

AN INQUIRY INTO THE NATURE AND CAUSES OF

The Waste of Nations

Stockholm, December, 2022

The Waste *of* Nations

Preface

FOR OVER A HUNDRED YEARS, The Swedish Taxpayers' Association, has scrutinized waste with the taxpayers' money. For over a decade the work has been done by the Waste Ombudsman, Slöseriombudsmannen. After examining thousands of examples of waste a pattern emerges. It is hard to decipher, but still clearly a pattern.

We wanted to see if it was possible to make the pattern understandable and make out whether different types of waste is reoccurring. If so, it would, hopefully, be easier to convince decision makers not to repeat the same mistakes.

Therefore we were very happy to discover that Christian Sandström, Assistant Professor at Jönköping International Business School,

was thinking along the same lines. The decision to categorize different types of waste with tax money in a report was a quick one, and the title, *The Waste of Nations*, came to us almost immediately.

We decided to write it in English and connect it to a website where we could invite others to share their experiences of waste since we believe that the pattern is the same in countries all over the world. We hope that our work will inspire others in their fight against waste with the tax payers' hard earned money and will be helpful in their work against it.

Christian Ekström,
CEO, The Swedish Taxpayers' Association

The Waste of Nations – Introduction

IN 1776, SCOTTISH THINKER Adam Smith published the book *The Wealth of Nations*, a polemic against the tariffs and trade restrictions of his day. Smith argued that open markets create wealth and that trade between individuals, cities and countries leads to specialisation. New solutions emerge when people buy and exchange goods and services with each other in a market characterised by free and open competition. Manufacturing processes give rise to economies of scale, increasing wealth and prosperity.

In his book, Adam Smith explained how and why countries become prosperous. This article riffs off Smith's title but is about the opposite – why countries become poor and why countries waste their resources.

The goal of every society must be to spend tax income on the right things and to spend it efficiently. Today, however, we constantly see that this is not the case. Most people want their taxes to be spent on healthcare, education and social care, and on maintaining law and order, plus a certain amount of redistribution to people in particular need. Politicians – wherever they stand on the political spectrum – constantly promise this and accuse each other of not wanting to achieve these noble aims.

However, instead of efficient spending on purposes that people value highly, we frequently get the opposite. Taxpayers' money is spent on things that can only be described as bonkers: camel parks in Gothenburg; medieval theme parks funded by local government that fail to attract any visitors; eco-vehicle

subsidies leading to cars being bought in Sweden and sold on in Norway; hundreds of communications officers praising various local government initiatives to the skies; and more and more government agencies absorbing more and more cash despite not necessarily getting more done.

On top of this, the resources that are used for purposes that people consider praiseworthy are rarely used efficiently. At the New Karolinska Hospital, the cost of an emergency exit door ran into several hundred thousand Swedish kronor (SEK). Försäkringskassan (the Swedish Social Insurance Agency) is nothing but a steady stream of failed IT procurement projects, and education results are falling despite increased funding.

So why is tax money being spent on the wrong things and why is efficiency so often conspicuous by its absence? This is what *The Waste of Nations* is about. Instead of blaming the waste on individual politicians, local government or central government agencies, we want to shine a spotlight on the factors that lie behind this waste of resources. This waste is not accidental, and it should not be attributed to individuals, political parties or interests. There are patterns and there are underlying factors and mechanisms that cause these patterns. If we can identify, understand and explain these patterns, we will also be able to understand that waste in the public sector is systemic.

This article describes five different forms of waste. In practice, they are not mutually exclusive and in fact interact in different situations,

together resulting in suboptimal use of taxpayers' money. These are the five factors:

1. *Political posturing* – politicians focus on things that show them in a better light but have no actual effect.
2. *Pork barrel politics* – politicians hand out taxpayers' money to the segments of the population whose approval they need to win elections.
3. *Crony capitalism* – powerful special interests influence policymaking so that they benefit at the expense of the general public and the genuinely vulnerable.
4. *Rent seeking* – individuals and organisations set up systems to take advantage of various public sector grant schemes.
5. *Bureaucracy* – public administration starts to take on a life of its own and thrives at the taxpayer's expense.

