Sweden's Empty Smörgåsbord

by Eric Brodin

When in 1976 a nonsocialist Swedish government for the first time in 44 years replaced a socialist government, the defeated premier, Olof Palme, explained that the Conservative-Centrist coalition was taking over *ett dukat bord,* a set table filled with *smörgåsbord* delicacies. The new government spokesmen, of course, pointed out that Sweden's economy was much more to be likened to "an empty table," a smörgåsbord bereft of even essential ingredients due to excessive demands of a cradle-to-grave welfare statism which even relatively wealthy Sweden could no longer afford.

In fact, what Sweden was experiencing is what had earlier been characterized by East German Marxist economic theorist Jürgen Habermas: "The division of labor between the state and the private sector that forms the basis for the Swedish model requires that a continually increasing share of the national product be transferred to the public sector [it is now 65 per cent]. Technical and economic changes must be accompanied by enormous public investment in order to insure the stability of society. There is a point where a dislocation in the social structure, caused by the free play of the market forces, becomes so great that people are no longer willing to pay the price for the necessary remedies. The demand for security remains, but the desire for each person to contribute to the cost of this security diminishes. The welfare state then faces a crisis of confidence." (From *Legitimationsprobleme im Spätkapitalismus*)

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The nonsocialist government lasted only six years. It was characterized by (a) internal squabbles between the three coalition partners, the Conservatives, the Liberals, and the Centrists; (b) the inability to dismantle a single major plank of the welfare state superstructure; and (c) the nationalization of more industrial complexes in one year than during the preceding 25, a natural consequence of a gradual strangling of Swedish enterprise.

The economic situation of Sweden today is one of desperate economic plights, a fact which is not associated with Sweden in international public opinion. Erik Dahmén, professor of economics and social history, recently authored a significant article in *Svensk Tidskrift* (No. 3, 1986) called "The Swedish Economy—an ignored scandal." Professor Dahmén concludes: "The Swedish model for economic policies and the Welfare State has for much too long been spoken about on very loose foundations. We ought to be ashamed of 'the Swedish Scandal' and allow this sense of shame to lead us to a reasonably intelligent conduct of our actions in the future."

Sweden's situation is well illustrated by the fact that it is alone among industrial countries in having major devaluations during 1976-1982 (totaling 45 per cent) *and* accumulating a large foreign debt at the same time. Most other countries will do one or the other, but not both. And a fairly good measure of serious economic displacement is when a nation (including its provincial and city governments) is borrowing not

Swedish Foreign Ministry, Stockholm.

for future development but for *current consumption*. Household borrowings increased by 55 billion crowns in a single year, from 12 to 67 billion crowns mid-year 1985-1986. (The average value of the dollar was 7 Swedish crowns during this period.)

In short, the picture is clear:

(1) Sweden has one of the highest inflation rates in the industrialized west.
(2) Sweden has the highest interest rates in the industrialized world.
(3) Sweden has the highest proportion of its Gross Domestic Product devoted to the public sector in the industrialized world.
(4) Sweden has one of the highest per capita national debts in the western world.

What Went Wrong?

Let us now take a closer look and analyze the background to these tragic economic facts so seldom associated with Sweden's spuriously entitled Welfare State.

In an urgent attempt to stem the increase of the rate of inflation, Sweden imposed price controls in the past and has made every attempt to restrict the wage increases negotiated between organizations representing management and labor. During 1985, *Outlook on the Swedish Economy* reported that "Inflation has not been brought down as fast as would have been necessary to maintain the competitive advantage created by the devaluations. Consumer price increases, measured as a 12-month change, persisted at around eight percent during the first half of the year . . . The 7-8 percent inflation is far above the two percent of Japan and the Federal Republic of Germany or the four percent which is the average for other industrialized countries."

The 16 per cent devaluation in 1984 failed to achieve the desired results. In the first half of 1985 exports of goods and services fell by almost two per cent in volume from the same period in 1984. To stem inflation the Swedish state has in vain appealed to labor unions to hold wage increase demands to two per cent. Instead, wages increased almost 7.5 per cent from 1984 to 1985. A realistic estimate points to an 8.5 per cent increase in 1986 and above seven per cent in 1987.

The wage increases which were reluctantly granted in 1986 to employees in the private sector are now demanded by the public sector employees. Sweden's 1985 population was about 8,359,000. Only a little more than half of the population (4,315,000) was employed, yet of these a significant 27 per cent or 1.6 million were employed in public administration or public services. (Thus 33 per cent of Sweden's population, in effect, provides productive work with its resultant wages and taxes to support the remaining 67 per cent of the population.)

Outlook on the Swedish Economy sadly reports: "Persistently high inflation, the lack of balance in the government budget and on the current account, and the beginning of an international economic downturn will unremittingly lead to weaker growth. Without export growth, a country such as Sweden, which is dependent on foreign trade, cannot grow."

