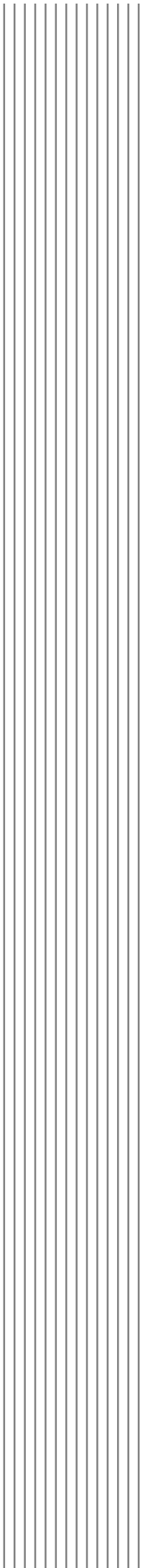
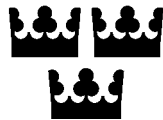


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The Revised Budget Statement



1 The Revised Budget Statement

1.1 A budget for the future

During the past few years, a unique comprehensive budget consolidation has taken place in Sweden. In five years a deficit of 12.3 per cent has been transformed into a surplus of 2.1 per cent of GDP. This consolidation was trying but necessary. During the same period, sustainable low inflation has been established.

Through this policy, confidence in the future has returned and a stable basis laid for sustainable high growth and increasing employment. This also creates a greater ability to withstand periods of international financial turbulence. If the budget consolidation and struggle against inflation had not been successful, Sweden would now be in a very precarious situation.

International financial turbulence has recently been considerable. Serious crises are taking place in Russia, Japan, and a number of other Asian countries, as well as in Latin America. There are fears that these crises will spread to more countries. Even if disturbances to date have primarily been in the financial sector, there is a risk that they will be spread to the real economy. It is already the case that growth forecasts in some countries have been revised downwards.

The outcome of the Riksdag election has moreover created some uncertainty about the prospects for creating political majorities and on the future direction of economic policy.

It is therefore important that the Budget Bill is based on an agreement between the Social-Democratic Government, the Left Party and the Green Party. This co-operation extends to five areas – the economy, employment, social justice, gender equality, and the environment – and includes both concrete proposals and measures for

the future. Other areas – such as European policy and security policy are not included in the agreement.

The agreement between the three parties is also based on earlier agreements being respected. These include agreements on the new budget process, the pension reform, the increased independence of the Riksbank, energy policy and defence policy. These agreements stand firm.

The new agreement now reached is a clear indication that there is a broad support for a stable and predictable economic policy that aims at maintaining and strengthening confidence in the Swedish economy. It is a policy for increased employment, increased social justice, enhanced gender equality, and a better environment.

The economy

Co-operation on the economy is based on the previously set expenditure ceilings for 1998, 1999, 2000 and 2001 being retained. In order not to risk the expenditure ceiling for 1998 and 1999 being exceeded, a number of measures have been introduced leading to reduction in expenditure and postponement of central government expenditure.

The surplus targets for general government finance will also be retained, which means that successive amortisations can be made on central government debt. The goals previously set will be made more stringent, however, so that the target for 2000 will be increased from 1.5 to 2 per cent of GDP.

The policy for maintaining inflation at a very low level will be retained. One manifestation of this among others is that the Riksdag will take a

decision during the autumn on giving the Riksbank increased independence.

Employment

Experience shows that the economic policy objectives have a considerable impact. This has been the case in Sweden for the targets for budget consolidation and inflation. The Government has previously formulated a target that registered unemployment is to be reduced to 4 per cent by 2000. It is now motivated to increase the level of ambition and extend the time perspective by adopting a supplementary target for employment. This means that the proportion of employed in the population aged between 20 and 64 is to increase from 74 per cent in 1997 to 80 per cent in 2004.

The Government intends to present proposals in the 1999 Spring Budget Bill to improve the prospects of attaining this target.

The Budget Bill contains proposals for additional resources to education, care and social services by successive increases in central government grants in 1999, 2000 and 2001 and by the SEK 200 state tax payment being transferred to the local government sector. Besides these resources making possible quality improvements in education, care and social services, they also make possible increased employment.

Social justice

A number of measures are proposed to increase social justice. The financial situation of pensioners will be improved in 1999 by the full price base amount being restored and by the housing supplement for the worst-off pensioners being increased. The financial situation of wage-earners will be improved by a temporary tax reduction that especially favours those on low incomes. Property tax for rented accommodation will be reduced temporarily in 1999. Children's and study allowances will be increased in two stages in 2000 and 2001. Initiatives will be taken to improve the situation for the homeless. Development assistance will be successively increased in 1999, 2000 and 2001.

Gender equality

Women and men shall have the same opportunities to earn a living. Gender-based wage differences between men and women shall be eliminated. The equality ombudsman shall be given increased resources. Resources will be made available to Statistics Sweden for, among other things, improving wage statistics and the methods for equality reports. The committee of inquiry into the Equal Opportunities Act will be given the task of analysing issues relating to work evaluation. Agencies will be given the task of working more actively with equality issues, including pay issues.

The environment

Additional resources will be made available to be able to acquire valuable forest areas. More resources will be made available for conservation agreements and biotype protection in forests. Special funds will be made available for land decontamination. The local investment programmes will be expanded to include support for allergy decontamination. The National Environmental Protection Agency will be given the task, together with the Council for Planning and Coordination of Research, of making an overall assessment of environmental research. A working group is to be appointed to monitor the work of environmentally-adapted national accounts. The Government intends to present key green statistics in the 1999 Spring Budget Bill.

Tax policy

The stronger basis that has been created for the Swedish economy by the budget consolidation and low inflation policy has created greater scope for forward-looking initiatives in a number of areas. These include striving for a sustainable high economic growth, increased employment, a reinforced universal welfare, better education and a continued investment in ecological sustainability.

An important element in a forward-looking policy is to review the tax system. The Government will therefore invite the Riksdag parties in the near future to discussions on the future direction of tax policy.

European policy

Another key area in a forward-looking policy is European policy. Membership of the European Union provides Sweden with opportunities to work for a Europe characterised by democracy, equality of opportunity, solidarity and openness. This co-operation benefits our country and gives us good opportunities for influence. The Government intends to carry out an active, forward-looking EU policy that can contribute to solving common problems and shaping Europe's future.

Co-operation in the economic sphere has been an important support in the consolidation of the Swedish economy. It has contributed to strengthening general government finances, low interest rates and low inflation and thus laid a good basis for sustainable growth and increased employment in the coming years.

This co-operation also constitutes a stabilising factor in the increasingly globalised economy and makes Europe more competitive internationally. The financial turbulence in the world economy requires extensive initiatives on the part of the European countries. It is then important that the European countries reinforce their co-operation in order to be able to wield the influence that corresponds to the strength of the European economy.

The Government's ambition is to continue to strive for a direction of economic policy in the EU that favours employment and prosperity, strengthens competitiveness, and develops free trade. The Government's aim is for EU co-operation to an increasing extent to produce tangible results of direct significance for the individual's security and prosperity. Only in this way can the EU achieve the necessary support among the citizens of the EU member states. Even more must then be done to increase employment and improve the environment, promote equality of opportunity between women and men, and strengthen the position of consumers and wage earners in the common market.

During the next few years, the EU will be confronted by great, even revolutionary changes. The Government wants to work actively for the Union to be expanded, at the same time as co-operation is deepened and further developed. Membership for the countries of Central and Eastern Europe who are now preparing for admission to the Union means a historic opportunity to secure peace, democracy and welfare in the new Europe which is now developing. The

European Union must equip itself for this challenge by political and financial reforms. The EU's methods of work and institutions must also be reformed. Strong, efficient common organisations are very much in the interest of smaller member states such as Sweden. Not least in the run-up to and during the Swedish chairmanship in 2001, Sweden will strive for modernisation of the European Union so that it can meet the requirements of the 21st century.

Sweden will continue to work for the same budget discipline to be maintained in the EU budget as in the Swedish budget and for the contributions paid by member states to be distributed fairly. Agricultural policy and structural policy must be reformed.

As an EU member Sweden will endeavour to make the economic and monetary union a success. This is also in our own interests. In order to retain our freedom of action, we shall continue to comply with the economic criteria for full membership. In order to increase knowledge and to stimulate a broad debate, an extensive non-partisan work of information and public education will be embarked upon. A decision on Swedish participation shall be submitted to the Swedish people for consideration in an election or referendum.

The struggle against unemployment will continue to be at the centre of an active Swedish European policy. The political prerequisites for common initiatives are better than ever before. The Government intends to work for the guidelines on employment policy and its monitoring to be given the same weight as the corresponding instruments in the economic and monetary sphere.