Firstly, we provide a brief theoretical background, after which the five forms of waste are described in greater depth in the sections that follow, serving partly as an aid to recognising these different forms of waste. A number of illustrative examples are also highlighted to make the underlying mechanisms clear.

Background – politics is a tug of war for resources

How is tax spending allocated? In practice, resources are never infinite. To paraphrase the former Prime Minister of Sweden Olaf Palme's famous quote "Politics is about will", we could say "Politics is about choice". Although healthy economies experience growth over time, policy looking a few years ahead also has to be about choosing priorities. The books have to balance. Former Social Democrat Minister of Finance Bosse Ringholm once had to point out that you can't have your cake and eat it. A billion SEK can either be spent on defence, police, industrial support, healthcare, infrastructure or something else, not all of them at once.

So how do governments prioritise where this money goes? Even if politicians, like voters, government agencies and stakeholder groups are all keen to jointly create a functioning society, all separately stand to win or lose from different priorities. If more money is spent on defence, the suppliers of services to the armed forces will benefit; if more money is spent on infrastructure in Norrland, fewer resources will be able to be spent on infrastructure in southern Sweden.

We can thus see the allocation of tax income as a kind of tug of war. Different groups in society have different interests and want to pull this pot of money in different directions. Which people or groups are coming out as the winners of this tug of war? It is reasonable to assume that the groups that are most adept at influencing the outcome of this battle will have greater influence over how assets are used. To put it another way, tax spending is a kind of power struggle in which different stakeholder groups are pulling in different directions. As we will see, the outcome of such a power struggle is rarely economically optimal or an outcome that benefits the weak and vulnerable in society. Rather the reverse.

Tax is someone else's money – going to somebody else

To understand why this tug of war for resources can lead to waste, it is important to clearly define what tax actually is.

Milton Friedman talked about four different ways of spending money. You can spend your own money on yourself. You can spend your own money on somebody else. You can spend somebody else's money on yourself. Last but not least, you can spend somebody else's money on somebody else.

On the face of it, the latter does not sound like a particularly efficient use of resources. If you are spending somebody else's money, but not on that person or on yourself but on somebody else, how are you to know what is best

or whose interests you should put first. How can you, as the link holding this chain together, choose the right priorities? What is it that makes you take these people's interests into account and not somebody else's? Is there a risk that you won't spend the money in a way that benefits any of these people and spend it on yourself instead?

Tax means that politicians are spending somebody else's money on somebody else. It is difficult for politicians to decide how and where tax funding is to be spent. Is there a risk that money spent in this way will become the object of the kind of tug of war we talked about above? Who will win this kind of tug of war for resources? Probably not the person who needs the money most. It is far more likely that the winners will be those with the most power.

1 Political posturing

THE WORK OF ELECTED politicians is constantly scrutinised and questioned. Positive news and press cuttings affect voter opinion, which ultimately determines politicians' chances of being elected or re-elected. Politicians are engaged in a dance with the media and need to attract the right kind of attention to go up in the opinion polls.

Of course, in many respects it is a positive thing that the media scrutinise those in power and that politicians are held accountable for their actions. However, in a world where people have limited information and limited time to understand everything going on in depth, there are openings for politicians to do things with no positive effects that nevertheless show them in a good light.

Politics therefore risks degenerating into what is sometimes termed political posturing or symbolic politics. We get programmes, initiatives, taxes, legislation and rules that in the best case are ineffective and in the worst case are sheer waste, but all of which have the effect of showing politicians in a better light. Neither the voters, the media nor the politicians themselves are fully capable of realising that this is nothing but political posturing.

The policies that do have an effect are often hard to implement. Politicians might have to come into conflict with stakeholder groups, withdraw benefits from certain groups of voters or introduce legislation that might have a negative impact on powerful organisations. Former Social Democrat Minister of Finance Kjell-Olof Feldt put it as follows:

“What is economically desirable is politically impossible and when it has become possible politically it is too late economically.”

