

THE FREE MARKET

THE MONTHLY PUBLICATION OF THE MISES INSTITUTE



Sweden's Great Depression

PER BYLUND

During the recent financial crisis, Sweden has emerged as one of very few financially sound economies. The country's strong position, setting it apart from Western nations, makes it an interesting

example of what could—or should—have been done. Indeed, Paul Krugman, the economist and Nobel Prize laureate, has repeatedly pointed approvingly at how the Swedes handled their depression in the early 1990s as the reason for their recent success. Specifically, he notes the nationalization of some banks at the time of the crisis. While he misses the point by focusing exclusively on a narrow selection of short-term measures rather than longer-term changes, as is the hallmark of a Keynesian, Krugman *is* right that Sweden has done some things right.

In September of 1992 the Riksbank, Sweden's central bank, raised the interest rate to five hundred (500) percent in a vain attempt to save the fixed exchange rate of the Swedish krona (Sweden's currency). This drastic measure was taken in conjunction with large spending cuts and tax increases to address the free-fall of the nation's economy. The

economic meltdown was the culmination of two full decades of decline, and it fundamentally changed the political situation in Sweden.

Since that time, Sweden has, across the board, seen consistent government cutbacks while increasing restrictions on welfare policies, deregulating markets, and privatizing former government monopolies. The country has instituted an overall new incentive structure in society making it more favorable to work. The national debt tumbled from almost 80 percent of GDP in 1995 to only 35 percent in 2010.



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THE FREE MARKET

A PUBLICATION OF THE MISES INSTITUTE

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Publisher:
Llewellyn H. Rockwell, Jr.

Note: the views expressed in *The Free Market* are not necessarily those of the Mises Institute.

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In other words, the country successfully rolled back its unsustainable but world-renowned welfare state. Despite Krugman's wishful thinking, this is the real reason for Sweden's success in riding out the present financial crisis.

The Rise and Fall of the Welfare State

Sweden experienced a century of high economic growth from approximately 1870 to 1970, which literally made one of Europe's poorest countries into the world's fourth richest. The first half of this period of growth was marked by extensive free-market reform, and the latter half is notable for Sweden's staying out of both world wars and thus benefiting from intact industrial infrastructure when the rest of Europe lay in ruins. While a welfare state was established and expanded during the post-war period, it was generally built around capitalist institutions and therefore had limited impact on economic growth.

But the political situation changed. The 1970s and 1980s saw a welfare state run amok with a greatly expanded scope with new government benefits, the introduction of very rigid labor market regulations, active propping up of stagnating sectors of the economy, and drastic increases in tax rates with some marginal rates in excess of 100 percent. In an attempt to fully nationalize the economy, *löntagarfonder* ("employees' funds") were instituted in 1983 to "reinvest" private companies' profits in stock ownership and to be administered by the national labor unions.

During this period government deficits abounded and the national debt increased almost ten-fold from 1975 to 1985. Sweden also saw high price inflation, a situation aggravated by repeated devaluations of the currency's exchange rate to boost exports: in 1976 by 3 percent; in 1977 by 6 percent at first, and then an additional 10 percent; in 1981 by 10 percent; and in 1982 by 16 percent.

Overall, the rapid expansion of the welfare state can be illustrated by the ratio between tax-financed and private sector employment, which rose from 0.386 in 1970 to 1.51 in 1990. Sweden was heading for disaster.

Explaining Sweden's Great Depression

A popular explanation of the meltdown in the 1990s blames deregulation of the financial markets that occurred during November 1985. But as our research (still in progress) suggests, deregulation was an attempt to solve increasing problems to finance the Swedish government's already weak and deteriorating financial situation. In the fiscal year 1984–85 alone, the interest payments on Sweden's national debt amounted to 29 percent of tax revenue—equal to the government's total spending on social security. The country's unsustainable financial situation made deregulation necessary.

The increased access to financial markets made a desperate situation somewhat more tenable. But Sweden then experienced an immense increase in credit. Our numbers show that the volume of bank loans to non-financial businesses increased from 180 billion in late 1985 to 392 billion in late 1989, an increase of 117 percent total or 21 percent annually. Where did all this money come from? Some of it can be explained by deregulation and the inflow of funds that followed. But it was also made possible by monetary inflation.

Several factors were at work during the 1986–1990 credit-infused boom that ended in the depression of 1990–1994. Some factors had no inflationary effect or even a *deflationary* effect, but other factors, especially those that relate to government policy, or are driven by government policy, were strongly inflationary and quite substantial. **CONTINUED ON PAGE 6**



Misesians in Japan

Marc Abela talks with us about the state of Austrian economics and the freedom philosophy in Japan. Abela, a Canadian by birth, has lived in Japan for almost 20 years and has organized the Mises Meeting in recent years, at which Japanese scholars in the Austrian tradition gather to discuss their scholarship. He also organized the recent birthday celebration for Toshio Murata, who introduced Austrian economics to Japan. Abela was one of the founders of the Tokyo Tea Party and continues to be involved with Japanese for Tax Reform and other free-market groups in Japan. He recently visited the campus of the Mises Institute. (MarcAbela@gmail.com)

Mises Institute: What is the state of free-market thinking in Japan?