1.2 Economic development

The Swedish economy is fundamentally strong. Investment is rising rapidly, public finances have been consolidated, inflation is practically non-existent, there is a surplus in the balance on current account, employment is rising and unemployment falling. There is a lot to indicate that Sweden is on the threshold of a period of sustainable high growth.

However, there are serious threats to such a scenario. The greatest threat is the uncertainty around the international economic development. There are indications that the world economy is

entering a downturn. The dramatic recent events in the financial markets have increased the risk for such a development. Another threat is the risk that price and wage increases in Sweden will again accelerate as employment rises.

1.2.1 International developments

Economic growth in the world economy is slowing down this year as a result of the economic crisis in Asia, Russia and Latin America. Recovery in the EU countries is expected to continue, while the boom in the United States will slacken somewhat. The turbulent developments in Asia and Russia have contributed to increased concern on the financial markets. There is similarly a risk that the crisis in Latin America will spread. This development has increased uncertainty about the prospects of the world economy.

The recovery in Europe is continuing. Domestic demand has become stronger, while the growth of exports has slackened due to a decrease in demand from Asia. Optimism about the future by households and rising real incomes provides the prerequisites for increasing private consumption. Unemployment in Europe is expected to fall slightly.

The boom in the United States probably peaked last year when GDP growth was the highest in nine years. This year, domestic demand is expected to remain strong, while export growth will decline due to developments in Asia and South America. At the same time as unemployment has fallen below 5 per cent, inflation has declined to the lowest level for twelve years. The successful monetary policy has played a key role for this good development.

The economic crisis that erupted last summer in certain Asian countries has deepened and in certain cases spread. However, a cautious export-led recovery is anticipated during next year. An evident obstacle for recovery is the problems in the financial sector. A restructuring of this sector is thus of great significance for development.

Japan has a key role for developments in Asia. A powerful and transparent economic policy is of great importance for improving the Japanese economic situation. Important components of such a policy are that the fiscal policy measures to stimulate domestic demand are carried out, that the problems in the financial sector are pre-

sented in an open manner, and that these are remedied in a swift and determined way.

The financial and political crisis in Russia is a powerful setback to the reform process and undermines the degree of economic stability that has been achieved. GDP is expected to fall and inflation is expected to increase markedly. Russia needs to resume and reinforce the reform process. Measures to handle the financial sector's deep-reaching problems are especially urgent. However, most countries in Central and Eastern Europe have to date only been moderately affected by the global financial turbulence.

The risk for a weaker economic development

The risks for a weaker international economic development have increased markedly as a result of recent developments in Asia, Russia and Latin America. The risks for poorer development may include a delayed recovery in Japan and the rest of Asia, a devaluation of the Chinese currency, and continued and increased difficulties for the Russian economy, a continued fall on the global stock market, and increased protectionism in the wake of the crisis. Each of these risks is not sufficient by itself to cause a global downturn but taken together they can contribute to deepen and spread the existing crises. The effects on household and business confidence are difficult to judge but they should not be underestimated. Lower confidence entails a reduced willingness to consume and invest.

An alternative scenario has been developed to show how a weaker international development could affect the Swedish economy. This scenario would lead to higher unemployment and a deterioration in public finances. The alternative scenario is presented in Annex 2.

1.2.2 Developments in Sweden

Economic growth in Sweden is expected to be around 3 per cent in 1998 and 1999. The high growth is driven by strong domestic demand. Both investment and private and public consumption will be higher than previously assumed. On the other hand, foreign demand is expected to increase more slowly and the risk cannot be ignored that the effects of the financial crisis will spread and dampen growth in Sweden as well.

The balance sheet of the 1990s

Economic development in the early 1990s was exceptionally weak. The downturn meant that production during the period 1991–93 fell by a total of around 5 per cent. Registered unemployment quadrupled from 2 to over 8 per cent. Almost a half million jobs disappeared. As a result of this and a weak fiscal policy the deficit in public finances increased greatly and amounted at most to 12.3 per cent of GDP in 1993.

During the period 1994 to 1997, the growth of GDP on average amounted to 2.6 per cent per year. Interest and inflation have both stabilised at low levels. The low level of interest is an important reason for the relative good prospects for the Swedish economy. The fall in interest rates that has also entailed a reduced interest rate differentials to other countries is primarily due to economic policy being focused on consolidating public finances and on price stability. Registered unemployment has fallen since 1997 and employment is increasing.

The forecast for 1998 and 1999

Private consumption has markedly accelerated. This year, it is estimated that private consumption will increase by 2.7 per cent and by 2.9 per cent in 1999. Household financial wealth is considerable despite the recent turbulence on the financial markets.

Table 1.1 Demand and output

	SEK BN		Percentage change in volume		
	1997	1998	1999	2000	2001
Private consumption	922.9	2.7	2.9	2.5	2.0
General government consumption	449.3	1.9	0.8	0.6	0.8
Central government	134.2	2.5	0.5	0.5	0.5
Local government	315.1	1.7	0.9	0.6	1.0
Gross fixed capital formation	237.9	9.8	8.0	6.8	5.9
Business sector, excl. housing	182.8	10.7	7.1	4.8	3.2
Housing	23.8	6.2	23.5	25.0	25.0
Authorities	30.5	7.6	1.4	2.2	1.4
Changes in stocks	6.8	0.1	0.0	0.0	0.0
Exports	761.4	5.9	5.8	6.6	5.5
Imports	639.5	8.8	7.1	6.3	5.8
GDP	1739	3.0	3.0	3.2	2.6

The low level of interest rates contributes to a considerable increase in investments. The expansion of the services sector and a relatively high level of resource use in export industry entails a great need to expand capacity in the business sector. An element of uncertainty remains, however, for industrial investment. If the effects of the financial crisis are great, some investments may be postponed. Housing investment is expected to increase in the coming period.

After several years of downturn, it is expected that general government consumption will increase again as of this year. The main reason for this is that the improvement in public finances has made possible increased resources for schools, health care and social services. Local government consumption is expected to increase this year and next year. It is primarily in education and care that the increase is taking place. Central government consumption is also expected to increase in 1998 and 1999.

Foreign trade will continue to be very important for growth. The rate of increase of exports is expected to slacken slightly but nevertheless remain at quite a high level. The high domestic demand entails that imports are expected to rise quickly. The surplus in the current account balance is expected to stabilise at over 2 per cent of GDP.

Inflation and inflationary expectations are very low. Low international price increases together with moderate wage increases and consolidated public finances mean that inflation remains low both this year and next year. Reduced taxation is expected to pull down inflation further. The interest rate differential in relation to Germany is expected to continue to fall and eventually almost disappear.

Table 1.2 Selected statistics

	1998	1999	2000	2001
CPI, annual average	0.5	0.7	1.7	2.0
Hourly wage	3.3	2.9	3.2	3.0
Registered unemployment¹	6.6	5.7	4.4	4.0
Labour market programmes¹	3.9	3.9	3.8	3.5
Employment	1.3	1.5	1.8	1.1
Real disposable income	2.7	3.3	1.5	1.8
Household net savings ratio (level)	0.8	1.2	0.3	0.1
Balance on current account²	2.3	2.1	2.2	2.4
German 10-year government bond interest³	4.7	4.6	4.9	5.1
Swedish 10-year government bond interest³	5.1	5.0	5.2	5.3
TCW index	122	120	118	118

1. Per cent of labour force

2. Per cent of GDP

3. Annual average

Employment has risen faster than expected this year. The forecast for the development of employment will therefore be more optimistic than previously assumed. Unemployment will, however, not fall as much as employment increases. This is due to a rise in the total labour force as many individuals are entering the labour market now that the probability of finding work has in-

creased. This is basically a positive development. Registered unemployment is now expected to be around 6.6 per cent in 1998. In 1999, unemployment of 5.7 per cent is forecast.

Estimates for 2000 and 2001

The estimates for 2000 and 2001 depend upon a number of assumptions. Wage formation is assumed to function well at the same time as the international development is relatively strong. Registered unemployment would then fall to 4 per cent towards the end of 2000. As an annual average, registered unemployment will be 4.4 per cent.

The Asian crisis is only expected to give rise to temporary effects on the world economy. The expansion of our trading partners' markets combined with low domestic cost increases will, however, lay the basis for a relatively swift growth in Swedish exports both in 2000 and 2001. Households' favourable income development contributes to the fast growth of private consumption.

