of this newly urbanised and industrialised state, was forged the famous Swedish 'consensus'. Says Swedish Historian Emil Uddhammar:

public expansion during the 20th century (has) taken place without any consistent opposition, on grounds of principle, by any party.... The expansion of public power has taken place without any significant controversies.

The consensus which grew out of the rapid growth of the late nineteenth century, it seems clear now, was fundamentally opposed to the reasons for that growth. Instead of embracing the liberal democratic model which had brought it such sudden wealth, it emphasised the role of the State in creating the preconditions for the best possible life, in organising the economy and society for common ends. This grandiose project was known by the motherly phrase *folkhemmet*, a combination of *folk* (people), and *hem* (home)—the all-embracing welfare state.

This consensus was only possible because the Social-Democrat Party, which held power in Sweden for most of the twentieth century, and whose vision of Sweden most informs the Swedish model, separated with its previous orthodox-Marxist ideals and co-operated with business, viewing its capacity for wealth-generation as the economic source by which it could construct *folkhemmet*. In co-operation with the strong trade union movements which guaranteed constant pay improvements, the Swedish consensus was born.

It was not until the Second World War, however, that the full force of *folkhemmet* could be mustered. Wrote Ernst Wigforss, the Finance Minister at the end of the war:

The important thing is that we felt our experiences during the war had given us new and decisive arguments for a bolder social policy being both economically feasible and politically justifiable...While realising that the difficulties were greater in peacetime, one could still unhesitatingly make reference to wartime experiences. Our resources were greater perhaps than most people had suspected. Would it not be possible, with a completely different strength from previously, to appeal to people's feeling for the greatness of a common peaceful task of construction?

Having a fully functioning industrial base and a largely unharmed civilian population within reaching distance of

the devastated continent turned out to be sufficient support to sustain record high levels of employment and steady, if not particularly impressive, growth. As the consensus, and the faith in the Swedish model, grew, the level of social spending and state intervention matched it. The historian Arne Ruth writes:

The planning mentality was accepted on a scale, which even its keenest advocates in the thirties could hardly have imagined. The already dead-straight highway of Swedish industrialism was asphalted into the condition commonly known as the Swedish model. It was so outstandingly successful that virtually all criticism was silenced for decades. Through its very success it tended to exterminate all other options, all the objections great and small, which could have helped to correct its bearings in time. It killed history, not least. The planners extrapolated their graphs for decades ahead.

By the mid-1970s, as the 1987 BCA report indicated, it was possible to perceive deep flaws in the Swedish economy. Industrial employment had declined since the mid-1960s, and was similarly declining in importance to the economy. Absolute employment growth in the industrial sector culminated as early as 1965.

The core of the *folkhemmet*, lavish welfare entitlements, began to show its flaws during the 1960s and 1970s—so much so that Astrid Lindgren, the children's author of, among other things, *Pippi Longstocking*, in 1976 wrote *Pomperipossa in Monismanien*, a fable about how the title character Pomperipossa lives out her life on welfare payments and never has to write another book.

As Mauricio Rojas, author of *Sweden after the Swedish Model: From Tutorial State to Enabling State*, writes, Sweden's progressive taxation and welfare policies had changed Sweden's 'basic distributive principle from "equal pay for equal work" to "equal pay (or income) regardless of work".'

### What Australia can learn from Sweden

In the early 1990s, Sweden faced the fruits of four decades of social-democratic governance. Unemployment rocketed up from 2.1 per cent in 1990 to 12.5 per cent in 1993. The Swedish consensus, at least at this stage, was, however, largely intact—broadly supportive of an extensive, redistributive state.

This set of pressures—a devastating economic crisis, without a significantly reduced support for a large welfare system—inspired Swedish governments in that decade to institute a series of major innovative reforms to the government provision of social services.

In 1990, as part of a series of reforms to decentralise government services, the Swedish municipalities were given full financial control of the compulsory and the upper secondary schools. In 1992, this was followed by the introduction of what could roughly be described as a school voucher system, a major reform to the education system which has been advocated by liberal policy makers around the world for a long time. In Sweden, this consisted of an obligation on the municipalities to give independent schools 85 per cent of the cost of educating a child in the municipal schools, and giving parents the right to choose the right school for their children. Subject to maintaining certain educational standards, all independent schools are eligible for this funding.

