

The Prospering Swedes

By David Cay Johnston

David Cay Johnston is a former tax reporter for *The New York Times*. He is also the author of two books about taxes: *Free Lunch* and *Perfectly Legal*.

The streets of the Swedish capital are thick with traffic as people move about in nice automobiles, including blinged-out Cadillac Escalades, gas-guzzling Mustang convertibles, and fleets of Mercedes, Audis, and Volvos, as well as a host of smaller cars that, mostly, sip diesel.

Stockholm is a city of 14 islands. Near its many bridges and the modern downtown, the crush of cars often congeals into a thick traffic jam. But among the shiny ingredients of this metallic confection I could not find a single rusted jalopy belching smoke, listing to one side, and rolling on bald tires, the kind of beater car so common in America.

The Stockholm streets are clean and so well paved that hours of inspection did not turn up a single pothole.

Talk to ordinary people here and they speak of their economic lives in prosperous terms, in sharp contrast to the angst of many Americans who labor in service jobs.

Ask a gaggle of bus drivers waiting for the tourists touring Old Town about housing, and every one of them turns out to own a summer home. How can bus drivers bear the burden of two mortgages? That's a question that evokes polite smiles. These working-class Swedes explain that they own their homes outright.

Talk to waiters on break, to a schoolteacher smoking a cigarette on a bench in the late summer sun, to a teenage girl on a bicycle down at the water's edge, and they all turn out to own their own boat, too — except for the girl, whose parents own one. In this country of 9 million people, there are as many as 1.3 million pleasure boats, meaning that on their own or through extended family, the vast majority of citizens have access to the water by motor or sail. That is a boat ownership rate at least twice that of the United States, data from the National Marine Manufacturers Association indicate.

How can this be? According to American political dogma, high taxes destroy economies. How can the Swedes afford second homes and boats, not to mention nice cars, after paying all those taxes?

Sweden is the epitome of high taxes. It is one of only two modern countries where taxes account for more than half of the GDP (the other is Denmark).

The tax take in Sweden and Denmark, as a share of the economy, is 85 percent greater than in the United States,

according to the OECD. Surely, then, America must be prospering while Sweden and Denmark sink into a pit of economic despair.

In America, taxes are routinely seen as sinister, thanks to three decades of politicians demonizing taxes and government. Preaching tax cuts has become something of a secular religion in America, as politicians in both parties promise economic heaven tomorrow by defeating the tax man today.

Give me your vote, the politicians implore, and if elected, I will shower you with economic manna from heaven in the form of more and better-paying jobs, more money in your pocket, and a better life all around — all thanks to the power of tax cuts.

That tax cuts are the key to economic strength and growth is not just the dogma of politicians, it is heralded by nearly all journalists, print and electronic, as unassailable truth. Critics exist here and there, but they are treated by the tax cutters as likely candidates for the next political auto-da-fé.

