

# Critical Issues

# The Failure of Socialism

Learning from  
the  
Swedes and English

by  
ARTHUR SHENFIELD

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**ARTHUR SHENFIELD**

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## Sweden: The Background

Few countries in the world enjoy circumstances as favorable for economic, political and social success as does Sweden. Here geography and history have combined to give the Swedish people opportunities for advancement equalled or surpassed by those of few other nations, and at the same time to shield them from some of the most harassing problems and difficulties which others have had to face.

Sweden has an area of about 174,000 square miles, which makes it the fourth largest country in Europe by size, but a people who number only about 8.3 million, which makes it one of the smaller countries in Europe by population. Of course bare space per head in itself does not indicate spacious opportunities for the people, as inhabitants of desert countries or arctic wastes well know. It is true that half of Sweden's land surface is covered with forest, not all of which has any significant value; that only one-tenth is, and probably not much more could be, farmland; that the northern two-thirds of the country have a most forbidding climate, while even the southern third (where nine-tenths of the people live) has, even with the benefit of the Gulf Stream, one of the less pleasant climates of Europe. Nevertheless, despite all negative factors, the Swedes have an exceptionally large amount of usable and valuable living space, which endows life in both city and country with advantages enjoyed by few other European peoples. Add to the advantages of broad living space the possession of rich supplies of coniferous lumber (even if, as mentioned above, not all is easily or economically exploitable), water power, high grade iron ore, uranium and other valuable minerals, and it is clear that the Swedes enjoy an enviable endowment of real estate. Furthermore, though Sweden lies on the periphery of the European continent, it is well supplied with excellent harbors not far distant from the populous centers of northern Europe, and is thus not ill-situated for access by sea to its many possible trading partners.

So much for geography. History, although for some centuries apparently unfavorable, has turned out to be an exceedingly favorable factor.

After the Viking incursions into eastern Europe (those into western and southern Europe came mainly from Norway and Denmark), Sweden became an insignificant backwater of Europe, primitive and poor, even though it established power in a sizeable part of Russia. Then in the 16th to 18th centuries it burst forth as an expansionary, conquering, to some extent colonizing, Power, which made it for a time one of Europe's leading states. But this in time led to national exhaustion and withdrawal, and again Sweden became a backwater, though it participated to a fair extent in the general development of European culture of the 18th and 19th centuries. Ultimately, however, its withdrawal and isolation became influences of great good fortune.

First, its people remained racially and culturally homogeneous to an extraordinary degree. Though it was a principal contestant in the religious wars of Europe, it fought them in Germany, and when it withdrew it was and remained wholly Lutheran. Thus it escaped those political and social tensions which were rooted in, or associated with, religious differences, and which afflicted some of the leading European countries long after the end of the religious wars (cf. Bismarck's Kulturkampf against Catholic South Germany). Being a backwater it also escaped the movement of peoples which would have diluted this homogeneity (though this has changed in the past twenty years by reason of the influx of guest workers from Yugoslavia, Greece and Turkey, many of whom have now become permanent residents).

Secondly, being a backwater and having withdrawn from external power and adventure, it was of minor significance in the post-religious conflicts of Europe. Finland was forcibly detached from it by Russia, and Norway detached itself peacefully. Without colonies, and with no outstanding foreign trade or investment, it was neither an object of aggression by others nor interested in aggression itself. Hence it was able to withdraw into a firm neutrality, so that it has been at peace since the end of the Napoleonic wars, a period of a century and three-quarters which is longer than the peace enjoyed by any other country in Europe except Switzerland. In particular it completely escaped the great losses and devastations suffered by the greater part of Europe in this century's two world wars.

Thirdly, it was late in modern economic development, from which certain conspicuous economic advantages have arisen. The poverty and backwardness of its agriculture until the late 19th century would have been the source of great trouble had not large-scale emigration, mainly to the United States, become cheap and easy. When industrialization began in the closing decades of the 19th century, western capital was abundant and technology was well advanced. Thus Sweden was able to begin at a level of technology which avoided the growing pains of the industrial revolution elsewhere. With abundant water power, lumber and

high-grade ores, and a well-educated people, Sweden was able quickly to move to the forefront of European industry, and at the same time to avoid much of the environmental costs and social tensions of earlier industrialization.

Fourthly, peace, racial and cultural homogeneity, and a political history centered around a long-established monarchy (rejuvenated by the Bernadottes), enabled great political changes to be effected without bloodshed or revolution. A stable political environment is perhaps the greatest boon a nation seeking social and economic success can enjoy, and Sweden has had it.

The emergence of industry brought Sweden closer to the mainstream of European political developments, and so it is not surprising that in the 1880's a Social Democratic Labor Party was formed (much influenced by the German example), and that under its wing a strong national trade union movement was developed (contrary to the order of events in Britain, where the unions created the Labour Party). By the turn of the century there were also nationally organized Liberal and Conservative Parties, and later a Farmers' Party which developed into a Center Party. After the Russian Revolution a small Communist Party also arose.

It was to be expected that the Social Democratic Party should be influenced by the German example, for in the two generations preceding the First World War the predominant intellectual influences in Sweden were German. The German Social Democratic Party in those days was by far the largest and most prominent socialist party in the world. Its ideology was Marxist, but it was split at the turn of the century between traditional Marxists and the Revisionists, who conceded that the standard of living of the working class had risen under the capitalist system and was capable of being raised further without revolution. The Swedish Party's ideology was formally Marxist, but it was not long before it became distinctly revisionist. Between the two World Wars it became almost a "bourgeois" party in the eyes of unreconstructed Marxists, and it ceased to be a Marxist party in any significant sense.

Until 1970 the Swedish Parliament had two Chambers, the First being indirectly elected by the County Councils, and the Second directly elected since the early years of this century by the people, first on a manhood, and then on a universal, adult suffrage. In 1970 the bicameral system was replaced by a unicameral system, the single Chamber being elected on a strict proportional vote basis as between the various parties by universal adult suffrage. The brake exercised by the First Chamber on the policies of the popularly elected Second Chamber, which though never very strong was not without importance, was thus removed.

The Social Democratic Party is by far the largest of the parties, never



failing since 1932 to obtain over 40% of the popular vote, and sometimes getting closer to 50% than 40%. From 1932 to 1976 Sweden was in all important respects ruled by the Social Democratic Party, even though it was in coalition with the Center Party in 1936-39 and 1951-57 (during the Second World War there was an all-Party coalition in which the Social Democrats were the dominating force; of course the exigencies of war, even though Sweden was not a belligerent, were tailor-made for the policies which were typically those of the Social Democrats). During the twenty years 1957-76 the Social Democrats were in office alone, though from time to time they received the tacit support of the Communists, who normally command the suffrages of about 5% of the electorate.

In October 1976 the Social Democrats were supplanted by an uneasy coalition of the Conservative, Liberal and Center Parties, with a Center Party Prime Minister, but this fell apart in September 1978. Thereafter there was a minority Government of the Liberal Party which, with only 11% of the membership of the Chamber, was the smallest of the three erstwhile partners. It was sustained for the time being by the constitutional rule that the Government could be unseated only by an absolute majority vote of the Chamber, which the Social Democrats and the Center Party decided not to produce. In September 1979 a general election gave the three "non-socialist" parties a total of 175 seats against 174 for the Social Democrats (154) and Communists (20). At the time of writing it is not known what color the new Government will have, though a renewal of the tripartite coalition appears likely.<sup>1</sup> It is of considerable interest that in this election the Conservative Party, which is the only one of the three parties with at least a partially true claim to the title "non-socialist," gained substantially at the expense of the Center Party.

It was in the period 1932-1968 that Sweden acquired a world-wide reputation as a model social democratic state and society. Its leading industries were successful in world trade, its Gross National Product per head forged ahead from a moderate position in European order of magnitudes in the 1930's to the top position after the Second World War (later more or less shared with Switzerland). Its welfare socialism was easily the most prominent in the western world (and in the eyes of true believers in welfare socialism, the most admirable), and yet its welfare programs did not for the time being appear to be an obstacle to economic success.

There are several reasons for the real or apparent record of success in this period in combining economic progress with welfare socialism,

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<sup>1</sup>In the event the tripartite coalition has been re-established, with Mr. Fälldin, the Center Party leader, as Prime Minister.

contrary to the experience of various other countries (notably Britain), and contrary to the expectations of critics of welfare socialism who believe that penal levels of personal taxation, high social security benefits, and unremitting governmental intervention in the distribution of incomes, all of which were conspicuous in Sweden, must undermine economic success.

First we must note the importance of time lags in events of the kind before us. That things run together in time with apparent harmony and mutual suitability does not necessarily mean that there is true harmony or suitability. One set of circumstances or policies may produce success, which in due course may be undermined by another set of circumstances or policies, even though the two sets are contemporaneous. For the undermining process may be slow or delayed. We shall see that there is strong evidence that this has been the case in Sweden. Thus the fact that economic success and welfare socialism were contemporaneous does not in itself mean that the latter was not undermining the former.