Whilst reforms that would have had a genuine positive effect are often hard to implement politically, politicians tend to initiate measures that do not work in order to look as though they are at least doing something. If nothing else, it will make them look as if they are good-hearted and capable of action. Instead of doing things that have real positive effects, they end up dedicating themselves to things that do not work. From what has been termed “press release spending”, it is a slippery slope down to sheer waste.

Recognising political posturing

Political posturing is a relatively widespread phenomenon that is fairly easy to recognise. Every time a politician cuts a ribbon, opens a factory or an arena, launches a new initiative to “put the town on the map” or makes another major investment, we are probably looking at political posturing. If the issue involves investing large amounts of public money, it is almost guaranteed to be a question of political posturing. Behind the photo opportunities and the headlines lurk hundreds of millions SEK whose effects are rarely positive in the long run. However, the costs are spread out, both across the taxpayer community and over time.

Political posturing is often about announcing a simple, visible and concrete “initiative” to eradicate a large and complex societal problem whose importance no-one questions. The “initiatives” and large amounts of money can

often have the same effect due to their size. When asked “what are you doing to reduce unemployment?” the politician may answer “we are investing a further 150 million in labour market measures” and may also trump other politicians by “investing more”. The fact that labour market measures do not work and yet have still increased disproportionately over a long period of time is too long and too complicated an argument for simplistic media logic.

Sometimes politicians use this logic to look dynamic without actually doing anything. Every time a politician at national level talks about an investment of SEK 100 million, one should suspect that this is the case. Although

100 million is an astronomical amount for a private person, it is small change for the government, given that the national budget is more than SEK,1 000 billion.

Any politician who wants the picture to be more nuanced and does not want to engage in overspending taxpayers’ money will now look as though they are against all these noble things that the political posturing claims to be doing. This makes it tempting for politicians to engage in political posturing whatever their political hue. The solution is always more politics, more investment and more symbolic actions, with skewed spending as a result.

► Examples of political posturing

- Facebook setting up data centres in Norrland. The US company was given substantial subsidies and cheap electricity. Positive effects on the economy are non-existent. Experts are flown in from time to time to do the odd bit of maintenance but the local economy is left unaffected. Apart from by higher taxes, that is.
- The City of Sundsvall spent three years and SEK 2.4 million developing a logo. When it was finally unveiled, the public deemed it both ugly and incomprehensible.
- The aid budget contains many initiatives that look good for politicians but which prove, on closer inspection, to have no effects or even be harmful. According to the Expert Group for Aid Studies (EBA), development assistance to Afghanistan is based on a limited understanding of how Afghanistan works. They also state that outcomes in terms of peace and security have been meagre.

② Pork barrel politics

THE ELECTORATE CAN be said to constitute a key stakeholder group in society. Of course the electorate encompasses a vast number of people, with different opinions and different needs, who can be segmented in different ways and who vote for different parties. Politico-economic research usually assumes that voters are not particularly mobilised and that they tend to lack knowledge and reasons to exert influence over politicians.

However, every four years, it is the electorate that decides the outcome of the election and then, at least, politicians have to submit to the will of the people. Although we might like to think that voters are well-informed and that they have the best interests of society at heart when exercising their right to vote, this is in some respects an optimistic view of reality. Voting with one's wallet is also common, opening up opportunities for politicians to outbid each other by proposing different kinds of grants and benefits. An election campaign therefore easily degenerates into politicians competing to see who can hand out the most "pork" to groups that are strategically important to the election.

US economist Gordon Tullock argued that electors behave like benefit-maximising individuals both in a market and when holding a ballot paper. A consequence of the above is that politicians pay excessive attention to *median voters*, i.e. voters in the middle who float between party blocs. These *marginal voters* might only make up 5–10 percent of the population. The others have already made their minds up. Political parties that

are rational and want to win an election will therefore invest disproportionate resources in keeping a small segment of the population happy.

In US presidential election campaigns, people often talk about "swing states", i.e. the small number of states that swing between voting Democrat and Republican. In practice, they determine much of the outcome of an election and politicians will hand out a lot of electoral pork to these parts of the country. Donald Trump's presidential campaign, with its clear focus on swing states in the American Midwest, can be seen as an example of this.