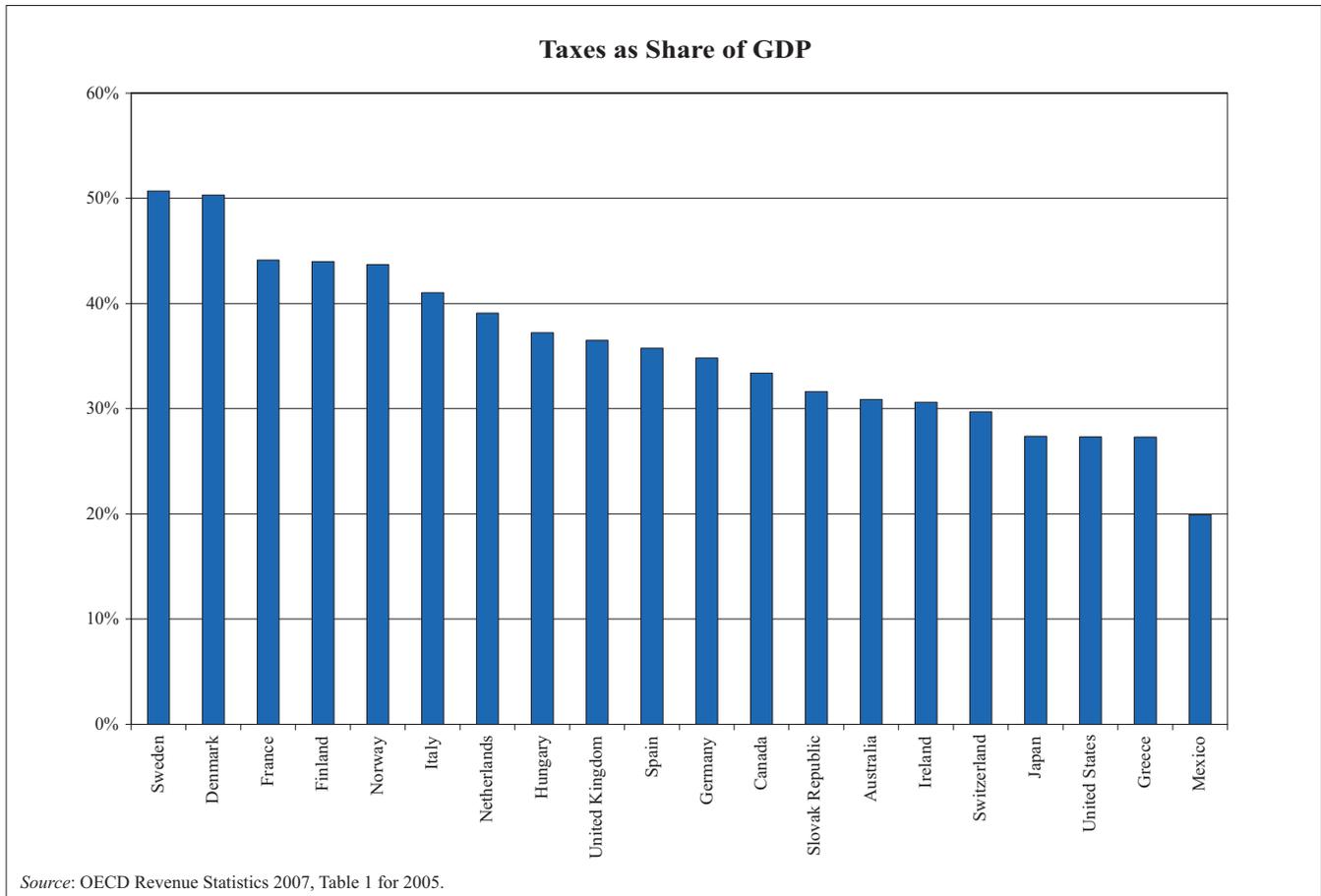
But is it so? Are high taxes always the road to economic ruin and misery? Being one who asks inconvenient questions, and not believing in that curious doctrine of American exceptionalism, I set out to discover whether the economy really does revolve around taxes and whether economic strength is measured by how low taxes can be made.

Off and on for seven weeks over the past year, I have been traveling through Europe and Canada asking ordinary people about their incomes, debts and assets, healthcare, and, especially, taxes.

There was the young man I asked for directions in rural Slovakia who turned out to be an off-duty cop, followed hours later by a prosperous physician who is building a palatial home in a little Slovak town. In Munich there were two young women on holiday from Copenhagen who let me share the last table on the Marienplatz and who, after the glockenspiel performed, were succeeded by two more women office workers. There was the engineer's wife from Greece, the night clerk at a Rome hotel, the sales clerks in stores large and small, and teachers in St. Petersburg, Tallinn, Amsterdam, and Toronto.

There was the cheerful security guard at Tivoli Gardens in Copenhagen, where the queen walked by twice, creating less stir than Britney in midtown Manhattan. On a train to Budapest there was an economics professor, a specialist in public finance. After dinner in Barcelona, there was the hotel bartender who dreams of owning a nightclub, and, the next day, the expatriate American who makes a comfortable living selling curios to tourists some four decades after she arrived on the Costa Brava.

In 15 countries, on one train, two ships, and a lot of airplanes, I found plenty of people willing to talk about their personal finances, about government's role in their



lives, and about their economic anxieties. Sometimes I just engaged people in conversations, but if their story seemed worthy of use in this column or my next book, I told them I am a journalist and asked their permission.

The stories varied by place.

