

POLICY FOCUS

Real Lessons from Scandinavia

RECIPES FOR RATIONAL GOVERNMENT FROM THE INDEPENDENT WOMEN'S FORUM

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WHAT YOU NEED TO KNOW

American progressives have long considered Scandinavia to be the apotheosis of enlightened governance and generous social-welfare programs, and thus a model for the United States. Bernie Sanders spoke for many on the left when he **said**, at an October 2015 Democratic presidential debate, “We should look to countries like Denmark, like Sweden and Norway, and learn from what they have accomplished for their working people.”

There are indeed lessons to be learned from those countries — just not the lessons that Sanders and other progressives have in mind. The real lessons from Scandinavia include:

- The most efficient way to finance a large welfare state is through regressive taxes on consumption.
- Government-run, universal healthcare systems tend to produce long waiting times that compel people to seek private options.
- Combining strict labor requirements with lavish welfare benefits encourages dependency and makes it harder for immigrants to assimilate.
- Mass immigration without assimilation is a recipe for social and political turmoil.

When we compare present-day Scandinavia with America, we find that Swedish and Danish economic policies have changed a great deal since the high tide of Nordic socialism in the 1970s and 1980s. We also find that America's existing welfare state, properly measured, is more “Scandinavian” than most people realize.

All of this will be important to keep in mind as Congress and the Trump administration debate tax, health care, immigration, and other reforms in 2017 and beyond.

WHY YOU SHOULD CARE

Learning the right lessons from Scandinavia can help Americans embrace smart policies, and avoid bad ones, on issues such as taxes, health care, and immigration. For example:

- **Tax policy.** Adopting Scandinavian-level tax rates on America's highest incomes probably would *not* generate massive revenues for the Treasury, but it almost certainly would damage U.S. economic growth. By contrast, following the Nordic model on corporate-income and consumption taxes — i.e., shifting the overall tax burden from income to consumption, while slashing rates on business investment — could make America's entire revenue system more efficient.
- **Healthcare policy.** Creating a Nordic-style universal health-insurance program could make it significantly harder for many Americans to receive timely care from their preferred providers. That's the lesson to draw from stubbornly long waiting times in **Sweden** and **Norway**.
- **Immigration policy.** Scandinavia highlights the danger of importing large numbers of low-skilled migrants and then not properly assimilating them. **Sweden**, in particular, has a major problem with ghettoized, crime-ridden Muslim communities that are completely alienated from Swedish society.

These lessons should help guide U.S. policymakers in the months and years ahead.

MORE INFORMATION

How the Nordic Countries Got Rich

There's no magic formula that explains how the Scandinavians created wealthy societies with bountiful welfare states. Sweden and Denmark became rich thanks to international trade, economic openness, wise use of natural and agricultural resources, strong institutions, and a culture of hard work and social trust. The Norwegian story is broadly similar, though Norway did not achieve its current level of affluence until after it discovered North Sea oil reserves in 1969.

As Danish scholar Otto Brøns-Petersen has **written**: "It can hardly be claimed that introducing the welfare state made Denmark rich; rather it was the other way around. Denmark first became rich, and then the authorities began to redistribute some of the wealth." The same is true of Sweden and Norway.

By the 1980s and early 1990s, however, it was clear that all three countries needed serious reforms. And indeed, over the past few decades, Denmark and Sweden have moved in a free-market direction. Norway has changed, too, though its oil wealth has allowed it to remain **more statist** than its neighbors.

To put Scandinavia's reforms in perspective: From 2013 through 2015, Denmark ranked ahead of America in the Heritage Foundation's **Index of Economic Freedom**. In the 2016 index,

it outscores every economy save Hong Kong in the category of business freedom. Denmark also outranks America in the World Bank's 2016 **Ease of Doing Business Index**, as does Norway.

As for Sweden, it is a nation with universal school vouchers, a partially privatized social-security system, and no gift or inheritance taxes. Long known for its bloated public sector, it has become a genuine leader on deregulation and privatization. In 2013, *The Economist* reported that "Sweden has gone further than any other European country in embracing the purchaser-provider split — that is, in using government money to buy public services from whichever providers, public or private, offer the best combination of price and quality."

Financing the Welfare State

It's true that Scandinavia still has high levels of taxation. In 2014, total revenue equaled nearly 51 percent of GDP in Denmark, almost 43 percent in Sweden, and more than 39 percent in Norway, versus only 26 percent in the United States, according to **OECD data**. Yet the Nordic countries have significantly *lower statutory* and *effective* tax rates on corporate income than America does. They also have **less-progressive taxes** on individual income. And whereas America is the only OECD member without a national value-added tax (VAT), Sweden, Denmark, and Norway each have a standard VAT rate of 25 percent.

These are important differences, because (1) economists generally **believe** corporate taxes are more detrimental to economic growth than consumption taxes, and (2) taxing a broader

base of income makes it easier to generate sizable revenues. Thus, the Swedish, Danish, and Norwegian tax systems are in many ways more efficient than the U.S. system, despite imposing a much heavier overall burden.

Consider that, in 2014, **taxes on good and services** accounted for more than 28 percent of all revenue in Sweden and Norway, and nearly 30 percent of all revenue in Denmark. By contrast, they contributed just over 17 percent of all revenue in the United States. The disparities are even greater if we look only at federal or national revenue: Taxes on goods and services produced 57 percent of all revenue for the Swedish national government, close to 40 percent for the Danish national government, and almost 33 percent for the Norwegian national government, compared with less than 7 percent for the U.S. federal government.

Health Policies and Outcomes

The Scandinavian countries use their ample tax revenues to help finance generous public healthcare benefits. Sweden, Denmark, and Norway each have a government-run system that ensures universal insurance coverage, though the Swedish and Danish systems are far more decentralized than the Norwegian one.

