Introduction

Sweden has been upheld as the ‘poster child’ of socialism. Social-democrats and proponents of increased state control over public affairs constantly point to this nation as a success story for ‘third-way’ policies, alluding to the fact that even in the midst of a continuously growing government, Sweden still experienced economic growth. The claim is that this country’s economic model successfully mixes free market capitalism and Soviet command socialism-communism (Sanandaji, 2012, p. 5). Contrary to popular belief, Sweden has not always been the welfare-state it is now known as today. Over the course of the past one-hundred plus years, it has experienced both sides of the spectrum in regards to economic structure; a free market structure from 1860s-1930s and an increasing social-democratic style of socialism from 1930s-1990s (Karlsson, 2006, p. 2). Understanding this truth, it then logically follows to re-asses the popular assumption that Sweden’s success is built solely upon ‘third-way’ policies. Analyzing this nation before and after the Great Depression crisis and the 1990s economic crisis that Sweden experienced will help distinguish that in fact Sweden is not a success story for social-democratic style policies, but instead free-market policies. This task is not easy, as there are many different variables outside of economic policies that can affect how quickly or slowly a nation recovers from an economic recession or depression. However, if one properly weighs each factor and in addition applies concepts from economic theory, it is possible to put forth a satisfactory answer to the question: What has been the driving force behind Sweden’s successful economy this past century?

From 1930 to 1933, during the Great Depression crisis, the number of job opportunities available in Sweden was 2,700,00 and it decreased by 170,000 (about 6%).

By 1935, after two years, the employment level surpassed its original levels at 1930 (see Fig. 1). From 1990 to 1993 during the 1990s crisis, employment fell by about 12% from 4,500,000 job opportunities. It took over fifteen years to reach the level 1990s level or unemployment (see Fig. 2) (Sanandaji, 2012, pp. 17-18). It is quite apparent that the ability of the Swedish economy to generate new jobs was considerably better after the Great Depression than after the 1990s crisis. In 1932, a group called the social-democrats took control, implementing what they called the "Swedish model," which was based on Keynesian fiscal policies. In addition, right before the change of political power, Sweden had decided to abandon the gold standard. It would be appropriate to label the period of the Great Depression crisis for Sweden as a time dominated by a social-democratic style of socialism. Conversely, in the 1990s the Swedish financial markets were freed from previous restrictions. Foreign exchange controls were abolished, tax rates were reduced, and the highly protectionist agricultural system was starting to be dismantled (Stein, 1991, p. 5). The 1990s crises can be characterized as a shift toward more free-market policies. After observing the correlations of enacted economic policies and Sweden's recovery, one may come to the following conclusion: Socialism policies will result in a quicker recovery from an economic crisis, while free-market policies will lead to a relatively longer time of experienced recession or depression. However, as stated before, a nation's economic collapse or recovery is contingent on many other factors. This quick analysis of the policies implemented *during* the crisis is only the tip of the ice berg. In order to fully understand the context of each crisis, one must analyze the social, historical, geographical, and economic factors *prior* to, as well as during the time the event takes place. Taking a more all-encompassing approach to analyzing the economic crises during the 1930s and 1990s will act as direct evidence to support the conclusions that Austrian economists and market-friendly proponents like Mises, Rothbard, and Hoppe have arrived at; a free-market, in comparison to any alternative economic structure, is not only better in expediting economic growth, but also promotes incentives which reward/encourage individuals to become hardworking and morally upright.

The Capitalistic Market

Hoppe (1986) presents an excellent argument that capitalism is economically superior as compared to its alternative.[1]

> First, only capitalism can rationally, i.e., in terms of consumer evaluations, allocate means of production; second, only capitalism can ensure that, with the quality of the people and the allocation of resources being given, the quality of the output produced reaches its optimal level as judged again in terms of consumer evaluations; and third, assuming a given allocation of production factors and quality of output, and judged again in terms of consumer evaluations, only a market system can guarantee that the value of production factors is efficiently conserved over time (200).