In Russia, Hungary, and Slovakia, the economic devastation of the Soviets shows in the rundown infrastructure, the rusted metal roofs and crumbling building facades, the low wages, and the many people wearing frayed clothes or, at least, cheap shoes. Basic skills are often lacking, as with the two Budapest tourist aides who could not point me toward a street address that, it turned out, was just 500 feet from their post.

In northern Europe, however, people are obviously prosperous. In Denmark, Finland, Germany, Norway, Sweden, and the Netherlands, the people I spoke to expressed little economic anxiety, unlike the Americans you can see on television every day worrying how they will feed their families and keep a roof over their heads if their job disappears. I did talk to two retirees who had gone back to work, but less because they could not make it (although that was a factor) than because they could not stand being idle.

Many of these northern Europeans complained about their taxes, but without the griping and hostility so common among Americans. And without prompting, many here also went on to say that they got value for their money in the form of healthcare or pensions or clean streets or education.

A woman journalist in her early thirties told me a story that I endlessly repeat to friends. I told her I was surprised that so many Dutch and Flemish journalists at a conference in Groningen, a fishing town at the northern tip of the Netherlands, said they had no debt. A few of them, still too young to have gray hair, said they had enough savings to get by with freelance work for three, five, and in one case, seven years. "So do you have any debt?" I asked her. She looked around to make sure no one was in earshot. Her instinctive action reminded me of the old men I spoke to in Slovakia who looked around when I asked about their government's competence. Two of them later admitted that decades after the Soviet collapse, they could not break the habit of looking around to make sure known informers were not listening in, seeking opportunities to endear themselves with Communist Party officials. "I borrowed money for a new car after mine was destroyed in an accident," the woman told me, quickly explaining that this would be considered shameful by her peers. "I did not want to stop saving for our wedding," she said.

I asked her about how big of a wedding she was planning, and she explained it was not the wedding itself she was saving for, but to have enough money to get married. "Ah," I told her, "so you plan to get married once you have saved enough for the down payment." "No, no," she interjected, "to *buy* a house. We are saving to own our own house. No mortgage. We almost have enough, with some help from our parents, to buy our

own house. But when I had to get a new car, I thought maybe I should get a little bigger one for our family, and so I took out this loan, but only for 18 months.”

Contrast that with America, where the average car loan has grown from 50 months a decade ago to about 60 months. Until recently the Internet was a bazaar of mortgages for 125 percent of the purchase price of a house or a monthly cash payment of 1.9 percent annual interest, sometimes with no credit check and no proof of income. The ensuing predictable mortgage disaster has now forced taxpayers to step in to force the sale of one big investment bank, Bear Stearns, on terms that let its chair walk away last spring with more than \$60 million, and, in recent days, has led taxpayers to take over two mortgage giants, Fannie Mae and Freddie Mac, at a cost that may run into the hundreds of billions of dollars.

Even without these policy disasters, mortgages fueled American housing thanks to a big dollop of tax benefits. Yet for every dollar of additional home equity that Americans built up from 1980 to 2006, they took on \$2 of mortgage debt, Federal Reserve data show. Back in 1980, Americans owned two-thirds of the value of their homes and owed the other third to banks. By 2006 they owned just half. Today, with the collapse of the housing market, equity is surely less than 50 percent of the value of all homes.

That brings me back to the Swedish bus drivers — and waiters and clerks and petty merchants — who own

second homes in the countryside, some of them on the water. Of the people I spoke to, all said they owned their property free and clear.

Could it be that our secular religion that teaches that taxes are evil and tax cuts are the road to economic salvation is wrong? Could it be that the Swedes, and the other northern Europeans, know something that we could learn from? Could it be that the economy does not revolve around tax cuts?

There will be more on this in future columns, but for now I look forward to hearing from readers, and I want to leave you with a pair of images, hoping you will carry them around in your head and think about tax policy in terms of these icons of America and Sweden.

Our icon is the bald eagle, a fierce and majestic aerial killer that could have been adopted by the Scandinavians during the Viking era, when through military force they sought to dominate the world as far as their long, open boats would travel, financing their wars not with taxes on their own people as we do, but with gold stolen from the English, Irish and, notably, Parisians.

Sweden's symbol? A little red house, its windows framed in white, the kind of summer home that in the most heavily taxed modern country even bus drivers and waiters can, and do, own outright.

Your thoughts? E-mail me at JohnstonsTake@tax.org.