Marc Abela: Professor Hiroyuki Okon, an Austrian School economist here in Japan, once described Japan as a “desert of liberty” and I am forced to admit that is what Japan is today.

Japan suffers the universal results of high taxation and the wide variety of social problems that follow. One of the more recent developments is “tomobataraki,” or the dual income family. No longer is one income enough to make ends meet and so both parents must enter the workforce.

Following in the footsteps of Thatcher, Reagan, and Gorbachev, Prime Minister Yasuhiro Nakasone, in the 1980s, attempted to privatize some heavily nationalized industries, such as Japan Airlines, Japan Railways, Nippon Telegraph and Telephone, Japan Tobacco and Salt Corp. In the early 2000s, Prime Minister Junichiro Koizumi tried, with limited success, to privatize the bloated “National Post Office,” which also behaves like a semi-nationalized bank here in Japan. The Western concepts of “liberty” and “freedom,” however, remain unpopular here and the work of both Nakasone and Koizumi are only seen today at best as the acts of drunken doctors who left unnecessary scars on a patient with a common cold.

MI: What effect has the “Lost 20 Years” had in Japan on thinking about the economy?

MA: Japanese people are more and more noticing society is drifting away from sanity, and young people, thanks to the internet and all the new media, are seeking out new ideas. Unfortunately, they have no intellectual and significant sources to which to turn for an honest and reasonable answer in their own language. Also, the simple idea that taxation is at the root of most of the social ills they are now experiencing is viewed as too simplistic an answer for many here to embrace. This is no surprise because children are taught from kindergarten on to memorize and repeat the three supreme tenants of Japan: kyoiku, kinro, and nouzei (education, labor, and taxes).

Japan is celebrating its 2,673th birthday this year. It has a rich history, but one that is dominated by heavenly emperors and autocratic taxing warlords. So the last 20 years with its social and economic woes is more the result of 2,000-plus years of state-managed education and a militaristic mindset, than to just economic mistakes.

Young people today are clearly searching for an answer, but no Japanese source is helping them understand from where the problems stem. And before they are old enough to understand things for themselves, they may wake up already hired and working in some government position.

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The Wisdom of Leonard Read

Last month marked the 115th anniversary of the birth of Leonard E. Read. Read, the founder of The Foundation for Economic Education, the first free-market institute in the United States, was an influential figure in libertarian and Austrian economics circles for more than 30 years. Read worked to provide funding for the Mises Seminars and also created a much needed institutional home to some of the movement's most important scholars including F.A. Hayek, Henry Hazlitt, and Mises himself.

In his book *The Betrayal of the American Right*, Rothbard discusses his own time working with Read during the late 1940s and early 1950s, and Rothbard credits Read with nurturing early scholarship in the anarcho-capitalist tradition, although Read himself never applied the anarcho-capitalist label to himself.

Nevertheless, few would dispute that Read was immensely influential as a tireless promoter of what he called the freedom philosophy and free markets. Read's defense of freedom extended to foreign policy as well, as shown in his pamphlet *Conscience on the Battlefield*, and Read's assertion that "[w]ar is liberty's greatest enemy, and the deadly foe of economic progress."

Lew Rockwell has also remarked on Read's significance, noting that Read was important to him both intellectually and professionally. "It was Leonard's recommendation that persuaded Ron Paul to hire me as his chief of staff, something I only learned about in recent years," Rockwell said. "Of course, I was hugely influenced by Leonard's commitment to never 'leaking' on principle and by his intelligence, his charm, his humor, and his support for Mises, Austrian economics, and peace. He was one of the great men of American liberty."

eBooks by Leonard Read now available in the Mises Store:

Accent On The Right
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Awake for Freedom's Sake
Comes The Dawn
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Where Lies This Fault?

The Mises Institute now offers 12 works by Leonard Read in ebook format, ranging from pamphlets and monographs to full-length books.

In many ways, Read carried on the legacy of Albert Jay Nock who recognized that the key to winning the fight to defend freedom lies in persuasion and in thinking differently about the state, rather than in politics and political action. Read's well-regarded knowledge of economics is impressive, as

shown by books like *Anything That's Peaceful*. Readers, however, will find his thoughts on strategy and education, as exhibited in *Where Lies This Fault?* and *Outlook for Freedom*, to be equally impressive.



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MARC ABELA
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MI: Although it's a highly regulated economy, we are told that Japan enjoys one of the world's highest standards of living.