Since the focus of this paper is not specifically on the structure of a capitalistic market, this section will only briefly summarize these three points.[2] In a free-market[3] system, all exchange is voluntary. Therefore, the money prices become a unit of calculation as they are determined by the subjective values of all people participating in society. It then follows that when a price of a good, say cheeseburgers, increases, this reflects an increased desire for that good. The higher prices will attract more entrepreneurs to invest in the cheeseburger market, effectively allocating the scarce means of production to where they are most needed. Since a business can only succeed by gaining profits, the seller is completely at the mercy of the consumer. The entrepreneurs that most efficiently

[1] In this paper we are comparing it to the social-democratic style of socialism
[2] In order to gain a deeper understanding on this topic, please refer to Rothbard, Man, Economy and State, and Mises, Human Action.
[3] Capitalism and free-market are used interchangeably throughout this paper

predict and produce what the consumer wants thrive. Conversely, the entrepreneurs who are unproductive or allocate resources in a wasteful manner receive economic losses. If this inefficient behavior continues, the business will be forced to close. The free-market naturally eliminates bad forecasters and strengthens the position of consistently successful ones. This naturally occurring process insures that the structural changes of the whole product system, which takes place over time, can be described as constant movements toward a more rational use of resources. The process never ends and will always lead to the most efficient allocation of resources resulting in the highest relative standards of living (Hoppe, 1986, p. 202).

The Make-up of the Social-Democratic Style of Socialism

The Swedish Model that characterizes Sweden from the 1930s to the 1990s can be qualified as a social-democratic style of socialism. Hans Hoppe (1986) defines this type of socialism as “in positive contradistinction to the traditional Marxist-style socialism. It does not outlaw private ownership in the means of production and it even accepts the idea of *all* means of production being privately owned—with the exception only of education, traffic and communication, central banking, and the police and courts” (55). In principle, everyone has the right to privately appropriate and own means of production, to sell, buy, or newly produce them, to give them away as a present, or to rent them out to someone else under a contractual arrangement. Hoppe continues by stating that:

> No owner of means of production rightfully owns *all* of the income that can be derived from the usage of his means of production and no owner is left to decide how much of the *total* income from production to allocate to consumption and investment. Instead, part of the income from production rightfully belongs to society has to be handed over to it, and is then, according to ideas of egalitarianism or distributive justice, redistributed to its individual members (61).

Therefore, in the context of a social-democratic style of socialism, while the producer may own the means of producing an income, technically, he does not have the ultimate say in how all that income is distributed. Whether the social-democrats directly or indirectly wanted this to be their goal, these established policies advocate the partial expropriation of the natural owner by redistributing part of the income from production to people who did not produce the income in question (Hoppe, 1986, p. 62).

The social-democratic's goal, being egalitarian in motivation, is "the abolishment of capitalism as a social system based on private ownership and the establishment of a new society, characterized by brotherly solidarity and the eradication of scarcity; a society in which everyone is paid 'according to his needs'" (Hoppe, 1986, p. 56). Hoppe has observed that the most effective way to achieve this is through a more gradualist approach. The reasoning is that with the enlargement of the franchise, and ultimately with a system of universal suffrage, socialism's victory could be attained through democratic, parliamentary action.

> This would be so because capitalism, according to common socialist doctrine, would bring about a tendency towards the proletarization of society, i.e., a tendency for fewer people to be self-employed and more to become employees instead. And in accordance with common socialist beliefs, this tendency would in turn produce an increasingly uniform proletarian class consciousness which then would lead to a swelling voter turnout for the socialist party. And, so they reasoned, as this strategy was much more in line with public opinion (more appealing to the mostly peacefully-minded workers and at the same time less frightening to the capitalists), by adopting it, socialism's ultimate success would only become more assured (56).

If the Social-Democrats implemented immediate and drastic changes to the economic structure then they would immediately face opposition from those who have a more free-market mindset. A more gradual approach allows a progressive movement towards a larger government to become the norm. As the government's intervention jurisdiction grows, individuals tend to accept this as a "part of life" compared to a mentality that desires to fight back against a system that take away individual rights. While both approaches have the same outcome, the latter (while it may take more time), subtly allows the social democrats to enforce policies that are undergirded by an egalitarian mindset without mass rioting of the common man.

What then, are the economic consequences of adopting a system of social-democratic socialism? Regardless of the type, any form of socialism will result in relative impoverishment of the population in comparison to capitalism. If the idea of socialized production is not abandoned entirely, this structure will most likely lead to economic stagnation and a change of time preferences and degrading morals.