The decline in Swedish exports is in no small measure because Swedish labor has priced itself out of international markets. While Sweden still has a positive balance of trade with imports in 1985 valued at 243.6 billion crowns and exports totaling 259.4 billion, due to the cost of net interest and an imbalance in tourism and services, the balance on current accounts shows a decline of nine per cent in 1985.

Borrowing Abroad, Unemployment, Deficits

Sweden has been a major borrower in international banking circles for years. In the three years after the return of the socialists to power in 1982, foreign borrowings by the Swedish central and local governments amounted to 158 billion crowns. The inflow of money has been encouraged by Sweden maintaining exceptionally high interest rates by European standards. The Swedish interest premium over three months is 6.25 percentage points higher than the Eurodollar rate, which is sufficient to provide an enticement. Short-term interest rates in the money market average 15 per cent and the rates on long-term government bonds average 13 per cent.

The remaining issues which need to be addressed are the growing unemployment problem and the total deficits in the Swedish national budgets.

The "official" unemployment figures averaged 2.4 per cent of total labor force annually in 1976-1984 but increased to 3.5 per cent in 1983. However, this doesn't take into account the vast programs of retraining and make-work projects. Danne Nordling from *Ekonomifakta* says the real figures should be 4.8 per cent for 1980 and 7.2 per cent for 1983. Even this figure is challenged by some Swedish economists such as Professor Sven Rydenfelt, who says that if one includes in the unemployment figures students who really would rather find work or those in forced early retirement, the figure should be closer to 11 per cent. But even with the modest employment increase during 1984-1985 (67,000 persons), a disproportionate number have gone into the public sector, not into the private sector which would tend to generate real economic growth. During the two decades 1965-1985 the number of public sector employees increased 15.2 per cent while employment in industry declined 46 per cent.

Today Sweden's economy is practically grinding to a halt. Estimated economic growth has been put at 1.1 per cent for 1985 and .3 per cent for 1986. Sweden's national debt now amounts to 595.7 billion crowns, an increase of 11.4 per cent from the preceding year. The interest on the national debt is 20 per cent of the national budget compared to 13 per cent for the USA. The budget deficits in the 1985-1986 budget amounted to 67 billion crowns, which counted in terms of GNP and per capita is far higher than that of the United States.

The public sector's proportion of total national income (GNP) increased from 50 per cent in 1975 to 67.4 per cent in 1982. Today it is most often quoted as being 65 per cent. No nation which hopes for economic growth can exist under these conditions for very long. The empty smörgåsbord was evident already in 1976—a decade later it is a tragic reality for the 8.4 million inhabitants of Sweden's bankrupt Welfare State.

The prophetic words of Friedrich A. von Hayek are coming true: "Sweden's politicians and trade union leaders—like politicians and leaders elsewhere—never comprehended to which end-station their policy would lead. As a matter of fact, it leads to socialism, inflation, unemployment and finally to the collapse of the system." □

Latin American Economic Liberation

by José Rivas-Micoud

The social and political contrasts presented by the two arms of the American hemisphere reveal intriguing insights about the different economic directions they have hereto followed.

The United States in the north enjoys a dynamic economy within a powerful democracy.

In Latin America in the south, numerous states are divided politically, underdeveloped economically, subjected to frequent social unrest, and plagued by inflation and poverty.

Why should one branch of the continent enjoy enormous affluence and power while the other languishes in misery and weakness when both attained independence almost simultaneously, and are endowed with a comparable abundance of natural and human resources?

History gives the answer.

The 1776 North American revolution is usually presented as a political revolt of thirteen colonies against British rule. The rebellion, however, responded to fiscal and economic motives, for it principally sought trading and fiscal freedoms. The ensuing breakup of political ties was an effect rather than the cause of the revolt. And the Declaration of Independence did not mention economic rights specifically only because they were implicit in the pursuit of happiness.

This erroneous emphasis assumes that the political liberties gained by the rebellion gave rise to economic freedom. The truth is rather the reverse. To assure and protect the economic liberties the colonists fought for, the United States needed to be politically independent. And though some people were reluctant about it at first, political links with Britain were severed.

The present United States political structures derive from the original struggle for a free market economy, and confirm that democracy thrives only when economic restrictions are removed.

The Paradox of Liberalism

Genuine liberalism restricts government's role to the preservation of internal order and security, leaving individuals free to exercise their own initiative in society. Paradoxically, those original liberal notions reached modern America with an opposite connotation. Today, American "liberals" favor state intervention in the economy, government ownership or monopoly of numerous enterprises, and a vast state paternalism to combat poverty. But the altruistic objectives of "liberal" welfarism are often translated in practice into increased rather than decreased poverty.

Moreover, all central economic planning not only discourages private sectors, but also favors the spread of totalitarian ideologies. Whether nazism, communism, or fascism, every one-party rule from the outset demands total control of the economy. For the most ef-

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