MA: The lie is very pervasive today across the globe about how many countries succeed in being "very prosperous together with a very big government and a highly-taxed and regulated economy." As is the case with Canada and Sweden, Japan has succeeded in achieving a relatively decent economy *despite* the very invasive and massive burden imposed by the taxing authorities. Taxes are very high at all levels in Japan. The rate is 50 percent for inheritance and death taxes; corporate taxes hit 40 percent very rapidly for almost all businesses; any decent individual income will put you in the 40 percent bracket; and then you have municipal taxes, prefectural taxes, property, vehicle, liquor, tobacco, gasoline, and others taxes. The list is nearly endless. Numerous and cumbersome government regulations prevent new entries to industry and being able to compete with the archaic corporate mammoths known as *zaibatsu* (Mitsubishi, Mitsui, Sumitomo, Yasuda, and a few others) who control and own most of the industries, and make changes at a glacial pace. In fact, since government regulations are so exceedingly high, it can be argued that most businesses

and most industries are de-facto "nationalized" and behave like state-owned enterprises.

As is the case in many countries, the numbers provided by the government to the public about the economy are false, and figures such as the GDP, the CPI, and the unemployment measurements are all incorrect or fabricated in order to mask the damage and to pretend things are going well when in fact most Japanese in the private sector are working inhuman hours. This results in a lot of very overworked people, record-breaking debts every year, and record numbers of suicides. On the other hand, those working in the public sector are doing much better, and the public sector enjoys fewer work hours, higher pay, and generous holidays.

MI: We've recently heard that Mises's student, Toshio Murata, is still speaking on Misesian economics in Japan. What has his role been in introducing Austrian economics there?

MA: Ludwig von Mises received one single Japanese student while he was teaching in New York in the 1950s and this student, Toshio Murata, has become a shining beacon of courage and a lighthouse of liberty since his return to Japan. Murata-sensei took on the courageous task of translating *Human Action* into Japanese. In fact, to make the book more accessible to Japanese students

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These include increases in the Riksbank's advances to banks (a 975-percent increase from 1985 to 1989) and purchases of government debt and securities (a 47-percent increase from 1985 to 1987, followed by a 7-percent decrease from 1987 to 1989).

Sweden is an interesting case to study. We do indeed, as Krugman repeatedly tells us, have much to learn from it: from the long-lasting era of economic growth thanks to free markets to the rise and fall of the welfare state. The country's recently (re)gained financial strength and its ability to resist a global recession are due, not to a strong

welfare state as Krugman claims, but to the long-term *rolling back* of the expansive welfare that Keynesians so often praise. ■



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This article is based on work in progress by Dr. Bylund in collaboration with Ola Nevander and Erik Gestrinius.

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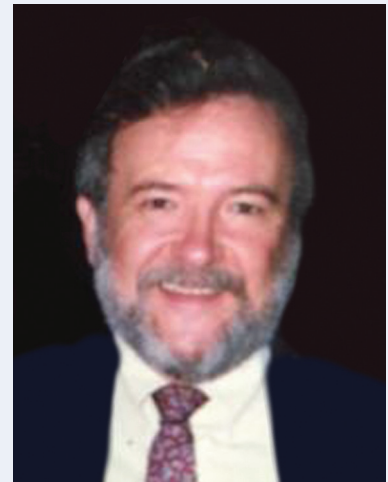
and to allow them to communicate easily with foreigners, Murata-sensei ensured that each page in the English version would correspond to the identical page number in the first edition of the Japanese version. In other words, if a Japanese student had a question about something on page 613 of the book, all he had to say was "page 613" and any English speaker would immediately know what the Japanese student was referring to.

Murata-sensei also went on to become the dean of the Yokohama College of Commerce and spent much time promoting the work of Mises and other like-minded intellectuals. But throughout his life he unfortunately faced great resistance (at times directly from his own students) and had to endure much adversity, which obviously limited his reach. Today however (at the age of 90) he still gives yearly lectures where he talks to us about his years with Mises, about his vivid memories of living as a student surrounded by great minds such as Henry Hazlitt and Bettina Greaves, and how it felt to be a Japanese student in the post-WW2 period in New York. Although he had been hand-picked by Mises for a fellowship, some American students back then apparently argued openly against him being granted funds from an "American Scholarship" since he was a "Japanese national."

MI: Although free-market beliefs are not widespread, there does appear to be at least some interest, as we've seen some new translations in recent years.

MA: The internet revolution and all the new social media, Facebook, YouTube, and Wikipedia, along with the Japanese counterparts, Mixi and 2channel, have allowed for completely new and fresh discussions to be nourished and grow, even if they are anonymous most of the time. As a result of Murata and the internet, young people in Japan are discovering the work of the Austrian School, largely through the expansive Mises Institute website. Also, thanks in large part to Amazon, an increasing number of Japanese translations are being made available, among them books by Hoppe, Rothbard, Mises, Rockwell, and others. ■

IN MEMORIAM



We mourn the passing, but celebrate the life and achievements of **Bill W. Carpenter**, a champion of liberty.

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