The consequence of the above is that resources are spent on groups of voters with the power to influence the outcome of an election rather than the groups that actually need something.

Here too, the argument might seem a cynical one, both in terms of the behaviours of voters and the way politicians act in an election. So what if we turn the argument around? If one bloc starts to engage in this kind of pork barrel politics targeting specific groups of voters, the bloc that does not do so will find themselves at a disadvantage. We find ourselves in a kind of prisoners' dilemma where all political parties need to engage in this kind of behaviour for fear of losing the election.

But are voters so selfish that they cheerfully swallow the pork that the politicians shower them with? Basically, yes. In the polling booth, people may be inclined to think of themselves as being altruistic. But an extra SEK 1 000 in your wallet makes a difference, especially

when many people are only just managing to make ends meet as it is.

Recognising pork barrel politics

As a rule, pork barrel politics gains a large amount of media attention, which means it is not that difficult to identify. Clearly specified amounts of money targeting specific groups of voters are about getting voters on side. Few will remain unmoved by an extra SEK 1 000 in their pockets. And if the amounts are quite small overall and do not have that huge

an impact on the national budget, we can almost take it for granted that we are looking at pork barrel politics. If pensioners are going to receive SEK 100 more a month after tax, the amount itself is negligible, but pensioners feel noticed and will be influenced as a group of voters.

Pork barrel politics also tends to appear increasingly and at more frequent intervals the closer to the election we get.

► Examples of pork barrel politics

- At the end of the 2002 election campaign, Sweden's then Prime Minister Göran Persson launched his policy of a ceiling for childcare fees. This meant the introduction of a maximum limit on how much could be charged for a nursery place. In practice, the people who benefited from this were almost exclusively upper middle class, a segment of voters that Persson depended on to win the election. This group are typical marginal voters or "swing votes", i.e. the small number of voters who float between blocs and thus exert a decisive influence on elections and policies.
- In October 2020, the Sweden Democrats announced that they wanted to hand out helicopter money, a direct injection of cash into the economy, to the Swedish population. The gross cost of this spending was put at SEK 91.7 billion in 2021.

③ Crony capitalism

ONCE MONEY HAS LEFT the wallets of companies and people and ended up in the hands of the State, it next has to be distributed between the different stakeholders in society. In theory, this money must be allocated in a way that citizens approve of, both in the sense of funding desirable things and being spent efficiently. People tend to approve of money being spent on ensuring a functioning health service, education and social care, and supporting those in need in society.

In practice, however, the allocation of resources does not take place in a vacuum where “the public good” is at the top of the agenda. Where taxpayers’ money goes and how it is used affects everyone, and everyone attempts to influence where funds are spent. Where tax revenue ends up and how it is used consequently becomes a question of influence. The stakeholders who have the most power in society will exercise disproportionate influence on how the resources of the State are used.

In economics the term “rent seeking” is used. Companies and stakeholder organisations set up systems to attempt to influence politics to their own advantage. In some respects, it is healthy and natural for stakeholder groups to influence politics. If no-one is allowed to influence politics, there is a risk that politics will be harmful. The problem, however, is that the organisations in society that have economic and political power are in a much better position to influence politics to their advantage for obvious reasons.

To start with, the actors that have more money will be able to exert more pressure; a large company can hire more lobbyists and lawyers. PR consultants and lawyers can be seen as mercenaries, hired professionals at influencing politics. As a rule, they charge by the hour, which means that those with more money can buy more influence.

Furthermore, powerful interest groups also have an information advantage over politicians and government agencies. They know more about their sector, their products and their markets than anyone else, which makes them skilled at convincing the government that they deserve support, subsidies or grants. They also often have better established contacts with the political powers that be.

Last but not least, special interest groups have much greater grounds to seek privileges. A company that receives a subsidy of SEK 100 million can easily spend 10 million attempting to obtain this subsidy. The return makes the cost worth it. That cost is then distributed across the electorate, where each individual taxpayer is contributing a negligible share. Therefore, there is often no opposition prepared to spend 10 million attempting to prevent a company receiving a subsidy worth 100 million. Economists often talk about asymmetric incentives; basically the party that benefits from lobbying will spend more money on lobbying, while others will be less motivated to do so.