Table 1.3 Employment, unemployment and wage formation

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Number of employed¹	4378	4185	3964	3927	3986	3963	3922	3973	4032	4104	4148
Private sector¹	2986	2821	2630	2633	2698	2698	2695	2732	2781	2842	2874
Public sector¹	1404	1381	1328	1290	1287	1263	1223	1238	1247	1258	1270
Registered unemployment²	3.0	5.3	8.2	8.0	7.7	8.1	8.0	6.6	5.7	4.4	4.0
Cyclical labour market programme measures²	2.0	3.6	4.3	5.3	4.4	4.5	4.3	3.9	3.9	3.8	3.5
Labour force in relation to population³	83.5	81.6	79.1	77.6	78.2	77.8	76.8	76.5	76.7	76.8	77.0
Proportion of employed between 20 and 64⁴	83.4	79.4	75.7	73.9	74.7	74.6	74.0	74.7	75.7	76.9	77.8
Hourly wage cost⁵	5.7	3.7	2.8	2.4	3.3	6.1	4.5	3.3	2.9	3.2	3.0

1 Thousands of persons.

2 As a percentage of the labour force.

3 Labour force as a percentage of the population aged between 16 and 64.

4 According to the employment goal, the proportion is to be 80 per cent by 2004.

5 Annual percentage change.

Anm.: Employment for 1991–92 in the private and public sector is not consistent with the total. Sub-sectors have been recalculated here by Statistics Sweden to take into account changes in definitions and methods introduced in 1992/1993 and allocated from SNI69 to SNI92 by quotas. The total is the original series although corrected inter alia for incorrect classification of ALU workers (labour market training at the workplace) and youth trainees.

1.3 Sound public finances and stable prices

Sound public finances and stable prices are a prerequisite for long-term high growth and high employment. This approach governs economic policy.

1.3.1 Fiscal policy

The Swedish economy rests on firm foundations. Public finances have been consolidated and a surplus has arisen already this year. This is a remarkable change in the light of the situation that existed a couple of years ago. Central government debt doubled in a couple of years in the early 1990s.

Thus, consolidation policy is now entering a new phase. What is now involved is to restrain public finances and to safeguard this success. There are a number of reasons why fiscal policy must remain stringent.

- There is a lot to indicate that Sweden is on the threshold of a period of healthy growth. However, the risks have increased recently due to the turbulence on the international finance markets. In any case, an upswing will not last for ever. Budget policy must therefore be directed at creating a safety margin, so that the next downturn can be counteracted by fiscal policy. This must take place without the deficit threatening to become too great and thus risk initiating a strong rise in interest rates.
- Without large surpluses during an upturn, the possibility of maintaining the social safety net at the existing level during the next downturn will be reduced. This must be avoided. It shall not again be necessary for the unemployed to make the greatest sacrifices.
- Central government debt should be amortised. Central government debt was SEK 1,409 billion at the beginning of September.
- Strong welfare system requires strong public finances. The proportion of older people will increase greatly for some years into the twenty-first century. This increases the demands on health care and social services. Sweden must therefore equip itself for the future.
- A large public debt would mean that future generations would be forced to use a large portion of the resources they create to pay interest and amortisation. It is morally wrong to pass on a large debt to future generations.
- Saving in Sweden must be high in order for Sweden's international indebtedness to be able to fall at the same time as we have a high level of investment. The general government sector must also contribute with increased saving.
- In the Stability and Growth Pact in the EU, Sweden has undertaken to have a medium-term goal of public finances close to balance or in surplus.

Table 1.4 Offentliga finanser

Per cent of GDP

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Income ratio	61.9	61.6	60.5	59.7	59.6	63.7	62.8	63.3	61.7	60.7	60.0
Tax ratio	52.8	51.1	50.2	49.8	50.0	54.2	54.3	54.8	53.8	53.2	53.0
Expenditure ratio	63.1	69.4	72.8	70.0	67.3	65.8	63.9	61.3	60.6	58.4	56.7
Interest on central government debt	4.4	4.7	5.5	6.3	6.5	6.6	6.1	5.3	4.6	4.2	3.6
Financial balance	-1.1	-7.8	-12.3	-10.3	-7.8	-2.1	-1.1	2.1	1.1	2.3	3.3
Central government borrowing requirement, SEK billion	75	150	242	185	138	21	6	-12	-16	-63	-203
Net debt	-5.2	4.8	11.1	21.9	23.6	20.3	21.7	18.7	16.5	13.4	9.6
Central government debt	47.9	61.1	78.3	84.0	84.0	83.6	82.4	77.5	73.3	66.8	54.1
Consolidated gross debt	53.0	67.1	75.9	78.8	77.9	77.1	76.6	72.8	70.1	64.7	55.8

Sources: National Labour Market Board, Statistics Sweden, Riksbank, and Ministry of Finance

Note: The central government borrowing requirement and central government debt have been reduced during the years 1999 to 2001 due to the pension reform. In 2001 the borrowing requirement will be reduced by SEK 143.5 billion and central government debt will be SEK 167.5 billion or 8 per cent of GDP lower compared with a situation without the pension reform.

Budget policy goals

In 1996 the goal was to stabilise the central government debt-to-GDP ratio and in 1997 the goal was for budget deficit be less than 3 per cent of GDP. Both these targets have been met by a broad margin.

In 1998 that the goal is to balance the budget. This goal has also been met by a broad margin. This year the surplus in public finances is estimated to be 2.1 per cent of GDP. There are two reasons why the budget goal has been surpassed. The first is that incorporation of the National Swedish Pension Fund's real estate holdings entails a reinforcement of general government finances by 0.8 percentage points in the accounts. The other is the good cyclical development and the stringent budget procedure in the Government and Riksdag.

The long-term budget goal is a surplus of 2 per cent of GDP on average over the business cycle. As a gradual adjustment to this aim, the budget targets for the general government financial balance are a surplus of 0.5 per cent of GDP in 1999, 1.5 per cent of GDP in 1996, and 2 per cent of GDP in 2001.

The Government now proposes that the budget goal for the year 2000 be increased from 1.5 per cent of GDP to 2 per cent of GDP. This additional surplus shall be used to amortise the central government debt.

The foremost reason for the adjustment of the goal is the need to further reinforce confidence in the Swedish economy. The increasing turbulence in the financial market has led to increasing interest rates for countries which are not endowed with the full confidence of the financial markets. Despite Sweden in recent years having carried out a very extensive consolidation of public finances, there is some distrust towards Sweden against the background of the weak economic development in the early 1990s.

By way of this additional debt repayment we remove a part of the burden of interest that would otherwise fall on the shoulders of coming generations.

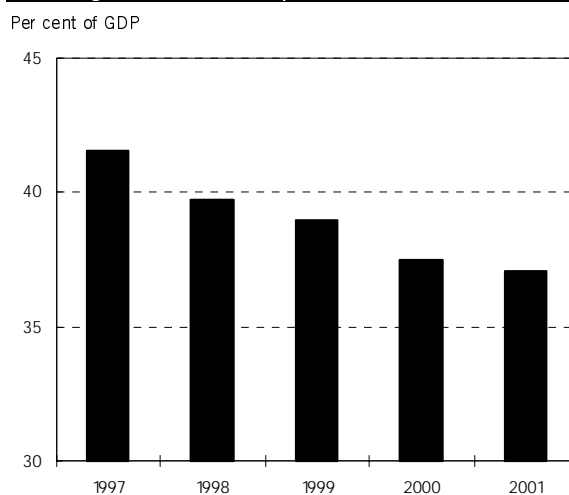
The goals for these years apply assuming the growth estimated in the 1997 Spring Budget Bill. Should growth deviate significantly from this estimate due to cyclical reasons, an equivalent deviation from the stated targets shall be tolerated.

Another budget policy goal is to maintain expenditure under the expenditure ceiling. In the Government's assessment, there is some risk of the

expenditure ceiling being exceeded in 1998 if no action is taken. This is unacceptable. The Government therefore intends to postpone and reduce certain expenditure in order not to exceed the expenditure ceiling.

In 1999 a budgeting margin of SEK 3.3 billion is forecast. If this margin proves to be too small, the Government intends to introduce additional measures. The expenditure ceiling shall be maintained.

Diagram 1.1 The expenditure ceiling for the public sector excluding the effects of the pension reform



The old age pension reform decided upon by the Riksdag allows certain technical adjustments of a number of areas of expenditure and an upward adjustment of the central government expenditure ceiling. This upward adjustment of the expenditure ceiling is due to national pension contributions that are to be paid in for old age pension entitlement that is earned for budget-financed income compensation, for instance, sickness benefit and unemployment benefit. The intention is to make the cost of old age pension clear when it is earned. These charges, as well as certain other components of the reform, are, however, payments within the general government sector and do not affect either total public expenditure or general government finances.

A budget for the future

The Budget Bill concretises form to the offensive for sustainable growth and increased employment that the Government proposed in the 1998 Spring Budget Bill. Six coming areas are given prominence: Knowledge and competence, Par-

ticipation in the information society, Sustainable Sweden – setting an example, Entrepreneurship, European co-operation, and a Sweden for all.