Apart from the operation of time lags, the principal reasons for Swedish economic success in this period were as follows.

First, the socialists never attempted to operate a closed economy. Sweden was and is a low-tariff country. During the 1960's and until 1973, when Britain, Denmark and the Irish Republic joined the European Common Market (EEC), she was a member of the European Free Trade Area (EFTA) which produced complete free trade in industrial goods with Britain, Norway, Denmark, Austria, Switzerland, and Portugal. Since 1973 she has enjoyed free trade in industrial goods with the whole of the EEC and the rump of EFTA. The effect of this policy was to force Swedish industry to find ways and means of surviving in competition with industry in the rest of the western world. This necessity was accentuated by the fact that the leading Swedish industries were export-orientated, as they had to be if a high degree of import freedom was to be sustained. Thus, though socialism has a natural tendency to favor a closed economy, the Swedish socialists were led until 1968 (when a sea-change supervened in leadership) by men who were intelligent enough to eschew this feature of doctrinaire socialism.

Secondly, the socialists in this period never tried to run a planned economy of the eastern European style. They did not even adopt the so-called voluntary planning of the French style which was promoted with much international propaganda in the 1960's and which greatly impressed many observers, especially in Britain, who failed to see how empty a concept it was. Thus the Swedish Government did not attempt to direct the use and disposition of economic resources according to a centralized national plan, which would have been a sure prescription for waste, inefficiency, and poverty. This does not mean that the State

did not intervene in, or influence, the use and disposition of resources to a major extent. It did, for high taxation and the apparatus of welfare socialism inevitably have that effect, and such an effect is unlikely not to be harmful. But there is an essential difference between this kind of intervention and the attempt to operate a centralized national plan. The latter is certain both to produce inefficiency and to forbid or anaesthetize remedial influences. The former will also produce inefficiency, but it is compatible with mitigating influences (e.g. the free trade mentioned above) and its full harmful effect may be long delayed. Nor does it mean that there was not some element of centralized planning in the annual agreements reached between the national bodies of employers and unions under the concordat established between them (see below), but this was not more than embryonic in comparison with the planning of communist states.

Thirdly, the socialists avoided the temptation, to which for example the British socialists blindly succumbed, to nationalize industry on any substantial scale. Apart from the railroads and typical public utilities, by far the greater part of Swedish business and industry remained in private ownership. Thus in the period before the 1970's the country was spared the wastes and losses typical of nationalized industry in almost every country that has adopted it.

Fourthly, although personal taxation was among the highest in the western world and rose to penal levels, the taxation of business (before the distribution of profits) was moderated by various allowances and rebates. This stimulated the wheels of business to go round, even though the effects of high personal taxation could not be delayed indefinitely. It was in this period that the Swedish Government experimented with sophisticated anti-cyclical capital depreciation devices, with an eye to smoothing economic fluctuations by enabling business to build up funds for investment in slack periods. It would be wrong to say that these devices were wholly successful. They were not. But they were welcomed by business at the time, and they encouraged businessmen to feel that the national environment was not hostile to business.

Fifthly, Swedish trade unions were led and organized in a manner which facilitated the efficient use of labor (subject to the unavoidable inefficiencies produced by welfare policies). The Swedish labor force was then, and is now, probably by far the most heavily unionized in the western world. About 85% of all employees are in unions. The unions are organized in three groups. By far the largest is the L.O. (Landsorganisation) which organizes predominantly industrial and other "blue-collar" workers. The second is the T.C.O. which organizes "white-collar" workers, and the third is the S.A.C.O. which organizes professional people, university teachers, higher civil servants and the

like. In practice the L.O. has been predominant in the formation of national union policies. It was originally formed by the Social Democratic Party, and has always been closely aligned with that Party and its policies.

The L.O., T.C.O., and S.A.C.O. and their constituent unions were led for many years by men of intelligence and education, supported by well-trained staffs. The L.O. has maintained a large and well-equipped research staff.

Though the union leaders, and especially those from the L.O., were convinced socialists, they behaved in the period up to the end of the 1960's in a manner which in certain important respects was conducive to the success of industry. Demarcation or jurisdictional disputes were either non-existent or quickly resolved. Restrictive practices of the kind which has plagued British industry for generations and is not uncommon among the skilled trades in the United States, were non-existent. Thus, for example, in the shipbuilding industry, where the opportunities for restrictive practices are manifold among boilermakers, shipwrights, welders, riveters, electricians, carpenters, etc., labor could be transferred from one job to another without friction as circumstances required. The unions sought to protect their members' wages and conditions of work, but not their entitlement to a monopoly of any particular category of work.

In 1938, after a good deal of labor strife, a concordat was established between the L.O. and the Swedish Employers Confederation (S.A.F.) which set up a strong basis for industrial labor peace. This was the famous Saltsjobaden Agreement. Under this agreement the L.O. and the S.A.F. met periodically to agree upon levels of wages and upon conditions of work in the light of information on the national income, the balance of payments, labor productivity, the rate of investment, the level of profits, and other factors thought to be relevant. It is by no means to be thought that these agreements were of an ideal character. On the contrary there was an ominous element of the Corporate State and its ideology in them. Furthermore, the unions were always able to extract ample concessions from the employers as a result of their great organizational strength. Nevertheless, the agreements were beneficial in two main ways. First, they were honored. Union discipline was high and reliable, so that the employers knew where they stood when agreements were made. Secondly, the unions recognized the right of the employers to hire, fire, allocate work, and direct the worker, which remained the situation until recently.

When these elements of State and labor policy were combined with the outstanding national advantages which have been described above, i.e. generations of peace, racial, cultural and religious homogeneity,

ample natural resources, and modern industrialization, it is not surprising that the overall record was for the time being one of economic success.

From 1946 to 1968 the Social Democratic Party was led by Mr. Erlander, who thus was Prime Minister for many years. As socialists go, Mr. Erlander was a man of sense and moderation. The favorable elements of policy listed above were mainly set by him and his principal associates.

On Mr. Erlander's retirement in 1968, he was succeeded as Prime Minister and leader of the Social Democratic Party by a man of very different character, Mr. Olof Palme. Where Mr. Erlander was moderate, cautious, and pragmatic, Mr. Palme is extremist, impetuous, and doctrinaire. Not that his doctrinaire socialism led him into schemes for centralized economic planning of the communist kind, or into a turn to a closed economy. In these two respects governmental economic policy remained for the most part unchanged. But in the field of welfare his Government began such an expansion as was calculated to produce both a great extension of State intervention and a dangerous tendency to debility in the economy. For two generations private enterprise had come to believe that it could live with Social Democratic policies fairly comfortably, if not wholly happily. The belief was at bottom a mistaken one, resting in some measure upon a will for self-delusion, but on the facts of the time it did not appear to be without foundation. Now it became increasingly clear that under Mr. Palme Social Democratic policies must ultimately lead to the erosion of the position of private enterprise, though most businessmen persisted in persuading themselves that no fundamental change had occurred.

It was indeed for a time plausibly arguable that the change was more a matter of words than of substance. Mr. Palme delighted in extremist speeches, and especially in taking the position on the international stage of a champion of the anti-western and pro-communist movements which were stirring in the so-called Third World, but most Swedes were not put out much or at all by these posturings. However the reality of the change gradually broke through as pressure grew for increasing doses of state welfare, as the recession in world trade of 1973-74 affected the Swedish economy, and as the L.O. and its constituent unions became infected with a less cooperative spirit than they had previously displayed. The results of the leftward turn in 1968 are to be seen in the present state of the Swedish economy and society which is described below, even though Mr. Palme was defeated in 1976 and despite the fact that in the past three years the country has been governed by parties officially described as non-socialist.

The post-1976 "non-socialist" Governments have been faced with the debilitating consequences of their predecessors' policies, combined

with difficulties of world trade which pressed especially upon some of Sweden's leading industries, notably shipbuilding. In the result they have actually intensified the socialist ingredients in the economy, even while seeking to slow down the trends initiated by Mr. Palme. Thus they have allowed themselves to be propelled into what amounts to a substantial tally of industrial nationalization by injecting large Government sums into lame-duck companies, for fear of the consequences of allowing them to go bankrupt. At the same time they have felt unable to reverse the engines of social welfare legislation in a time of economic weakness. Partly this is because the Liberal and Center Parties, and to some extent the Conservative (now renamed the Moderate) Party, long ago accepted the basic propriety of social welfare and state economic intervention (thus at best deserving the name "less-socialist" rather than "non-socialist"); partly because they were uneasy bedfellows in any case; partly because from 1976 to 1978 their deliberations were bedeviled by a pledge given by the Center Party Prime Minister, Mr. Fälldin, against the development of nuclear energy; partly because in a democratic society it is always likely that less-socialist or non-socialist Governments will take office just when socialist failure is conspicuous and when they therefore inherit a mass of difficulties; partly because they are faced by extremely powerful unions which under Mr. Palme's influence have become much more doctrinaire and much less cooperative than they were; and partly because the reversal of the socialist tide calls for a well-prepared and resolutely pursued strategy which weak coalitions are unlikely to produce. For that matter the absence of carefully prepared strategies among non-socialist parties is a conspicuous feature of democratic politics. It is unlikely that the socialist tide will be reversed in any country without it.





