Dignity and the Burden of the Welfare State

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Abstract

The burden of the welfare state may be analysed from an economic as well as a more normative perspective. This paper attempts to do both things. By the use of the case of Sweden the expansion and the costs of the welfare state is described, partly in international comparison, and explained, largely in terms of unintended consequences. Special attention is given to the effects of taxes. Next, the concept of dignity is explicated and used to evaluate the Swedish welfare state. The overall conclusion is that the burden of the welfare state is high indeed, both in economic terms and from the perspective of human dignity. Consequently, if we want to promote economic efficiency, growth and dignity the size of the state should be radically decreased.

Introduction

The burden of the welfare state and the high tax levels necessarily associated with it may be expressed in economic terms such as low growth rates, economic inefficiencies and high unemployment levels. This is an important venture and I shall devote a considerable part of this paper to such issues, with a special focus on taxes. However, the burden of the welfare state may also, and perhaps more appropriately, be described in terms of its consequences on human dignity.

The case to be analysed below is Sweden. It may be the most extreme example but there are definitely great similarities with other welfare states such as Germany and many other West-European countries.

The purpose of this paper then is to describe and explain the development of the Swedish welfare state, and also to evaluate it from the perspective of economic efficiency and human dignity.

In the first section the general characteristics of the Swedish case are presented, partly in international comparison. The following section provides an explanation of the development of the welfare state, largely in terms of unintended consequences. Thereafter special attention is given to the effects of taxes. Next, the concept of dignity is explicated and used to evaluate the Swedish welfare state. The paper ends with a section about possible lessons for other countries.

The Swedish Case

For many years the Swedish welfare state portrayed itself as a model to the world. [1] To many this was also how it was perceived. For example already in 1936 Marquis William Childs published the book *Sweden: The Middle Way* (Childs 1936) which described the Swedish model as the middle of the road between capitalism and socialism. Sweden was thought to have found a way to combine economic development and growth with generous, publicly provided welfare programmes "from the cradle to the grave". For these reasons even a well-established economist like Assar Lindbeck regarded the Swedish welfare state a triumph of modern civilization (Lindbeck 1993, p. 98).

However, the reality of the Swedish model has become quite different to what was intended and to what many people still believe to be the case. Five stylised facts may illustrate the present situation:

[1] See e.g. Korpi (1991) and Meidner (1994).

I. No job on net have been produced in the private sector since 1950.[2]

II. None of the top 50 companies on the Stockholm stock exchange has been started since 1970.[3]

III. Sweden has dropped from fourth to 14th place in 2002 among the OECD countries in terms of GDP per capita since 1970.[4]

IV. Well over one million people out of a work force of around five millions do not work in 2003 but live on various kinds of public welfare programmes such a pre-pension schemes, unemployment benefits, sick-leave programmes etc.[5]

V. A majority of the adult population are either employed by the state or clients of the state in the sense that they have a majority of the income coming from public subsidies.[6]

However, the characteristics of the current situation are of course the result of a long process. A few aspects of it should emphasized.

In the mid-19th century Sweden, like many other European countries, went through a period of rapid institutional change. Within a few decades the economy was deregulated, taxes were lowered and tariffs were abolished. Moreover, modern institutions such as limited liability corporations and patent laws were introduced. In addition, the political system was changed into a two chamber parliamentary system with successively increased suffrage.

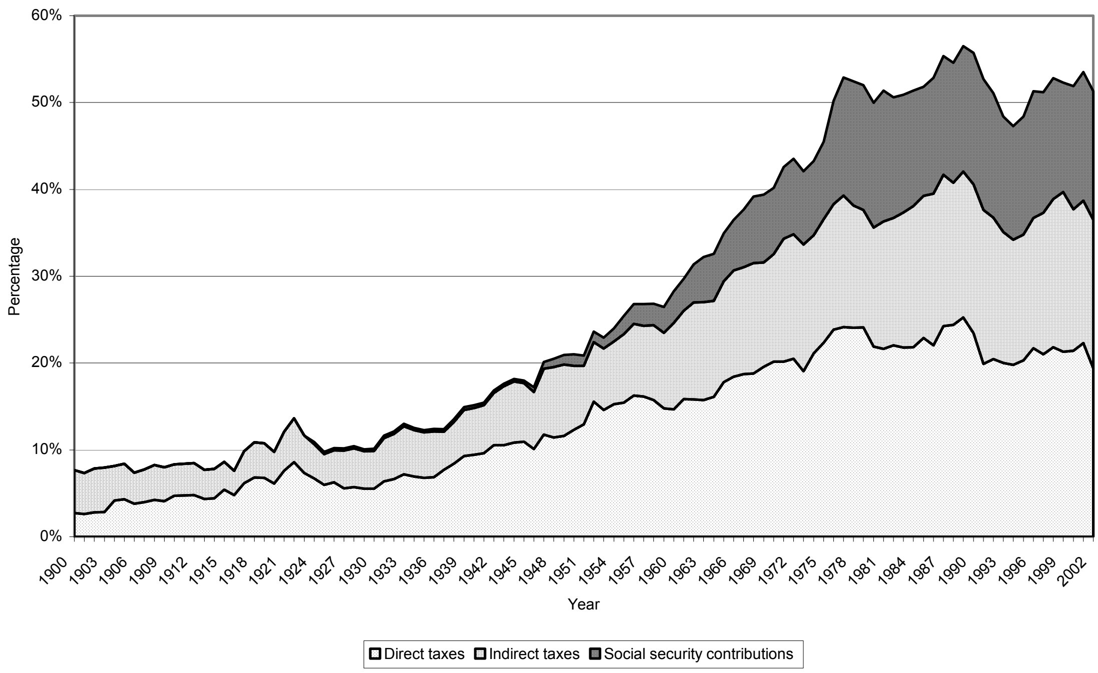
As a consequence a period of high growth and social change occurred. From 1890 to 1950 Sweden was the fastest growing country in the world (Krantz 2004). Several major industries, e.g. in mining, forestry, paper, high-current electric equipment, telecommunications, chemicals, car manufacturing etc., were founded around the turn of the century. Over the coming decades many of the leading companies in these industries developed into large international corporations. Parallel to this economic development a dynamic civil society evolved with numerous voluntary