The budget also contains a number of other measures. As proposed in the Spring Budget Bill, an additional SEK 4 billion, in addition to the amount previously decided upon, is being made available to education, care and social services in 1999 and onwards. Dental insurance, the Old Age Bill, the Housing Policy Bill, a reinforced judicial system, increased development assistance, etc. which were presented in the Spring Budget Bill are also taken into consideration in the budget.

Even taking these improvements into account, general government finances continue to develop more positively than previously assumed. There is therefore a limited scope for steps that increase employment, social justice, equality of opportunity, and an adaptation to ecological sustainability. This is taking place at the same time as the surplus in public finances for 1999 is being revised upwards from 0.8 to 1.1 per cent of GDP. All proposals in the Spring Budget Bill and in the Budget have then been taken into consideration. A summary of the Government's proposal for reforms is shown in Table 1.5 and 1.6.

Table 1.5 Distribution between Spring Budget Bill and Budget Bill

SEK Billion	1999	2000	2001
New measures in the Budget Bill	5.3	4.8	10.7
<i>of which expenditure increases</i>	<i>2.3</i>	<i>3.2</i>	<i>8.1</i>
<i>tax reductions</i>	<i>3.0</i>	<i>1.6</i>	<i>2.6</i>
Spring Budget Bill	13.8	15.8	18.0
<i>of which expenditure increases</i>	<i>10.6</i>	<i>12.3</i>	<i>16.1</i>
<i>tax reductions</i>	<i>3.2</i>	<i>3.5</i>	<i>1.9</i>
TOTAL	19.1	20.6	28.7

The Budget Bill presents a co-operation in the areas of the economy, employment, justice, equality of opportunity, and the environment. These proposals are presented in section 1.4.

Table 1.6 Expenditure increases and tax reductions

SEK Billion	1999	2000	2001
Coming areas			
Knowledge and competence	1.0	1.1	1.5
Participation in the information society	0.4	0.6	0.8
Sustainable Sweden – setting an example	0.2	0.4	2.5
Entrepreneurship¹	1.8	2.1	1.8
European co-operation	1.0	1.0	1.2
Sweden for all	0.1	0.3	0.8
Total coming areas	4.5	5.5	8.6
Other²			
New income tax brackets	- 2.0	- 2.2	- 2.2
Tax reduction	3.0	0.3	0.1
Property tax, 1.7% to 1.5%	2.3	2.6	2.0
Property tax, rented accommodation, 1.5% to 1.3%	-	0.6	1.1
Freezing of tax values for 1999 and 2000	0.8	1.1	1.8
Housing policy bill and construction stimulants³	0.7	0.9	0.1
Dental insurance	0.5	0.5	0.5
Bill concerning the Elderly	0.5	0.3	0.3
Pensions	3.0	3.1	3.2
Local government sector	4.0	4.0	6.0
Child allowances, large family supplements, and study grants		2.5	4.9
Housing supplement for pensioners	0.7	0.7	0.7
Judicial system	0.4	0.3	0.3
Development assistance	0.1	-	0.2
Other measures	0.6	0.4	1.1
Total other	14.6	15.1	20.1
TOTAL	19.1	20.6	28.7

1 Of which tax relief SEK 1.7 billion in 1999, SEK 2 billion in 2000 and SEK 1.7 billion in 2001.

2 Increased incomes in the estimate are indicated by a minus sign. Incomes are calculated on a cash basis. See Chapter 8.

3 Of which tax relief (ROT, building repairs subsidy) is SEK 0.3 billion in 1999 and SEK 0.6 billion in 2000.

Budget policy in the coming years

A surplus in general government finances of 2.3 and 3.3 per cent of GDP is forecast for the years 2000 and 2001 respectively. Consequently, the budget policy target of 2 per cent of GDP will also be exceeded for these years. However, the estimate is uncertain and is conditional, among other things, on a well-functioning wage formation and a not too large downturn in the international economy.

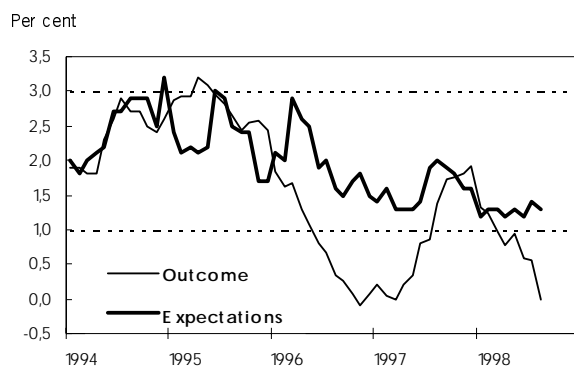
There are many indications that Sweden is on the threshold of a period of economic growth

even if the risks due to international developments have increased. This opportunity must be made use of to achieve considerable surpluses, reduced debt dependency and increased social justice and equality in Sweden. In this context, wage formation plays a decisive role. If the rate of pay increases exceeds that agreed upon by the social partners, including the stated wage drift, growth will in all probability be lower. This would lead to higher unemployment and lower employment, but also additional tax increases and expenditure cuts cannot be ruled out.

1.3.2 Monetary and foreign exchange policy

The Riksbank implements monetary policy independently. The overall task of monetary policy is price stability. The Riksbank Governing Board has defined price stability so that the increase in the consumer price index shall be limited to 2 per cent with a tolerance of 1 per cent upwards and downwards. The Government supports the direction of monetary policy and stands behind the inflation target.

Diagram 1.2 Households' expectations of inflation and CPI outcome



Note: The broken lines in the diagram show Riksbank's tolerance interval for inflation.

Source: Statistics Sweden

Price stability is a basic prerequisite of a successful economic policy. High inflation worsens the prerequisites for a sustainable high growth and thus also for a stable high employment.

Concretely, high inflation means, among other things, high food prices and higher rents. Most agreements in the Swedish labour market are signed for a number of years to come. If inflation were to accelerate, there would be no real wage increases. Experience shows that strong groups in the labour market would compensate high inflation by wage drift. Weak groups would

fall behind. High inflation therefore reduces the possibilities for a good distribution policy and a fair distribution of income.

The position of the Riksbank is reinforced

In November 1997 a Bill, which was based on a five-party agreement on monetary and foreign exchange policy to reinforce credibility of price stability, was submitted to the Riksdag. The five-party agreement will be maintained. In March this year, the Riksdag adopted a first decision on the constitutional changes that are proposed in the Bill. A second decision on the constitutional changes and a decision on other changes to the law will be taken during the autumn.

The new decisions for the Riksbank involve inter alia:

- The Riksbank will be given a general objective for its activity established by statute. The goal for monetary policy shall be to maintain a fixed monetary value. Since the Riksbank is an agency subordinate to the Riksdag the bank has furthermore an obligation to support the general economic policy, inter alia with the purpose of promoting sustainable growth and high employment, to the extent that this does not conflict with the price stability goal.
- The Instrument of Government (Constitution) is to include a prohibition for any agency to give instructions to the Riksbank in matters concerning monetary policy. A corresponding provision stipulating that a member of the Executive Board may not seek or accept instructions when she or he carries out monetary policy tasks will be included in the Riksbank Act.
- The position of the Governor of the Riksbank will be strengthened by it being included in the Instrument of Government that this person may only be dismissed during the six-year period of office if she or he no longer meets the requirements made for being able to carry out her or his duties or if she or he is guilty of serious neglect.
- The responsibility for overall foreign exchange issues will be transferred from the Riksbank to the Government. The Riksbank shall decide on application of the exchange

rate system decided upon by the Government.

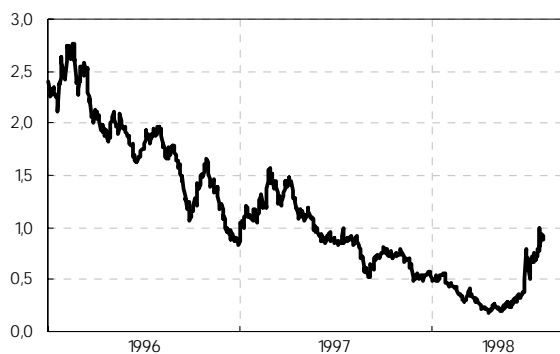
Interest rates

The relatively low interest rates are a result of, among other things, the consolidation of public finances and the direction of monetary reform to price stability that has contributed to the low inflationary expectations.

The long-term rates of interest have reached their lowest level for almost 40 years. The ten-year rate of interest is now at around 4.7 per cent. This is about a third of the interest rate in summer 1994. The annual average for 1998 is estimated to be 0.6 percentage points lower than forecast in the Spring Budget Bill in April 1998.

