

How laissez-faire made Sweden rich

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The bad old days

Once upon a time, I became interested in theories of economic development after studying a low-income country, poorer than Congo, with an average life expectancy half as long and infant mortality three times as high as that of the average developing country. That country was my own, Sweden – less than 150 years ago.

Back then, Sweden was incredibly poor – and hungry. When crops failed, my ancestors in Ångermanland, in Northern Sweden, had to mix bark into their bread because of flour shortages. Life in towns and cities was no easier. Overcrowding and lack of sanitation and waste disposal claimed lives every day. Well into the 20th century, an ordinary Swedish working class family with five children might have to live in one room with a kitchen that doubled as dining room and bedroom. Many people lodged with other families. According to Stockholm housing statistics, in 1900 there could be 1,400 people living in a building of 200 one-room flats. In conditions like these, disease was rife. People had large numbers of children, not only because lack of contraception, but also because of high infant mortality. As Vilhelm Moberg, our greatest author, observed when he wrote a history of the Swedish people:

“[O]f all the wondrous adventures of the Swedish people, none is more remarkable and wonderful than this: that it survived all of them.”¹

Then, over the course of a century, everything changed. Sweden had the fastest economic and social development that its people had ever experienced, and one of the fastest the world had ever seen. Between 1850 and 1950 the average Swede’s income multiplied eightfold, despite a doubling of population. Infant mortality fell from 15 to 2 per cent, and average life expectancy rose by an incredible 28 years. A poor peasant nation had become one of the world’s richest countries.

Many people abroad credit this triumph to the Swedish Social Democratic party, which somehow found the perfect middle way – wisely taxing, spending and regulating in a way that did not hurt the country’s productivity but only made the results more equitable. And so Sweden – a small country of 9 million inhabitants in northern Europe – became a source of inspiration for people around the world who believe in state-led development and government distribution.

But something is amiss in this explanation. In 1950, when Sweden was known worldwide as the great success story, taxes in Sweden were lower and the public sector was smaller than in the rest of Europe and the United States. It was not until that point that Swedish politicians started levying taxes and disbursing handouts on a larger scale, redistributing the wealth businesses and workers had already created. Widely distributed wealth preceded the welfare state. Sweden’s biggest social and economic successes took place at the time when Sweden had a laissez-faire economy.

¹ Vilhelm Moberg, *Min svenska historia*, 1971, p. 72.

This is the story about how that came to be.² It is a story that countries that want to be where Sweden is today must learn, so they can do what Sweden did then – that is, create the institutions Swedes developed then – and not what Sweden does today, when it is already rich.

The father of Swedish liberalism

In 1763, Anders Chydenius, a young priest from Österbotten in Finland (then part of Sweden), submitted his entry for an essay competition. The question was the most important in Sweden at the time: “Why do so many people leave Sweden?” Emigration had increased and was seen as a big problem. The common view was that people were lazy and greedy and, rather than assume responsibility and work hard, they were lured by promises of an easier life abroad.

Chydenius took the opposite view. There is nothing wrong with emigration, he thought. The problem was the oppressive and corrupt system that made it impossible for people to stay in Sweden and build a good life there. When detailing all the abuses, regulations and taxes that destroyed opportunities, Chydenius outlined a radical laissez-faire critique of the Swedish government. He argued that all the privileges, license requirements and trade prohibitions protected a small, lazy and indolent aristocracy, and stopped hardworking people from making their own fortune. High taxes confiscated whatever the people managed to create, a corrupt justice system made it impossible for them to win against the powerful and restrictions on the press made it illegal for them to complain about it. “Fatherland without freedom and merit is a big word with little meaning,” he pointed out.

Anders Chydenius was a modern priest, steeped in Enlightenment ideas. He spread scientific and medical ideas throughout the region and helped farmers improve agricultural production with modern methods. He was also familiar with the French physiocrats’ economic ideas, but above all, it was the firsthand experience of the people’s struggles that built his political and economic worldview. Others thought the poor lazy and hopeless, at best the object of charity. Chydenius turned this view on its head. The poor are intelligent and hard working – they had to be to survive in such a harsh geographical and economic climate. The problem was that they had to devote most of that energy and hard work to avoiding regulations, taxes and corruption. One of his most consistent struggles was against class legislation that forced the poor to work for aristocrats and large landowners, and prevented them from changing employers or negotiating wages.

