

Vibrant Economies With High Taxes and High Social Welfare Spending

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William Easterly is correct that Friedrich Hayek wrote "The Road to Serfdom" in 1946 to warn that central planning and state ownership would lead to the collapse of freedom ("Dismal Science," editorial page, Nov. 15). Yet in 1976, in the Preface to the Reprint Edition, Hayek made perfectly clear that he believed that the same outcome would occur through the welfare state. Noting that "socialism has come to mean chiefly the extensive redistribution of incomes through taxation and the institutions of the welfare state," Hayek wrote that "In the latter kind of socialism the effects I discuss in this book are brought about more slowly, indirectly, and imperfectly. I believe that the ultimate outcome tends to be very much the same . . ." (While the editors at Scientific American used the shorthand that Hayek wrote in the 1940s, my detailed paper on the Nordic economies makes explicit that Hayek's critique of the modern welfare state came in the 1970s, in the Reprint Edition).

Thirty years on, we can see the results of Hayek's prediction. Despite government revenues above 50% of GNP in the Nordic countries supporting an extensive social welfare state, those countries are vibrant democracies with open, competitive, and high-income economies and low rates of poverty. That is precisely the point of my Scientific American piece and a longer scholarly paper that Prof. Easterly wrongly attacks. He actually makes my point for me by pointing out that the Heritage Foundation/Wall Street Journal Index of Economic Freedom ranks Finland, Sweden and Denmark as "free economies," with Denmark ranked ahead of the United States, despite the fact of their extremely high rates of taxation and social welfare spending. Similarly, the Global Competitiveness Index of the World Economic Forum puts these three countries at ranks two, three and four in global competitiveness, ahead of the United States at rank six.

Mr. Easterly also repeats his favorite canard that I believe in central planning. Anybody who is at all familiar with my life's work and writings knows that I believe in market-led and open economies and was a leading economic adviser on the conversion of the former Communist economies to market economies. I do not believe in pure laissez faire, however. Nor do I believe that an antipathy to foreign aid is correct at a time when millions of children are dying each year as a result of extreme poverty unattended by practical help from the rich countries.

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