Sweden proves Piketty "unrealistic and ahistorical"

Generous welfare requires competitive business, new book argues

Capitalism can create prosperity only if there is a clear separation between the market and the political sphere, argues Andreas Bergh in his new book *Sweden and the Revival of the Capitalist Welfare State* (Edward Elgar Publishing, 2014).

"If it is more profitable for firms to strive for subsidies or trade barriers, rather than to ask what consumers are willing to buy, they will do so," says the author, Associate Professor of economics at Stockholm's Research Institute of Industrial Economics (IFN) and Lund University. This holds true for countries with minimal welfare states as well as for those with high taxes and generous welfare, as in the Nordic region, Bergh argues.

Sweden has evolved from one of Europe's poorest countries to the world's fourth richest in 1970. Starting around 1870, the country managed to reduce income inequality more than all comparable nations. More recently, its rapid recovery after the global financial crisis has generated headlines across the world.

However, from 1970 for about 25 years Sweden lagged behind in terms of economic growth. "Work incentives were weak and there was no clear separation between the market and the political sphere," says Bergh, stating that the revival mentioned in the title of his book refers to the fact that far-reaching reforms enabled Sweden to return to policies that had been historically successful: "Since 1995, Sweden has rapidly grown again and developed faster than other EU-countries and the US."

"Understanding the success factors behind Sweden's remarkable development is crucial for anyone interested in the fundamental challenges of how to combine equality and prosperity", Bergh says. He opposes the French economist Thomas Piketty, who argues for a global, progressive tax on capital. He finds Piketty's Swedish popularity surprising, as his solutions are fundamentally different from those evoked by Sweden's experience.

Andreas Bergh is Associate Professor, IFN and Lund University. His research interests are public and institutional economics. His focus is mainly on social norms, corruption, education and development economics.

“While Piketty’s compilation of historical data is impressive, his predictions and policy recommendations rest on a theoretical model where capital accumulation – by assumption – creates increasing inequality between income from capital and labor. I find this unrealistic and ahistorical,” says Bergh.

He argues that Sweden demonstrates that financing a generous welfare state requires a highly competitive business sector: “Sweden promoted a combination of prosperity and equality not by fighting capitalism with high capital taxes, but rather by using capitalism as an engine of growth, combining it with a welfare state that promoted equality.”

Bergh is convinced that a crucial question for the future will be how to combine a successful capitalism with a relatively generous welfare state: “Piketty’s book has little to say about that." Asked if he was surprised by any of his findings when researching the book, Andreas Bergh said: “The degree of consensus and pragmatism in Swedish policy making is striking, perhaps surprisingly as regards the creation and expansion of the welfare state, when numerous important steps were taken by liberal and right-wing governments.”

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