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## Sweden: Sick Economy and Sick Society

### Economic Activity

The Swedish economy is now in a parlous condition. Of course it is not alone in being beset by problems and difficulties, for this is the state of most countries in the free world. However its condition has exceptionally disturbing features.

Governmental expenditure has risen to about 68% of GNP, which since 1974 has itself been in a stagnant condition. In the whole period 1970-78 the Swedish real GNP rose by a total of 11%, as compared with an average OECD figure of 20%. In 1977 the OECD countries averaged an increase of about 3.5% whereas Sweden showed a *fall* of about 2.5%. The 1978 record was slightly better than that of 1977 (the devaluation of the krona by 10% in 1977 produced some temporary stimulus), but there has been no net increase in the second half of this decade.

Between 1970 and 1977 the annual number of housing units constructed fell by 50%, and the 1977 figure was the lowest since 1953. A similar low level has persisted in 1978/79. Cement consumption fell during 1970-77 by about 40%, and steel consumption fell in 1977 by 20% as compared with the previous level. In 1977 and 1978 total manufacturing production fell by 3% annually. In the period 1973-77 Sweden lost about 18% of her international export markets. The ship-building industry, which in the 1950's and 1960's was a prominent success, is now by any true measure in a bankrupt condition and is sustained only by Government subventions. In 1977 about 7% of the world's merchant fleet, but 27% of Sweden's fleet, was idle.

Sales, investment, and profits of business and industry display a melancholy picture. In 1977, for the first time since the Great Depression of the 1930's, the Stock Exchange valuation of listed companies fell, and by a substantial amount. Even in terms of depreciating money the sales of listed companies showed a falling rate of increase from 1974 to 1977 (+ 30% in 1974 to + 5% in 1977), which in real terms meant a positive decline. Manufacturing investment fell by almost 40% from



1975 to 1978 (in 1977 alone it fell by 17%), and the 1978 level was the lowest since 1965. Most disturbing of all, the recorded profits of the 550 largest companies (those with 200 or more employees) displayed a steadily falling rate of return on capital employed, from 8% in 1974 down to zero in 1977. In fact the truth is worse than these figures suggest, because inadequate provision for depreciation in inflation means that the true rate became negative, and is possibly still negative now despite some rebound since 1977.

There has been a great expansion of State ownership of industry, indicating a significant shift from previous policies of avoiding nationalization. Now three-quarters of all transportation, harbors and wharf enterprises, and mines, and a quarter of the lumber industry, are State owned. In addition the State has taken over a wide assortment of other businesses, such as banks and the largest hotel and restaurant chain (not to mention radio and television companies, the effect of which is considered below). However, this by no means represents the whole of the State's stake in industry. As noted above in the case of shipbuilding, it has invested very large sums in lame-ducks (i.e. insolvent companies) and in prestige loss-makers like the Norrboten steelworks, so that the State's total grip on industry has become very extensive. Under "non-socialist" Governments, driven on by the tempo established by Mr. Palme and by the legacy of difficulties bequeathed by him, the Swedish economy has been moving down the road to a socialism of State ownership which was circumspectly eschewed by the pre-1968 Social Democratic leaders. At the same time two other developments have naturally arisen. One, large numbers of enterprises, too small to be considered worth a State subvention, have fallen by the wayside; several thousand have been closed down in the past five years. Two, there has been a large net emigration of capital (and also to some extent of entrepreneurial talent). According to official figures, in 1977 the investment of Swedish capital abroad was seven times as great as that of foreign capital in Sweden, but the true disparity is undoubtedly greater. In the period 1974-78, even according to official figures, Swedish direct investment in the United States quadrupled while the corresponding American investment in Sweden was halved. The bleakness of the investment climate in Sweden is unmistakable.

### **Labor and Social Services**

Sweden is an extreme example of State intervention in the labor market. It does not intervene directly in the determination of the level of money wages, since that arises from national collective bargaining between the unions and employers' organizations, but it does intervene vigorously in almost every other feature of the worker's service and

remuneration. Of course the process of collective bargaining is not an expression of a free labor market, for the power of the unions is itself a reflection of the social legislation developed over many years, so that indirectly the level of money wages is powerfully influenced by governmental policy.

Direct State intervention in the labor market is of long standing in Sweden, but it was extended to an unprecedented degree, unmatched in any other free country, by the Aman laws (named after their author) which were passed during Mr. Palme's tenure of office. Under these laws it is extremely difficult for employers to discharge labor. They must give lengthy paid notices of dismissal, and substantial compensation is payable for dismissal except in cases of gross misconduct. Furthermore, Governments have stimulated public opinion to take a hostile view in principle of any dismissal, to the detriment of the public image of any employer discharging workers. The obvious result is to hinder labor mobility and reduce incentives to productivity. In the event of a company liquidation, an employee is guaranteed six months full pay by law. When a new firm is formed, it must deposit this sum in a special reserve or obtain equivalent guarantees from a bank. Numerous small or medium firms would arise but do not, for lack of ability to satisfy these requirements. Hence it is not surprising that a third of all Swedish-registered enterprises are one-man companies. It is also certain that there is an increasing tendency for the rise of a labor black market in which these requirements are evaded.

An essential element in Government labor policy is the pursuit of the goal of full employment. But in practice it is statistical full employment, not the reality, which satisfies the Government. Here the role of the Labor Market Board (A.M.S.) is of great consequence. In principle, every Swedish worker is entitled to a job. If he is listed as unemployed, it is only because he cannot or will not work, or is simply in quick process of moving from one job to another. If he is officially unemployed, he is entitled to be retrained for a new job, or in any case given an artificially created job, with full union pay, by the A.M.S. Thus it is that while the official figure of unemployment is under 2%, the true figure is more like 5%; and this does not take account of the jobs artificially sustained by subventions to industry, or by the tough dismissal rules, or by the forced or induced early retirement of numerous workers with handsome pensions (see below), or by the retirement of persons with pensions *under the age of 35* as hard-core unemployables. The truth is that the Swedish full employment policy is a patent fraud. It is also a powerful factor in the inflation of Government expenditure and the consequent high taxation.

The State pension scheme is the most generous (or profligate) in the western world. Workers paid below a not very low level receive 90% of

their previous wages; those above that level receive 85%. The official pension age is 65 (reduced from 67 in 1976 although the population is aging), but one may take a reduced, but still ample, pension at 60. If one is unemployed at 60, a full pension is payable at that age.

A recent innovation is a stimulus to part-time working. If one chooses to work half-time, one pays less tax but nevertheless qualifies for full social benefits. It is not surprising that half-time working is on the rise. It is also not surprising that there has been a sharp upsurge in the figures of workers' reported illness, for sickness benefit has been raised to so high a percentage of wages that there is a strong incentive to report sick. As a prominent industrialist, Mr. Hans Werthen, has said, "We have been hit by a bigger epidemic than the Black Death." There is now a permanent percentage of some 20% of workers on the sick-list. A rise of four million days of reported sickness was seen in 1975/76, and the average time of reported sickness is more than double that of some years ago. In fact one talks now not of being ill, but of being reported ill. The national cost in sickness benefit and in lost production can hardly be overstated. Apart from reported sickness, a substantial amount of time is lost by simple absenteeism. In addition since 1978 there is a compulsory provision for holidays with pay for workers of five weeks per annum.

There are those who would regard these conditions as paradisaical for the worker. The worker himself is not so sure. The benefits have to be paid for. In no other country does a middle income earner reach a marginal income tax rate of 65% or more. In no other country do workers pay 50% or more tax on earnings. In fact the tax situation is more grotesque than this. The Government's rule is that a family of a man, wife and two children must have an income, topped up if necessary by the State, of 50,000 kr. per annum (about \$12,000). Hence up to that level the true marginal rate of tax is 100%. Put another way, suppose that this family earned about \$5,000. It would be made up to \$12,000. Suppose that it earned about \$20,000. It would be taxed down to \$12,000. Increasing the earned income from \$5,000 to \$20,000 would produce no benefit. In very many other cases the after-tax benefit of an increase in earnings is no more than 5% to 10% of the gross income. Cases of greater benefit than this are in fact exceptional.

Thus it is not surprising that annual average working time in industry fell by nearly 25% from 1960 to 1978, and that absenteeism rose by over 60%. Nor is it surprising that there has been an upsurge of "black" activity, i.e. of services rendered on barter terms or unreported for tax purposes.