[2] Davidsson and Henrekson (2002)
[3] Henrekson (2002)
[4] OECD (2004)
[5] Actually it was 1 035 958 full-time equivalents, which in practice is many more individual. See SCB (2003) and Dagens Nyheter (2003).
[6] Zetterberg (1995), p. 54-57

organizations and clubs. Sweden was transformed from a poor rural country into one of the wealthy modern society.

During this period Sweden was in fact a low-tax country, a fact that is not even well known in Sweden. In Figure 1 below the development of the Swedish tax level is presented:

Figure 1: Total taxes as a percentage of GDP, 1900-2002



Comment: By direct taxes is meant taxes paid by individuals, e.g. the income tax. By indirect taxes is meant taxes paid by corporations, e.g. value-added taxes. Social security contributions consists of taxes paid by employers as well as individuals to mandatory social security systems.
Source: Johansson (2004) and Riksskatteverket (2002)

As shown, around 1900 the taxes amounted to around 8 percent of GDP and it was not until 1950 that the taxes rose to around 20 percent. By the mid-1970's it had reached the current level between 50 and 60 percent of GDP (2002: 52 percent), the highest in the world, at least among democratic countries. Note also the increasing share of indirect taxes and payments to social insurances. In Table 1 the development of the tax rates for all the OECD-countries and some other countries for which data is available are presented:

Table 1: Total taxes as percentage of GDP in different countries

	1925	1933	1950	1960	1965	1970	1975	1980	1985	1990	1995	1998	1999
Australia					22,3	22,9	26,6	27,4	29,1	29,3	29,4	29,9	30,6
Austria					33,9	34,9	37,7	39,5	41,6	40,2	41,6	44,4	43,9
Belgium					31,1	35,7	41,6	43,1	46,3	43,1	44,8	45,9	45,7
Chec Rep.											40,1	38,3	40,4
Denmark	19,6	20,1	19,8	25,3	29,9	40,4	41,4	43,9	47,4	47,1	49,4	49,8	50,4
Finland	21,6	20,1	27,8	27,5	30,3	32,5	37,7	36,2	40,0	44,7	44,9	46,2	46,2
France	21,1	26,3	30,2	33,4	34,5	35,1	36,9	40,6	43,8	43,0	44,0	45,2	45,8
Germany	17,8	23,0	30,1	33,9	31,6	32,9	36,0	33,1	32,9	32,6	38,2	37,0	37,7
Great Britain	22,6	25,2	33,1	27,3	30,4	37	35,4	35,3	37,7	36,0	35,2	37,2	36,3
Greece					18,2	20,9	21	24	28,6	29,4	31,7		37,1
Hungary											42,4	38,7	39,2
Irland					24,9	29,9	30,2	31,5	35,1	33,6	33,1	32,2	32,3
Island					26,2	27,0	29,6	29,2	28,4	31,4	32,1	33,6	36,3
Italy	17,5	30,6		27,0	25,5	26,1	26,2	30,3	34,4	38,9	41,2	42,7	43,3
Japan					18,3	19,7	20,9	25,4	27,6	30,9	28,4	28,4	26,2
Kanada					25,9	31,2	33,1	32	33,1	36,1	35,7	37,4	38,2
South Korea							15,2	17,7	16,9	19,1	20,5	21,1	23,6
Luxembourg					27,7	28,9	39,7	40,8	45,3	40,7	41,9	41,5	41,8
Mexico								16,2	17	17,3	16,6	16,0	16,o
Netherlands	14,9	18,6	30,3	30,4	32,8	37,1	43,0	43,4	42,4	43,1	41,9	41.0	42,1
New Zeeland					24,7	27,4	31,1	33,0	33,6	38,1	37,6	35,2	35,6
Norway	20,9	25,1		32,0	29,6	34,9	39,9	42,7	43,3	41,8	41,5	43,6	41,6
Poland											39,8	37,9	35,2
Portugal					15,8	19,8	21,2	24,6	27,1	29,6	32,7	34,2	34,3
Slovakia												37,1	35,1
Spain					14,7	16,9	19,5	22,9	27,6	33,0	32,8	34,2	35,1
Sweden	**16,0**	**18,9**	**21,0**	**28,7**	**35**	**39,8**	**43,4**	**47,1**	**48,3**	**53,7**	**47,6**	**52,0**	**52,2**
Switzerland					19,6	22,5	27,9	28,9	30,6	30,6	33,5	35,1	34,4
Turkey					10,6	12,5	16,0	17,9	15,4	20	22,6	28,7	31,3
USA	11,0	23,4	23,9	27,5	25	27,7	26,9	27	26,1	26,7	27,6	28,9	28,9
Average	18,3	23,1	27,0	29,3									
EU 15					25,8	28,9	31,1	35,8	38,6	39,2	40,1	41,3	41,6
OECD					27,8	31,2	34,1	32,1	33,8	35,0	36,1	37,0	37,3