American liberals frequently argue that Scandinavia's impressive health outcomes demonstrate the virtue of Nordic policies. In reality, health outcomes are primarily a result of demography, culture, diet, and lifestyle. For example, America has the **highest rate of obesity** among OECD nations, whereas Sweden,

Denmark, and Norway have **some of the lowest rates**. Moreover, the gap in life expectancy between Scandinavia and America has actually gotten *smaller* since the Nordics established their modern welfare states.

“In 1960,” **writes** Swedish scholar Nima Sanandaji, “well before large welfare states had been created in Nordic countries, Swedes lived 3.2 years longer than Americans, while Norwegians lived 3.8 years longer and Danes 2.4 years longer. Today, after the Nordic countries have introduced universal health care, the difference has shrunk to 2.9 years in Sweden, 2.6 years in Norway, and 1.5 years in Denmark.”

To be sure, there is much to admire about Scandinavian health care: Swedes, Danes, and Norwegians unquestionably receive excellent medical services. Unfortunately, they often face painfully long waiting times to access those services. Norwegian health minister Bent Høie has **acknowledged** this problem, and the country’s center-right government has taken steps to alleviate it.

The problem is even worse in Sweden. As Swedish economist Per Bylund has **noted**, “Swedes dependent on the public-health system have to wait months or even years for certain procedures, or are denied treatment.” Their government is trying to shorten wait times by **privatizing** many healthcare services. Meanwhile, enrollment in private health insurance has been surging — “despite the fact,” writes Bylund, “that an average Swedish family already pays nearly \$20,000 annually in taxes toward health care and elderly care, including what Americans call Medicare.”

Speaking of Medicare, those Americans pushing for a new “public option” in health care — a “Medicare for all” program — may not realize that total government spending on health care is already at Scandinavian levels. In fact, the OECD **reports** that, as of 2013, health expenditures represented a bigger portion of government spending in America (20 percent) than in Sweden (17 percent), Norway (17 percent), or Denmark (15 percent). If we look at **public health spending per capita**, America still spends more than Denmark or Sweden, though less than Norway. If we look at **public health spending as a share of GDP**, America spends more than Norway but less than Denmark or Sweden.

Labor Lessons

The United States may well have the world’s most flexible labor markets, but Denmark is not too far behind. The Danish model, known as “**flexicurity**,” combines fluid job markets with robust government support for the unemployed, and its success has garnered international attention. Yet even the Danes have found that excessive welfare benefits can discourage work and foster dependency. In 2013, the *New York Times* **observed** that “Denmark has been at work overhauling entitlements, trying to prod Danes into working more or longer or both.”

Similar issues plague its neighbors. In 2014, Norwegian finance minister Siv Jensen **told** Reuters that “approximately 600,000 Norwegians” — out of a population of just 5.2 million — “who should be part of the labor force are outside the labor force, because of welfare

[and] pension issues.” In Sweden, meanwhile, strict labor requirements have reduced the number of entry-level jobs and spawned a massive employment gap between native-born Swedes and immigrants. “A system intended to protect the workers,” Swedish scholar Johan Norberg **wrote** a few years ago, “has condemned the young to a succession of short-term contracts,” thereby creating “a society of insiders and outsiders.”

Mass Immigration without Assimilation

Norberg penned those words following the May 2013 riots in Husby, Rinkeby, and other heavily immigrant suburbs of Stockholm. As far back as 1998, the *New York Times* **described** Rinkeby as “a virtually segregated community.” Today, such communities can be found across Scandinavia, including in **Denmark** and **Norway**. Often called “parallel societies,” they are predominantly Muslim and characterized by high levels of crime and unemployment.

The ongoing influx of Middle Eastern and African migrants has exacerbated these problems, especially in **Sweden**, while fueling a populist backlash. Scandinavian governments have **responded** by tightening asylum rules, making it harder for asylum seekers to become permanent residents, and curbing their access to welfare benefits.

Over the long term, the Nordic countries — which built hugely expensive welfare states at a moment when they were ethnically and racially homogeneous — will not be able to preserve

their vaunted social model without a more effective assimilation policy.

Each of these lessons will be highly relevant to U.S. politics in 2017 and beyond.

The True Size of America's Welfare State

How much does the United States spend on social welfare? It may sound like a simple question, but it's actually quite complex.

For starters, should we include the value of private insurance, pension, and charitable spending?

“After accounting for this voluntary private social expenditure,” University of Arizona economist Price Fishback **calculated** that “the U.S. in 2003 had higher net social expenditures as a share of GDP than all of the Nordic countries except Sweden.”

Even if we look only at government programs, a large portion of America's welfare state consists of *indirect* programs that, as New America scholar Michael Lind recently **noted**, “are not counted as part of the conventional federal budget.”

What happens when we count all public and private social expenditures together? Here's Peterson Institute scholar **Jacob Funk Kirkegaard**: “Taking the full effects of tax systems and social spending from both private and public sources into account, the United States is seen to be devoting more resources toward social purposes than is generally acknowledged. In fact, only the French spend more than Americans, while the alleged welfare-addicted Scandinavians and Europeans spend less on average.”

WHAT YOU CAN DO

- **Get Informed:** Learn more about the real policy lessons from Scandinavia, and how they can help the United States. Visit:
 - **Independent Women's Forum**
 - **The Heritage Foundation**
 - *The Economist*
- **Talk to Your Friends:** Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.
- **Become a Leader in the Community:** Get a group together each month to talk

about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.

- **Remain Engaged Politically:** Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

ABOUT THE INDEPENDENT WOMEN'S FORUM

The Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility.

IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.

We rely on the support of people like you! Please visit us on our website www.iwf.org to get more information and consider making a donation to IWF.

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