It is not only the worker who has to pay for the social wage. Employers' contributions loaded on to employment costs can be up to 60% of the amount of the wage itself. These employers' costs have increased

ten times in less than twenty years on a wage of about \$15,000 and fifteen times on one of about \$45,000 per annum. Employers' contributions plus marginal taxes plus a value added tax (VAT) of over 20% are so high that a customer may have to pay five to fifteen times more for work done than the provider of the service receives after tax (unless, of course, the transaction is "black"). The doubling of commercial bankruptcies in the past ten years is partly due to this. Of Sweden's 300,000 small or medium firms, 75,000 disappeared in that time.

The erosion of the position of industrial companies has been intensified by the law of codetermination. In companies above a moderate size there must now be a "workers' representative" on the Board of Directors or on the managerial board. However this "representative" is not chosen by the workers whom he "represents," but by a union or unions. If they so decide, they may choose someone from outside the company. So much for the "workers' democracy" which the codetermination law is supposed to serve and promote.<sup>2</sup> The training of these "workers' representatives" is in the hands of the Workers' Educational Association (A.B.F.), which is a blatantly anti-capitalist and pro-socialist body. The "representatives" must be given paid leave of absence from work to attend the A.B.F. programs, which means that their companies are required to finance propaganda against themselves. Incidentally compulsory Swedish language training for immigrant workers is also handled by the A.B.F. It is not difficult to imagine the effect of the A.B.F.'s indoctrination on industrial relations with these workers, and on their introduction to Swedish society.

The change of union attitudes under Mr. Palme's political influence has been mentioned above. This may become the most menacing change to face industry which has arisen in the past decade. In 1974 the unions opened a violent debate on the alleged undesirability of "excessive profits" simply because nominal profits rose that year, although they knew very well that average profitability was then much below bank rate (comparable to the Federal Reserve discount rate). Since then average profitability, as noted above, has fallen to negative levels, but the unions have not ceased on occasion to inveigh against "excessive profits." The growing view among union leaders is that their ambitious demands for the equalization of wealth and power in Swedish society can only be satisfied in a thoroughly nationalized economy. A further ominous change is to be seen in the unions' attitude to wild-cat strikers. Whereas until recently they denounced wild-catters and meant it (even approving of laws imposing fines on such strikers), their denunciations of wild-catters are now little more than lip-service, and in a real

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<sup>2</sup>It is in any case a mistake to think that democracy would be the correct term even if the representative were chosen by the workers in the firm concerned. Workers' democracy is an egregious case of the misuse of the political term democracy.

trial of strength they may even support them. The fines remain, but they are very low and have little deterrent effect.

### **Public Finance and Inflation**

The effect of taxes upon employment has been dealt with above. This is only one feature of the most severely confiscatory taxation system in the western world.<sup>3</sup> Marginal tax rates on earned income rise to 87%, and in the case of the self-employed they can rise above 100% as they have to pay additionally for the State pension. However the high top marginal rates do not expose the true weight of the taxation system. It is the high rates paid on middle and low incomes which present the most important part of the picture. Combined with substantial corporate taxes and the VAT of over 20%, this makes the Swedish people easily the most heavily taxed in the western world.

As has been noted above, the weight of taxes has stimulated the growth of a substantial "black" economic sector. This is to be found in all sections of society and in numerous forms. It has stimulated Gunnar Myrdal, who for nearly half a century has been a leading intellectual guru of the Swedish welfare state to say "The tax system is turning Swedes into a gang of hustlers. . . . The present tax system is making nine out of ten Swedes criminals." However though long reputed to be an economist of high distinction, Mr. Myrdal misses an important point concerning the "black" economy. It enables work to be done and services to be rendered which otherwise would be absent. Thus to some extent it saves the Swedish economy from the consequences of its own mismanagement. What is to be deplored is that this should have to be the source of the mitigation of fiscal folly.

The total intake of taxes has risen to a level approaching 60% of GNP, but total governmental expenditure is running at some 68% of GNP. The balance is met by budgetary deficits financed by inflation of the money supply or by borrowing (a substantial amount has come from German and Swiss banks, but it is most unlikely that this source will produce any large sums in the future).

The official indices of inflation show the following approximate figures.

1974-77:	Over 10% average per annum.
1977:	13%
1978:	8%

<sup>3</sup>At its top rates the British system, before Mrs. Thatcher's Government's budget of June 1979, was more confiscatory than the Swedish (except in the case of some of the self-employed), but in fact for the great majority of taxpayers, i.e., those in the lower and middle income brackets, it was far less confiscatory.

The 1979 figure will probably turn out to be about the same as that of 1978. However these figures are misleading. The official price indices are falsified by a wide range of price controls and State subsidies. The true level of inflation is substantially higher than the official level, and a recent report of the Federation of Swedish Industry (Industriförbundet) forecasts that even the official level may rise to 12% in 1980. This has been disputed by various commentators, but in the light of a growing budgetary deficit and a recent rapid rise in the money supply, it could possibly turn out to be an understatement.

One of the most grotesque features of Swedish public finance is that when the Government prepares its annual budget, it must negotiate upon it with the employees of the Budget Department! Thus these civil servants have a right to decide the character of the budget not merely by advice and influence, which they do elsewhere, but as a negotiating party! It goes without saying that the political attitudes of many of these civil servants are of the Left, in some cases of the far Left.

### **Housing, Health, and Education**

State interference in the housing market is common in numerous countries. Sweden is remarkable in that rent subsidies in one form or another are available to the majority of the people. Officially rent control in its straightforward form has been abolished, but this is far from leaving a free market in housing. A large proportion of housing is owned by local governments which fix rents in negotiation with tenants' associations. Rents of privately owned housing can be appealed to tribunals. In both cases prevailing rents are well below free market levels. Furthermore tenants' occupation is protected as long as the rents are paid; the owners cannot put a term on their occupation and thereby recover possession.

The upshot of this system is an immense national consumption of capital. Most rents cannot cover the periodic repair and maintenance of housing; still less can they meet the cost of replacing it when decay supervenes. As a very large part of the stock of houses was built in the 1960's and early 1970's, the ultimate cost to the nation is veiled for the time being, but when the bill presents itself in due course it will be a staggering amount. A nation which consumes capital but is able for the time being to postpone the cost is digging a fearsome pit for itself. To the extent that this is the case, any current success of the economy is illusory.

Sweden has a national health service of wider coverage than that of probably every other country in the western world. Private medical facilities have been largely legislated out of existence. There is only one private hospital left in the country, and it has less than 100 beds.



Privately practicing doctors are being phased out, and of those remaining the majority are over 60 years old. Thus the Swedish citizen is left almost wholly with the services of State-employed doctors and State-run hospitals. In addition all pharmacists' shops dispensing drugs for the people have been taken over by the State.

It is an unavoidable characteristic of all national health systems which provide a service to all at no cost or at below-cost prices, that over-use develops resulting in long waiting lists for hospital treatment. In Sweden, for example, the waiting periods may be four or five months for "priority patients" in long-term care, two years for rheumatism patients, three years for a non-acute gallstone operation, and seven years for plastic surgery. And the way out through private medicine is almost non-existent.

Twice as many Swedes sought medical treatment in the 1970's as in the 1960's. The reason is certainly not rooted in greater need, except that caused by a rise in the proportion of "senior citizens." It is simply that at least a quarter, and perhaps up to a half, of the patients are clogging the system unnecessarily. In the summer there is a remarkable rise in the demand for hospital beds and for treatment in the outpatient clinics. Old people who are at other times cared for by their children, have recourse to public facilities because their children are on vacation. Clinics are used by many as club rooms, and the doctors there are called upon to make unnecessary diagnoses and check-ups. Often the true malady is simply loneliness.

It should be noted that technically Swedish medicine was once, and possibly still is, one of the best in the world. One must bear in mind that long years of peace and prosperity, a once-excellent education system, and a healthy natural environment enabled Sweden to produce well-qualified doctors and excellent hospital and clinical facilities. This is a splendid legacy from the past which must take a long time to be dissipated. But it is being dissipated, under the inevitable pressures of waste and inefficiency which build up in a tax-financed national health service for all.

Sweden once had an education system on the whole as good as any to be found elsewhere. As was commonly the case in continental Europe, the State played a large part in its provision from an early date. As the Lutheran Church is a State Church, the association of the Church with education was not a significant derogation from the influence of the State in this field. But until recent years standards were high, and buildings and equipment excellent.<sup>4</sup>

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<sup>4</sup>To an important degree the Church is a branch of Government. The bishops and clergy are paid by the State (through a Church tax), which also appoints the majority of the bishops. But it would be a great error to imagine that Sweden is a Christian country or a religious society. On the contrary it is almost wholly secular. Attendance at church is

In the past decade there has been a striking deterioration in educational standards, though the public bill for education has constantly risen. The cause of the deterioration is a blind adherence to egalitarianism among educational administrators and leading teaching circles. High standards naturally conflict with equality; therefore they must be pared down or jettisoned as much as possible short of destroying the education system completely.