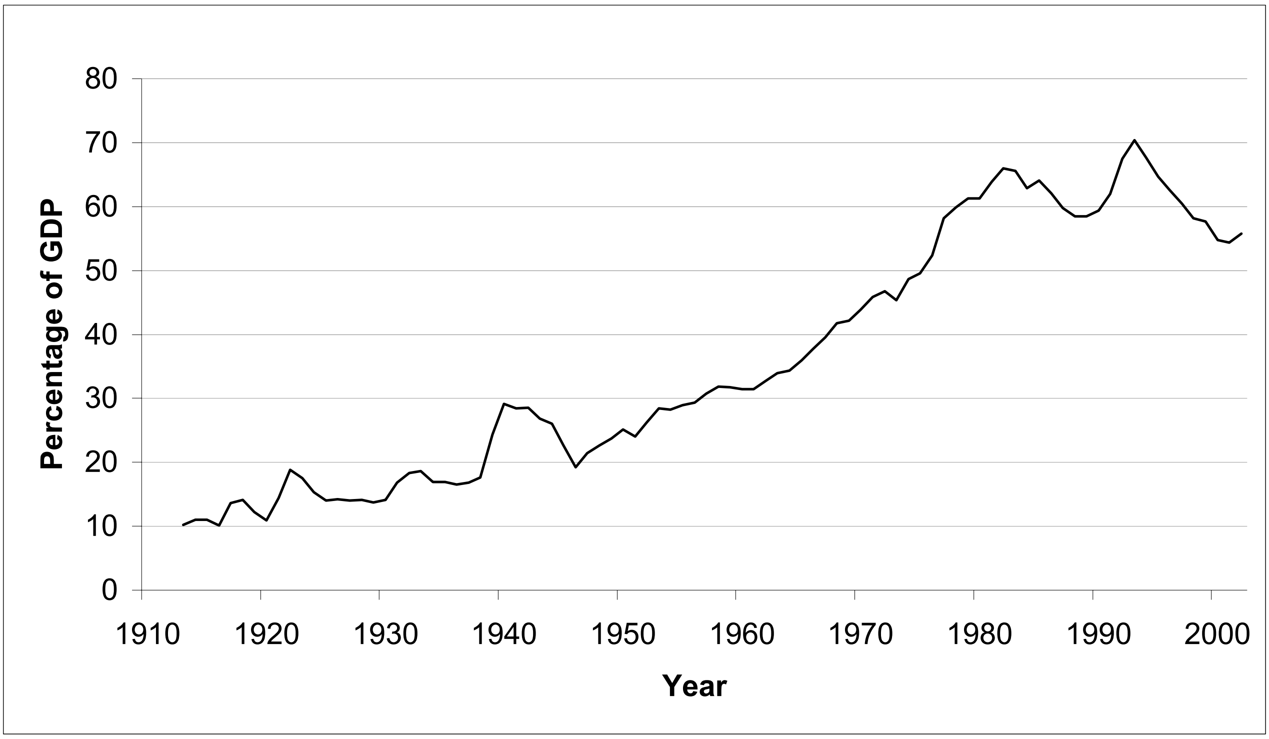
Comment: Year 1925 and 1933 as percentage of GDI.

Source: Johansson (2004), Rodriguez (1981, Table 2.1) and Riksskatteverket (2002, Table 14.3).

Again, in 1950 the Swedish taxes were lower than in most other European countries as well as the USA. Also in 1960 the Swedish tax level was below the average, but by 1965 Sweden had the highest taxes of the listed countries.[7] One should also note that there is an upward trend for tax rates in all countries all through the 20th century, except perhaps for the last few years for a few countries.

