

Mancur Olson:

How Bright are the Northern Lights? Some Questions about Sweden

© Institute of Economic Research, Lund University, Sweden

For further information, see www.mobergpublications.se/other/olson.htm

Contents

Introduction

Preface

Chapter 1: Why Isn't Sweden Worse Off?	1
Is the Standard Answer to the First Question Wrong?	3
Are Time Lags the Answer?	6
Is Swedish Culture the Explanation?	7
Government Size and Economic Growth in the West	7
The Route to an Answer to the Second Question	14
Chapter 2: International Trade, Competitive Markets, and Economic Growth	16
Some Surprisingly Strong Statistical Relationships	18
The Historical Relationship Is Also Strong	23
Wider Evidence on Free Trade, Competitive Markets, and Growth	25
Why Does Protectionism Hurt Growth More than Welfare Does?	27
Chapter 3: Explicit, Implicit, and Efficient Redistribution	28
"Implicit" and "Explicit" Redistributions	28
The Criteria for Redistributions Generate the Social Costs	29
Slower Innovation as a Deadweight Loss	31
Conditions on Explicit Redistributions to the Poor	33
The Theory of Efficient Redistribution	33
We are not Done Yet	34
Chapter 4: "Rational Ignorance" and the Bias of Collective Action	36
The Difficulties of Collective Action	38
The Inegalitarian Bias of Collective Action	40
Chapter 5: Why Implicit and Inefficient Redistribution is Commonplace	42
Will Coalitions Seek Unconditional Cash Transfers?	44
Rational Ignorance Makes Implicit Redistributions Possible	45
The Implicit Redistributions that Rational Ignorance Permits are Almost Never Efficient Redistributions	46
Aggregate Evidence on the Inefficiency of Implicit Redistributions	49
The Saliency of the Evidence in Chapter 2	50
Sudden Increases in the Size of the Market and the Polity that Determines Trade Policy	52
Chapter 6: The Lower Costs and Ultimate Limits of Explicit Redistribution	54
What Limits the Amount of Implicit Redistribution in Sweden?	56
Encompassing Organizations	58
Factors Lowering the Costs of Explicit Redistributions	59
A Recapitulation	62
Too Much of A Good Thing is Bad: Nonlinearities and Lags	65
How Bright Are the Northern Lights?	68

Introduction

The Swedish welfare state has for several decades been discussed as the "middle way" between capitalism and communism. The recent collapse of the communist economies of Eastern Europe has brought new fuel to the debate on the future of the Swedish Model.

Mancur Olson, professor of economics at the University of Maryland, is one of the pioneers in the development of public choice theory.

The argument presented in this volume has been developed from his 1986 Crafoord lecture in Lund. Starting from concepts proposed in earlier works - "The Logic of Collective Action" (1965) and "The Rise and Decline of Nations" (1982)¹ - Mancur Olson develops a framework for analysing the distinctive set of policies and institutions that together form the Swedish welfare state.

He shows that different types of redistributions may have quite different effects on economic performance. Less transparent "implicit" redistributions, aiming to protect certain industries, seem to have more damaging effects on performance than "explicit" cash transfers to low income groups. The social cost of income redistributions depend on the conditions attached to them - i.e. on their effects on incentives.

Mancur Olson's analysis provides a number of concepts, distinctions and questions that together may help us better understand the long term dynamics of the Swedish Model.

Allan T Malm
Director
Institute of Economic Research

¹ Also published in Swedish, "Nationers uppgång och fall", Ratio 1978.

Preface

This little book is not intended to argue either for or against the "Swedish model" of public policies and institutions. The purpose is rather to look at the somewhat distinctive set of public policies and institutions in Sweden from a new angle. When one looks at the Swedish situation from this unusual perspective, some new questions and options for public policy emerge. I asked many experts in Sweden and elsewhere to criticize an earlier draft of this brief book, and found that there was about as much sympathy for my argument on the one side of the political spectrum as on the other.

I had to ask for so much help because I am not any kind of expert on Sweden. The argument in this essay emerged as much out of observation of other countries and from theoretical reflection as it did from what little knowledge I have of the Swedish scene. In part because of the fear that my limited knowledge would lead me into error, I have also given myself a lot of time for second thoughts. As it happened, the argument here began when Professor Ingemar Ståhl kindly asked me to present the Holger Crafoord lecture at the University of Lund in the Fall of 1986. Had those whose help I have sought not been so generous with their time I would not have felt able to provide a written version of that talk that Professors Allan Malm and Ingemar Ståhl asked of me.

Thus any value this book has is due in large part to the help of my critics. Thick as my file of criticisms is, it is possible that some comment has been misplaced. But, at a minimum, I am greatly indebted for helpful criticisms to each of the following: Peter Bohm, Karl-Olof Faxén, Robert J. Flanagan, Anna Hedborg, Jörgen Holmquist, Sten Johansson, Jan Karlsson, Peter J. Katzenstein, Walter Korpi, Jan-Erik Lane, Assar Lindbeck, Carl Johan Ljungberg, Per-Martin Meyerson, R. M. Mitra, Victor A. Pestoff, Olof Ruin, Göran Therborn, Claudio Vedovato, and Carl-Johan Westholm. Chris Bartlett, Brendan Kennelly, Adele Krokes, Richard Lewis, Venka Macintyre, and Young Park provided me indispensable help in doing the research for this manuscript or in getting it prepared for publication. All of the shortcomings of this manuscript are nonetheless entirely my responsibility.

Postscript of 1 November, 1990:

This essay was entirely written before - and much of it long before - the economic emergency of October and the Swedish government's crisis package of reductions in public expenditure announced on October 26. The argument of this book (particularly in the closing chapter) leads one to expect crises such as the one that has just occurred - and to fear that there may be others as well. Nonetheless, I see no purpose in adding a discussion of the short-term problem arising from fears of a devaluation of the Swedish crown to the book. This book is about the more fundamental long-run characteristics of

the Swedish economy, not about the emergencies or the successes of the season. In a long term perspective, the crisis of October, 1990, does not, taken by itself, appear to be so momentous: the possibility of a single devaluation would not raise fears about the long-run future of the Swedish economy if there were not uneasiness about a series of devaluations in the past and fears that a further devaluation would not be the last. Thus I believe that the focus should be on the fundamental structural issues with which this book deals - when they are understood, the way out of the short run difficulties will also be reasonably clear.