Chydenius looked at specific abuses, but he extended his belief in human liberty to new areas, and universalized it to create a system of ideas that was consistently laissez-faire liberal. He wanted a minimal state that guaranteed “security of our lives and properties,” with the only task to prevent “foreign violence and domestic oppression.” Apart from that, the government shouldn’t intervene. The size of government and the taxes that support it should be drastically reduced. Markets and trade should be completely free. Chydenius opposed subsidies even to economic sectors he favored, like farming and fishing. Even the government had to abide by the seventh commandment – thou shalt not steal – said Chydenius. Farmers should be given full title to their land, and even the poorest peasants should have control of their own labor. The country should open its borders and allow people to move freely to and from

² For the whole background, see my history of Swedish liberalism, *Den svenska liberalismens historia*, Timbro, 1998.

Sweden/Finland. People should be free to discuss and make up their own minds. Even in matters of religion, he thought that the government should be liberal and give the same rights to all beliefs. As he concluded, "I speak exclusively for the small, but blessed word, *freedom*."

Drama in parliament

What made Chydenius a pivotal figure in Swedish political history was the fact that he was not just a theoretician. His defense of local farmers' right to trade freely made him popular and he became a representative of his region's priests at the parliament in the capital, Stockholm. In 1765-1766 he traveled there and made a lasting mark on the country. It was in a brief era when Sweden had a weak monarch and a very strong parliament. In 1765, the anti-Russian "hat party" had lost power and in came the "caps," who were more interested in peace and restraining the public finances, but lacked a coherent ideology. Chydenius would give them one.

Because of his political talent and several well formulated pamphlets that he published during his time in parliament, Chydenius became a leader of the cap party's non-aristocratic wing. This led to victories in parliament in the form of trade liberalization, reduction in subsidies and tax cuts. But most important was Chydenius getting support for a freedom of the press statute, which led to censorship being abolished in Sweden and the authorities' decisions and documents made public. In 1766 such a law was unique in the world and Sweden got a reputation for being a country where debates were free.

One pamphlet that Chydenius published while in parliament was especially important. *The National Gain* put forth a short but very forceful argument for economic freedom. Chydenius explained how a free market regulates itself, as the profit motive and the price mechanism keep us all in check, while it motivates us to help others and produce the kind of goods and services people most want:

"[E]very individual spontaneously tries to find the place and the trade in which he can best increase National gain, if laws do not prevent him from doing so.

Every man seeks his own gain. This inclination is so natural and necessary that all Communities in the world are founded upon it. Otherwise Laws, punishments and rewards would not exist and mankind would soon perish altogether. The work that has the greatest value is always best paid, and what is best paid is most sought after. [...]

This conception of the National gain, however hard it may seem to be on our new enterprises, is nevertheless the simplest and easiest in itself.

It gives liberty to all lawful trades, though not at the expense of the others. It protects the poorest business and encourages diligence and free trade.

It weighs everybody in the same scales, and gain is the right measure that shows who should have the preference.

It relieves the Government from thousands of uneasy worries, Statutes and supervisions, when private and National gain merge into one interest, and the

harmful selfishness, which always tries to cloak itself beneath the Statutes, can then most surely be controlled by mutual competition.

It allows a Swede to exercise the dearest and greatest right in Nature the Almighty has given him as man, i.e. to support himself in the sweat of his brow in whatever way he thinks best.

It snatches away the pillow of laziness from the arms of those who, thanks to their Privileges, can now safely sleep away two-thirds of their time. All expedients to live without work will be removed and none but the diligent can become well-off.

It makes a desirable reduction in our Lawsuits. The numerous Statutes, their explanations, exceptions and applications, which fetter trades in one way or another, will then be unnecessary and grow silent, and when the Law is annulled, its breach will amount to nothing.³

Chydenius built his worldview of economic liberalism on these simple observations of the power of the price mechanism and the self-regulation of the free market. Here was the invisible hand 11 years before *The Wealth of Nations* – indeed, Chydenius has been called “the Nordic Adam Smith.” According to Eli Heckscher, one of Sweden’s most famous 20th century economists, the pamphlet would probably have gained impressive international renown had it been translated into a major language at that time.

Chydenius’s radicalism alienated the nobility within his own party. He was thrown out of parliament by the party because of his open criticism of its monetary policies. But his influence continued to grow, partly because the monetary policies led to a crisis, just as he had warned.

Several important figures in the cultural elite, who were close to the King Gustaf III, were heavily influenced by Chydenius’s thought. That goes for Nils von Rosenstein, an enlightenment proponent who led the Swedish Academy, and for the famous poet Johan Henrik Kellgren, who attacked religious mysticism and conservatives in his plays and poems, and advocated for market liberalization in his economic essays. Von Rosenstein and Kellgren even started a society with themselves as the only members, to mock the occult and superstitious clubs in late 18th century Sweden. It was called “Pro sensu communi” (For common sense), and celebrated August 29 – John Locke’s birthday. They maintained that human beings are rational creatures who need to think for themselves to understand the world and decide how to live. Therefore, coercion should be abolished, because it forces us to act against our own rational conclusions.