Consequences of the Social-Democratic Style of Socialism: A Change of Time Preferences and Morals

Murray Rothbard (1990) defines time preference as the idea "that people prefer 'present goods' (goods available for use at present) to 'future goods' (present expectations of goods becoming available at some date in the future), and that the social rate of time preference, the result of the interactions of individual time-preference schedules, will determine and be equal to the pure rate of interest in a society" (60). Hoppe (1994) elaborates on this principle stating that if man were not constrained by time preference and if the only constraint operating on him were that of preferring more over less, he would invariably choose those production processes which yielded the largest output per input, regardless of the length of time needed for these methods to bear fruit. Simply put, he would always save and never consume (319). Yet, this is obviously not the case, as the individual always accounts for how long the process of achieving an end will take. Therefore, one's time preference determines whether a man will exchange a present good for a future one and in effect, whether or not a man will save and invest. The smaller an individual's supply of present goods and the higher his time preference schedule, the higher his effective time preference rate and the lower his actual savings will be (321). Vice-versa, when the individuals supply of present goods is larger, his time preference rate will be lower and the amount of actual savings he partakes in will increase. Regardless of the individual's time-preference, once it is low enough to allow for savings and investment to occur, a progression that Hoppe calls 'process of civilization' begins. As an individual saves more, the relative scarcity of labor services increases, and wage rates will rise. This will translate to increased real revenue and in effect, lead to improvements in nutrition and health care and an increased life expectancy. In the end, the saver-investor effectively raises everyone directly or indirectly connected to him through a network of exchanges from "barbarism to civilization and from human childhood to adulthood" (323). There has not been a time in history where a nation has not developed economically without the lowering of time preferences.

Instead of encouraging economic growth, the social-democratic style of socialism does just the opposite. Due to the fact that government interventionist methods, such as taxation, reduce individual's supply of present goods, this results in raising that person's time preference rate. Furthermore, because the government's ability to tax is continual, the victim responds by associating "a permanently higher risk with all future production and systematically adjusting their expectations concerning the rate of return on all future investment downward" (Hoppe, 1994, p. 329). By simultaneously reducing the supply of present and (expected) future goods, governmental property rights violations not only raise time preference rates but also time preference schedules. Because producers are defenseless against future victimization by government agents, their expected rate of return on productive, future oriented actions is reduced all-around. The end result: all actual and potential victims become more present-oriented. As the government property rights violations take their course and grow extensive enough, the natural tendency for humans to save and build up capital goods becomes increasingly more farsighted. Therefore, the likelihood of entrepreneurs providing for ever more distant goals is likely to come to a standstill, and capital goods will be consumed rather than built up. Why work hard at creating wealth when a large portion of it will only be taken away? The idea of not producing anything worthwhile or not attempting to correctly predict the future and the future exchange-demand for one's products becomes relatively more attractive. While the stated goals of egalitarianism are to provide for those who are economically in need through redistribution measures, the social democrats very actions lead to an overall decrease in wealth and standards of living. Instead of the economy being expanded, a tendency toward de-civilization occurs as "formerly prominent providers will be turned into drunks or daydreamers, adults into children, civilized men into barbarians, and producers into criminals" (Hoppe, 1994, 327).

Not only does the social-democratic style lead to lower standards of living, but the long-term welfare statism has deeper and even more destructive effects—political, cultural, and ultimately ethical. As the 'paternal' mentality[4] sets in the mind of the general populace, this leads to a damaged view of life, liberty, the pursuit of happiness,

[4] This occurs when the State assumes a 'father-like' role and is seen as responsible for taking care of the well-being of its people.

and the economy (Bylund, 2011, p. 15). Often, the expansion of the welfare state is coincided with a crowding out of private sector job creation. The result is that a significant share of the population becomes dependent on government transfers rather than work. Taking part of the income from production away from the owner-producer and giving it to people who did not produce the income in question becomes the norm for this economic structure. It creates incentives against developing a good work ethic and creates a nation of individuals who feel entitled to a overabundance of government handouts and programs (Hoppe, 1994, p. 342).

Sweden before the Great Depression (1860s-1930s)

Prefacing the 1870s, Sweden was considered an under developed country that was both economically backwards and terribly poor (Einhorn,1989). However, this changed when Sweden experienced a plethora of political reforms, such as a universal protection of property rights from arbitrary confiscation by the government, and investments in human capital and physical infrastructure, including compulsory schooling and patent laws (Bylund, 2011, p.4). Freedom of business and trade was guaranteed by law in 1864. A substantial increase in agricultural productivity took place before industrialization, mainly as a result of land-consolidation reforms. This, coupled with Sweden's geography and a number of historical circumstances spurred the Scandinavian nation into its first stage of economic success. The period of growth dates from 1890 to 1930. At this point, Sweden proved to be one of the leading nations of economic growth as its per capita growth rate was second only to Japan's from 1870 to 1970 (Stein, 1991, p.3).