The tax money that was originally earmarked for welfare and redistribution therefore easily ends up elsewhere. Economists sometimes talk about Western democracy develop-

ing into a form of “crony capitalism”, in other words rogue capitalism where business owners enrich themselves by appropriating benefits from politics instead of providing goods and services for a market.

Recognising crony capitalism

For generally good reasons, as a rule, crony capitalism is seen as something ugly and harmful in society. Special interests often shun the political limelight, preferring to operate in the shadows. This approach can take the form of hiring professional lobbyists, known as Public Affairs (PA) agencies, to carry out the work of arranging meetings, influencing inquiries, running campaigns, planting news stories in the media, etc. Stakeholder organisations rep-

resenting sectors, trade unions or regions will also carry out some of the work for these different interest groups. It is often difficult to track down and identify the actors behind crony capitalism and those seeking to do so can find themselves accused of being conspiracy theorists.

Crony capitalism is about money. The saying “follow the money” can therefore serve as a guide to identifying the special interests behind wasteful spending. It is not unusual for the person who benefits from a particular outcome to also have a hand in creating that outcome.

► Examples of Crony capitalism

- The building works at New Karolinska Hospital in Solna outside Stockholm were ridiculously expensive. An emergency exit door cost several hundred thousand Swedish kronor. The procurement process might have been designed to enable crafty companies with inside information to make money. The procurement represents huge earnings potential for them while on the other side of the negotiating table sit politicians and civil servants in charge of spending other people’s money. It would almost be strange if there weren’t any waste under these conditions.
- All the leaders of the Centre Party going back a long way have written motions arguing for more support for ethanol production in Sweden. It is not too much of a leap to think that such support is motivated by its benefit for the farming lobby and the Federation of Swedish Farmers (LRF), the main stakeholder organisation in the Swedish Centre Party.

4 Rent seeking

IT WOULD BE STRANGE if large amounts of public funding in different transfer systems did not also affect people's morals and behaviour. If it is hard to earn money from work and easy to rake in cash in the form of various hand-outs, ultimately, even honest people will end up changing their behaviour. If different benefit systems and grants are overly generous, in practice this means that honest behaviour will be penalised while cheating and fraud are encouraged.

A debate on streamlining the benefits system has been rumbling on since the late 1990s. Some steps have been taken but the problem clearly remains. A study conducted by former CEO of Scania Leif Östling's Commission to investigate tax spending shows that benefit fraud costs the State SEK 18 billion a year.

It is not just private individuals who have learned how to exploit the system for financial gain. Unsurprisingly, private industry has also become good at lining its pockets with other people's money by applying for all kinds of grants.

One might easily be shocked by the way individuals, organisations and companies are systematically seeking hand-outs and expecting the State to pay their bills. However, it should be emphasised that they are only doing this because they can. If taxes are high and grants and benefits are high, private individuals and companies alike will earn less from working, employing people, developing and expanding. If instead, there are large amounts of money from the State just there

for the taking, it naturally becomes harder to say no. Even companies and individuals that are opposed to transfer systems on principle apply for money on the grounds that "well if the money is just sitting there, it's only right to try to get some of it back."

These kinds of arguments don't hold water. Applying for grants always carries an administrative cost. Naturally, this cost is hard to estimate, but anyone who has ever attempted to apply for money will probably have been surprised by the amount of time it takes to 1) apply for the money, 2) report back and account for how it is being spent and 3) submit final reports. Drip by drip, like water eroding rock, these behaviours will eventually result in different priorities being made and a different culture evolving which focuses more on writing grant applications than on doing anything productive.

In this context, it should also be emphasised that the public sector can engage in different types of rent seeking. Local government, regions, local authority-owned companies and State-owned companies can often apply for money that is made available at national level via various government agencies. The supranational level in the form of EU grants is another formidable goldmine from which rent seekers can also extract cash.