The King signed a freedom of religion bill drafted by Chydenius that gave Jews the right to settle in Sweden. He also gave farmers more control over their land and liberalized agricultural trade. But the king also put an end to the era of a strong parliament, and centralized power in himself. After he was murdered in 1792 by a strange conspiracy between nobles who fought for their privileges and some who were inspired by the French revolution, his son, Gustaf IV Adolf, used these powers to shut down political debate and suspend parliament. But the ideas weren’t dead. Georg Adlersparre, an officer who called his belief in

³ Anders Chydenius: *The National Gain*, London: Ernest Benn Limited 1931. Translator unknown.
<http://www.chydenius.net/historia/teokset/e_kansallinen_koko.asp>

personal freedom and property rights “liberal” as early as 1804, published a controversial enlightenment magazine called *Readings on Mixed Subjects*. It was mixed, indeed. Poems and philosophical studies were published next to articles about the need to liberalize the alcohol industry and the first Swedish translation of Adam Smith’s *Wealth of Nations* – with added footnotes that explained how Smith’s ideas could be implemented in Sweden.

A new opposition

When the king’s policies led to economic stagnation and conflicts with Russia, Denmark and France, Swedes grew increasingly hostile to his rule. Taxation and inflation placed even heavier burdens on the people. In late 1808, the Swedish military had to abandon the eastern half of the country – Finland – to advancing Russian troops. Resentment against the king, who couldn’t wage war but refused to make peace, grew even in the military circles.

George Adlersparre, who led the Swedish Western army at the time, published a proclamation saying that military conflict and political oppression were about to destroy Sweden. It was a revolutionary manifesto: To save the country, the army should move against the king. Adlersparre and his troops began a popular march toward Stockholm. The king fled south, but was arrested by people within the Stockholm bureaucracy. To ensure that this led to real political changes, Adlersparre’s march continued and the army occupied Stockholm, until a new parliament was formed, and reforms began to take place. This was the Revolution of 1809 – the only violent revolution in Sweden’s modern history, and it was realized by a liberal officer and publisher, inspired by Adam Smith.

The path to freedom would not be as straight as the liberals had hoped. The parliament restored freedom of the press, enacted some economic reforms and reduced the aristocracy’s privileges. But the liberals in parliament, organized in a party called “the liberal party,” were disappointed, and even more so when Sweden got a new king. Always eager to make friends with the strongest powers around, Sweden chose one of Napoleon’s generals, Jean-Baptiste Bernadotte (Carl XIV Johan), as its new king. He surprised everybody by making peace with Russia (he abandoned Finland, but took Norway from Denmark instead), but also by his hostility to enlightenment ideals and further reforms. The liberals were once again in opposition. However, the fact that the revolution had restored Chydenius’s free speech statute meant that the debate was relatively free and that a genuine liberal movement could be built.

Influences from France and England helped build support for libertarian ideas in the early 19th century. Land reforms had given farmers property rights to their land. Agricultural production grew more efficient, and a lot of people left the countryside. The unemployed and the poor moved to the cities, only to find that the industries that could grow and give them jobs were hampered by antiquated policies. Local guilds controlled the urban professions, and made all decisions about who could work, what could be manufactured, of what quality and at what price. Rules and regulations stopped the iron and forestry industries from expanding, and a lot of foreign imports and some exports were simply forbidden. The opposition to economic controls grew by the day.

A growing group among the nobles began to see the problems with a society built on privileges and hierarchy. At the same time, a middle class began to emerge. Farmers who grew richer with increased production, urban merchants who grew wealthier and civil servants did not feel at home in the old structure, or in the corporatist parliament with its four estates

(nobles, priests, merchants and farmers). They had capital, but weren't allowed to invest it freely. They had ideas, but weren't free to implement them.

The architect of change

These groups began to come together in early 19th century Sweden. And the man who brought them together was a tall, young, red-haired radical newspaperman, Lars Johan Hierta. Hierta was a successful businessman, who was fascinated by the latest technologies, and ultimately became one of the richest men in Sweden. He was also a politician, always trying to build an opposition alliance in parliament. But most importantly, he founded *Aftonbladet* (the Evening Paper), the first modern Swedish newspaper. It was a bastion of laissez-faire liberalism and the first paper to attack not just the abuse of power, but political power itself.