Stein (1991) points out that this period of time for Sweden was one of the most impressive periods of modern Swedish economic history. "Starting as a backward country that relied on the export of raw materials, Sweden developed into a producer and exporter of sophisticated manufactured products. In 1890, manufacturing accounted for 2 percent of exports; in 1913, 13 percent; and in 1946, 25 percent" (3). Furthermore, Karlsson (2006) stated that due to the new economic reforms Sweden produced an extraordinary amount of inventions, given its small population. These included: dynamite, invented by Alfred Nobel[5]; the self-aligning ball bearing, invented by Sven Wingquist[6]; the sun-valve, invented by Gustav Dahlén[7]; the gas absorption refrigerator, invented by Baltzar von Platen[8]. In addition, there were countless non-inventing entrepreneurs during that period: car manufacturers Volvo and Saab, and telecommunications company Ericsson. Indeed, with just a few exceptions, nearly all large Swedish companies were started during the late 19th and early 20th centuries, which was not only a period of strong growth, but also the time when the foundation for later economic growth was laid (2).

In addition to the free-market policy reforms, Sweden had a large amount of usable and valuable living space, which endows life in both city and country with advantages not enjoyed by many other European people. This, coupled with copious amount of iron ore, water power, coniferous timber, and other valuable minerals provided the necessary ingredients for economic success seem readily available (Stein, 1991, p.3).

Another factor which continued Swedish prosperity was the fact that Sweden was able to stay out of both World Wars, and indeed all other wars as well. Sweden is in fact the country with the longest consecutive period of peace, having fought no war since

[5] Who established the Nobel Prize
[6] Who used this to create the SKF company
[7] Who used it to found industrial gas company AGA
[8] Which was later used by Electrolux

1809, when Sweden was invaded by Russia, losing Finland to the invader. Sweden has thus enjoyed 5 more years of peace than Switzerland, which participated in the Napoleonic wars in 1814 (Karlsson, 2006, p. 3).

According to Stein (1991) the only mercantilist policies that were implemented were a few tariffs on some agricultural and manufactured products. Other than these few trade barriers, there were no policies promoting the export or import of goods. As a result of its limited government, free trade, free enterprise, and social mobility, and its successful avoidance of war, Sweden had the highest per-capita income growth and by 1970 became one of the world's richest countries, behind only the United States, Switzerland, and Denmark. From this pre-1930s era, a class of able entrepreneurs in trade, industry, and banking emerged (Karlsson, 2006, p. 3). While Sweden had both historical and geographical elements that contributed to its economic success, it is very evident that the free-market policies enacted during this time period played a significant part in accelerating the nation’s economic growth.

In addition to economic stimulus, these policies also promoted social evolution as hardworking and moral individuals were rewarded in accord with the natural incentives set up by capitalism. As Bylund (2011) stated,

> At the turn of the twentieth century, Swedes were a hardworking, independent people. The major part of the nineteenth century had meant hardships but also an incredible growth in both population and wealth, with which came a sense of self-confidence and self-esteem. To be Swedish, old people still say, is to work hard, take care of yourself and your family, endure any condition—and be proud to have justly earned your independence (15).

Therefore, a well-paid, competent, and honest class of civil servants emerged. The small scope of government responsibility during the ultraliberal[9] period minimized official corruption. Government was limited, but it did create an economic infrastructure and promote educational reform. The government borrowed money, but the importation of capital relieved the pressure on the domestic capital market, leaving funds for private long-term borrowing (Stein, 1991, p. 11).

The Great Depression Crisis (1930s)

While the rest of the world suffered, Sweden’s depression during the 1930s proved to be short-lived with a quick recovery. Stein (1991) came to the conclusion that this was due to multiple factors. One was Sweden’s successful ability to stay out of the war and avoid the destruction of large amounts of capital. Another more controversial claim to aiding Sweden’s recovery was their abandonment of the gold standard in 1931:

> In fact, thanks to a large devaluation after the abandonment of the gold standard in 1931, the depression in Sweden was relatively mild, and recovery--led by an export boom--began before the Social Democrats came to power. According to the late Swedish economist Erik Lundberg, the depreciation of the krona in September 1931 was the necessary condition for economic recovery. A stable and sound fiscal policy lent support to Sweden's recovery but was not instrumental in creating it. That view is supported by most Swedish economic historians. According to Lars Jonung, only the years 1933-35 witnessed an expansionist fiscal policy. At that time, the upswing had already begun. During 1935-36 fiscal policy was contractionary not expansionary. (4)