The purpose of these grants is often to encourage new behaviours on the part of companies. If a company receives money for developing green technology, the amount of green technology in society will increase, we gain increased innovation, more competitive

companies and a faster transition to a more sustainable society. In theory, it all sounds great. Almost too good to be true. However, if something sounds too good to be true, it usually is.

The existence of these grants has unfortunately often led to companies becoming immune to risk, for the simple reason that someone else is footing the bill. To put it more bluntly, it becomes rational for companies to destroy capital. A person who receives a million Swedish kronor for doing nothing is prepared to throw at least SEK 900,000 down the drain. At the end of the day, they will still be up SEK 100,000. Those applying for grants find that they gain from securing the funding but in practice, the system encourages wasteful behaviour. In the worst case, various reckless projects are launched that are doomed to failure.

In practice, there is no clear boundary between rent seeking and corruption. All this public funding and all these taxes, grants and subsidies create fertile soil for more and more people to put more and more effort into raking in money from the public sector.

Recognising rent seeking

If we examine various local government projects that verge on megalomania with the aim

of “putting the town on the map”, we will soon uncover a plethora of different grants from Swedish government agencies and the EU. When the projects seem so utterly bizarre that it is inconceivable how they came about in the first place, we often find that all the esoteric platitudes and reckless investments conceal creative rent seeking.

Red flags should also be raised when private companies start using far too much political rhetoric and start talking about “values”. Companies that spout watchwords to do with sustainability, the green transition, being climate smart and gender equality, usually have good financial reasons for doing so. Either they have received money from some public actor that values these things or they have the public sector as a client in some way or other.

Major industrial projects are usually justified with words such as “world-leading”, “green transition”, “green jobs” or “reindustrialisation”. In the early stages, veritable hubris often prevails. When there are large amounts of taxpayers money to scoop up, no-one asks any critical questions. Not until it is too late anyway.

► Examples of rent seeking

- Grants and support to businesses amount to more than SEK 40 billion a year. A large proportion of these resources lands straight in the hands of private companies. Scientifically rigorous evaluations have shown that these grants lack positive effects in all essentials.
- In a report for the Swedish Taxpayers' Association, Jan Jörnmark showed that the infamous camel parks in Gothenburg came about because the Swedish Agency for Economic and Regional Growth had made money available to the region that it needed to take advantage of. Something had to be done and something was done. To get money, you have to put money in. The result is destruction of capital and the most peculiarly daft projects to fulfil various criteria in various application processes.
- The GoBiGas disaster in Gothenburg can also be attributed to systematic rent seeking. Backed by researchers at Chalmers University of Technology, the company Göteborg Energi, owned by the City of Gothenburg, started a project to turn branches and twigs into gas and then use the gas. With hundreds of millions in funding from the Swedish Energy Agency, and rhetoric about being "trailblazing" and "world-leading", the City tied up even more amounts of money in building a new plant. The local politicians eventually put the brakes on, but the total bill for the taxpayers of Gothenburg came to SEK two billion. When you add the hundreds of millions from the EU and the Swedish Energy Agency, it's a huge amount of money down the drain.
- The same pattern can be observed around the investments made in ethanol in Sweden in 2004–2012. Those who came off worst were the three local authorities in Norrland who owned the company Sekab, based in Örnsköldsvik. Sekab was going to make ethanol out of cellulose and the ethanol in turn was going to become the fuel of tomorrow, powering all the ethanol cars in the world. Headed by its CEO, the charismatic Per "Ethanol Messiah" Carstedt, the company succeeded in attracting billions in funding from the EU, the Swedish Energy Agency and the Swedish International Development Cooperation Agency (Sida) for its increasingly over-the-top escapades. By the end, there were no limits to the company's expansion plans. They bought land in Africa, set up factories in Poland and Hungary and bought in huge amounts of ethanol from Brazil. Still to this day the people of Norrland are dealing with the after-effects of a venture that degenerated into corruption, embezzlement and prosecutions.