Aftonbladet was founded in 1830, with all of Hierta's savings. If it failed, he would be ruined. But it was a stunning success. The revolutionary Adlersparre was the first supporter and sponsor. It was the first Swedish newspaper that combined news and advertising, and since it was an evening paper, it could report news that arrived in the morning mail. And because of Hierta's sense of humour, it was satirical and fun to read, amidst all the serious criticism. In *Aftonbladet*, the growing middle class could read the first real "social reports" on the state of the country, destitution in rural areas, and the terrible conditions in crowded urban centers. But they could also read about the solutions – liberalization and industrialization. *Aftonbladet* pointed to more liberal countries as positive examples – Norway, England, France and the United States. On Hierta's wall hung a copy of John Trumbull's painting of the signing of the American Declaration of Independence – a document which Hierta called "the most beautiful truth and foundation for a society."

With his urbane, enlightenment liberalism, Hierta became the voice for the emerging middle class. His first proposal in parliament says a lot about his worldview. It was about public drinking. At that time, it was illegal to be drunk in public. Hierta considered this class legislation, because only poor people were ever caught by the police. He explained that being drunk shouldn't be illegal, as long as you didn't threaten anybody's life or property. You are free to do whatever you want, as long as you don't attack others or their property. Hierta used his political career to extend that principle to new spheres of society. He believed in total freedom of speech, general franchise and equal rights for women. His basic principle was that no group should be allowed to "take money out of others' pockets," and he always tried to reign in government spending. He maintained that everybody should be free to start businesses as they liked, to start banks and to trade without barriers.

The phrase about not taking money out of other's pockets was often repeated in liberal circles. (Chydenius had a similar expression – that no one should be allowed to stand on the shoulders of others.) It summed up his ideology's central point – equality before the law and a government that did not take sides. All privileges that guaranteed or denied certain people a position or trade should be abolished. Everybody should have the same rights, and be treated the same. This also set a natural limit to government intervention. Anything that benefited one group at another's expense was ruled out. The government should only provide the kinds of public goods that benefited the entire society. Law and order was something everybody agreed upon. Most liberals also thought that the government should provide for basic education, saying that this was something that benefited the entire society. Some infrastructure also qualified. Some liberals (though not Hierta's radical liberals) supported a

government-financed national railway system. But even those that did said that this was only because it benefited the entire country – the local train routes that benefited a particular region or city should be financed and built privately.

Hierta based his liberalism on natural rights claims from John Locke and from the French and American revolutions, but he combined it with a frequent use of utilitarian arguments from Jeremy Bentham and the classical economists. Authors who combined those two traditions, like the French economist Frédéric Bastiat, and Richard Cobden and John Bright of the Manchester School, were especially favored by Hierta, who propagated their thoughts in *Aftonbladet*. If there is something special about Swedish liberalism, it is that it combined and brought together different traditions and ideas, rather than explore a single line of thought.

It was a sort of “harmony liberalism,” that saw conflict between different groups as an illusion. All groups and classes could make progress together, as long as privileges were abolished, and people were allowed to make a living and a profit by serving each other in the free market. It was a political version of the enlightenment idea of progress. And it got help from classical economics. When Adam Smith explained that it is not from the benevolence of the baker or the butcher, but from their self-interest, that we expect our dinner, it was more than an economic statement – it was a worldview. It was a way of saying that the butcher and the baker are not my enemies. If all trade is voluntary it means that we wouldn’t enter any deal unless we both benefit. Together, we can make progress, and improve the world.

The Swedish liberals applied this optimistic view to social problems. The old safety nets in the guilds had given security only to a small group of people. When they were abolished, the liberals wanted to see self-help groups where workers and families voluntarily organized to provide for education, savings, sickness, unemployment and pensions. That would not merely help people materially, but also help them develop a sense of responsibility and the ability to manage their own affairs.

Other opposition newspapers could be threatened or bought into silence, but the regime understood that *Aftonbladet* was different – a potential rallying point for the formerly dispersed opposition forces. In parliament, farmers and merchants used arguments from *Aftonbladet* to push for reform. In 1835, the government used an old law from the last war to shut it down. But with the help of other individuals, Hierta had taken out more permits to start newspapers, so when this happened he simply launched a new paper, called *The New Aftonbladet*. When that was shut down, he created *The Newer Aftonbladet*, then *The Fourth Aftonbladet*, the fifth, the sixth and so on.

The episode gave *Aftonbladet* a huge boost, and Hierta became a folk hero. The hard-line conservatives decided that the only way to beat him was to strike down hard and outlaw new papers, but the government didn’t dare, in light of Hierta’s popularity. After more than three years of cat-and-mouse games, Hierta promised to publish a new paper if his current one was closed down. Fearing a public backlash, the government quietly dropped the old law, without even a decision in parliament. Freedom of the press was reinstated and everyone could see that the government could be beaten.