The reason for this development was of course the rise of the Swedish welfare state and the consequent expansion of public expenditures. In figure 2 the development of public expenditures in Sweden as a percentage of GDP is presented:

Figure 2: Public expenditures in Sweden as a percentage of GDP during the 20th century



Source: Moberg (2004)

Up until around 1960 the public expenditures of Sweden did not differ much from other comparable countries. But thereafter Sweden definitely took the lead, as shown in table 2 below:

[7] It should be noted that Figure 1 and Table 1 are based on different statistical series which explains the slight differences between them.

Table 2: Government expenditure in a number of countries expressed as percentage of GDP 1960-1995

	1960	1980	1990	1995
Australia	21	32	35	37
Austria	36	48	49	53
Belgium	30	59	55	55
Canada	29	39	46	46
France	35	46	50	54
Germany	32	49	45	50
Ireland	28	49	41	42
Italy	30	42	53	52
Japan	18	32	32	36
Netherlands	34	55	54	51
New Zealand	27	38	41	35
Norway	30	38	54	49
Spain	19	32	42	44
Sweden	**31**	**60**	**59**	**66**
Switzerland	17	33	34	39
UK	32	43	40	43
USA	27	32	33	33
Arithmetic average	28	43	45	46

Source: Krantz (2004) and Tanzi/Schuknecht (1997), p. 397.

After 1995 the public expenditure have declined somewhat in Sweden as well as in some other countries.

A Largely Unintended Development

There are many reasons behind this development. Obviously ideology is important. From 1932 up until today the social democrats have been in power except for two short periods, 1976-1982 and 1991-1994. But also during those nine years with non-socialist government, taxes and public expenditures continued to expand. In fact, the two peaks on the on the curve showing the growth of the Swedish public expenditures in Figure 2 occurred during those periods.

This welfare state ideology favoured substantial interventions in markets as well as in the civil society. For example labour markets became heavily regulated in order to promote job security. Also substantial legislation favoured collective wage bargaining and democratic corporativist arrangements. Moreover, the traditional roles of families were largely taken over by the state in the form of child care, the care of the sick and elderly etc.

In this sense the development of the welfare state and the high tax levels necessarily associated with it was clearly something deliberate and wanted. However, if we want to understand how and why the welfare state has evolved it is quite clear that such explanations are insufficient, in particular since the expansion of the welfare state is an international phenomenon.

In previous work (Karlson 1993 and 2002) I have developed two general explanatory models or mechanisms, *the logic of conceit* and *the logic of opportunism*, which may explain the emergence of the welfare state as a largely unintended consequence of human action, within the tradition of spontaneous orders (or disorders) by F. A. Hayek (1973) and Adam Smith's (1981/19776) analysis of the invisible hand. What follows in this section draws heavily on that work.

The starting point for both models is a society with a small democratic state and where markets and communities are important, much like the Sweden around 1900 as mentioned above

In the first explanation it is assumed that voters and politicians are all benevolent and involved in a project to make society better. The “good life” is to be attained through the means of politics.

The members and voluntary organizations and clubs which were created for mutual support, aid and enlightenment of members, and sometimes even non-members, in areas like basic or adult education, charity, industrial and labour relations, consumer issues, the production of local public goods, culture, care of the elderly and so on, no doubt felt that their means and resources were entirely insufficient to handle all the urgent problems. They therefore turned their eyes to the state and asked for various types of interventions by the state.

Knowledge, information and expertise, it was argued, could be centralized in the state, which through deliberate interventions should improve conditions in markets and civil society. Most importantly, markets should not be eliminated but circumvented and improved. Such interventions, as von Mises argued as early as 1927, are isolated acts, not socialist attempts to completely abolish private property and plan the whole economy. Rather, they are supposed to constitute a “third way” (Mises 1985/1927, p. 76) between socialism and capitalism.

Such views gained wide support in politics as well as in academia. For example Karl Popper (1966a/1945, pp. 158-159) argued that the state should engage in piecemeal social engineering and fight against the most urgent evils of society. In the economic sphere Popper argues that “the principle of non-intervention, of an unconstrained economic system, has to be given up … we must demand that the policy of – unlimited economic freedom be replaced by the planned economic intervention by the state.” (Popper 1966b/1945, p. 125) Similar ideas of course lie behind Keynesianism, that the economy should be fine-tuned through deliberate interventions by the state.

These ideas tended to focus on the immediate solutions to the asserted problems – the long-run consequences were ignored or openly disregarded. In particular, it was believed that large-scale negative consequences of such policies could be avoided. However, many of these benevolent interventions give rise to a number of unintended consequences which not only often tend to pervert the original ends and values but also legitimise further interventions, leading to additional unintended consequences, which in turn necessitate further interventions, and so on. The primary reason being that the individual actors in markets and civil society rationally adapt to the signals and incentives given by the interventions themselves. This is what the logic of conceit is all about – how an exaggerated belief in politics as a means to promote ends which may even be politically unattainable has caused an unintended growth of the state.