However, Bylund (2011), Stein (1994), Karlsson (2006), and Bergh (2009) all stand by the notion that the developments that occurred in Sweden during the nineteenth century paved the way for the economic growth for what is now recognized as Sweden’s “golden years.” Probably one of the most misconstrued truths is the fact that Swedish success

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[9] Liberal or Classical Liberalism refers to the original meaning of the word, not the current political meaning that Americans associate with term ‘Liberal.’ A Liberal in the original context means someone who supports unregulated markets, limited government, rule of law, due process, and individual liberties including freedom of religion, speech, press, assembly, and private property.

preceded the Swedish model. The standard history of Swedish politics holds that the Social Democrats took power during the depression of the 1930s and ended mass unemployment with their Keynesian fiscal policies. That interpretation of events has been influential in keeping the Social Democrats in power, but it is misleading. Before the welfare state, before the enactment of Keynesian policies, and before the practical dominance of the Social Democrats, Sweden already had a growing, vibrant, successful economy with a per capita gross national product higher than that of most other countries (Stein, 1994, p.5). Therefore, a strong case can be made that the economic growth from free-market policies preceding the establishment of the Swedish Model are what ultimately allowed this nation to recovery quickly from the Great Depression.

The Rise and Growth of the Welfare State (1930s-1990s)

Bylund (2011) proposed that establishing a "welfare state" was not the original goal of the politicians prior to the formation of the Swedish model.

> Many liberals at the time [1920s] feared that the newly won freedom and prosperity might not lead to a general increase in welfare, and that the failure to bring higher standards of living to the working class and the proletariat might cause social unrest. To reduce the risk of a subversive movement that could endanger the free society they had established, and to accelerate the market-based diffusion of prosperity in society, some liberals began to advocate limited social and welfare reforms. The result was an early political orientation toward equality and an egalitarian distribution of wealth throughout Swedish society. (5)

Eventually social democrats used this leverage to gain power in 1932 and have dominated the government ever since. They have never polled less than 40 percent of the vote; their closest rivals have mustered about 25 percent. The social democrats rise marked the beginning of a more activist, Keynesian economic policy. After assuming power during the Great Depression, the social democrats followed the lead of FDR in America and Adolf Hitler in Germany. They started to expand government power over the economy. Until 1932, government spending had been kept below 10% of GDP in Sweden, but the Social Democrats, under their leader Per Albin Hansson, wanted to change this and remake Sweden into a "folkhem"[10] (Karlsson, 2006, p.2).

Stein (1994) characterizes the Swedish model with four statements. *Number 1*: "Unions and Centralized Bargaining" (5). Key parts of the Swedish system are strong unions and centralized wage negotiations without government interference. Ninety percent of Sweden's blue-collar workers belong to a union while white-collar membership is 80 percent. After a period of labor strife in 1938, a concordat was signed by the blue-collar Labor Organization (LO) and the Swedish Employers' Confederation (SAF). That concordat has been the basis for industrial peace. Under the arrangement, the LO and the SAF met periodically to agree on wage levels and working conditions in light of national income, labor productivity, the balance of payments, and other factors. The wage agreements are by no means ideal. They distorted relative prices, and there was an ominous element of the corporate-state ideology behind them. In addition, centralized wage negotiations were a prerequisite for the so-called solidaristic wage policy of equal pay for equal work, regardless of a company's ability to pay. The model's architects argued that narrow wage differentials would speed up the shift of the economy from low-productivity to high-productivity sectors by weeding out unprofitable firms and favoring more productive ones. *Number 2*: "Free Trade" (5). Sweden depends heavily on foreign trade. Exports and imports account for 30 to 35 percent of GNP. That may explain why there was always a consensus in Sweden about the desirability of free trade. Except for agriculture, which became protected in the 1930s, the Social

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[10] "People's home", a term Swedish Social Democrats adopted from the Fascists in Italy.