5 Bureaucracy

ALTHOUGH POLITICIANS decide how to allocate taxpayers' money, in practice it is up to the public sector to put these decisions into effect. As we will see below, different types of waste easily arise within the system of government agencies and public administration.

American economist William A. Niskanen (1975) argued that public administration tends to maximise its size. According to Niskanen, this happens because the benefit for all individuals in a hierarchy increases if the organisation grows. Top managers can show that they have been responsible for a larger entity, which gives them more status, higher pay and opportunities to obtain more important posts. The same logic then filters down to the middle managers in the hierarchy, producing strong incentives to grow the bureaucracy, which ultimately means spending more of taxpayers' money. The bureaucracy has strong incentives to grow, rather than to streamline operations and use resources more efficiently.

This argument may seem overly cynical. Are Directors-General really sitting there working out ways of maximising their own power by expanding their particular public body and obtaining more funding? This behaviour might not be quite as calculated as some economists think.

It becomes easier to understand budget maximisation if we instead assume that, as a rule, people believe in the employer they themselves work for. Anyone who does not think the Public Employment Service is doing anything meaningful is unlike-

ly to want to work there. A person who thinks the work of the service is important will probably be a better colleague, make a career in the organisation and feel a deeper sense of purpose in life. Over time, the proportion of people working for a public body who think what they do is important will become more deeply entrenched. It is likely that the same mechanisms will be found in societies and associations, in businesses and all other organisations.

The consequence of the above is that people inside an organisation tend to overestimate the importance of that organisation. Anyone who works for the Swedish Board of Agriculture will probably attribute greater importance to their employer than people in the Swedish population as a whole. People who work for the Police Authority will probably think their work is more important than that of the Energy Agency, and vice versa.

One result of this is that the public sector becomes engaged in a tug of war for more resources. The leadership of the Police Authority will attempt to obtain more funding for its work because they think their work is more important than that of the Energy Agency, for example. When all the different parts of the public sector are operating in line with this logic, upward pressure is created on costs as a whole. Politicians are constantly being courted by Directors-General keen to bring in more funding for their particular public body.

Aren't politicians capable of understanding this and resisting this inherent pressure

towards constant expansion? As we saw in the case of special interests, there are asymmetries that influence decision-making. As a rule, the public administration has information and incentive asymmetries on its side. Put simply, the former means that representatives of a public body know their work better than anyone else does. This means they are better skilled at arguing for more resources. Incentive asymmetries mean that any specific public body will generally be highly motivated to put time and effort into attempting to obtain more money. Responsible politicians, however, are multitaskers. They have numerous different issues on their desks and will never be able to dedicate the same amount of time and energy to that particular public body.

The same information and incentive asymmetries not only apply in the relationship between the public sector and the responsible politicians. They also apply between the public sector and the electorate. Voters have no opportunity to understand how the entire apparatus of the State works; they lack both knowledge and the motivation to find out. The cost of public administration is spread across the whole population and private individuals rarely have reason to scrutinise or criticise the work of a particular public body.

The tug of war above can easily result in the uncontrolled growth of the public sector. Neither politicians nor citizens are sufficiently informed or motivated. On top of this, representatives of the public body in question tend to think their work is so important that it needs more resources.

The above pattern is also reinforced by the fact that most public bodies are allocated a budget each year. If they do not spend their entire budget, they are not allowed to keep

the difference and they risk receiving less money the following year. Getting rid of the money becomes rational since otherwise they risk causing themselves harm.

The consequence is that the bureaucracy keeps on growing year after year. Inefficiency and incompetence easily spread because it is other people's money at stake. Under these circumstances, rationalisation is difficult to achieve, structures become fossilised and costs grow as grants increase.

Because representatives of a certain part of the government tend to believe in their own work and constantly think it should expand, it also becomes natural for public bodies to provide information about the important things they have achieved. Providing a certain amount of information to citizens is good, of course, and naturally there are advantages to parts of the public sector attempting to explain what they are doing to citizens, politicians and companies. However, there is an unavoidable risk that this information will be solely positive in a way that borders on mendacity and propaganda. We are gaining more and more communications officers, Twitter accounts and public podcasts that no-one actually wants and which take up more and more resources. Ultimately, we risk ending up with a society where the State tells citizens what they should think and do, instead of citizens telling the public sector how to act.