A movement

Gradually, the opposition grew in strength. It got support from popular poets and authors like C. J. L. Almqvist, who also wrote aggressive, liberal articles in *Aftonbladet*; Fredrika Bremer, who explained that Jesus was the first liberal, since he was in favor of every person's rights; and E. G. Geijer, the famous conservative who abandoned his allies in 1838 to explain the wonders of a modern world based on trade, industrialization and open debate, and that more democracy and freer markets were needed to bring those benefits to everybody. Authors like Bremer and Geijer introduced an element of religion into Swedish liberalism. People like Hierta were essentially atheists, and didn't speak up much for freedom of religion, since they considered it mostly superstition. But the next generation of liberals saw freedom of religion as an essential reform.

Liberal views were strong among the farmers in parliament. The farmers fought for a more democratic system, secure property rights and the freedom to trade, so they naturally ended up on the liberal side. For a period, the majority in the farmers' estate was called "the political economists" by opponents, who accused them of being more interested in economic theories than in practical politics.

In the merchants' estate the picture was mixed. The old establishment, which wanted to protect established trades from competition, was being challenged from a new group of businessmen, who wanted economic freedom to compete and to create. As time went by, the latter group grew, and soon was in total control of the estate.

The nobles and the priests, however, most often rejected liberal proposals, and so the votes often ended 2-2, and reforms were blocked. But among the nobles, the mood was beginning to change. A group of "moderate liberals" got more influence, as public opinion shifted, and as Swedes learned about the positive results from industrialization in other countries. Slowly but steadily, liberal majorities were formed to abolish some of the trade prohibitions and to partially open up the nation to new industries.

The moderate liberals – "the gray" – got more influence after 1848. The revolution in France scared King Oscar I and the nobility. To them, it highlighted the critical nature of the problems of development, and that something had to be done, to avoid a revolution in Sweden. They wanted to avoid both radical laissez-faire solutions and the new emerging socialism. They found their solution in the moderate liberals. They believed in liberalization to modernize the country, but at the same time they were nobles, interested in reform, not revolution, and not hostile to the king as such. In 1848, their most promising member of parliament, the young Johan August Gripenstedt, was appointed minister without a portfolio.

An aristocratic lieutenant, always dressed in a black coat with a white scarf, Gripenstedt was principled when it came to goals, but opportunistic when it came to means. He had been to France and discovered Bastiat's ideas, which strongly influenced his advocacy for free trade and free markets. He believed in the broad liberal program of female emancipation, religious freedom and a more democratic parliament. But he was a tactician. When the climate shifted in a conservative direction, he didn't press for his ideas, and didn't complain publicly when liberal friends were forced to leave government.

But Gripenstedt was biding his time. He was a skilled politician, who knew how to build alliances and deal with difficult events. He made himself indispensable to the government and the king. The stronger the liberal movement grew, the more important it became for the establishment to have a strong liberal politician in the government. Furthermore, the king also

wanted success for Gripenstedt's idea of a government railway network, which many liberals opposed. In 1856 Gripenstedt was promoted to minister of finance by the next king, Karl XV.

The liberals worked on two fronts. In government, Gripenstedt tried to promote reforms whenever he could. He was not always loyal to the king, promoting his own ideas and undermining royal plans for foreign military adventures. The stronger Gripenstedt got, the more risks he could take. He also had strong support from the popular *Handelstidningen* (the Trade paper) in Gothenburg, under the editorship of S. A. Hedlund.

Meanwhile, outside government, Hierta and the more radical liberals constantly pushed for more and complained that Gripenstedt and the government didn't liberalize more. That gave Gripenstedt more room to maneuver and to invoke threats from outside as an argument against the king and the more conservative forces in government. Mild reforms led to an improved economy and more jobs, which led to acceptance of more reforms. Soon the government also got a new moderate liberal prime minister, Louise de Geer. Together de Geer and Gripenstedt oversaw dramatic changes in Swedish politics, because of their own skills and the outside pressure.

Between 1840 and 1865, Sweden underwent a non-violent liberal revolution. The guild system was abolished, and anybody could now start a business and compete freely. Regulations that had stopped the development of the timber and iron industries were lifted. Sweden got a joint-stock company law as early as 1848. Banks were allowed and interest rates deregulated. The borders were practically removed when free immigration and emigration were instituted (and 1 million Swedes left for America). The old schools that once turned the elite's children into priests or civil servants were replaced by a system of practical education for everybody. Freedom of the press and of religion were dramatically expanded. Women got the rights to own and inherit property, get an education and pursue a career.

