Activity 5: The Swedish Formula

Sweden is frequently used as an example to illustrate both mixed economy and democratic socialism. Democratic socialism is when political democracy (described in Module 2) is combined with socialism, a large government role in the economic system. You will have noticed in Activity 1 that Sweden was placed slightly to the left of centre in the planned market continuum.

Sweden's economy is a complex blend of government and private enterprise. It is socialistic and capitalistic at the same time. **Three main features stand out in the Swedish system:**

- **Ownership of industry has remained primarily in private hands.** In Sweden there are fewer nationalized industries than in Canada. Furthermore, there has been little government interference in the production of goods. Market forces have been allowed to decide if industries failed or thrived. Rather than support ailing industries with government aid (subsidies), they have been allowed to die. Multinational corporations are often thought to go hand-in-hand with capitalism. Sweden has more of them per person than does the United States. Big business thrives in Sweden (Volvo, Ericso). Seven of their top ten companies are world leaders in their product. In the production of things, Sweden is "**laissez-faire.**"

- A capitalist engine produces the output, but a socialist government redistributes the wealth. Profits produced are directed toward the common good. Sweden **has an extensive program of "cradle to grave" social security** benefits: child care, family allowances, medical and hospital benefits, government housing, free education, and pensions. To pay for all of the above, Sweden has high taxes. Personal taxes in Sweden are the highest in the world. In 1987, 80 percent of incomes over $46 000 per year went to taxes. Business may decide **what and how**, but government decides **for whom**.

- To make the whole thing work **the Swedish system emphasizes cooperation between the three major groups in the economy: government, business, and labour.** Businesses must compete with each other, but cooperate with workers and politicians. Strikes by unions are legal but rare. The Swedish government uses extensive economic planning, not direct planning as in the USSR, but indirect or "indicative" planning.

This unique Swedish mixture of market forces and planning of profit and equality has worked very well for them. Their unemployment and inflation rates are low, and for over fifty years, they have had one of the highest standards of living in the world.

Comparison of Market and Planned Economies

- Good economic systems should provide a high standard of living and high quality of life.

- Standard of living is measured by a person's income, or average income of people in the nation.

- Adequate income, good health, basic education, leisure time, leisure facilities, and a clean, safe environment are factors in high quality of life.

- Desirable results of economic activites include:

  - **security:** assurance our needs will be met in future
  - **freedom:** ability to decide for oneself what to produce, what job to do, what to do and how to do it, and how much to spend or save, or what to buy
  - **growth:** increased production of goods and services in a country
  - **stability:** predictable economy, with few ups and downs and with unemployment and inflation under control
  - **efficiency:** production or quality goods and services that do not break down or wear out quickly
  - **innovation:** constant creation of new products and ways of doing things
  - **equality:** the same political and legal rights for all people and provision of basic needs for every person
  - **environmental protection:** clean air and water, careful regrowth of renewableresources,careful management and no wastage of non-renewable resources

- Security is best guaranteed by a planned economy.

- There is more freedom in a market economy.

- Growth is not assured by either system.

- Planned economies are more stable.

- More efficiency is found in a market economy.

- Market economies tend to be more innovative.

- More equality is found in a planned economy.

- Planned economies pay more attention to environmental concerns.