Diagram 1.3 Interest rate differential between Sweden and Germany

Percentage points



Source: Ministry of Finance

The interest rate margin in relation to Germany on the ten-year interest rate is at present just under 1 percentage point. At the lowest, the margin has been below 0.2 percentage points. Despite the recent increase, the interest rate margin has fallen sharply compared to the situation four years ago. The reason for the increase is the international currency turbulence. Moreover, there has been some uncertainty before the Swedish parliamentary elections and due to the parliamentary situation after the election. When it is clear that the economic policy will continue to be directed towards sound central government finances and stable prices, the interest rate margin in relation to Germany should fall again.

Short-term interest rates have also fallen. Expectations of low inflation, consolidated public finances and moderate wage increases have entailed that the Riksbank has been able to reduce the so-called repo rate to just over 4 per cent.

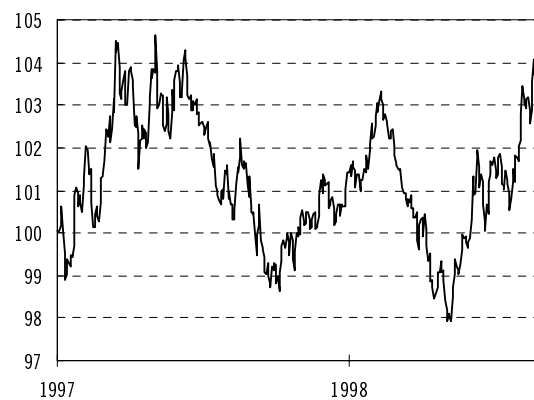
The low interest rates have resulted in a decrease in the monthly cost after tax for a normal house loan of SEK 500,000 when decreasing by SEK 1,800 since autumn 1994. A similar development has taken place for loans for tenant owned housing. Those living in rented accommodation are also benefited by falling interest rates when decreasing interest expenditure affects rents.

The krona

The Swedish krona has a floating exchange rate. Therefore, some variation in the exchange rate is natural. Diagram 1.4 shows the trade-weighted exchange rate, including inter alia most Asian currencies. The exchange rate has varied relatively much during 1997 and 1998 although there is no clear trend. During the recent period, however, the krona has weakened considerably. This can also in all essentials be explained by turbulence on the international financial markets.

Diagram 1.4 Trade-weighted exchange rate index

1 January 1997 = 100 A lower index means a stronger krona



Source: Ministry of Finance

EMU

On 1 January 1999, EU's common currency, the euro, is to be introduced. The Riksdag has decided that Sweden should not introduce the euro when the third stage is initiated. Sweden is keeping the possibility open for a later Swedish membership of the currency union. If the Government later finds that Sweden should participate the issue shall be put to the Swedish people in an election or a referendum.

The Government's view is that it is not appropriate at present to take part in the European exchange rate co-operation, ERM2. Experiences from the present policy directed at price stability in combination with a flexible exchange rate are good.

The Government intends to propose the amendments to the law that are required in the Riksbank Act for a complete legal integration of the Riksbank in the European Central bank System, ECBS, in connection with a possible future Swedish participation in the currency union.

In order to increase knowledge and stimulate a broad debate on a possible Swedish participation, an extensive, impartial work of information and public education will be initiated.

1.4 Co-operation on the economy, employment, social justice and the environment

During its term of office the government intends to try to create the greatest possible support for a policy of full employment. The Budget Bill has been preceded by deliberations with the Left Party and the Green Party which give their backing to the guidelines for economic policy, budget policy, the expenditure ceiling, the distribution of expenditure on areas of expenditure for 1999, the supplementary budget for 1998 and the tax changes for 1999 that are now proposed.

This co-operation extends to five areas: the economy, employment, justice, equality of opportunity, and the environment. This co-operation confirms that there is political stability for an economic policy directed at a surplus in general government finance of 2 per cent of GDP on average over a business cycle, price stability and full employment.

The economy

Central government finances are to be sound and prices stable. Sweden shall not again risk landing in a central government financial morass:

- The expenditure ceilings are to be maintained.
- The surplus target of 2 per cent of GDP over a business cycle shall be retained

- The more stringent budget discipline, which is a result of the budget process is useful and shall be maintained.
- Policies directed at price stability are to be maintained.
- The additional measures proposed for the period after the 1999 fiscal year are to be adjusted according to economic development.

Employment

Unemployment shall mainly be reduced by creating employment opportunities and offering education that leads to employment. The work and competence first principle shall be maintained. The work principle means that work and active measures shall be given priority and that it shall pay to work. The competence principle means that everyone must have the opportunity of increasing their knowledge and competence. Access to and the quality of education, care and social services shall be improved.

- Continued strong public finances and low inflation prepare the ground for low interest rates and increased confidence and thus increased investment and employment.
- The Government now proposes a concrete employment target. The proportion of employed in the population aged between 20 and 64 shall increase to 80 per cent by 2004. The Government will present proposals as to how reach this target in the 1999 Spring Budget Bill.
- The Government considers that it is of great importance for growth and employment to stimulate the development of competence in working life. The Government therefore intends to present proposals in connection with the 1999 Spring Budget Bill as to how the development of competence in working life can be reinforced. This proposal could come into effect on 1 January 2000. A prerequisite for a central government stimulant to be introduced is that the social partners take responsibility for a share of the financing.
- Education, care and social services are to be strengthened in accordance with the Government's proposal in the Spring Budget Bill by SEK 4 billion in 1999 and a further SEK 4

billion in 2000. The Government is now proposing that an additional SEK 2 billion be made available to municipalities and county councils in 2001.

- The Government is now proposing in accordance with the financing principle that an additional SEK 1.3 billion be made available to municipalities and county councils in 1999 by the SEK 200 that all taxpayers pay in state income tax being transferred to municipalities and county councils. This means that the resources available for education, care and social services will not be reduced as a result of the so-called Törling judgment.
- The Government intends to appoint a working group to produce a better basis for decisions on issues relating to working hours. This group shall include, among others, representatives of the Left Party and the Green Party. The group is to present assessments of consequences of various changes in working hours and to make proposals for how work on the issue of working hours should be pursued.

Social justice

Fairness shall increase without diminishing the driving forces of the national economy. More resources shall be made available to pensioners, especially the worst-off pensioners. Families with children and low-income earners shall also be given priority.

- It is proposed to strengthen the finances of pensioners by around SEK 4 billion. The reduced base amount for pensions shall be replaced by the full price base amount already in 1999. The Government proposes that the housing supplement for pensioners be increased from 1 January 1999 in favour of the worst-off pensioners.
- It is proposed to strengthen the financial situation of wage earners by approximately SEK 3 billion. A temporary tax reduction is to be introduced in 1999 to increase the purchasing power of those on low and medium incomes. This reduction amounts to a maximum of SEK 1,320 and it will be reduced by 1.2 per cent of that part of income conferring pension rights over SEK 135,000 per annum.

The reduction no longer applies at an annual income from employment of SEK 245,000.

- Property tax for rented accommodation will be temporarily reduced in 1999 by 0.2 percentage points from 1.5 to 1.3 per cent. The Government expects that the lower tax level will feed through to lower rents and charges.
- The Government intends to propose that child allowances and study grants for upper secondary school pupils be increased in two stages, by SEK 100 per month in 2000 and by a further SEK 100 per month in 2001. The announced increase will also apply to the supplement for large families.
- The situation for the homeless has become more difficult. The Government intends, together with municipalities and voluntary organisations to invest resources and undertake measures to improve the situation of the homeless. The Government proposes to allocate SEK 30 million for a three-year period from 1999 to 2001 to improve the situation of the homeless.
- In accordance with earlier decisions, development assistance is to be increased to 0.72 per cent of GNI in 2000 and 0.73 per cent of GNI in 2001. The Government now proposes that development assistance be increased by an additional SEK 100 million in 1999.

Gender equality

Sweden has again been designated by the UN as the country with the greatest equality of opportunity. In order for Sweden to retain this status, an active equality policy is required. Women and men shall have the same opportunities to work and earn a living. Sweden cannot afford to waste human resources. Therefore both women and men's experience and knowledge shall be made use of. Gender-based pay differences are to be eliminated.

- An additional SEK 2 million is to be made available to the equality ombudsman to reinforce supervision of those parts of the Equal Opportunities Act that relate to wage differentials between women and men.
- Resources will be made available to Statistics Sweden to improve wage statistics and the methods for equality reports. Statistics Swe-

den will moreover be instructed to carry out a new national time use survey.