There are numerous policy-caused social problems of this type (Karlson 2002, p. 143-150). Rent control causes house shortages, black markets, rationing, less construction, new interventions, subsidies, regulations and in the end higher cost of living for most people. Job-security legislation causes reluctance to hire people, less innovation, fewer new firms, less employment, less flexibility on labour markets, health problems among employees, new interventions, and in the end increased insecurity to many people. Labour market policies and job-creating measures exert a upward pressure on real wages, crowding out of regular employment, new interventions, and in the end increased open unemployment. The public provision of goods and services causes lack of competition, less innovation, higher costs, new interventions, and in the end less availability of those goods and services. And so on.

Conceited politicians and voters may thus as an unintended consequence have promoted the growth of the state and higher taxes into something quite similar to the modern welfare state. Every step in itself may have been deliberate and intentional, but the end result, with a weakened role for communities and the civil society as well as undermined and less dynamic markets, is surely something that was unforeseen and probably also unwanted.

In the second model or mechanism, *the logic of opportunism*, it is no longer naively assumed that the political actors are value rational, benevolent and directed towards the establishment of the good society. Neither does it implicitly treat politics as a unitary actor, but regards it as a struggle or competition between different actors with conflicting interests. The basis for this logic is thus the assumption that politicians, voters, bureaucrats and other actors on the political scene – such as interest groups, labour unions and firms – primarily have their own self-interest as the ultimate motive for their actions.

With such a perspective, largely studied within public choice theory, it is evident that the political process is far from optimal and that there exist a number of systematic political failures. Two aspects should be briefly highlighted: the dominance of special-interest groups and myopic decisions.

There are many reason why narrow special interests are likely to have their way in the political process. One major cause is that different groups in society vary in their ability to articulate and aggregate their interests (Olson 1965). The demands on the state will be asymmetrical – there is a tendency for groups which represent really wide and common interests to remain unorganised, while more concentrated and strong interests, which are shared by a smaller number of actors, are more easy to articulate. The prevalent absence of strong interest groups furthering the interest of consumers, bank savers and tax payers serves to illustrate the first part of the argument, while the latter is exemplified by the overwhelming existence of special-interest groups in support of subsidies to farmers, labour market regulations and restrictions on imports from the developing countries etc.

Moreover, these concentrated and privileged groups are also likely to meet weak resistance from the voter majority to the policies they propose. The cost of these concentrated measures are often possible to diffuse over large groups of citizens. This implies that each individual voter only will experience a slight increase in his costs and thus not find it in his or her self-interest to oppose it. The political parties and politicians therefore are also likely devote a disproportionate amount of attention to policies of this kinds.

The economic consequences of this asymmetry have been discussed at length by Mancur Olson (1982) and others. The general conclusion is that growth rates will decline and the size of the state will grow.

The second general tendency of the democratic political process is the encouragement of short-sighted or myopic decisions. Partly, we have already touched upon this question above: narrow special interests are often precisely expressed in the forms of demands for legislation which is in the specific group's short-term interest while being counter to the long-term good of society at large.

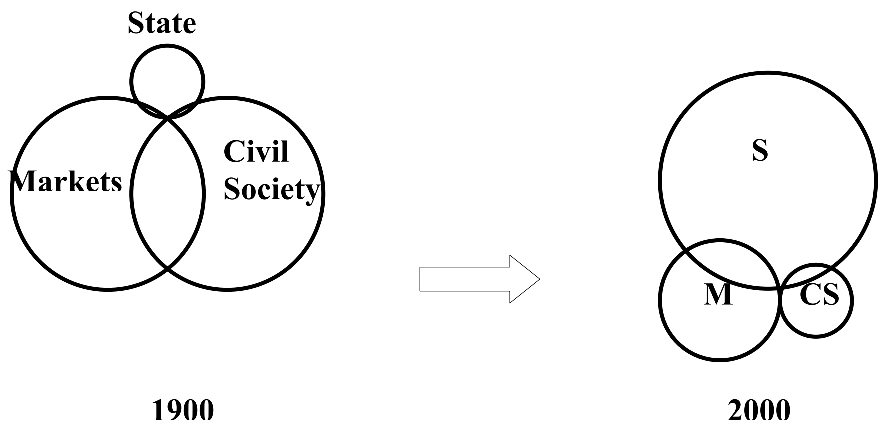
For example, when tenants of rental apartments cry our for rent control, they disregard the interest of people who currently do not have a lease and future generations of potential tenants who become shut out from the rental market because of declining construction rates of new apartments and the low mobility between different-sized flat and different types of accommodation, such as private houses and condos. The same argument also applies to legislation which ensures that people can keep their jobs, stipulate minimum wages, give protective measures or subsidies to ailing industries, pay-as-you-go pension schemes, and so on – these all accord to this type of short-run benefits to specific groups.