In economics, Wagner's law, the law of increasing State spending, is sometimes cited. Put simply, it means that the size of the State tends to increase, the richer a country becomes. Clearly there are many forces inherent in government that mean it tends to grow.

► Examples of bureaucracy

- A report by the Expert Group on Public Economics, ESO, *No Advertising Please – a Report on Government Agencies' Communication to the Expert Group on Public Economics* shows that the number of employees in communication operations at government agencies has increased by 46 percent in the period 2006 to 2019, while the total number of employees has increased by 11 percent. In total, 3,600 people working for public bodies were spending at least 40 percent of a full-time post on information and communication.

Conclusion: continuing waste on a huge scale

The above five factors provide us with an explanation for why states waste taxpayers' money. Money is not being spent on the things people want it to be spent on, and when it is spent on the right things, it usually isn't spent effectively.

It is worth emphasising that our five factors are not mutually exclusive. On the contrary, when it comes to individual cases of waste, we tend to find a number of factors working in synergy that result in waste. To conclude, let us therefore illustrate this with a number of items in the national budget.

Aid – 47 billion with limited impact

In 2021, Sweden spent SEK 47 billion on international aid. Apart from emergency aid, today there are no signs that this aid is being used effectively or appropriately. Our five factors can help us to work out why 47 billion was still spent and why the outcome is so dysfunctional.

► Political posturing

Although many politicians know that aid is not efficient, they can win popularity by being in favour of aid and by increasing funding every year. In the vulgar and simplistic logic of politics, anyone who does not increase aid funding when someone else wants it to will be accused of not wanting to help poor people.

► Pork barrel politics

The aid might not initially look like an example of pork barrel politics. However, it is clear that voters are relatively uninformed that aid doesn't work. Like politicians, they are also keen to be seen to be doing good and being against aid looks inhumane and spiteful. Whether it works or not is another matter.

► Crony capitalism

A variety of stakeholder groups involved with aid will affect how the resources are used.

► Rent seeking

Once the money has found its way to developing countries with high corruption, it is up for grabs and it is more than likely that it will end up in the pockets of officials. The organisations that receive aid from Sida will also try to accrue more of this funding and protest loudly if any politician attempts to cut off aid.

► Bureaucracy

Sida as a government agency has a vested interest in maintaining and increasing aid. Because the agency is allocating somebody else's money to somebody else, in practice it is very difficult to set the right priorities. They are skilled at wooing politicians with evidence that what they are doing is working.

So the circle is closed with aid that doesn't work, but which will still carry on, and potentially increase over time, despite it having non-existent, or negative effects.

Industrial policy – 50 billion with limited effects

Let us look at industrial policy, as highlighted previously.

► Political posturing

Industrial policy gives politicians an opportunity to be seen as taking action. They can cut ribbons, open biogas plants and show voters that development is happening, ideally development that can be labelled as green and sustainable.

► Pork barrel politics

Industrial policy can be electoral pork to individual regions or constituencies. The "gift" from the politicians is a factory, a major grant from the EU and voters getting the sense that something positive is happening. Otherwise, voters are probably relatively uninformed of the existence or the scope of industrial policy. It is common for citizens to be in a disadvantaged position in terms of knowledge and information about politics.

► Crony capitalism

The use of industrial support will be affected by actors who want to maximise their own benefit. Thus, they influence industrial support in a manner that ensures that they benefit. The money therefore easily ends up in the hands of big business of today rather than the big business of tomorrow.

► Rent seeking

Industrial policy turns companies into rent seekers. Applying for grants becomes systematic. One company managed to apply for (and obtain) 38 different grants in the period 1997–2011.

► Bureaucracy

The public bodies that manage and administer industrial support are themselves convinced that the support is excellent. Previous research has shown that they hire evaluators who are not independent and who provide positive evaluations despite lacking evidence for this. These evaluations are then used to convince politicians and ministries that they are doing a good job and would ideally like more money.

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