- The committee of inquiry on the Equal Opportunities Act will be given additional terms of reference so that the committee can analyse issues relating to work evaluation.
- The Government intends to instruct its agencies to work more actively with equality issues, including issues relating to equal pay for equal and equivalent work.
- The Government intends moreover to carry out a number of other measures to increase equality of opportunity: different measures will be taken to make it easier for men to take part in equality work, priority will continue to be given to the work of counteracting violence against women, a committee of inquiry will be appointed to examine how women's history etc. is dealt with at museums, the women's conference's action programme will be renewed, etc. In autumn 1999, the Government intends to report on how equality policy has developed.

The environment

Sweden and the Swedish business sector shall be in the forefront of a development towards ecological sustainability.

- The Government is proposing a substantial reinforcement of resources for protection of natural areas, especially forest areas, to protect biological diversity. It is proposed that a total increase of SEK 660 million be made available during the period 1999–2001.
- In conjunction with the Spring Budget Bill, the Government proposed that more resources should also be made available for conservation agreements and biotype protection in forests, and for advice and information to forest users. It is proposed that additional resources totalling SEK 99 million be made available for this purpose during the period 1999–2001.
- The Government proposes that resources be made available for land decontamination and inventory of the need for land decontamination by introducing a new item of expenditure. It is proposed that a total of SEK 170

million be made available over the three-year period 1999–2001.

- It will also henceforth be possible to provide support for decontamination of land and water within the framework of the local investment programmes. These should furthermore be expanded to include support for allergy decontamination measures in buildings carried out in connection with rebuilding work for which support is available at present according to the regulations.
- The Government intends in the near future to give the National Environmental Protection Agency the task, together with the Council for Planning and Coordination of Research, of making an overall assessment of environmental research, aiming to reinforce it.
- A working group is to be appointed at the Ministry of Finance to monitor the work of the National Institute of Economic Research, Statistics Sweden and the National Environmental Protection Agency of drawing up environmentally-adapted national accounts.
- The Government intends to present selected key green statistics in the 1999 spring budget bill.

1.5 Government policies for the twenty-first century

Sweden shall cross the threshold of the twenty-first century with confidence and optimism. Sweden shall be a country imbued with faith in the future and pride. The work of the Government during this term of office shall be characterised by policies to strengthen Sweden.

In the Spring Budget Bill, the Government presented an offensive for sustainable growth and increased employment. Six areas were highlighted: Knowledge and competence, Participation in the information society, Sustainable Sweden – setting an example, Entrepreneurship, European co-operation, and a Sweden for all. These areas are strategic components of a forward-looking policy.

Sweden's entry into the next millennium is to take place with policies for full employment, high growth, better education, good welfare, and

a good environment. A concrete target for the year 2004 is proposed for employment. The Government is also considering setting up targets for the other areas.

Full employment

The Government has set up the target that registered unemployment shall be halved to four per cent by the year 2000. Thereafter, the goal is full employment.

Sweden has good experience of defining quantitative goals for economic policy. Two goals that have contributed to the rapid consolidation of central government finance and the positive development of interest rates are the inflation target and the target for general government finances.

Now that registered unemployment is falling, there are reasons to extend the time perspective and to increase the level of ambition. In order to confirm and further reinforce the good trend, the Government therefore proposes that the existing target for unemployment be complemented with a new target for employment.

The Government's proposal: The proportion of employed in the population aged between 20 and 64 shall increase from 74 per cent in 1997 to 80 per cent in 2004. This will also decrease the need for social security .

The strategy to achieve full employment is based on skilled people, a good business climate, and adaptation to an ecologically sustainability strengthening Sweden. In a stable macro-economic environment, the quality of and access to education, care and social services shall be improved. This will contribute to making possible a high level of participation in the workforce by both women and men.

The positive development that has taken place on the labour market during the past year with 60,000 new jobs must continue for a long time to come. Most of these jobs must be in the private sector. With reduced expenditure for unemployment and higher income from employment, public expenditure can to a greater extent be used for the core of welfare – education, care and

social services and for other forward-looking areas, such as education and research.

In 1997, 74 per cent of the population aged between 20 and 64 had regular employment. This proportion shall increase to 80 per cent during the period up to 2004, and benefit both women and men. This is equivalent to around 375,000 new employment opportunities for seven years, or an average of almost 55,000 new jobs per year.

As a consequence of increased employment, education, rehabilitation and other active measures, people who today obtain their livelihood from social security benefits and contributions will instead return to work. In this way, the number of people maintained by these systems will fall by about 240,000 people over seven years, or an average of around 35,000 people per year. The Government also intends in future to follow up regularly the targets for unemployment and employment.

In conjunction with the 1999 Spring Budget Bill, the Government intends to introduce proposals to reinforce the prospects of achieving the target.

Annex 4, Report on progress made towards the target of halving registered unemployment by the year 2000 includes a presentation of the background and the technical calculations on which the employment target has been based.

High growth

There are many indications that Sweden is on the threshold of a period of high growth. This shifts the focus of economic policy. The main task will now be to combine a high increase in employment with continued low inflation. The employment target can be achieved with an average annual growth of 2.75 per cent. In this way, the total production in 2004 would be around 20 per cent higher than last year's. It is important that growth is combined with an ecologically sustainable development.

In order for this to be possible, economic policy must rest on stable foundations:

Prices shall be stable. In this way, interest rates can remain low, which promotes investments and confidence in the future. If inflation is allowed to accelerate, interest rates will increase, which will reduce the rate of investment and lead to a lower capacity ceiling and thus lower growth and employment.

The work and competence first principle shall be reinforced. This means that work, active measures, and education shall be given priority. It must pay to get a job. The marginal effects should be reduced for those who go from unemployment into work. The adjustment of labour market policy from a high volume of measures to a growth-promoting orientation must be further hastened.

Wage formation must work well. Registered unemployment is calculated to reach 4 per cent by the end of 2000. This requires, however, that wage formation remains at the low level agreed upon by the social partners also at a considerably lower level of unemployment.

The business climate is to be good. Sweden is to be a country characterised by a good, stable business climate for small and medium-sized enterprises. Taxes are to be designed in such a way so as to promote entrepreneurship and expansion. It has been made easier for sole traders and partnerships to allocate funds to reserves. Relief in ownership taxation of unlisted shares has been expanded. The set-off right for capital losses for unlisted shares has been expanded. It shall be made easier to obtain risk capital.

There must be a greater focus on the small enterprise perspective. The rules are to be simplified. The deduction rules for pension costs, taxation of staff options, and deductions for pension saving have been simplified.

Sweden shall be a country for all. All of Sweden's inhabitants shall be guaranteed the same rights, opportunities and duties regardless of background or ethnic affiliation. In an internationalised world, a country with an international population has an advantage. Making use of this advantage will be one of the coming century's great challenges. Good knowledge of Swedish from an early age is of key importance. Therefore the Government has proposed that considerable resources be made available to make it easier for municipalities to offer pre-school places from three years of age to children in the vulnerable residential areas in the large cities. The purpose is to improve the prospects for integrating these children in society.

Everyone shall enter the information society. Sweden is to retain and reinforce its position as a leading IT country. All pupils shall acquire knowledge and opportunities to use computers as a modern information tool. The Government proposed in the Spring Budget Bill that SEK 1.8 billion be allocated in the years 1999–2001 for

special IT initiatives, whereupon the major part, SEK 1.5 billion, will be for schools.

Sweden shall play an active role in the EU. In co-operation with other countries, Sweden shall carry out a policy for increased employment, economic growth, ecological sustainability, increased equality of opportunity, and a living democracy. This is a modern policy for the coming century. With more members, the basic purpose of the European Union – peace, democracy and economic development, can be further promoted. A special initiative to further development co-operation between Sweden and Poland will be carried out in 1999.

Sweden shall play an active role in the Baltic Sea area. Our vicinity has the prerequisites to be one of Europe's most important growth regions for a long time to come, which would be very important for growth and employment in Sweden. A strategy for how Sweden should strive to promote this development is developed in co-operation with the business sector. In order to highlight the importance of the Baltic Sea region, SEK 1 billion has been allocated in the so-called Baltic billion. This activity has been successful and should continue. The Government has therefore proposed that a further SEK 1 billion be made available in the coming five-year period.

Welfare

The main task of the general welfare policy is at the same time to increase welfare and clear the way for a dynamic development, by creating security in change. A well-functioning welfare policy means secure people who dare to invest in development and the future.

The demands on the welfare systems will increase in future, among other things due to a growing number of elderly and school-age children. By good economic growth and a more efficient use of resources, welfare shall be improved and an even distribution of income guaranteed. The improvements in pre-school, school and social activities shall be reported regularly with respect to quality and availability, including comparisons with other countries.