A generation ago the Swedish university entrance certificate was accepted all over the world, subject to language requirements. Now it rarely guarantees admission to a foreign university. Today high school leaving standards are the equivalent of what used to be reached three years before leaving. This has been inevitable, as examinations are frowned on as unfair and inequalitarian, and so the discipline of examinations has been removed. Entrance requirements to the universities have been diluted, almost ludicrously, by the acceptance of non-academic qualifications such as "experience of life." This is even the case for entry into medical and engineering schools. One can imagine what effect this will have on the quality of future doctors and engineers, even though a high proportion (in some schools at least half) of the students fail their degree examinations. This high rate of failure does not mean that degree standards have been maintained. It means only that they have not yet been debased to an egalitarian level, and that meanwhile the taxpayer is called upon to pay for degree courses for a multitude of students who cannot make the grade. The most saddening feature of the malady is that young Swedes now live in a society which makes no demands upon them, which teaches them that everything will be socially provided, and that the pursuit of excellence is socially obnoxious. The ultimate effects of this upon the character of the nation are terrible to contemplate.

### **Social Problems and Disorders**

Suppose that a country has no slums and no depressed ghettos. Suppose that it has no significant racial or religious divisions or conflicts. Suppose that adequate quality of housing is available on assisted terms to all. Suppose that the Government redistributes incomes so that no one is in any dire need. Then if popular views about the causes of crime were well-founded, such a country would be almost free from crime. At

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extremely low and membership for very many is entirely formal, being maintained for social reasons and for the registration of births, deaths and marriages. The bishops and clergy are mostly much more imbued with a secular humanistic and socialist world view than anything that can properly be called Christian. Where religion is alive it is in the small dissenting denominations. The fastest growing church in Sweden is the Mormon, but it is still very small.



least it would be free from crimes such as robbery, burglary, street mugging and the like, though no doubt some other crimes, such as those of passion or sexual deviation, might persist.

Sweden is a country with the above-listed conditions. Yet today crime is one of the most striking phenomena of growth in Swedish society. This applies both to crimes of an age-old character, such as robbery, burglary, and street violence, and to newer crimes such as car thefts, illegal gaming and bookmaking, dealing in drugs and illicit liquor, and above all welfare frauds. So lawless have the cities become that the Stockholm police have been instructed to ignore burglaries, in order to concentrate on grave crimes of violence and on those where the suspect is already in custody. Not only is the crime rate high. It is also growing fast. In 1977 burglaries in Stockholm were about 50% above those of the previous year, robberies about 45% up, and car thefts about 30% up. In 1978 between three and four persons were robbed, more than ten assaulted, and two or three stabbed everyday in Stockholm. Of the 1345 robberies reported (and many are not reported) in Stockholm, 68 involved banks or post offices, 138 were shopliftings, and the rest (i.e. the great majority) were attacks on private citizens. They marked an increase of 20% over 1977.

Welfare frauds are legion. They apply to every facet of the welfare system, whether it be unemployment benefit, sickness benefit, housing subsidies, even allowances for the physically handicapped. It is this, not merely the growth of the "black" economy, which induced Gunnar Myrdal to describe his countrymen as hustlers and criminals.

A related development is that of prostitution. Of course Sweden cannot be expected to be uniquely free from this age-old phenomenon, nor is it. What is important is that as soliciting is not illegal, and as standards of sexual behavior have been stripped away by the general moral attitudes engendered by the Welfare State, prostitution has spread to classes of women in respectable occupations who adopt it as a means of supplementing income. In the well-known haunts of prostitutes in Stockholm there may be found on a night or two a week young women who hold positions as secretaries, typists, receptionists, shop assistants, and the like. They are not amateurs but part-time professionals.

A further related development of ominous proportions is the rise of juvenile delinquency, and in particular of acts of vandalism and drug addiction among the young. A very conservative estimate of the cost of vandalism is 100 million kr. (about \$24 million) per annum. Stained glass windows in churches and marble crosses on graves in cemeteries are the victims of the more outrageous acts of vandalism, but the regular objects of attack are schools, recreational buildings, other public buildings, and even the facilities specially provided for the use and care of the youths themselves.

Sweden has long been known as a country with a high rate of suicide. At the time when its economy was successful and its welfare provisions were the admiration of the Left everywhere, this was attributed to the lengthy winter of short days and long nights, and to the loneliness engendered in the countryside by isolation and in the cities by the reserved, uncommunicative attitude which seemed to be typical of the Swedish character. The suicide rate continues to be one of the highest in Europe (the recorded figure is about one per 4000 inhabitants per annum, but the true figure is certainly higher). What is especially disturbing is that the figure is rising substantially among the young. In the past fifteen years the suicide rate among the under-25's has doubled. Indeed one third of all deaths between the ages 20-25 are suicides, a truly frightening statistic. In this age-group many more die from suicide than from traffic accidents, and for the nation as a whole suicide is the next biggest killer after traffic accidents.

There is a link between suicide and the growth particularly among the young of alcoholism and drug-addiction. Alcoholism has long been a problem in Sweden, though it used not to be a juvenile problem. Like suicide it tended to be attributed to loneliness. Since its incidence was high, strict laws against drunkenness, and especially against drunken driving, are of long standing. Yet it remains a serious problem, and a growing one among the young. The ineptitude of attempts to use the law in this field is shown by recent legal developments. First, the sale of standard beer in supermarkets was prohibited; only low alcohol beer (lite beer in American parlance) could be sold there. Standard beer could still be sold in the Government-run liquor shops, but the ban on supermarket sales was calculated to, and did, reduce beer consumption. However the effect was a dramatic increase in consumption of wine and strong spirits, while the fall in beer consumption was a good deal less than the fall in supermarket sales as sales in the Government shops rose. The main effect has been to turn the young to vodka, gin, whiskey and other heavy liquors. It is not surprising that the number of people arrested for drunkenness in public has risen sharply since the ban on supermarket sales. Secondly, do-it-yourself kits for wine-making were banned. But the law was so badly worded that the kits reappeared in a changed form. Thirdly, advertisements for alcoholic beverages were banned. However the low-cost brands preferred by alcoholics did not depend on advertising, and the ban has neither reduced their appetite for alcohol nor put an obstacle in the way of obtaining it.

Both alcohol consumption and drug-addiction are related statistically to suicide. They produce a 60%-80% higher risk of suicide than the average. Among the young a particular form of drug use, namely the sniffing of thinner (or airplane glue) has risen dramatically in recent years. In 1970 an investigation revealed the alarming fact that of

those entering military service, 40% had had some experience of narcotics and 25% had engaged in thinner sniffing. In a study of school-leavers one third of the boys and nearly a fifth of the girls admitted to drinking an average of five beers when getting drunk.

These social maladies among the young are related to the weakening of family ties. The family unit as a system of bonds of love, affection, mutual support, and above all the inculcation of standards of behavior, has largely broken down. This is inevitable in a society where the State arrogates to itself the right and duty to provide more and more of what used to be a family responsibility. But it goes further. The State deliberately attacks that family. A striking example, as ludicrous as it is ominous, is a recent law which makes it an offense for a parent to chastise his or her child physically. To administer the good old healthy spanking, or even to box a child's ears, is now anathema to the all-caring State. It is even an offense to subject one's child to an undue or hurtful verbal dressing-down or to banish him from some accustomed family meal by way of discipline! From this it may not be a great distance to the young Spies, denouncing their parents to Big Brother, of Orwell's 1984.

The disintegration of the fabric of a free society is displayed by the role of the State in the press, radio and television. The Government does not yet interfere directly in the operation of the press, but its influence is powerful nevertheless. No major Swedish newspaper or journal of opinion exists without a Government subsidy; and the figures show that communist and left-wing publications receive a disproportionate amount of these subsidies. Despite the supposedly non-socialist character of the Government in the past three years, there has been no change in this leftward bias as the administrators of the allocations are the same leftists that they were before. It would be surprising if the principle that he who pays the piper calls the tune did not ultimately prevail, so that it is impossible to take a sanguine view of the future of press freedom in Sweden. What is especially dangerous is the effect upon major newspaper publishing of the law of codetermination. Among the employed journalists the men of the Left are strident, intolerant, itching for power, and dominant, and it is from these that the "workers' representatives" tend to be chosen.

Radio and television are a State monopoly. It is impossible to set up an independent network or to purchase time. If these are the instruments of mass culture, a complete State monopoly is tailor-made for any groups which might arise with the aim of driving the country towards a totalitarian future.

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## Decay and Disintegration: Is Socialism to Blame?

Alva Myrdal, wife of Gunnar Myrdal, ranks equally with her husband as an original leading intellectual guru of the Swedish welfare State, having been extremely prominent for nearly fifty years in the political affairs of her country. In 1932 she said "Brutality and violence are gradually being stamped out like any other contagious disease," and "The Scandinavian countries, and particularly Sweden, have by historical accident been given the most advantageous set of pre-requisites for a bold experiment in social democracy (i.e. social welfarism . . . if it could not develop successfully in Scandinavia it will probably not work anywhere else."

