

# Swedish Delight

Think the answer to America's problems is bigger government? Swedish Finance Minister Anders Borg has seen the result up close and says it's not pretty for the economy or investors.

By Anita Raghavan

**A**NDERS BORG HAS A MESSAGE FOR those who look to government to take over health care, rescue the financial system and run troubled corporations: I have seen the future—and it doesn't work.

As the finance minister of Sweden, Borg is the chief financial officer of a country long known as a walking billboard for a social welfare state. In Borg's view, the 1970s and 1980s were lost decades for Sweden. Left-leaning politicians pushed government spending, excluding investment outlays, from 22% of gross domestic product in 1970 to 30% in 1980. Real growth fell from an average of 4.4% an-

nually in the 1960s to 2.4% in the 1970s and remained low for the next two decades.

"Like many societies, we went too far in our welfare-state ambitions," say Borg (pronounced "Bor-ee").

These days President Obama is overseeing the largest increase in the U.S. government's share of the economy since it was conducting a world war almost seven decades ago. Economic stimulus, bailouts and expanded health care will all have to be paid for someday with either taxes or inflation. Borg is pushing Sweden in the opposite direction, encouraging the legislature to cut taxes, cap

spending and privatize parts of health care.

"If you're working yourselves upwards in taxes and deficits, we're working ourselves downwards," says Borg. (FORBES recently interviewed him in Berlin, where he had delivered a speech.)

If you think Borg has the right idea, put your money on it. Sell some U.S. stocks and buy some Swedish ones (see table, p. 48).

Borg, 41, doesn't look like a finance minister or fiscal conservative. The Stockholm native wears a long ponytail and gold loop earring. His hippie appearance hides a dyed-in-the-wool free marketeer who champions the idea of "making work pay." That is a revolutionary concept in a country where the penalty for working has historically been high taxes and the reward for staying home a comfortable welfare or unemployment check.

In a 1988 debate that is now a YouTube favorite of conservative Swedes, Borg calls for a "night watchman's state" in which the government provides security but little else. In a book from that era, *The Sleeping People*, Borg's boss, Prime Minister Fredrik Reinfeldt, compared the effects of Sweden's



Swedish finance boss  
Anders Borg: privatizing a  
bastion of socialism.

welfare state to the plague and AIDS.

"It was a very youthful comment," Borg says of his call for near-elimination of government. "When you become older, you get children. [He is married with three children.] You change your views."

Or you go into politics and tone them down. Borg was born into a family of Social Democrats. He became disenchanted after concluding the indulgent government was turning Sweden into a "boring, stagnant society." Borg's idols were free marketeers Margaret Thatcher and Ronald Reagan.

After studying political science, economic history and philosophy at Uppsala University, Borg worked for four years as a political advisor to then prime minister Carl Bildt. Following Sweden's 1990s financial crisis, when it bailed out its own banks, he became

of the Social Democratic swing of the 1980s and, Borg says, of the Viking era.

Though no longer the rabble-rouser he was in his youth, Borg has a penchant for throwing listeners off-balance with an impish smile and unstatesmanlike comments. He chides the U.S. for its huge deficits and ballooning entitlements. "The U.S. needs to produce more, export more and save more," he suggests, savoring the irony that it should look to Sweden for free-market guidance. Even its Social Democrats quickly privatized banks after bailing them out in the 1990s.

Since sweeping to power in 2006, Reinfeldt's center-right Alliance has been shrinking Sweden's welfare state. The government is resisting calls to rescue its struggling auto industry. To hear Borg tell it, his government isn't inspired by coldhearted

income and other) has fallen by 2.5 percentage points in three years to 46.6% of gross domestic product.

Borg's enemies accused him of using "black-market cleaners" in his home. The finance minister counters he was cleared in an investigation—the cleaners' wages didn't reach the threshold above which taxes are due—and that he's not an antitax extremist.