Education, care and social services are to be given priority. Compared to 1996, education, care and social services will receive increased central government grants of SEK 16 billion in 1999, SEK 20 billion in 2000 and SEK 22 billion in 2001. Employment in the general government

sector will increase by around 10,000 persons as a result of this in the next few years.

Pensions are to be increased. The Government proposes in the budget that resources to pensions be increased by pensions from and including 1999 being calculated on the basis of a full price base mount. Moreover it is proposed that housing supplement for the worst-off pensioners be increased. Tomorrow's pensioners shall also be ensured a robust and good pension. The pension reform will be upheld.

Families with children shall be given favourable treatment. Families with children have to a great extent felt the effects of the poorer national economy in recent years. The Government therefore proposes that child allowance be increased in two stages. During the mandate period, the Government moreover aims, when the parliamentary situation so allows, to introduce a maximum charge for child care so as to reduce child care fees.

People shall feel secure against crime. This is to be achieved primarily by an effective crime preventing measures and activities to punish crime, and by maintaining respect for law and order. Security requires a well-functioning judicial system. The modernisation of the system of justice shall be given priority.

Better education

Education is the key to long-term growth and increased employment. It is decisive for the possibilities of individuals to a rich life both in and outside working life as citizens and consumers. Education contributes to increase women's and men's ability to improve their income and adapt to changes that take place in working life and in society at large.

Pre-school lays the foundation. The long-term endeavour is that the pre-school should be part of the general welfare system.

Compulsory school shall become even better. Every young person who leaves compulsory school without sufficient knowledge is a failure. A better school requires resources but also a well-functioning follow-up, evaluation and quality development system. Therefore the local government sector is to be allocate considerable resources this year and the coming years. At the same time, the Government is introducing a ten-point programme for quality and equivalence in school.

The number of those with upper secondary school education must increase. Upper secondary school level education is often today a minimum requirement on the labour market. More and more jobs require higher competence. An upper secondary school education is moreover a first step to higher education. Therefore the quality and flexibility of the upper secondary school must increase so that all young people have a real chance to complete their education. In order to counteract that women and men are excluded as a result of low education, a broad investment in education in adults has taken place in Sweden during the past few years. This takes the form of regular education, the special adult education and training initiative and more vocationally oriented labour market training.

A continuing expansion of universities and university colleges. The whole of Sweden shall cross the threshold of the twenty-first century with knowledge and competence. The number of students in university engineering and natural science courses in particular will increase. The expansion of small and medium-sized university colleges and their being equipped with permanent research resources shall make them also into increasingly strong forces for regional development. Some university colleges will be made universities.

Sweden shall be a leading research nation. Universities and university colleges will be given good prerequisites to ensure that Sweden continues to be a leading research nation. Research does not only have a value in itself. Research and higher education are closely related. An expansion of research resources also creates opportunities for the long-term safeguarding of quality in education.

Sweden – setting an ecological example

Sweden shall be a driving force and set an example by showing that a development towards ecological sustainability can be combined with high and sustainable economic growth.

For a long period dominated by industrialisation, growth in production often entailed that emissions of environmentally harmful substances and the use of energy and other resources increased. During the past decades, the correlation between production growth and the effects on the environment has been loosened. This development is to continue and to be reinforced.

In order to establish a positive correlation between growth and ecological sustainability, weight must be given to the measures that give the greatest benefit in relation to the costs and which strengthen the market forces that are already moving in the direction of increased consideration to the environment.

Sweden shall set an ecological example. Sweden is to be a driving force for ecologically sustainable development. By being a step ahead, Sweden can become more competitive and a better country to live in. This benefits both the present and future generations.

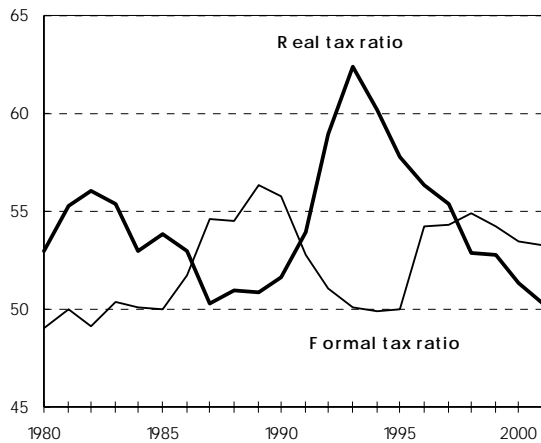
1.6 Fair taxes

The foremost purpose of taxes is to finance welfare. Building stable welfare on borrowed money is impossible in the long run. Unfinanced expenditure is nothing other than taxation of future generations. Tax increases have therefore played an important role in consolidation of public finances. The formal tax ratio, taxes as a proportion of GDP, is estimated to attain its highest level this year and then decline.

The real tax ratio is a way of showing that a deficit is really nothing other than postponed tax increases. The real tax ratio is defined as taxes plus the general government deficit in relation to GDP. The real tax ratio was at its highest in 1993 when it amounted to over 62 per cent of GDP. Since then, it has fallen and this year it is estimated to be just under 53 per cent of GDP.

Diagram 1.5 The real tax ratio

Per cent of GDP



Source: Ministry of Finance

Taxes for social justice

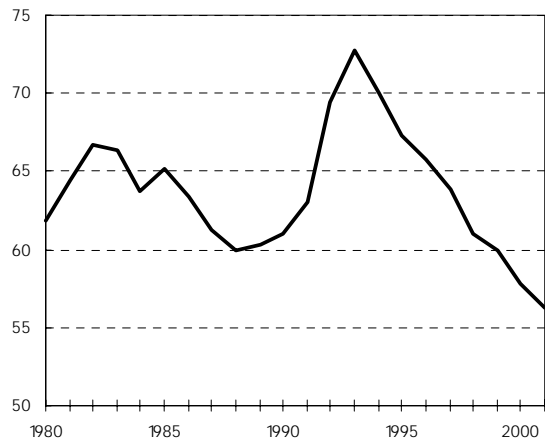
Tax policy contributes to reducing gaps in society. In an international comparison, Sweden has a high tax take-up. Sweden's ability to maintain a relatively high tax take-up in future depends primarily on how citizens evaluate the welfare that taxes finance. All international experience shows that a poorly functioning welfare undermines taxpayer morale. A major problem is that a large part of tax revenue is used to pay interest on central government debt. This is one of the reasons why repayments on central government debt are an important part of the Government's economic policy.

As a result of the good economic development and by the amortisation of public debt that has started, it is estimated that the central government interest expenditure will fall rapidly in the next few years. This can create scope for certain changes in the tax system during the next few years. The Government will therefore invite the Riksdag parties to discussions on the future direction of the tax system. It is important to start a discussion already today, especially on the long-term design of capital and income taxation. A point of departure should be that the tax system should be simple, uniform with low tax rates and broad tax bases.

To give low and medium income earners more purchasing power already in 1999, the Government proposes a temporary tax reduction. This reduction amounts to a maximum of SEK 1,320 and it will be reduced by 1.2 per cent on income conferring pension rights over SEK 135,000. The reduction no longer applies at an annual income of SEK 245,000.

Diagram 1.6 General government expenditure

Per cent of GDP



Source: Ministry of Finance

Swedish taxes in an international perspective

Internationalisation places increased demands on tax policy. Increased internationalisation makes it increasingly difficult to tax tax bases that are highly mobile. Sweden therefore endeavours within the EU for common directives especially for capital taxation and energy taxation. No country earns by all countries trying to underbid one another to attract tax bases. An important starting point for Sweden is that the directive shall still give Member States the freedom of action to design their own tax rules.

Corporate taxation

A number of measures in the tax sphere have been undertaken in recent years to improve the conditions for entrepreneurship. The two most important examples are taxation of unlisted companies which has been reduced by SEK 4 billion and social security charges that have been reduced by SEK 3 billion primarily for small and medium-sized enterprises.

Another priority area has been simplifications. During the coming year, the Government intends to propose that the so-called stop rules for close companies be abolished with a few exceptions and replaced by general rules. The Simplification Commission appointed by the Government will present a proposal during the autumn for cash accounting for small service companies.

Environmental taxation

Several committees of inquiry concerning energy and environmental taxation have presented reports in the past few years. Moreover, work is taking place on the EU Commission's proposal on a new energy taxation directive. In order to obtain a consistent and uniform taxation, the Government has striven to deal with the different proposals in a single context. In 1999, the Government intends to present a proposal to the Riksdag on a new energy taxation system.

Property tax

Property tax is an important part of welfare finance. In 1995 property tax was increased from 1.5 to 1.7 per cent of the tax assessment value.

This increase was an important part in the consolidation of public finances.

Since property tax was increased on 1 January 1995, interest rates have fallen by around 6 percentage points – the fall in interest rates has accordingly given the householder with a normal home loan 15 times more than the increase of property tax entailed.