The overall, basically unintended, consequence of these tendencies is that the political decisions will often focus on direct, expansionary and consumption-oriented measures, instead of more indirect, instrumental and investment-oriented alternatives. Over time the state will grow and the taxes get higher, resulting into something quite similar to the modern welfare state. And again, markets and the communities in civil society will be undermined.

Both the logic of conceit and the logic of opportunism may thus explain the emergence of the welfare state. In practice a synthesis is likely. Something of a historical irony may be involved in such as development. Well-meaning politicians who solely intended to promote a good society may in the end come to favour and patronize various more selfish special interests. It should also be noted that this process is largely self-enforcing. The bigger the state becomes and the more politics comes to dominate society, the greater the reasons for different actors and interests to try to use the state for their own narrow and myopic special interests. The larger and more complex the role of the state, the harder and more costly it also becomes for the voters to inform themselves about the totality of the political decisions, the programs of political parties and the activities of the politicians and bureaucrats. These will therefore gain an increasing independence from the actual wishes of the voters.

Figure 3 below illustrates the development from a society with a small state, dynamic markets and a lively civil society around the year 1900 to the present situation where the markets and civil society really have been crowded out and are appendages to the state. The size of the circles are intended to indicate the size of the three sectors respectively. This applies to Sweden as well as to many other welfare states.

Figure 3: State, markets and civil society



What Taxes Do

Presently the Swedish tax share is 52 percent and the public expenditures amount to 57 percent of GDP. Most of the taxes are levied on labour, almost two-thirds. As a consequence an average Swedish worker pays 60 percent of his income in taxes, if direct and indirect taxes as well as social security contributions are summed up. In a similar manner holders of shares of companies on the Stockholm Stock Exchange pay around 60 percent in taxes if company taxes, property taxes, taxes on dividends and so on are summed up. Successful entrepreneurs sometimes pay even more. This largely explains the five stylized facts reported above.

With taxes at those levels it is not surprising that the burden of the welfare state is high. In economic terms this often expressed as the excess burden of taxes. If we limit ourselves to taxes on labour the excess burden consists primarily of a lower level of participation in the labour market. Moreover the citizens will work less efficiently and with the wrong things. In particular, the taxes drive in a wedge between buyers and sellers on the labour market which hampers the division of labour and specialisation in the economy, with lower productivity and lower long-term growth as an unavoidable consequence. Also a black economy will arise in many sectors of the economy.

This tax wedge may be measured in a number ways. It is e.g. common to express it in terms of the total marginal effect of the taxes. In table 3 below, however, it is presented in terms of how much an individual has to earn in order to pay someone 1000 SEK, or some other currency, for a certain service job:

Tabel 3: Income requirement for the purchase of services in different countries 2001

	Net Income to Seller	Marginal Tax, Soc. Sec. Benefits, Indirect tax	Market Price	Net Income Requirement to Buyer	Marginal Tax, Soc. Sec. Benefits	Income Requirement
Belgium	1 000	2 703	3 703	3 703	6 010	9 713
Denmark	1 000	1 477	2 477	2 477	4 162	6 639
Germany	1 000	2 241	3 241	3 241	3 396	6 637
Sweden	1 000	1 611	2 611	2 611	3 402	6 013
Finland	1 000	1 812	2 812	2 812	2 966	5 778
Norway	1 000	1 790	2 790	2 790	2 713	5 503
Italy	1 000	1 707	2 707	2 707	2 464	5 171
Netherlands	1 000	1 413	2 413	2 413	2 614	5 027
Austria	1 000	1 579	2 579	2 579	1 461	4 040
France	1 000	1 363	2 363	2 363	1 565	3 928
Canada	1 000	856	1 856	1 856	1 536	3 392
Australia	1 000	726	1 726	1 726	1 625	3 351
Irland	1 000	816	1 816	1 816	1 427	3 243
Great Britain	1 000	894	1 894	1 894	1 263	3 157
Portugal	1 000	977	1 977	1 977	1 065	3 042
Spain	1 000	1 165	2 165	2 165	855	3 020
New Zeeland	1 000	766	1 766	1 766	1 192	2 958
Switzerland	1 000	639	1 639	1 639	902	2 541
USA	1 000	650	1 650	1 650	881	2 531
Japan	1 000	530	1 530	1 530	561	2 091
weig. OECD aver.	1 000	1 007	2 007	2 007	1 435	3 442
weig, EU average	1 000	1 588	2 588	2 588	2 323	4 911

Comment: The yearly income of the seller and the buyer of the service are assumed to be equal to one respectively two yearly incomes of an average industry worker in the different countries.