Plainly it has not worked. It is interesting, and perhaps grimly amusing, that the Myrdals are reported nowadays to spend more time each year in Santa Barbara, California (they could not have picked a more pleasant spot in despised, capitalist America) than they do in their native land.

The record is clear. Socialism in Sweden has been a failure, indeed a contemptible failure, in economic terms, in social terms, above all in moral terms. In the words of one of our sub-titles above, Sweden displays a sick economy and a sick society.

But is socialism truly to blame? In our account of the historical background to the present condition of the country we described a lengthy period of economic success when the Social Democrats were in clear control, and when advanced State welfarism did not appear to undermine that success. We drew attention to the moderation and common-sense of Mr. Erlander's socialist leadership, and to the intelligence and readiness to cooperate with industry of the trade union leadership at that time. Therefore is it not the truth that the cause of degeneration is not socialism itself, but a deterioration in its leadership and inspiration? If moderate, responsible, and intelligently-led socialism can be successful, should not the object of our criticism and censure be not socialism itself but extremist, irresponsible, and unintelligently-led socialism?

The answer to these questions is No. They rest upon misunderstandings. The true cause of Sweden's failure is socialism itself. Here are the reasons.

In the period up to 1968 Swedish socialism was intelligent enough not to kill the goose, namely business and industry, which laid the golden eggs, but that is not to say that it used the eggs intelligently or successfully. The welfare system itself was already wasteful, deadening to self-reliance and initiative, and inimical to religion, to the family, and to those high qualities of personal endeavour in all walks of life which marked the best of European civilization in the 19th and early 20th centuries. Even at that time Swedish national life tended to be dull and undistinguished.

We have already noted the handsome natural and historical advantages which Sweden enjoyed above those of any other comparable country. It is obvious that for a time these would have provided an excellent source of strength and stability for any political or economic system unless it was exceptionally profligate and reckless. Given these advantages, suppose that in the 1950's and 1960's Sweden had had a truly free economy and a political devotion to individual rights and liberties. Can it be doubted that the goose would have laid an even greater abundance of golden eggs? Indeed this would not have been seriously disputed, for it was not Sweden's economic success which her admirers found so admirable, but the welfare purposes to which the economic success was applied. If the supply of golden eggs had thus been more abundant, the vast majority of the Swedish people could have provided themselves with a level of welfare superior to that which the State supplied. The great panoply of the State welfare system was not required to supply the needs of the tiny minority of people who could not do so themselves. Its purpose and effect was to force a common mold of welfare upon the whole nation, and the result was less welfare, not more.

Secondly, and more importantly, it is an error to believe that socialism can indefinitely remain moderate, restrained, and responsible. By its nature it offers an ideal, or more accurately a daydream, of a perfect society which cannot be approached except by a move to immoderate, unrestrained, and irresponsible policies. Moderate leaders must repress the very urges which they implant in their followers. It is a task which exceptional men may discharge for a considerable time, but not indefinitely. Nor have moderate and responsible leaders any way of ensuring that their successors will be moderate and responsible. It is said that revolutions devour their children. It may equally be said that moderate, responsible socialism is devoured by its children. This inevitable tendency has been eloquently described by Mr. Irving Kristol.<sup>5</sup>

<sup>5</sup>In R. Emmett Tyrrell, Jr., *The Future That Doesn't Work* (Garden City, N.Y.: Doubleday, 1977), p. 196.

It (i.e. Sweden) has been a prosperous country, with a healthy economy and a stable society—but its economy and society can be fairly described as “mixed,” that is, half private capitalism, half state capitalism. Those Swedes who still think of themselves as socialists are intensely dissatisfied with this state of affairs, and are constantly urging the government toward greater state control and a more egalitarian distribution of income. Since the Swedish Social Democrats are still officially committed to the socialist ideal, they find it impossible to resist this ideological pressure. The drift is unremittingly toward the “left,” and would have remained so had not the Social Democrats been voted out of office.<sup>6</sup> The consequences of any such socialist drift would have been entirely predictable: slower economic growth, higher inflation, and lower productivity—all amid increasing popular discontent that could not be calmed by a more punitive and egalitarian tax system. Egalitarianism in Sweden does not reflect any sincere, personal commitment on the part of the Swedish people to the ideal of equality. It is, rather, a strategy whereby organized labor on the one hand, and the state bureaucracy on the other, receive an ever-increasing share of the national income and of political power. This appetite will not be appeased by a more equal distribution of income or wealth. The demand for “more”—not for “more equal” but for “more”—will feed upon itself, until an economic, and eventually political, crisis either creates an authoritarian regime that copes with discontent by repressing it or provokes a reversion to a more liberal-capitalist economic order.

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<sup>6</sup>Here Mr. Kristol had not perceived how the “non-socialist” Government was being propelled into further socialism.





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## The British Case: A Record of Failure

British socialism displays both similarities to and differences from the Swedish model. One clear difference is that, except in the case of the National Health Service, where against all the evidence propaganda has often induced praise for the Service, no one has been able to declare with any conviction that British socialism is a success. In the period when the Swedish welfare State was being praised to the skies, the essentially similar British system was too obvious a failure to elicit anything more than sympathy and commiseration even from the friends and admirers of Britain. This was the case despite the fact that the principal founders and begetters of British socialism were for the most part similar in character to the Swedish socialist leaders of the time, though their policies diverged in important respects.

It is not our purpose here to examine the record of British socialism in the detail which we have applied to the Swedish case. It is plain for all to see that since the end of the Second World War, precisely during her phase of socialism and social welfarism, Britain has been a failing nation. In economic terms her record has been pitiable. Before 1914 the British people had the highest standard of living in Europe, and they maintained this position between the two wars (despite manifold difficulties of adjustment after the First World War), except that the Netherlands, Sweden and Switzerland then more or less matched the British position. After the Second World War and despite the great losses caused by it, the British standard of living was inferior in Europe only to that of the Swedes and the Swiss. Now it is surpassed by that of ten other European countries (six in the European Common Market, West Germany, France, Netherlands, Belgium, Luxemburg, and Denmark, and four outside, Austria, Norway, Sweden and Switzerland). On current trends it is not impossible that Spain, which not long ago was a very poor country indeed, will pass the British standard of living in the near future. In point of international trade Britain, once the greatest of all, has been sinking into a position of relative unimportance. In 1950 she held well above 20% of world exports of manufac-



tures. Now she has less than 7%. Within the memory of persons of late middle age, "Made in Britain" was a mark of the highest quality. Now with only a few notable exceptions (e.g. Rolls Royce) it tends to be a warning of inferiority and unreliability. Within that memory the British worker was at least the equal of any other in the world and much superior to most (the British "fitter", i.e. engineering craftsman, was famous from China to Peru for his skill, reliability and adaptability). Now he is the object of just derision wherever comparisons with other industrial workers are made.

The record of failure is displayed not only in the economic field. Every intelligent Briton is aware of the deterioration in political grip, in social cohesion, in respect for the law, in standards of behavior, in the strength of the family, in adherence to private and public morality, which has taken place in the past thirty years; and this in a nation which once deservedly enjoyed the admiration of the world for the high qualities which it showed in these features of its life. That in many respects the British people still display a fair modicum of their traditional admirable qualities, so that on occasion one may persuade oneself that Britain is still something like the sweet and lovely country it used to be, is little consolation to the perceptive observer. For the downward trend is obvious. Unless it is reversed, the future of the British people is dark indeed.

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## **The British Case: False Explanations**

### **The Second World War**

The exertions of the war left the British people in a state of considerable exhaustion, with a run-down economy and heavy losses of capital, especially in overseas investment. This is sometimes offered as a reason for their subsequent poor performance. It cannot survive scrutiny. The Germans were even more exhausted, and their cities and factories were largely reduced to ruin. They received a good deal more Marshall Aid than did Britain, but the difference could not match the difference in wartime losses. Now West Germany has a standard of living far above the British level. The comparison is especially apt because the economies of the two countries are very similar in size, structure and character.

It is true that for the first two decades after the war Britain bore a disproportionate share of the cost of European defense compared with the French and especially the Germans. Germany in particular then clearly carried too light a burden. However this disparity has been rectified for a good many years, and can no longer be adduced as a cause of British difficulties.

### **Pre-socialist Decline**

The relative decline in the British economic position began in the fourth quarter of the 19th century. In the mid-19th century Britain was pre-eminent, but in the century's later decades others, especially the United States and Germany, forged ahead and Britain's relative position declined. This was natural, inevitable and in no way harmful to Britain. On the contrary it was beneficial. It was British capital which played a large part in American development, as it did in that of various other countries, and their rise meant that Britain had expanding opportunities for trade and investment. Germany, for example, which before 1914 became Britain's great rival was also Britain's greatest customer in Europe and second-greatest customer in the world. When

excellent absolute progress is attainable, a decline in a relative position as others come up from obscurity is of no consequence. Once all American industry was on the eastern seaboard. It could hardly be expected to be all there after the development of the MidWest and the Pacific Coast.