As from 1 January 1998, property tax has been restored to the previous level, i.e. reduced from 1.7 to 1.5 percent of the tax assessment value.

Tenants in rented accommodation have not benefited from the fall in interest in recent years in the same way as homeowners. The Government therefore proposes that property tax for rented accommodation be temporarily reduced by 0.2 per cent from 1.5 to 1.3 per cent in 1999. The Government expects that the lower tax level will feed through to lower rents and charges.

A parliamentary commission has been instructed to review property taxation and propose fairer arrangements for property tax. An especially important issue is how to achieve an easing for permanent residents in attractive coastal and archipelago locations. Pending the completion of the commission analysis, the Government intends to freeze tax assessment values at the 1997 level for 2000 as well.

1.7 Distribution policy

The basis for a fair distribution policy is increased employment, sound central government finances, and a stable economy. Budget consolidation and the economic policy have laid the basis for an offensive, long-term policy which creates social justice by growth, employment and education.

The goal of a surplus in central government finances is therefore decisive for a fair distribution between generations. Children and young people are among the groups that have been hardest hit by the economic crisis and unemployment. If we do not pay off the large central government debt, these costs will be handed down to coming generations.

Resource requirements will increase further as the number of elderly people increases during the twenty-first century. The most important issue of social justice is therefore that each generation must pay for its share of welfare.

The favourable development on the labour market provides both a more even distribution of incomes and better resources to support those who have the poorest possibilities to obtain work. The spread of work incomes is the most important cause of income gaps and low economic standard. To achieve the employment target is therefore decisive for Sweden being able to retain a distribution of income in the long term that is one of the world's most even.

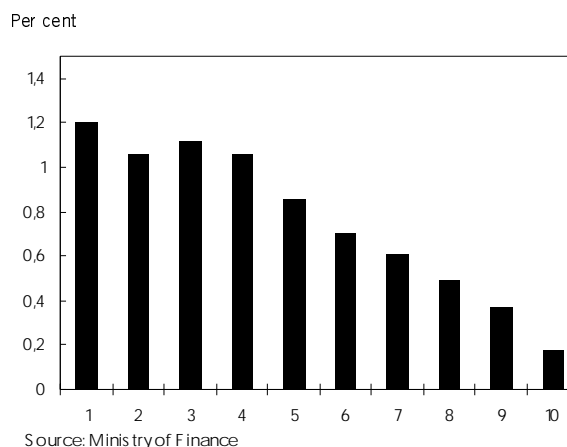
The greatest distribution policy injustice today is between those with jobs and those who are out of work. The favourable economic development must be utilised so that persons who find it difficult to find work now obtain a firm foothold on the labour market. This is the case for instance for many disabled persons and immigrants. Since the demand for highly trained labour is considerably greater than for the poorly educated, the Government's educational policy is very important for distribution policy. The special adult education and training initiative, the extra money for schools, the expansion of universities and university colleges, are only a few examples of what has been done and what will be done to improve education. Measures to increase and improve education are accordingly not only important to increase the long-term economic growth. They are also motivated from a distribution policy point of view. An even distribution of knowledge and competence contributes to evening out wages and employment and thus to a more even distribution of income.

Everyone has had to make great sacrifices during the economic crisis and the budget consolidation. Now that the deficit has been transformed into a surplus, there is economic scope, with retained surplus, to improve support to families with children and pensioners. The distributional effects of the proposals in the Budget Bill have a very favourable distributional profile (Diagram 1.7). This calculation shows that the direct effects of the proposals on tax reduction for work incomes, abolished reduction of price base amounts in calculating pensions, increased housing supplements to pensioners and reduced property tax for rented accommodation and tenant-owned housing. If the increased child allowances in 2000 were included, the profile would be even more favourable.

The fifth of households with the lowest economic standard (deciles 1 and 2 combined), receive an increase of disposable income of over one per cent while the fifth of the population

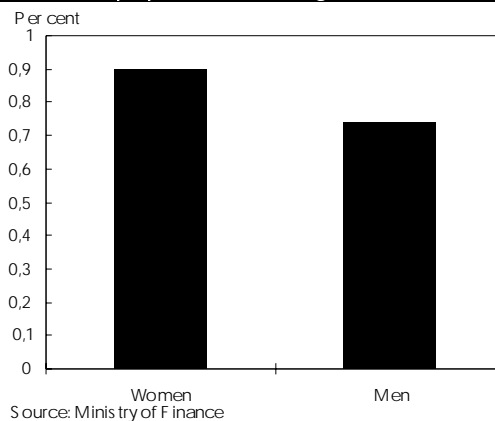
with the highest standard (deciles 9 and 10 combined) receive an increase of about 0.2 per cent.

Diagram 1.7 Change in disposable income, adjusted for number of dependants, as a result of the proposals in the Budget Bill.



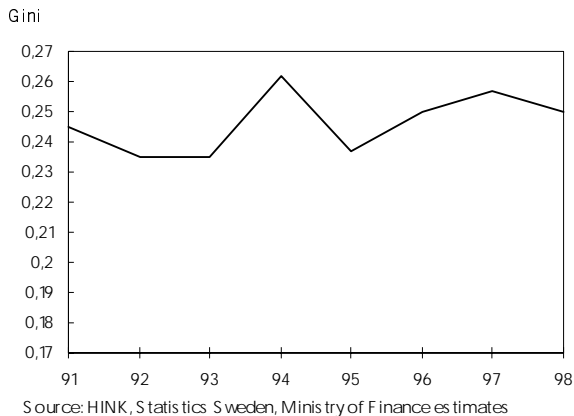
The net effects of the measures are more beneficial for women than for men (Diagram 1.8).

Diagram 1.8 Women and men, Change in disposable income due to proposals in the Budget Bill



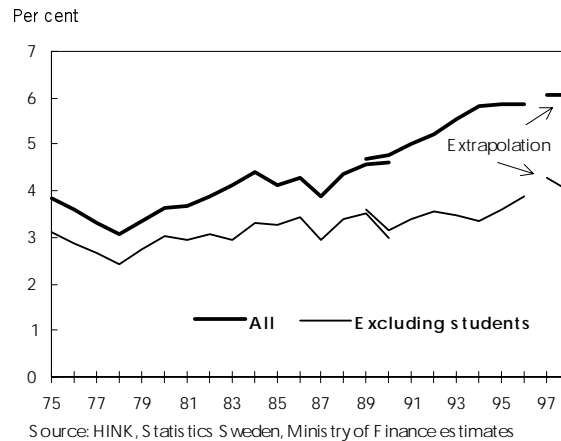
Developments during the 1990s

Despite the weak economic development at the beginning of the 1990s, gaps in Sweden have not grown dramatically. Diagram 1.9 shows that according to Statistics Sweden's investigations, there has only been a slight increase in income gaps between 1991 and 1996 and that also applies when extrapolated to 1998. The economic standard is measured in distribution of disposable income adjusted for number of dependants. The spread is measured by the so-called Gini coefficient where a high value indicates a greater spread (see further Annex 5, Distribution policy report).

Diagram 1.9 Income distribution during the 1990s

The result of the distribution policy analysis is a certain trend to increased spread in the distribution of welfare during recent years. Taking into consideration, the economic crisis, unemployment and budget consolidation, these changes must, however, be regarded as remarkably small. The number of households who have a lower economic standard (under half of median income) has increased considerably since the mid-1980s. This increase is primarily due to more persons having low incomes due to studies. In the short-term perspective, this increases gaps since students have a lower income than others. However, in the long-term perspective, the large investment in education is an important initiative to reduce income gaps.

If students are excluded from the statistics, the proportion with a weak economy has not increased appreciably despite the crisis and unemployment. This is a good testimonial to the Swedish welfare and the social security system.

Diagram 1.10 Households with a low economic standard

However, the distribution of annual income provides an incomplete picture of how social justice develops since household income can vary greatly over time. In the distribution policy report, an analysis has therefore been made how the picture of income distribution and its change is affected if instead of annual income, income is measured for several years (Annex 5). It is seen that more than every third low-income earner has moved over to the group medium income earner after five years. The relative good ability for low-income earners to improve their standard over time has been retained even during the economic crisis in the 1990s. The proportion of persons with a persistent low economic standard (at least three of five years) has only increased from 2.8 to 3.2 per cent between the 1980s and the 1990s. Overall mobility in disposable income has, however, diminished somewhat during the 1990s. The primary explanation for this is probably improved measurement of income after the tax reform.

Distributional analyses are an important tool of distribution policy. The Government therefore considers that the analyses of the distribution of economic welfare should be broadened and deepened. The Government will instruct Statistics Sweden to carry out studies of the distribution of wealth and the distributional effect of public consumption.