Source: DuRietz 2004

I guess the table speaks well for itself. It is quite obvious that when the marginal effects of taxes reach the levels at the top of the table, i.e. when you have to earn six, seven or even nine times what the seller gets after the job is done in order to buy a certain service, huge inefficiencies will arise in the economy. It should also be noted that some countries are even worse off than Sweden in this regard.

Dignity

The burden of the welfare may not, however, only be measured in economic terms. In my view it also important to assess the effects of the welfare state and the high taxes necessarily associated with it from a broader, more normative perspective. In this section, the burden of the welfare state will be assessed in terms of its consequences on human dignity. First the concept of dignity must be explicated.[8]

Dignity is just like other important concepts such as ”justice” or ”democracy” genuinely contested. A number of possible interpretations exist. The view presented here, however, is in line with the mainstream traditions in classical liberalism as well as classical humanism according to which every individual has a unique value in herself and the view that the characteristics of a good society is individual liberty and the personal responsibility of every individual for her own life – in accordance with what she herself believe to be a good life – with equal respect for others' liberty. With dignity also follows that the individual deserves respect, from himself as well as from others. But dignity has primarily a value in itself.

To classical liberal as well as classical humanist such as Giovanni Pico della Mirandola, Erasmus of Rotterdam, John Locke, Adam Smith, Baruch Spinoza and Wilhelm von Humboldt[9] human dignity was of prime importance, even though there certainly are great differences between their views. For example, the humanist Giovanni Pico della Mirandola already in 1488 argued that human dignity is intimately

[8] A longer, more elaborate versions of this section is published in Karlson (2004).
[9] See e.g. Pico della Mirandola (1996/1488), Erasmus (1964), Locke (1998/1690), Smith (1982/1759), Spinoza (2001) och Von Humboldt (1993/1852).

connected with liberty, which makes the individual responsible for all her action, and thereby herself chooses her own character. Almost 400 years later the classical liberal Wilhelm von Humboldt (1993/1852, p. 10) makes the same argument in the following way:

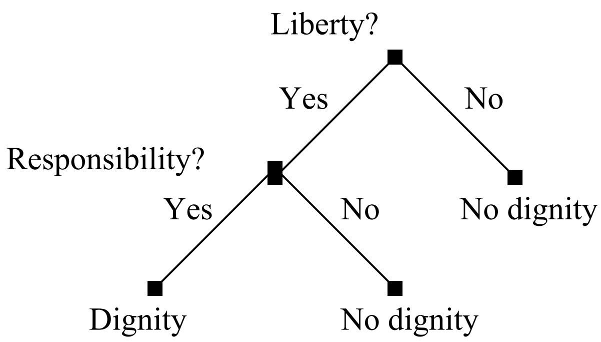
> The true end of Man, or that which is prescribed by the eternal and immutable dictates of reason, and not suggested by vague and transient desires, is the highest and most harmonious development of his powers to a complete and consistent whole. Freedom is the first and indispensable condition which the possibility of such a development presupposes…

There is also a strong connection between this perspective and Aristotle's (1988) view of what it is that constitutes a good, happy and virtuous life. According to him the highest good is *eudaimoni*, which usually is translated as ”human flourishing”, by which is meant acting in such a way that we fulfil our potential as rational and social human beings. Every individual is born with this potential and the method to be used to achieve it is to form one's character through good habits, practical wisdom and virtues.

Dignity, defined as taking active responsibility for one's own life project, may then look very differently to different individuals. Since we all have different experiences, interests and priorities the good life will differ between persons and we should therefore respect and tolerate different ways of living. Our concept of dignity is thus both including and universal – the freedom and responsibility are the same for everyone. Of importance is also that every individual, also the weak and unfortunate, is given the opportunity to live a dignified life.

Dignity thus takes its starting point in the liberty of the individual, understood in the sense of non-interference. Paternalism is not in general compatible with dignity, even though some exceptions exist, as I shall argue below. Closely related to individual liberty is personal responsibility. Only if you could have acted in another way are you responsible for your actions. Liberty is in fact a prerequisite for responsibility. Figure 3 below illustrates the relationship between liberty, responsibility and dignity:

Figur 3: The relationship between liberty, responsibility and dignity



A first requirement for dignity is, then, that individual liberty is guaranteed. If the state can promote this it is thus positive. But if the opposite is true – e.g. if the welfare state through taxes and regulations limit the liberty of the individual – then it is negative for dignity.

The second requirement is that that the individual herself takes responsibility for his actions. Without liberty this is not possible. But responsibility is of course also to a large extent a voluntary choice. The question is then what it is that may make the individual take her responsibility. And can legislation and acts by the state promote responsibility in certain situations? Here the analysis immediately becomes more complicated.

In the tradition mentioned above there is an optimistic view of the individual's ability to learn from successes as well as mistakes. We learn to take responsibility by taking responsibility, which again requires freedom. To emphasise learning through the taking of responsibility also highlights the role of the social environment in which the individual acts. The norms, morals and feedback mechanisms characteristic of this environment are essential for our own views about responsibility. Responsibility also requires that the individual has resources of her own. Such resources, in particular knowledge and wealth, are also created in interaction with the environment in which the individual acts. Two types of environments are of prime importance: markets and the communities of civil society.