Democrats never attempted to operate a closed economy. Swedish industry thus was forced to find ways to survive in competition with foreign industry. *Number 3*: "No Nationalization" (5). The social democratic party did not nationalize industry on a large scale. Although nationalization was a point of principle in their program, it was never implemented. Industrial policy until the 1970s was essentially limited to two government procurement programs for advanced technology for military aircraft and nuclear power. In both cases, development took place at private firms, not at government facilities. Until 1970 government-controlled manufacturing amounted to 5 percent of the total. State ownership and management, where they existed (e.g., railways and public utilities), were guided by professional ethics and not hampered by political considerations. *Number 4*: "No Economic Planning" (5). The social democratic party did not try to impose national economic planning. That does not mean that the state did not influence the use of resources to a large extent. High taxation and the welfare state inevitably influenced their use. But there is a difference between that kind of intervention and central planning. The latter produces inefficiency and does not allow remedial adjustments. The former also produces inefficiency, but other things can mitigate its effects (free trade, for example) and thus delay its harmful consequences. *Number 5*: "A large Public Sector and Progressive Taxes" (9). Swedish tax levels have also pulled away from those of the rest of Europe and the United States in recent years. In 1960 tax levels in Sweden were about equal to U.S. levels. In the next two decades, however, Swedish income and social security taxes rose much more rapidly than did comparable levels in the United States. By the end of the 1980s, government revenues in Sweden as a percentage of GNP exceeded levels in the United States by more than 20 percentage points. Sweden has the largest public sector in the West. Just over 60 percent of its gross national product (GNP) is devoted to government expenditures, compared with an average of 45 percent in the other Organization for Economic Co-operation and Development countries (Public Expenditures, 1991, p.78).

Immediately following the international postwar boom, increased demand for government welfare benefits was not a real problem—the growth of the economy could cover most of the expenditure increases. The universal nature of the Swedish welfare state fits well with what one would expect from a period of high, long-term economic growth. Unemployment was not a problem since there was a general shortage of labor; the middle class grew and poverty was quite a rare occurrence. The welfare state had no problem satisfying popular demand for welfare programs and a social safety net for those temporarily in trouble. Indeed, the public finances were in such good shape that there was no real limit to new, more comprehensive reforms (Bylund, 2011, p. 17). Between 1950 and 1976, Sweden experienced an expansion in government spending unprecedented during a period of peace, with government spending to GDP rising from about 20% in 1950 to more than 50% in 1975. Virtually every year, taxes were increased while the welfare state expanded relentlessly, both in the form of a sharp increase in the number of government employees and ever more transfer payment benefits (Karlsson, 2006, p. 6).

The developments of the 1950s and 1960s had important political consequences. Although it was private enterprise that created wealth, while the government could only distribute it, the Social Democrats (like any group) cleverly persuaded the electorate that their policies were responsible for Sweden's prosperity. Business people concluded that they would have to live forever with social democratic policies. The opposition became demoralized, and thus its effectiveness was curtailed. Eventually, the nonsocialists decided that the only way to win power was to adopt a platform similar to that of the Social Democrats. Some people warned that intervention would be harmful in the long run, but few took the warnings seriously. Sweden's fortunate situation enabled its economy to rest on its laurels and forestall the impact of gradual interventionism. The end of the 1960s was a period of optimism fueled by nearly 100years of uninterrupted economic growth. Yet the tendencies toward deterioration were becoming evident. Swedish optimism turned out to be unrealistic and unwarranted (Stein, 1991, p. 7).

The 1970s saw a breakdown of the Swedish model and the rules that had guided it. By the end of the decade, an entirely new set of policies and institutions had appeared. Even before the decade began, the Labor Organization and the Social Democrats had adopted a new, more radical attitude toward the labor market. The notion of full employment was applied not only to the labor market as a whole but also to submarkets, such as married women, the handicapped, and employees in particular branches of production and regions (Stein, 1991, p. 8)

According to the Organization for Economic Co-operation and Development, Swedish industrial workers' gross wages (including employers' social security contributions) were the seventh highest in the 15 industrial nations in 1987. Real after-tax wages for Swedish industrial workers fell by 0.6 percent between 1980 and 1987, despite a 72 percent rise in gross wages in the same period. In 1989 Sweden's top personal income tax rate was 72 percent (it was 80 percent in the early 1980s). An average worker could pay as much as 60 percent of his income in taxes. Adding the twenty-five percent value-added tax and the forty percent payroll tax results in a wedge of about eighty percent. Such a tax system, together with a flat salary scale, erodes the incentive to work, train, and save. Unsurprisingly, Swedes are on the job fewer hours a year than any other workers. According to studies, cutting tax rates would increase the labor supply 5 to 10 percent (Survey, 1990, p.10).

Sweden's commitment to socialism has been almost complete in the social-services sector. Whereas other countries may experiment with competition in the provision of those services by means of vouchers or tax deductions, Sweden favors uniform-tax-financed public monopolies that charge low or sometimes zero fees. As far as those monopolies are concerned, one size fits all. Schools have similar curricula; health care is under an almost military plan; and so on. Private alternatives in health care, education, old- age care, day-care centers, and other personal matters have been almost legislated out of existence or are unable to compete with the subsidized public sector (Stein, 1991, p.9).