For advocates of school choice in Australia, the empirical results from the adoption of such a system in Sweden have served as a vindication. A series of studies has found that competition between education providers has improved educational outcomes. As F. Mikael Sandström and Fredrik Bergström find in their paper 'School Vouchers in Practise':

Greater competition improves the standards of public schools. The wide scope of reform of the system for financing primary education makes the

Swedish experience particularly interesting. Sweden has left a system with virtually no parental influence over school choice, and an almost complete dominance of public schools. A voucher system, where parents are allowed to choose any school approved by the National Agency for Education, has been put in its place. Independent schools receive funding on close to equal terms with public (municipal) schools. A widespread concern among opponents of school choice is that competition will hurt the public schools. The present study shows this fear to be without foundation.

For an Australian observer, it is interesting to learn that the school voucher system implemented in Sweden has been embraced by the teachers' unions themselves. According to the head of the Swedish Teachers Union, *Läraryrskombundet*, teachers were 'a little suspicious at first', but have come to embrace the new system—which not only gives parents choice of education institutions, but grants teachers greater choice of potential employers. Nevertheless, their Australian counterparts continue to oppose them, arguing that such an innovative policy model is a mere 'smokescreen to avoid tackling real equity issues in schools ... the best way to improve schools is to improve public schools'.

Although not as advanced, Sweden has also made significant inroads into health care reform. The mid-1990s witnessed a series of slow but unmis-



takable moves towards greater choice and competition in health care. By 2002, health authorities were utilising an extensive internal market, purchasing services from more than 2,000 medical providers in the Stockholm region alone. Most of these are medical practitioners.

Swedish health care analyst Johan Hjertqvist argues that given the unpromising state of international health care, these reforms 'may represent the biggest privatisation of health care services production ever in the long history of socialised medicine'. Even emergency care is moving towards private ownership, as previously government-controlled emergency hospitals corporatise in preparation for their eventual privatisation.

Sweden has a pension scheme not dissimilar to Australia's, where citizens are given ownership of part of the pension savings and the freedom to choose which funds to invest in.

It should be clear by this stage that the impression of Sweden as a social-democratic wonderland is incomplete at best. Like Australia, the nation is going through a long period of economic reform and rejuvenation. Privatisation has been a recurring theme. The postal monopoly was abolished in 1993, having been challenged in Stockholm by a private company, CityMail, which had been operating since 1991. Water services have been privatised throughout many municipalities since the mid-1990s.

In a setback in 2004, the national government banned the further privatisation of public hospitals. However, this year, the opposition conservative coalition has agreed to privatise a huge range of state-owned companies, indicating the continued appeal of liberal economic reform.

### The harsh reality of the Swedish utopia

Many, but not all, of these reforms have been embraced by the Swedish public and have been integrated into the 'consensus'. However, their history and the

circumstances from which they were born make it clear that they were creations of necessity—possibly because of a public recognition of a crisis within the welfare state and the need for reform in services.

Despite these many changes, the welfare state remains largely intact, sustained by the largest tax burden in the OECD—50.6 per cent of GDP, down from roughly 70 per cent in 1993. The consequences of such continuing massive government weight on the economy are entirely predictable and unsurprising—Swedish exceptionalism has not expelled economic man.

Although growth is high compared with the rest of Europe, since 1998 the economic recovery has, unfortunately, been only partial, and accompanied by a number of disturbing trends.

The crisis of the early 1990s threw a much larger segment of the population from 20 to 64 years of age on to some sort of aid or social security, from just over 700,000 in 1990 to nearly 1,200,000 in 1994. Since then, however, despite a significant economic recovery over the last ten years, this has only dropped moderately—in 2003, more than one million out of a total of 5.2 million within that age bracket of people were the recipients of wealth transfers.

Similarly, a significant growth in absenteeism due to illness has coincided with the reduction in unemployment levels. None of these trends will be unfamiliar to those acquainted with general critiques of the welfare state, and despite the sentiments expressed by ad-