To be able to support oneself and one's kin is essential to dignity. Without an income it is very hard to actively form a life project. Productive work is thus a prerequisite for dignity. Consequently a dynamic market economy with an extensive division of labour and specialisation is of primary importance for dignity, since only such a system can create long-term prosperity and employment. Moreover, the market process itself can be described as a learning process where the individual actors constantly use their freedom and take responsibility for their decisions, the bad as well as the good ones. The market also creates the resources that are essential to dignity. We cannot choose any type of economic system and still believe that we can promote liberty, responsibility and dignity. The same is true for civil society. To a large extent it is within the communities, families and voluntary associations of the civil society that our views on personal responsibility is formed. Consequently, a vital civil society is fundamental to dignity.

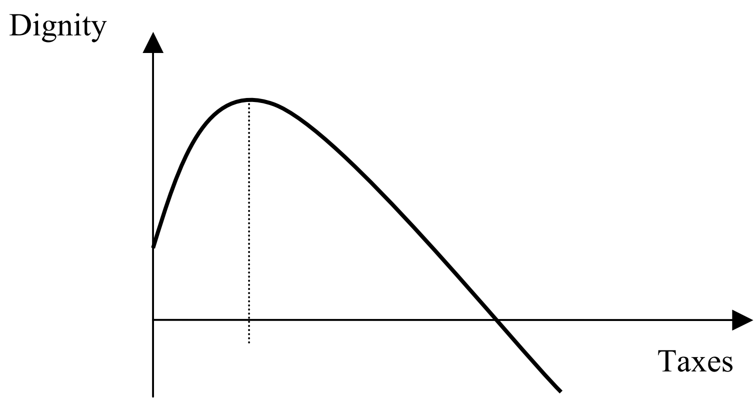
Now, what does all this mean for the assessment of the welfare state? Let me start by briefly propose what the state may do to promote dignity. Both markets and the civil society need some basic institutions in order to work well. Basic liberties have to be secured and basic responsibilities be defined in relation to them. This is essential for human dignity. Of fundamental importance is a system of individual rights and liberties which protects each individual's life, freedom and property against the encroachment of others. The basic requirements of the rule of law must be fulfilled. In practice, also various types of contract laws, civil laws, tort laws, family laws etc. are important. In these areas the state has a constructive role to play.

Moreover, and perhaps more controversially, the state may also have a role in guaranteeing that every individual, also the weak and unfortunate, is given the resources necessary to live a dignified life, if and only if these resources are not created in the markets or the civil society. The reason is that this is a prerequisite for the respect of the unique value of every individual. It should be noted that a certain measure of paternalism here is introduced.

Also it is quite apparent that we have a somewhat difficult trade-off question to handle. Concerning children's right to education and the genuinely handicapped's right to support the state has an important role to play. But in almost all other cases and situations it is the responsibility of the individual himself to use his freedom to live in dignity. Private savings, private wealth and private insurance are always better from the perspective of dignity. The role of the state should not be to undermine the liberty of the individual or to take away her responsibility for her own life through various types subsidies, interventions or taxes, apart from the cases identified above.

My conclusion is therefore that human dignity unequivocally will decrease when the size of the state and the level of taxes reaches a certain level. Figure 4 below illustrates the general relationship between taxes and dignity:

Figure 4: The relationship between taxes and dignity



The initial upward slope of the curve requires that the taxes go to the areas identified above. The following downward slope is explained by the economic inefficiencies caused by high taxes – through weakened division of labour and specialisation, increased unemployment and staggering growth - discussed in the last section as well as by a less vital civil society.

There can be no doubt that the Swedish welfare state is far beyond the peak of the curve.[10] If we want to promote dignity the size of the state should be radically decreased.

Lessons for Other Countries

The Swedish welfare state and the high tax levels necessarily associated with it likely to have been very harmful to human dignity. Most Swedes have become heavily dependent on the state and have neither means nor the ability to take responsibility for their own lives. Through various types of interventions, either by benevolent but largely incompetent politicians *or* by narrow and myopic special interests, the state has slowly but steadily crowded out markets as well as the communities in civil society. Consequently, the taxes have reached such levels that huge inefficiencies exist in the Swedish economy, with comparatively low growth as an unavoidable consequence.

The burden of the welfare state is great indeed.

Other countries, such as Germany, which are approaching the Swedish situation should beware. No one knows for sure when the point of no return is reached.

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[10] Moberg (1994) has calculated the tax level necessary to provide all the standard collective goods, basic education for all children up through 12th grade and a basic social security net. Using the current Swedish public expenditures in these areas as estimates this amounts to around 15 percent of GDP, to be compared with the present level of 57 percent.

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