As Hoppe inferred in his work, this social democratic structure will lead to moral consequences as well. Bylund (2011), who experienced this firsthand as a Swedish resident states:

> What we are now seeing in Sweden is the perfectly logical consequence of the welfare state: when handing out benefits and thereby taking away the individual's responsibility for his or her own life, a new kind of individual is created—the immature, irresponsible, and dependent. But of course we do know—or should know—one thing for certain: people do what they have an incentive to do. The example of Sweden shows that if powerful but destructive incentive structures are kept in force over time, people's sense of morality will change. (20)

Furthermore, Stein (1991) also recognized the backwards incentives created by this system:

> The problem is not that it is impossible to get rich in Sweden but rather that it is difficult to remain so by honest productive activities. In a society in which they cannot easily increase their income or accumulate wealth by ordinary work, people turn to the zero-sum game of transferring income from one to another through the political process instead of engaging in the positive-sum games of producing income through work, capital accumulation, or productive risk taking. (11)

Economic Crisis of 1990s

Lundberg (1985) attributes the end of the Swedish model's so called "golden years" to the failure of macroeconomic principles and to problems arising from too high wages, overvalued currency, and a severe weakening of incentives caused by welfare programs benefiting a large part of the population (7). Therefore, the period from approximately 1970 to 1995 constituted the fall of the Swedish model, which led to a chaotic financial situation in the early 1990s. Because of poor economic performance during the period, Sweden fell from being the fourth-richest country in the world in 1970 to seventeenth in 2001 (Bylund, 2011, p. 11).

Karlsson (2006) reinforces this view as he sees the crisis through the lens of the Austrian Business Cycle Theory. As the economy started slowing significantly in 1990 after a series of tightening measures, consumer price inflation slowed. With the combination of continued high nominal interest rates, reduced capital gains taxation (and with that, reduced deductions for interest payments) and falling price inflation, real interest rates started rising significantly, helping to end the asset price bubbles. On top of all of this came the oil price shock following Saddam Hussein's invasion of Kuwait and an economic downturn in key trading partners such as the United States, the United Kingdom, and Finland. The end result was that Sweden slipped into a recession in late 1990 (5).

This time, Sweden did not recover quickly. After decades of destructive economic policy, this is no surprise. Even though, as stated at the beginning of the paper, the policy makers necessitated a shift in toward more market and less state, it would take much more time and a whole lot more reform to get back, in terms of economic growth, to the place where Sweden was at the beginning of the 19th century.

Conclusion

Modern Swedish economic history deals a blow to the myth of a successful middle way. Analyzing both financial crises that Sweden has experienced demonstrates that over time a welfare state based on socialist inspired ideas of income redistribution erodes wealth-creating forces, work ethics, and morals. Rather than being a success story for the middle way, the past 150 years of Sweden's history unequivocally spells out success for capitalism and free-market policies.

The economic theory that has been developed many years prior to this story of Sweden is based on truths that transcend time and geographic location. In the end, free-market prevails and socialism fails.

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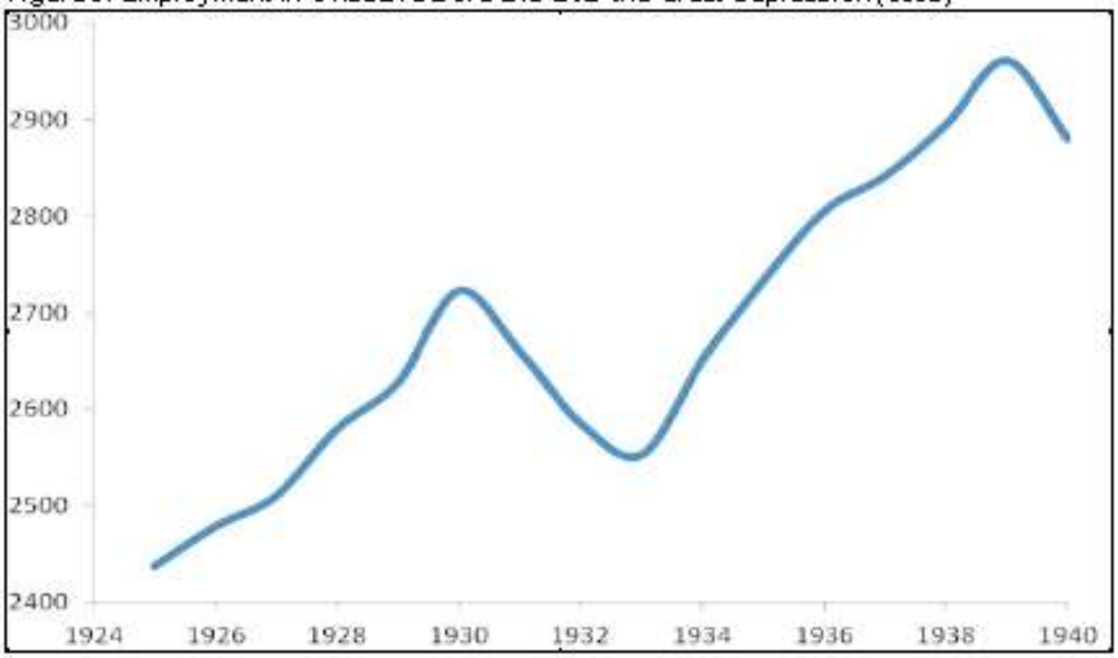
Table and Figure Reference:

Fig. 1. Employment in Sweden before and after the 1990s crisis (000s). “Swedish Economic Growth during the 19th Century – a Problematic History.” Economic Debate 28 no. 1 (2000).

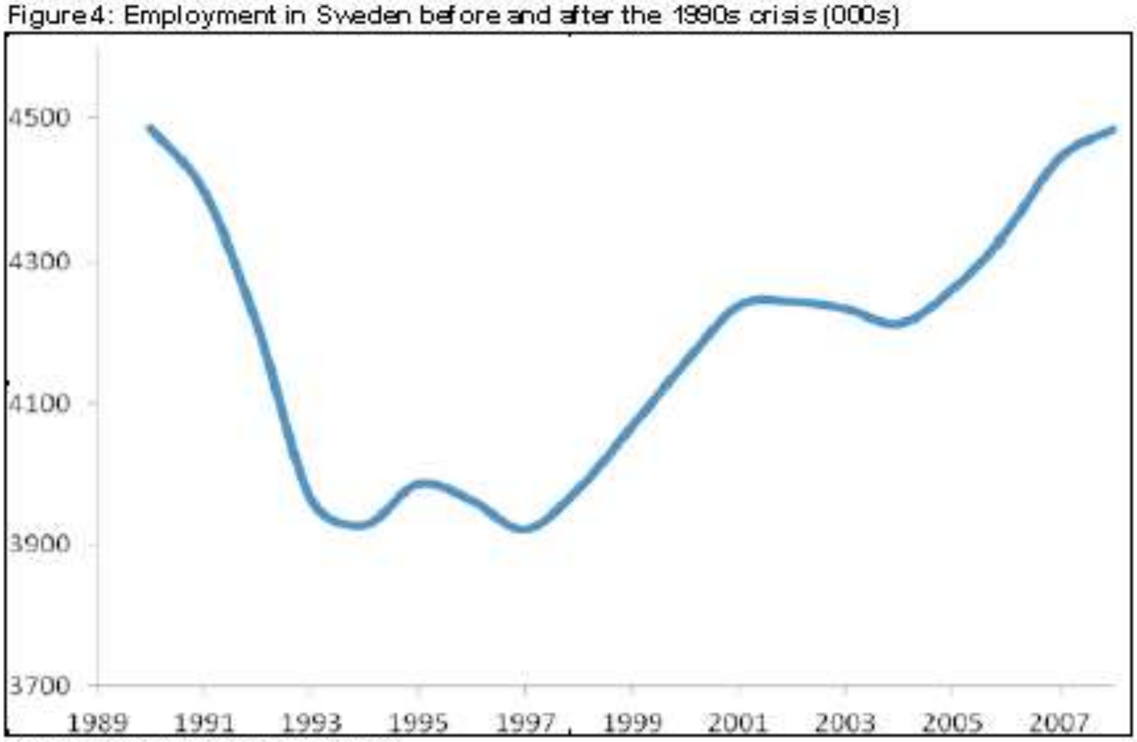
Figure 3: Employment in Sweden before and after the Great Depression (000s)



Source: Krantz (1997)

Fig. 2. Employment in Sweden before and after the 1990s crisis (00s). LFS (Labor Force Survey). Statistics Sweden (2009).

Figure 4: Employment in Sweden before and after the 1990s crisis (000s)



Source: SCB (Statistics Sweden) (2009).