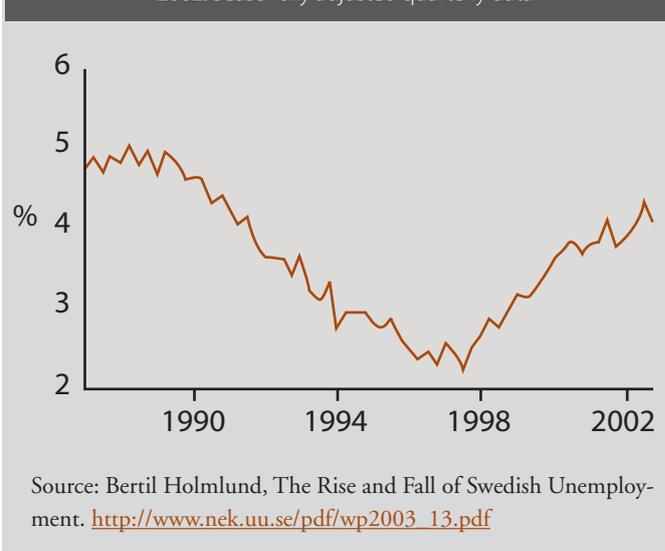
vocates of a similar model for Australia, are well in evidence in Sweden.

Mauricio Rojas states that:

A country like Sweden that provides broad and generous social benefits, necessarily assumes that, on the one hand, its citizens are willing to work and contribute a high percentage of their income to the State coffers and, on the other hand, will not misuse or take advantage of the subsidy systems. It is simply assumed that the people and State build this relationship on a strong foundation of decency and social solidarity. However, this moral foundation is showing visible and worrying cracks. Sweden in general and social democracy in particular are currently suffering what can be called a widespread moral crisis...

Sweden is similarly held back by a series of regulatory fashions whose time is certainly past. For instance, much Swedish housing is governed by a unique rent regulation system characterised by a collective bargaining system analogous to collective bargaining in labour markets. While the 1990s saw significant migration into metropolitan areas, the combination of restrictive planning laws and this collective bargaining system saw very little growth in housing construction, as well as the rise of a

Absence rates from sickness among employed workers 1987-2002. Seasonally adjusted quarterly data



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significant (although nearly impossible to measure) black market in rental contracts. Despite this, reform is opposed by the strong tenants union.

The effects of the still-strong Swedish model extend well past the predictable. The combination of the corporatist relationship between business and government and the expansive welfare state influences the structure of the nation's industries, disincentivising certain industries over others.

For instance, by looking at job generation and the Swedish IT industry, the economist Dan Johansson has found that the nation's large and centralised institutions systematically discriminate against innovative and small firms in favour of larger, older ones. Industrial subsidies and support have been confined to more traditional industries such as farming, construction and manufacturing; furthermore, even within these industries, the taxation system favours older, capital-intense firms with strong institutional links to the state.

Despite highly visible and publicised international successes such as Ericsson, and record high levels of public R&D spending, the Swedish economy is not the innovative one presented by supporters of *Australia Reconstructed*. Ericsson itself, along with Telia (Sweden's largest telecommuni-

cations network operator), dominate the IT industry within the country at the expense of smaller, independent companies. Indeed, out of the 50 largest private firms, not one of them was established less than 35 years ago. Thirty-one were established before the First World War. The ownership of these firms has been concentrated in a small group of banks and families.

The well-established link between a strong welfare state and low levels of entrepreneurship is, despite the protestations of Kim Beazley, clearly in evidence in Sweden. As the Swedish economist Magnus Henrekson notes, 'the entrepreneur is largely an alien in the Welfare State'.

### The Scandinavian idol

Sweden is as good a test case for models of the political economy as policy makers are going to get. Until relatively recently it has been ethnically homogenous. Before the introduction of the welfare state it was small, yet highly industrialised and prosperous. It was not significantly affected by the wars which engulfed its European neighbours. It is untroubled by non-economic internal strife.

But despite all these advantages, the social-democratic model fares as well as theory predicts—unable to diminish the disincentives of universal

welfare, unable, with a rigid and inflexible labour market and taxation system, to deindustrialise and reorientate the economy toward more entrepreneurial and technologically advanced sectors, and unable to increase productivity at the rate needed to maintain living standards in the long term.

Why is Swedish and Scandinavian idolatry so prevalent in Australian political debate? It is used by political ideologues as corroborative evidence that increases in state spending and welfare can work. Close examination, however, reveals it to be no exception to general political and economic principles.

It is also curious that its advocates neglect to mention its highly successful experiments in school choice and other market reforms.

But if social democracy doesn't work in Sweden, few other nations present lynchpins on which to hang the dreams of social democrats in Australia—few, at least, with comparable social freedoms and democratic institutions, unlike the frustrating totalitarianism in Cuba. As the foregoing analysis has shown, Swedish idolatry is a chimera, little more than a rhetorical trick, and has little bearing on reality.