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## **The Ever Brighter Future Can Be Ours**

Thank you. Let me first thank the Center for the New Europe and the Stockholm Network for organising this conference. A highly relevant topic and perfect timing. It is also a privilege and a joy to be invited to speak here.

I would like to reply to the main question for this conference, "Does the West know best", with a simple "no". We do not know best. But there is more to be said; I won't stop talking here. In fact, nobody knows best just like that.

It is the constant exchange of ideas, arguments and experience, which makes the foundation for us to improve. When beginning a discussion, perhaps nobody knows the best, but when it ends after a critical and constructive exchange of arguments, perhaps most do. Let's hope that is the outcome of this conference.

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The West does not know best automatically. We owe the fact that we have had great successes in the past largely to that free exchange of ideas. Now we have an ever more globalised world and an enlarged European Union. It is a new reality where more countries and millions of people experience great success. The ways forward are constantly being improved; it is the institutional competition at work. Sticking to old ideas and systems in such a situation is a certain way to failure and not knowing best.

This is largely what the previous speakers talked about. What happens if the West does not reform, if we close our minds and borders, if we stick to old ideas? I think the point is made well in the headline "Reform or die!". Not reforming is a choice as much as doing it: It to deliberately choose a future for Europe where we will become a museum for rich Indian tourists.

In reference to the labour market in particular, not reforming would lead to fewer people that work, more people dependent on the government, fewer new and well-paid jobs, slower growth and overall worse living standards. Much of this is what we already have – the average citizen in almost all American states is wealthier than the average citizen in almost all European countries.

Nobody wants more of that, but it takes boldness to reform. The thinking "we know what we have but not what we get" is a powerful idea against every form of change. But if that is to be overcome, we have to show the need for change and describe the two scenarios. Reform, leads to an ever brighter future that can be ours – and the other way to the opposite.

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So – in reference to reform and the labour market – what main things need to be done? Why do they have to be done? And what will happen if we do?

We all want more companies to move here, especially their main functions. We want more advanced jobs with high salaries. We want new companies to start and grow. We want more people working and fewer people to depend on government. We want economic growth to increase. What should we do in order to achieve those aims?

First, we must avoid reforms that will have the opposite effects. Government decisions forcing us to work less, such as shorting the so-called normal working week from 40 to 35 hours, would naturally lead to less work being done. That is the point of it. Bad idea. Raising the highest tax pressure in the world, which the Swedish Kamikaze government is now talking about, would hardly improve the climate for business and work. Very bad idea. Creating new borders for labour mobility within the EU and stopping the tax competition – as proposed by among others Gerhard Schröder – is protectionism. For 500 years a destructive idea.

Avoiding destructive reforms must be a basic demand. But what should be done to improve the situation? The main challenges have names: pensions, social security, welfare services and taxes. Several of the public systems, under the common name “The European Social Model”, were based on unsustainable assumptions from the start. Prohibiting or hampering free competition, free enterprise and free financing, they have promoted inefficiency, dependence on government and not working. Today, they are completely unfit for reality – and tomorrow even more so.

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Let me describe, in all modesty, four reforms and their consequences – with a focus on the labour market.

1. Abolish the public pension age.

When the public pensions were introduced in Sweden, the pension age was 67 and life expectancy 55. Now, the real pension age is 58 and life expectancy is 80. So we had to do a pension reform, but it only came half way. Under the current systems, the population of working age in Germany, for example, would be reduced from 56 million today to 41,5 million in 2050. In Italy, it would decrease from 39 to 22. The expenses would explode: in Spain the public pensions’ share of the public expenses would increase from 50 per cent today to 80 per cent in 2030.

Now, let me be clear: I don’t want to force anyone to work. But the choice not to work must be paid for by oneself. And consequently nobody should be forced to retire at a certain age. We could replace the pension age of today with a system that gives you a basic public pension, and the earlier you retire, the lower it is. If you wait until 75, it gets rather high. Of course, above this basic public level, you can save privately, but that is another issue. This pension reform would lead to more work being done and less public pensions expenses – and hence lower taxes.

2. Reduce benefits in public social insurance

The European countries have similar systems of mandatory public social systems for sick-leave, unemployment, parenthood leave and early retirement. In Sweden, there are in practice no limits to for how long you could live off these systems. The basic public level of contribution is 80 per cent of the salary, but most have higher levels than that, due to negotiated extra benefits. For a person with an average income, the benefit from going to work instead of living off these systems is about 5-10 euro a day due to the high taxes when you do work. Thus, many people choose not to work. Only about 3 million out of the Swedish population of 9 million go to work on an average day. Over 60 % of the adult population is to some extent dependent on the government.

This is highly destructive. You cannot punish work and reward living off the work of others. Especially if you believe that it would be good if more people do work and growth increases. There should be a limit to how long you can live off the systems and the high levels should be reduced to a basic level, perhaps half of the level today. Then, incentives to work would be of a totally different kind and public expenses substantially lower. The labour supply would increase. In turn, less government intervention would open a new market of private insurance where free competition would create new and better systems that will, for example, make sick people healthy again so they can get back to work.

### 3. Free enterprise in welfare services

In Western Europe, as you know, the government finances most welfare services like health care, child and elderly care, school and higher education. In many countries, the services are also almost entirely provided by government. Basically this is the system of the planned economy – one that finances, one that provides, a monopoly. Thus, you get lines of people waiting for treatment, you get inefficiency and a waste of resources. In the labour market perspective you get people working in the public monopolies with low salaries, little influence and you hamper the emergence of a new service sector.

Today, the public welfare services try to perform everything for everyone but fail for so many. The resources would be better used if there were a clear limit as to what the public services provide and what they don't provide and you thus instead have to buy for yourself. And the basic services paid for by the government should always be procured in the market among private companies. This would lead to better functioning services and a vast market for private welfare companies. A new service sector could emerge and competition could improve the services. The staff could get better salaries since they get to choose between different employers and, not least, be able to start their own business.

### 4. Lower taxes

Western Europe has the highest taxes in the world. Naturally, this makes our climate for creative business and work less attractive, not least in the global perspective. In Sweden, the average wage per hour for a worker in the industry is about 20 euro, in China it is 1 euro. It is not matched by a difference in productivity, and taxes are of course one explanation for the difference. Every third Swedish company has outsourced production in recent years. This is not a threat – the fact that China, India, Brazil and others grow is a great promise – but it is a challenge for the West.

Several taxes have already been lowered. Capital taxes are lower, since capital otherwise leaves the country. Corporate taxes are lowered – Austria just lowered theirs from 34 to

25 per cent following the EU enlargement. But the total tax pressure remains stubbornly extreme – and harmful. The reforms of pensions, social security and welfare services that I have mentioned would make radical tax reductions possible. Especially harmful taxes on work and enterprise could be abolished and tax pressure lowered. This would make work more attractive, improve the business climate and increase economic growth.

Government is not the solution to our problems, government is the problem. Government is the main obstacle standing in the way for more jobs, more companies, higher growth and thus better living standards. The direction of the reforms for a brighter future must be the reduction of big government. And thereby the release of the creative forces of humanity.

In creating big government, or the European Social Model, the West – in Europe – did not know best. Some said so from the start. They were right, and now they get right. An open world with numerous success stories shows us once again what is the best foundation for prosperous societies. By seeing, learning and reforming, we can again find our way back to the kind of European society where capitalism once emerged.

Thank you.