However the turn of events in the last quarter of the 19th century is sometimes presented differently. That newcomers should arrive on the world industrial scene was no cause for alarm. But that the newcomers' performance should be superior to the British seemed to be indeed alarming. In the quarter century before 1914 German industry in particular appeared to be more scientific, more modern and more progressive than the British, and American and German management appeared to be superior. The Germans had developed modern scientific industries, such as chemicals, including especially dyestuffs and drugs, and optical goods. Britain's great staples were coal and cotton, both of which were bound to decline in due course. American and German management was more professionally trained than the British, which seemed to be amateurish by comparison. Thus the British decline is said to be of long standing, antedating the arrival of socialism.

There is truth in the historical account, but it is exaggerated, and as a diagnosis it is false. Periods of relative sluggishness are common in all types of economy, but if there is basic vigor, as there was then in Britain, they are followed by regeneration. One falls behind others, but then one leapfrogs ahead of them. Witness for example the case of French industry, which used to be regarded as moribund, but in the past fifteen years has sprung to a very progressive life. After the First World War British industry moved progressively into modern science-based industries, and much of the world's finest industrial research was done in Britain. If the political environment had not changed for the worse with the onset of socialism, there is no reason to believe that it could not have matched, size for size, any industry in any other country.

### **The Loss of the Empire**

Here there is a widespread misunderstanding. After the end of mercantilism British prosperity never depended upon empire. Where there were law and order and respect for property, there British capital, ships, and entrepreneurs went. Trade did indeed follow the flag, but that was because the flag established peace, law and order, and property rights where previously they were absent. In the 19th century the flag was not needed to make the United States, Argentina, and the European Continent great trading and investment partners for the British. And of course prosperous Switzerland has never had colonies, and

now prosperous Germany and Japan do not have them. A prosperous Britain needs no colonies. It needs only policies shaped for prosperity.

### **The Dead Hand of Class**

British society is widely thought to be permeated by an outdated social class structure which sadly undermines its performance. Business and industry, it is said, are not socially elevated and so do not attract the ablest Britons. Those who manage industry are socially aloof from their workers, and the consequent gulf between them produces the maladies which plague labor-management relations.

This is a good example of myth with the appearance of reality. It is propagated in Britain by leftists and associated semi-demi-intellectuals whose stock-in-trade consists of allegations about class conflict; and it flourishes among foreign observers, especially Americans, who ingest the belief that Britain is a class-ridden society with their mother's milk, who are sure that it is true before they visit the country, and who inevitably imagine that everything they see confirms it when they do make the visit.

In fact, Britain is an open society, by and large as open as America. To rise from the lowest to the highest rungs of the ladder in all walks of life is no more difficult than in America or in any continental European country. Countless examples can be presented to illustrate this. What the visitor sees are differences of accent and modes and manners, which he thinks erroneously are a cause of industrial conflict.

It is true that industry was not, and perhaps still is not, as attractive to many able Britons as the professions (or formerly service in the Empire). But in the days of British industrial supremacy, this disparity was far greater. In the days of Imperial Germany, when many people were agape with admiration for German industrial management, the ablest Germans went into the army, the civil service, the university faculties, and the professions. The question is not whether all men of ability choose industry, but whether there would be, if certain deterrents rooted in the psychology of British socialism were absent, a sufficient supply of them, and the answer to that question is a clear Yes.

It is true that labor-management relations in Britain are deplorable. It is also true that by and large the performance of British management has become inferior to that of many of their overseas counterparts. The reasons are to be found in circumstances which we must now consider.



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## **The British Case: Causes of Failure**

We can say with confidence that the principal causes of Britain's decline in recent years are as follows.

### **Nationalization of Industry**

The story of nationalized coal, railroads, steel, electric power, gas, and airlines is one of immense waste of capital, losses on current costs, inefficient use of labor and other factors of production, and in the leading cases high prices to consumers. In this summary report it is not our purpose to set out the details of this sorry record; they are available in all the official and unofficial accounts of performance in the past thirty years (or in the case of steel, nearly fifteen years). These great industries were nationalized under the illusion that control of them could enable the whole economy to be planned and thus raised to unprecedented heights of prosperity, or under the sister illusion that control of them would give the people, not capitalists, control of their economic destiny.

Loss, waste and inefficiency are not the only results of nationalization. The truth is that it is mistaken, indeed fraudulent, in its very nature. So-called public ownership is in fact private ownership in a vicious, perhaps the only vicious, form. The public has nothing properly described as ownership or control over these industries. Once nationalized they become in effect the private property of their workers or of the workers' unions, and their control is divided between these unions and the bureaucrats, whether technically civil servants or not, who administer them. The only functions of the public are to pay their monopolistic prices and to meet the capital and operating losses as they arise. The allure of the concept of nationalization arises from this captivating falsehood that "public ownership" really means public ownership. As for control, though as stated above this is shared between the unions and the administrators, there is a sense in which there is no true control at all. The nationalized sector of the economy is to an important

degree rudderless. As a wit had said, "In the modern economy there are two sectors, the private and the public. The private sector is controlled by the Government.<sup>7</sup> The public sector is controlled by nobody".

In addition to straightforward nationalization the unfortunate British taxpayer, like the Swedish, has been forced by the Government to invest large capital sums in lameduck companies. In some cases the capital will be irretrievably lost; in others it may be recovered. The present Government intends to recover a sizeable amount by returning some of these enterprises to the market. It is fortunate that in these cases the dead hand of "public ownership" has not had a grip for a sufficient period to make losses inevitable. However in no case, not even in that which is trumpeted forth as the most necessary, namely Rolls-Royce aero-engines (a separate enterprise from the cars), is the long-term result for the whole economy likely to be better than what would have resulted from the normal processes of bankruptcy and receivership.

### **Industrial Intervention**

Apart from nationalization and lame-duck subventions, the British Government intervenes in the affairs of industry in innumerable ways. In the United States this form of intervention is mainly the work of regulatory bodies. In Britain most of it is done by Ministerial Departments, and the term regulation is not much used. But the process is much the same.

In addition to the types of regulation which are familiar in the United States, there are two forms which have had a specially disastrous effect in Britain. First there is the geographical direction of industry. Secondly there is the persistent attempt to deal with inflation by means of wage and price controls.

For various reasons there is a long-standing disparity in prosperity between the south and midlands of Great Britain and the north and west. Hence the Government has partly induced and partly forced industry to move to the north and west. It is an example of the blind, the lame and the halt in the shape of the Government insisting on leading the sighted, the swift and the hale in the shape of successful private industry. The results have been losses and spreading industrial debility.

Incomes policy, namely the control of wages and prices, has probably been the most devastating of all types of governmental intervention. Wage and price controls do not cure inflation because they cannot. They aggravate inflation because they must. In addition they undermine the efficiency and adaptability of industry. The British misfortune

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<sup>7</sup>See section on intervention below.

has been that successive Governments have tried every variation of them over many years in a vain search for success, voluntary, compulsory, part-voluntary, and part-compulsory. Each attempt has been a triumph of hope over experience, and each attempt has proved to be a signal failure. The cumulative harm to the national economy must have been enormous.<sup>8</sup>

### State Welfare

The State welfare system is the proudest boast of British socialists. Its essential characteristics are the same as those of the Swedish system described above, and its maladies are also of the same nature. However sadly debilitating though its effects have been, it is well to note that the most egregious features of the Swedish system are absent in Britain. British commonsense has not wholly disappeared in this field. There is much welfare fraud, the dimensions of which can never be accurately known, but it is certain that it is less widespread or pervasive than in Sweden.

In education a socialist drive to "comprehensivization" of the schools in the supposed interests of equality, with damaging effects on many splendid schools, has certainly depressed the quality of the system. Yet the British publicly-provided education system is far from anything like terminal illness. It is, for example, still much superior to the comparable system in the United States. In addition the private sector ("Public" and preparatory schools) is still intact and vigorous, despite oft-repeated socialist threats to abolish it.

In health the much vaunted National Health Service has been on any fair assessment a sad failure, but it has taken a long time for most of the people to recognize this truth. Its acceptance over the years by the majority of the people has been due, apart from the natural allure of "free" or below-cost service, to the fact that it has had the benefit of the professional medical and nursing standards developed over generations before the NHS was instituted. However the fact that it is fast crumbling is becoming more and more obvious; and the maladies which plague it are becoming comparable to those in Sweden which have been described above. Fortunately for the British people, a private medical sector has been preserved. Though as yet it covers only a small percentage of the people, it is rapidly growing. Hence in Britain there is a mitigating factor for the ills which socialized medicine has produced. Here too British welfarism has stopped short of the preposterous depths to which Swedish welfarism has descended.

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<sup>8</sup>The lesson has at last been learned by the present Government, though not by the Labour Opposition. Mrs. Thatcher has declared in the clearest terms that incomes policy is the one "cure" for inflation she will not apply.



