Guest Post by Tino Sanandaji: On Swedish Billionaires

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Matthew Yglesias recently pointed out that Sweden has more billionaires per capita than the United States on Forbes' annual ranking of the world's richest individuals. In 2013, Sweden had 1.47 billionaires per million inhabitants, compared with 1.41 for the United States. He goes on to argue that the high per capita number of Swedish billionaires demonstrates that a generous welfare state does not preclude entrepreneurship.

I find this topic interesting, since my doctoral thesis used two decades of Forbes data to estimate the number of billionaire entrepreneurs across countries. One problem with Yglesias's argument is that not all billionaires on the Forbes list are entrepreneurs. The list also includes individuals who've largely inherited their wealth.

In the 2013 list, approximately 40 percent of Sweden's billionaires are self-made while 60 percent inherited their wealth. In the United States, by contrast, 70 percent of billionaires are self-made while around 30 percent inherited their wealth. Once we exclude inherited wealth, the United States has around 1 self-made billionaire per million inhabitants compared to 0.6 for Sweden. Since we are discussing the ability of the welfare state to generate entrepreneurship, I would also exclude Swedes who left Sweden and became wealthy in the U.S.

Excluding inherited wealth and billionaires who earned their wealth in other countries, the U.S. has twice the rate of billionaire entrepreneurship compared to Sweden. This is similar to what I found in the analysis over a longer period. Sweden is above the European average, but below countries such as United States, Canada, Israel, Singapore and Hong Kong.

Matthew Yglesias is entirely correct when he points out that Sweden has a lot of rich people. Indeed, wealth inequality in Sweden is roughly as large as wealth inequality in the United States, in contrast to Sweden's low income inequality. What Yglesias misses is that this is largely old, pre-welfare-state money. Up until the 1960s, the government share of the economy in Sweden did not differ much from the government´s share in the United States. Only a small numbers of Swedish billionaires became rich by founding companies during the welfare state period itself.

Yglesias mentions three Swedish companies: H&M, Ikea, and Tetra Pak. These firms were founded in 1943, 1947 and 1951 respectively, before the mature Swedish welfare state emerged.

There are more sides to Swedes than the egalitarian Social Democrats that have become so familiar. Swedes also have an often forgotten history as industrious Lutheran burghers. From the late 19th century up until the welfare state, the country was an entrepreneurial powerhouse. With the exception of Switzerland, no other country created as many multinational companies per capita as

Sweden. Both sides of the Swedish national character have to be taken into account to fully understand its economic history.

During the welfare state period, entrepreneurship declined sharply. Only two out of the currently largest 100 Swedish companies were founded after 1970. In the United States, 28 out of your 100 largest companies were founded after 1970.

While I believe that Yglesias is mistaken about Sweden having more billionaire entrepreneurs than America, he undersells his case in one regard. He accepts the claim that Sweden has fewer patents per capita than the United States. This is sensitive to how exactly patents per capita are measured. Using other definitions Sweden matches or outperforms the United States in terms of quality-adjusted patents per capita.

These innovations are mostly produced by private industry. Swedish private companies invest as much in research and development as American firms. This is an important explanation for how Sweden has managed to stay competitive today, and during the height of the welfare state.

The welfare state was better adapted to large, export-oriented engineering companies than to entrepreneurship. The ruling Social Democrats were pragmatic and appreciated that their welfare state ambitions were impossible to fund without a profitable private sector. The compromise was to finance a large welfare state by taxing labor and capital heavily, but to preserve capitalism.

The existing capitalist dynasties were allowed to keep their assets, though the value of those assets was depressed through taxes. More than 90 percent of Swedish industry was privately owned throughout the welfare state era, in contrast to the situation in many other European countries. While the already rich were allowed to retain their control of their companies, prohibitively high taxes made new wealth creation rare.

An unintended effect of this might have been to freeze the wealth distribution in its place. Already existing wealth was not confiscated, but fewer new fortunes were created during this period. A recent Swedish study found that 80-90 percent of inequality of top wealth is transmitted to the next generation. This explains why the share of inherited wealth on the Forbes list is higher in Sweden than the United States.

As Yglesias points out, in recent years Sweden has lowered taxes and cut back the welfare state. Time will tell if this will ignite a new wave of firm creation. Given their past performance, I wouldn't bet against the Swedes.

Tino Sanandaji