Gripenstedt had to leave the government because of health problems (probably malaria), but he made sure that his reforms would be long-lived. After the free traders abolished trade prohibitions and lowered tariffs dramatically, Gripenstedt made sure that, in 1865, Sweden joined the free trade treaty between France and England – which gave all signatories unfettered access to each other's markets. Trade barriers fell all over Europe. Gripenstedt was also instrumental in abolishing the old parliament based on the four estates and creating a new, more democratic parliament.

The result

When Gripenstedt left the government, his critics called him a coward, for leaving just when people would begin to see how his liberal policies had destroyed the country. Foreign competitors would ruin Swedish industry and lack of government control of businesses would lead to enormous problems with quality and coordination. When people in rural areas were allowed to open shops, many believed the cities were doomed, because no one would any longer go there to trade.

Rarely has a forecast been so embarrassingly wrong. One hundred years after Chydenius's first public appearance, Sweden had become one of the richest countries on the planet. Gripenstedt stepped down at the precise moment when this economic miracle started. The real earnings of male industrial workers increased by around 25 percent per decade between 1860

and 1910, and life expectancy increased by 12 years. In total, real earnings increased by 170 percent in those 50 years, much faster than the 110 percent over the following 50 years. As late as the turn of the century, central public expenditure in Sweden was around 6 percent of national income.⁴

Liberalism had transformed Sweden completely. A society that used to be rigorously controlled, in which all occupations were thoroughly regulated, and in which trade with other countries was practically forbidden, suddenly opened the floodgates to an outpouring of creativity that had been pent up for centuries. Creativity was no longer penalized but rewarded. Open markets and minimal regulation meant that capital flowed to the best ideas, and companies were free to hire and fire. Old trades were mechanized, and Sweden could now export what it made best to Great Britain and to other countries. In exchange, Sweden imported what it couldn't produce well on its own.

Farmers who had acquired title to their land invested in more efficient agricultural methods. The forestry industry, which could now start exporting its output, turned its timber into finished goods and pulp. Mills, now deregulated, made iron and steel out of the ore which generations of people had merely walked on. Craftsmen, liberated from the ancient guild system, began competing by means of new methods, new goods, new designs and lower prices. Production was electrified in factories that could suddenly start mass-producing goods that even the poor could afford. When banks and limited companies were permitted, capital was channeled to the most efficient producers, and Swedes started to invest in new machinery and methods capable of producing more and better goods.

This laissez-faire era fostered a good environment for creators and entrepreneurs. It engendered one of the loveliest words in the Swedish language: *snilleindustrierna* – the “genius industries,” meaning businesses founded on an ingenious invention, or on production of that invention on a massive scale and to a large extent for export. Once the way was cleared for borrowing, hiring, producing and selling, the road from idea to idea-based enterprise became very short. Some industries were created by polymaths who were both inventors and captains of industry, who succeeded in both creating something new and in getting it to consumers. Lars Magnus Ericsson invented an automatic telephone exchange and founded L. M. Ericsson. Sven Wingquist invented the self-regulating ball bearing and created SKF. Alfred Nobel invented dynamite and built up Nitroglycerin AB (later Dyno Nobel). And Gustaf Dalén invented a flashing apparatus for lighthouses and founded AGA. Some entrepreneurs successfully commercialized other people's inventions. Axel Wenner-Gren, for example, built up Electrolux by introducing vacuum cleaners and refrigerators into Swedish homes.

At this stage, growth snowballed. One success came hard on the heels of another. We had growth and could achieve more. Running water and sewage were laid in people's homes, and streets and homes were electrified.

In 1857, Gripenstedt gave two dramatic speeches explaining that with free markets, with access to foreign markets and modern infrastructure, Sweden, one of the poorest European countries, could become one of the richest. He was ridiculed by opponents, who called his speeches naïve. But Gripenstedt had the last laugh. Between 1850 and 1950, Swedish income

⁴ Mauricio Rojas, “Sweden After the Swedish Model”, Timbro, 2005, p17.

per capita increased eightfold, despite a doubling of the population. Infant mortality was reduced from 15 to 2 percent, and average life expectancy increased by a whopping 28 years.⁵

“Everybody is a liberal nowadays”

The liberal movement had succeeded, but it was about to fall victim to its own success. In January 1867, with a new, more democratic parliament that was not divided into estates, liberalism seemed triumphant. Lars Johan Hierta, the oldest member of parliament, delivered the welcome speech, in which he celebrated the reforms and warned the members not to devise new ways to take money from the people. One commentator said:

“Now there are no parties, everybody is a liberal nowadays”.⁶

But in a way, this meant problems for liberals. It seemed like they had completed their agenda. The coalition that had brought these ideas to triumph now had other interests. This could be seen in the new parties that were formed in parliament. People around the old liberal government started a “ministerial” party, with the goal of defending the reforms that had been made, but not go much further. At the same time, a smaller group started the “neo-liberal” party, which was economically liberal and wanted to go further on cultural and political questions – including more rights for women, a stronger rule of law and more democracy. And the dominant new party, was the “rural men’s” party, a party for the farmers, but which also had liberal elements and wanted to reduce taxes and give more power to those outside the Stockholm establishment.

Interestingly, the liberals split among all those parties. Gripenstedt and moderate liberals joined the ministerial party, Hierta and the radical liberals joined the neo-liberal party for a while, and Hedlund and many liberals from outside Stockholm joined the rural party. This meant that all parties were influenced by liberalism, and that a liberal government still called the shots. But it also meant that liberalism was no longer a single coherent, effective force, working toward one common goal.

In the late 1880s, the liberals and free traders lost a long and aggressive campaign against tariffs on corn, a new conservative government was formed and new political forces emerged. Economically, the tariffs didn’t mean much. They were not adjusted for inflation and so became smaller every year in real terms, and the continued reduction in transport costs more than offset their cost. Sweden’s exports and imports continued to grow every year. But the tariffs had serious *political* consequences.

The problem was that liberal harmony broke down when one side began to take money out of the pockets of other groups. Everybody then had an interest in trying to get rewards and privileges for themselves. Whoever remained a liberal and wanted a neutral state would see his pockets picked by both sides. One commentator explained:

“After the victory for protectionism, the parliament was drowned by a wave of suggestions that had in common that they all wanted the government to be active both here and there.”⁷

⁵ Anders Johnson: *Entreprenörerna : Sveriges väg till välstånd*. Stockholm: Svenskt Näringsliv, 2002.

⁶ Gudmar Hasselberg: *Rudolf Wall – Dagens Nyheters skapare*. Stockholm: Bonniers, 1945, p 232.

⁷ Svenbjörn Kiland: *Den nya staten och den gamla*. Stockholm: Almqvist & Wiksell International, 1991, p 205

The liberal movement began to change as a result. The sympathies of many lay with the poor and the workers, whom the government had betrayed them by increasing the cost of bread. It then became more important to extend the franchise. The people wanted free trade, but had lost because of an undemocratic parliament. Different liberals drew different conclusions. Some argued that the government benefited producers with tariffs, so it was necessary to counterattack on behalf of consumers. Some wanted to import Bismarck's social security ideas and became "social liberals."

At the same time, conservatism, which had been considered dead for more than 20 years, was reborn in a more modern, pro-business, pro-tariff version. But where it had once said that a strong and intervening government could stop development, now it said that only a strong and intervening government could create rapid development.

The social democrats' legacy

The strongest new force was the socialists. Interestingly, they were first organized on a free trade platform. When the social democratic party was founded in 1889, one of its demands was, "No to hunger tariffs." The social democrats complained that the elite had called on the government to step in and destroy equality before the law by helping business and farms, and therefore the workers shouldn't be content with just waiting for the rewards of economic growth. They should also ask the government to step in, on their side.

This diversity of interests meant that, on the whole, the liberal system lived on. Conservatives and social liberals fought for private property and fiscal discipline and collaborated to steer Sweden away from socialism. And when the social democrats got power in 1932, they quickly abandoned their plans to socialize businesses. Their leaders thought that increased productivity was essential to pay for their reform programs, and were impressed with the liberal economy's ability to deliver. They were also heavily influenced by a generation of independent liberal economists like Gustaf Cassel and Eli Heckscher, who considered Anders Chydenius an intellectual forefather. In fact, some prominent social democrats were among the most consistent economic liberals and free traders in Sweden.

More than other countries, Sweden held on to free trade, which was necessary for a small economy, dependent on both imports and exports. The social democrats and the trade unions allowed old sectors like farming, shipping and textiles to pass away, as long as new jobs were created. They settled for a more cautious policy of letting the market stay free to create wealth, allow the process of creative destruction to do its work and only later distribute (a growing) part of that result. They knew that a party of class struggle could not hold on to power in Sweden. Instead, they created social security systems that provided pension, unemployment, paternal-leave and sick-leave benefits. Most benefits were proportional to the amount paid in, so the middle class would have an interest in supporting the system.