## Taxation and Inflation

Before the 1979 Budget the British income tax system was probably the most punitive in the western world as far as upper incomes were concerned. The highest marginal rate on "earned" (i.e. occupational) income was 83% (slightly less than in Sweden), but that on "unearned" (i.e. investment) income was 98%. Coupled with heavy corporate taxation, this obviously produced a cold climate for risk-taking and enterprise. The rates of tax on estates after death were also exceptionally heavy, thus deterring the accumulation of wealth and stimulating its dissipation, except to the extent that the taxes could be eluded by legal avoidance or illegal evasion. However, as stated above, the weight of tax on middle and lower incomes was not exceptionally heavy, though one has to take account in making international comparisons of the level of tax morality and the policing abilities of the tax gatherers. Until a few years ago tax morality in Britain was high, though now the spread of avoidance and evasion has become conspicuous.

It is too early to tell whether the 1979 reduction in income tax rates (top 60% on "earned" and 75% on "unearned" income) will restore incentives to work, save, and take business or investment risks. On present evidence it would be much too sanguine to believe that these changes will significantly deter the growth of the "black" economy, which has sprouted in Britain as in Sweden, and for the same reasons.

The British record of inflation since the Second World War has been one of the worst in western Europe (not taking account of the immediate short-term inflations after the War in France, Italy, Germany and Austria). It reached a peak of nearly 25% in 1973/74, and has since been brought down to some 10% according to official figures. However it has risen again and is now running at about 16%. The failure to master the inflation problem has bedeviled economic policy in all its aspects since the war. As mentioned above the failure has largely resulted from the stubborn but fatuous adherence to the belief in the efficacy of wage and price controls in one form or another. It must be emphasized that the belief in wage and price controls is rooted in socialist ideology, and the fact that Conservative Governments have embraced it does not make it less so.

Throughout the post-war period the Government has operated with budgetary deficits, disarmingly called "the public borrowing requirement," and has thus constantly inflated the money supply. The growth of public expenditure has carried it to a level of 60% of GNP, or not far short of the percentage in Sweden. It is obvious that at this level it must in time squeeze the vigor out of the private sector of the economy, which will then be blamed still more than it has been already for the debility thus induced. It is the prime purpose of Mrs. Thatcher's Gov-

ernment to arrest and reverse this development, but the task ahead is fearsome and the chances of success are problematic.

## **Labor**

Of all the factors in the record of British failure the disruptive power of labor is the most important. It enters into every other factor. Without it even the performance of the nationalized industries would be much less deplorable than it is. More than anything else the power of the trade unions is destroying the British economic system, and perhaps also, which is worse, the political system of constitutional Parliamentary government and liberal democracy.

The basis of the unions' power is their extraordinary legal privilege. In 1906 they were exempted from the ordinary laws of contract and tort; a succession of Acts of Parliament has entrenched a system of "contracting-out" for political contributions, which effectively enables them to use the funds of the great majority of their members (including millions of those who disagree with them politically) for political purposes; and during 1974-78 the Labour Government showered them with further legal privileges. Thus they have become a state within the State.

This would have had a much less harmful effect if the unions had been imbued with the kind of attitudes shown by the Swedish unions in the 1950's and 1960's. Unfortunately their power is matched only by their chronic and deep-seated inability to find any kind of constructive role. Their power is in practice a power of disruption only, and in this it is probably unmatched by that of any other union organization in the world except the Australian, which is of a similar ideological and cultural provenance as the British. When the unions do engage in what they persuade themselves is constructive thinking, the exercise turns out to be some jejune essay in socialist make-believe or daydreaming, with much verbiage about planning and controls, which the unions themselves would vigorously rebel against if it were ever really applied by the State. Having delivered themselves of this kind of daydreaming, they then return to their more congenial work of disruption.

This feature of British unionism is displayed in remarkable form in its attitude to wildcat strikes. Great though their power is, the unions are stricken with palsy when it comes to using it for discipline on their members. This is not because the leaders fear the democratic power of the rank and file because, with few exceptions, British unions are among the most undemocratic bodies in the world. It is because they feel in their bones that disruption is at bottom a worker's right, or put in Orwellian language, that strikers are always right even when they are wrong! Thus suppose that a loyal union member, following his union's

advice or instructions, refused to join a wildcat strike. Suppose that after the return to work, the strikers pressed the employer to dismiss him. The union would support them, not him!

The power to disrupt has thus lodged itself deeply in the individual worker's mind. The right to down tools at the drop of a hat, to walk out in protest at the most trivial and possibly imaginary grievance, has become in the mind of many a worker the cherished mark of his status as a man and not a slave. It is of course a travesty of intelligent unionism that this has been allowed to become the basis of the worker's justifiable desire for human dignity.

Picture the effect of this situation on the industrial manager. He must spend more of his time on labor relations than his counterpart in other countries, and less upon the care and development of his business. The decisive question in considering a new investment project will be whether the workers will tolerate it. If there is a demarcation dispute between two unions, he must sit back helplessly while they stubbornly argue with each other. His sub-managers and foremen must walk as if in a minefield. They must never make a concession in a weak moment or to meet a special exigency, for not only will it be seized upon as a permanent right by the workers concerned, but also every other worker in the plant or firm, who may have nothing to do with it, will demand the same or an equivalent under the threat of a strike. Under recent legislation it has become as difficult to dismiss a worker as in Sweden, and naturally the worker no longer needs to exert himself in order to keep a job. It is therefore not surprising that, in this labor situation combined until this year with the deterrent effect of taxation on enterprise and risk-taking, the performance of the British manager is often inferior to that of his counterparts elsewhere. His personal ability may be, and in fact usually is, not inferior to theirs, but his position is that of a baseball player who has two strikes against him before he goes in to bat. Where, as in retail trade and certain service industries, these labor difficulties have a minor impact, there are examples of splendid performance among British managers.

In the total British situation there is much that is better and much that is worse than in the Swedish situation. Not much good is to be gained by attempting to assess the relative extent of their failure. The important message is that in both cases socialism has failed, clearly and in considerable measure disastrously.

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## Lessons for the United States

It is suggested that American citizens would do well to read, mark, learn and inwardly digest the following lessons, set out in compressed and summary form, which may be drawn from the account given above.

They should recognize

a) that socialism is a failure, that there is no case of genuine or lasting socialist success, and that the admiration among some Americans for Swedish socialism in the days of its high repute rested on misunderstanding and often on willful self-delusion.

b) that America has been sliding down the socialist road for many years and has now gone perilously far in its direction.

c) that socialism can masquerade under non-socialist names, and that in the United States, where the word socialism lacks popularity, it is mainly among those who call themselves liberals that the socialist trend has established itself.

d) that very many American liberals would recoil from what they promote if they understood that it was socialism, and that a prime aim of intellectual discourse should be to draw them back to the original principles of the American republic.

e) that the fundamental principle of the American system as conceived by the Founding Fathers and as practiced for well over a century is limited government, and that it is impossible to reconcile this, or mix it, with the fundamental principle of socialism, which is unlimited government.

f) that though socialist elements intruded themselves into the American system from time to time in the 19th century, so that some of the objectionable features of the present American order date back to that time, the most disastrous wrong turning was taken in the 1930's.

g) that though the Great Depression of 1930's was a traumatic experience for the American people, they should now after nearly half a century be able dispassionately to clear their minds of the myths, superstitions and simplistic errors which were implanted in them by the New Deal, and which have largely inspired the slide down the socialist road.

h) that though some of the older forms of regulation of American industry may now be on the way out (e.g. the CAB and the ICC), newer forms have arisen which are more menacing; that the most potent threats to American liberty and prosperity now arise under the banners of environmentalism, consumerism, conservationism, and group egalitarianism; and that each of these movements is not only damaging to the whole economy but also is counterproductive for its own partly legitimate purposes.

i) that the Federal bureaucracy has become so gargantuan that it is now out of control, and that there can be no cure without a ruthless reduction in its size.

j) that the ultimate key to the restoration of limited government is the drastic reduction and strict control of governmental expenditure, and that new constitutional safeguards should be sought for that purpose.

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# Critical Issues

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## **The Failure of Socialism Learning from the Swedes and English**

Few countries in the world enjoy circumstances as favorable for economic, political, and social success as does Sweden. Here geography and history have combined to give the Swedish people opportunities for advancement equalled or surpassed by few other nations. Yet today the Swedish society is faced with economic and social problems far greater than those confronting the rest of Scandinavia and Europe.

The cause, Arthur Shenfield notes, is the Swedish system of socialism. Shenfield demonstrates that Swedish socialism, though it began with moderation, is the primary reason for the current decay in Swedish society. Nor is this an isolated instance, for Britain is in danger of succumbing to the effects of socialist policies.

Professor Shenfield examines the Swedish and British cases in detail and concludes that there is no lasting socialist success. Finally, he notes that the United States has gone perilously far down the socialist road—though masquerading under non-socialist names—and suggests ways of arresting the decline.

Arthur Shenfield is a British economist and barrister. A former president of the Mont Pelerin Society, he has taught and lectured extensively in the United States.

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