"Given that we're taking money out of people's paychecks, we have to be responsible," he says of his low-tax ethos. As for domestic help, Borg has proposed a cash-for-cleaners policy in which individuals would receive annual 50,000 kroner (\$6,300) tax credits for employing any in-home help.

Among other tax cuts: Reinfeldt has done away with a wealth tax and cut corporate and property taxes. Those are on top of the Social Democrats' elimination of inheritance taxes before Borg came to power, as well as investment of a portion of the state's pension assets in the stock market—something reminiscent of George W. Bush's failed attempt to reform Social Security.

As the U.S. takes over some corporations outright, and offers others financial lifelines, Sweden is unloading scores of industries. It is selling state-owned pharmacies and plans to put its remaining 37% stake in telecom incumbent TeliaSonera on the block when market prices improve. Last spring it unloaded Absolut Vodka. A distillery, Borg notes drily, is not a core function for either a welfare state or a night watchman's state.

Swedish health care is getting a whiff of free marketeering, too. The government's abolition of the "Stop Law" is expected to give a green light to hospital privatization, and starting next year local authorities will have to offer private primary care options.

Investors in Sweden may already be reaping modest dividends. Since the Alliance government came to power, the OMX Stockholm 30 Index has lost an annualized 11.3% of its value (in dollar terms), which is 1.8 percentage points better than the S&P 500 and 2.2 percentage points ahead of the MSCI EAFE Index.

Borg says he's risking not only his nation's future but also his own money on free markets.

"I'm not a rich man, but what little I have I invest in Swedish stocks" via index funds, he says. **F**

**GOVERNMENT OFF THEIR BACKS**

Swedish firms may enjoy a boost from a slimmed-down public sector. These are the top holdings of the MSCI Sweden ETF.

COMPANY   INDUSTRY	PRICE		2009 EST P/E	MARKET VALUE (\$BIL)	% OF NET ASSETS <sup>1</sup>
	RECENT	52-WEEK HIGH			
<b>ERICSSON</b>   telecom equipment	\$9.47	\$12.62	17	\$30.7	14.7%
<b>NORDEA BANK</b>   bank	7.51	12.18	15	30.3	12.9
<b>H&amp;M</b>   apparel	48.31	54.03	20	40.0	12.9
<b>TELIASONERA</b>   telecom	5.12	7.70	10	23.0	6.0
<b>SVENSKA HANDELSBANKEN</b>   bank	19.26	27.85	13	11.8	4.7
<b>SANDVIK</b>   industrial equipment	7.06	14.77	NM	8.4	3.8

All figures are in U.S. dollars. Prices as of July 6. <sup>1</sup>As of June 30. NM: Not meaningful. Sources: Barclays Global Investors; Bloomberg Financial Markets; FT Interactive Data, Thomson IBES and Worldscope via FactSet Research Systems.

a securities analyst. The first thing he noticed was how little faith investors had in Sweden because of the size of its government sector. He came away a firm believer in free markets and sound government finances.

Next year Sweden's government is projected to be on the hook for gross financial liabilities equal to 57% of GDP, which is up from 48% two years ago. The debt of U.S. government entities, by contrast, is expected to nearly equal GDP by next year, versus 63% in 2007, says the Organization for Economic Cooperation & Development.

Borg says it's quite possible to combine "a flexible, market-oriented system with the traditional values of Sweden." By "traditional" he means valuing social cohesion, a publicly financed safety net of some sort and gender equality. Parity between the sexes is a tenet

Darwinism but by cold, hard evidence that the easier the state makes life for people, the easier they take it.

Sweden has long had among the most lavish unemployment benefits in the OECD, and when Borg's Alliance came to power one-quarter of Swedes were subsisting on the government dole through unemployment or sickness benefits. That figure is now down to 20%. As part of its makeover, the government tightened sickness and unemployment benefits to strip Swedes of some of the world's highest sickness absentee rates (40.2 days yearly when Borg's government came into power, 34.6 days now).

Borg's prescription for growth is simple: cut taxes. His government has slashed the tax rate on low incomes from 30.7% to 17.1%. The combined tax take (national and local;