Regulations were adapted to benefit the biggest industries – for example, wages were equalized, but this meant that big companies' labor costs remained low, while small and less productive companies were forced out of business. When taxes were raised they were often regressive, on people's consumption, so as not to interfere with the incentives to produce.

The social democrats began to implement their policies cautiously. In 1950 Sweden was one of the richest countries in the world. The total tax burden in Sweden was still just 21 percent – lower than in the U.S. and in other European countries. It was an open economy with a small government that produced these amazing results, with a little help from having stayed out of the Second World War. In his economic history of Sweden, economist Johan Myhrman concludes that despite a growth in government, these policies continued:

“Under this period (1950-70) Sweden had a liberal trade policy, which meant low tariffs and a benevolent attitude to business, for example with a tax policy that admitted very generous deductions for capital costs”⁸

Yes, Sweden has another reputation today, but that came later. In the 1970s, with coffers filled by big business and heads filled with ideas from an international leftward trend, the social democrats began to expand social assistance and to regulate the labor market. Public spending almost doubled between 1960 and 1980, rising from 31 percent to 60 percent of GDP. Taxes also rose.

For a while, Sweden’s social democrats could travel the world and talk about how they were able to have both big government and high incomes – but only for a time, because their model soon ran into problems. The average growth rate was halved to 2 per cent in the 1970s, and declined further in the 1980s. Then came the big crisis of the 1990s. The currency had to be devalued five times, by a total of 45 percent, to keep industry competitive. In 1990, the year before the crisis, private enterprise had not created a single net job since 1950, but the public sector had increased by more than 1 million employees.

While the knowledge and service economy made it more important to invest in human capital, high marginal tax rates on personal income reduced individuals’ incentives to invest in their education and skills. Generous benefits for those not working eroded the work ethic, and a country with one of the healthiest populations became one with the most people off sick from work.

The alliance between big government, big business and big labor made Sweden less flexible. Encouraging investments in big industry worked well, as long as there was little need for innovation. Once that occurred the system ran into trouble and the dearth of small- and medium-sized businesses became a major problem. The companies that did exist didn’t grow, partly because of the risks and costs of rules that prevented the firing of workers.

Today, the most important Swedish companies are still those that were created during the *laissez faire* period before the First World War. In 2000, just one of the 50 biggest Swedish companies was founded after 1970. Meanwhile, services that could have become new private growth sectors, like education and health care, were monopolized and financed by the government.

From 1975 to 2000, while per-capita income grew by 72 percent in the United States and 64 percent in Western Europe, Sweden’s grew by no more than 43 percent. In 1970, Sweden was the fourth richest country in the OECD’s ranking of per capita income. In 2000, Sweden had fallen to 14th. As the social democratic finance minister Bosse Ringholm explained in 2002,

⁸ Johan Myhrman, *Hur Sverige blev rikt*. SNS, 1994, p. 160.

“If Sweden would have had the same growth rates as the OECD average since 1970, our common resources would have been so much bigger that it would be the equivalent of 20,000 SEK [\$2,700] more per household per month.”

Conclusion

It was not socialist policies that turned Sweden into one of the world’s richest countries. When Sweden got rich, it had one of the most open and deregulated economies in the world, and taxes were lower than in most other Western countries. The social democrats kept most of those policies intact, until the 1970s, when they thought that those excellent foundations – unprecedented wealth, a strong work ethic, an educated work force, world-class exports industries and a relatively honest bureaucracy – were so stable that they could step in, tax and spend and build a generous cradle-to-grave welfare state upon them.

They could not – at least not without costs. The welfare state began to erode the conditions that had made the model viable in the first place, and the fourth richest country became the 14th richest within three decades.

Things have looked up a bit since for this small Nordic country. In the 1990s Sweden had another important reform period, in response to sluggish growth and a severe banking crisis. Both social democrats and centre-right parties worked together to lower marginal tax rates; deregulate finance, electricity, telecom and media; make the central bank independent; reform the pension system, partly with personal accounts; allow private providers in health care and elderly care and introduce a school voucher system.

Since then, Sweden has yet again increased exports, created private sector jobs and seen economic progress that has outpaced the rest of Europe. Importantly, present-day Swedish liberalizers are often inspired by our own history, by the individuals and reforms from 150 years ago and the unprecedented prosperity they created in what used to be a poor agrarian nation. When we take steps in that direction, we are going back to the future. That background – and that future – is the most important lesson from Sweden to the rest of the world. As Anders Chydenius wrote almost 250 years ago in the essay contest response that got Swedish liberalism off to an impressive start:

”That which our time tramples on, posterity will pick up, and that which is now called boldness will be honored in the name of truth.”