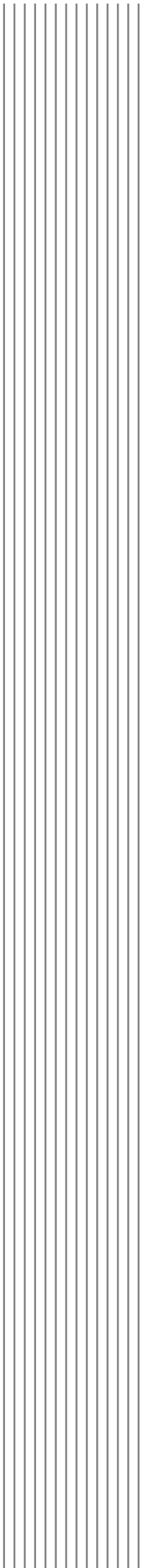


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# The Budget Statement





# 1 The Budget Statement

## 1.1 It is going well for Sweden

Sweden can cross the threshold into the twenty-first century with considerable confidence and optimism. The basis has been laid for a favourable development of the Swedish economy during the coming years. Considerable economic successes can be summed up today.

Public finances have been consolidated. Inflation has been reduced to a durably low level. The balance on current accounts shows a growing surplus.

This has resulted in a strong fall in Swedish interest rates, both in absolute terms and in comparison with other countries. Investments and private consumption are growing at a good pace. The strong development of exports is now supplemented with a more dynamic domestic market. Large improvements in productivity combined with a dampened development of costs has made Swedish companies especially competitive. Confidence for the Sweden economy is growing and optimism and thereby the will to invest in the future are becoming more tangible.

In addition, political successes have improved the conditions for a high rate of growth and a fast increase in employment:

*An active membership of the European Union* has led to a larger market for Swedish companies, increased trade and new opportunities for employment policy.

*The Baltic Sea area* supports a democratic development and a strong growth in our vicinity. Increased trade and greater exchange improve welfare throughout the Baltic Sea region.

*The adaptation to ecological sustainability* has begun. Both local investment projects and investment in energy research and technological development such as improved infrastructure improve the quality of life for coming generations and strengthen Swedish innovation ability and competitiveness.

*The pensions agreement* between the five parliamentary parties guarantees good pensions also in the

future, increases security and provides the welfare society with long-term stability.

*Block policy* has been abandoned in favour of a common parliamentary taking of responsibility. This creates a good ground for durable regulatory frameworks for both companies and individuals, a stable development and increased control of central government finances.

The development on the labour market has also turned a corner. During the past year unemployment has fallen by around 100,000 persons. This has taken place at the same time as labour market policy measures have been reduced. Regular employment is increasing, especially in the private sector. In addition, the great interest in the Adult Education Initiative has made a positive contribution to the labour market's future development. This is a unique investment to strengthen competence and self-confidence of many people who can thereafter return to the labour market better equipped.

The comprehensive consolidation of public finances has made it possible to steer increasing resources to prioritised areas. It is especially important to improve quality in education, health care, and social services for children and the old. This Bill proposes further additional resources for these areas.

Major initiatives have been made or will be made in a number of other areas: education and competence development, labour market policy, improvement of conditions for businesses, building a sustainable Sweden, increased child allowances, increased levels of compensation in social insurance, and improved pensions.

In addition, there are the special initiatives that have been proposed in six important coming areas: Investment in knowledge, the new technology, better conditions for entrepreneurship, ecological adaptation, European co-operation, and increased participation and integration in Sweden.

These initiatives do not risk – and must not risk – the goals for public finances. In fact the goals of bal-

ance this year and a surplus in future years will be surpassed by a broad margin. The central government expenditure will remain within the expenditure ceiling for each year and general government expenditure measured in relation to GDP will successively fall.

The increasingly strong public finances will not only contribute to lower interest rates and increasing confidence – both in Sweden and internationally – for the Swedish economy. They will also create increased room for action in future. They provide scope for increased investment in schools, care and social service. They make it possible to amortise central government debt and in this way reduce the burdens for coming generations. They also make it possible to meet coming cyclical fluctuations.

Future tax reductions are possible to consider but only if certain conditions are unconditionally met. General tax reductions must not take place before a satisfactory quality has been ensured in education, care and social service. They must not be financed by debt. And they must be designed in a way that is fair from the point of view of distribution policy.

A stable basis has been laid for a high economic growth during 1998 and the following years. There is a lot to indicate that growth can amount to at least 3 per cent per year on average for a number of years. This is important since it makes it possible to deal with a large number of major tasks that confront Sweden during the coming years.

Employment must increase and unemployment be reduced. The goal of halving unemployment to four per cent by 2000 is maintained. Achieving the goal is within reach with the economic development that can now be forecast and with the measures decided upon earlier or proposed now. According to the Government's forecast, the goal will be achieved before the end of 2000.

It is an ambitious goal, but nevertheless only a stage goal. In the longer perspective, the ambition must be higher. The ambition should be to restore full employment where – apart from a certain inevitable frictional unemployment – everyone who wants and can work shall also have a meaningful employment. This requires that employment increases significantly and that labour force participation again is increased.

High growth is important not only to increase employment and reduce unemployment. It is also required to meet the increased requirements for resources within, for instance, care, and social services that follow from the demographic development and to secure an even and just distribution of the standard of living. It is further required to make possible important reforms and create the conditions for increased real wages. It is moreover required if we are to regain the relatively better international position which Sweden had before the years during the first half of the 1990s when the Swedish GDP develop-

ment was negative at the same time as other countries continued to have positive growth.

The recovery that has taken place in the Swedish economy and in public finances since 1994 is unique. It would not have been possible without cooperation during recent years between the Social Democrats and the centre party. A tough, extensive consolidation programme has been carried out at the same time as the conditions for work, education and entrepreneurship have improved. A continued sustainable and responsible economic policy is required to confirm successes and harvest the fruits of the policies carried out.

## **1.2 Economic Developments**

Economic policy has been successful in establishing firm foundations for the Swedish economy. Sweden is now at the beginning of the first upturn for 30 years which has not been preceded by a devaluation or an expansive economic policy. On the contrary, the period has been marked by a very stringent budget policy. The strength of the upturn is internal.

### **1.2.1 Economic trends during the 1990s**

The Swedish economy during the 1990s has been characterised by sharp turns from very deep depression to the start of an upturn. During the period from 1991 to 1993, Sweden was affected by the worst downturn since the 1930s. Total Swedish production fell by a total of five per cent.

Between 1991 and 1994 central government debt doubled, unemployment tripled and the budget deficit quadrupled. Registered unemployment rose to 8 per cent as a result of 450,000 jobs disappearing, most of them in the private sector. This, combined with unfinanced tax reductions and reforms resulted in a substantial increase in the general government deficit. It peaked at 12.3 per cent of GDP in 1993. General government expenditure as a proportion of GDP increased by 7 percentage points between 1991 and 1994.

Lack of confidence due to the inability to solve the economic problems led to an interest rate crisis and the depreciation of the krona. Uncertainty and high interest rates contributed to gross investment falling by an average of 9 per cent per year between 1991 and 1994.

## A successful period of office

The economic policy pursued since 1994 has focused on reversing the negative economic trend and creating conditions for high, stable growth and a durable reduction in unemployment. Two mutually reinforcing goals have governed economic policy: registered unemployment is to be reduced by half, falling to 4 per cent by 2000, and the goal of sound public finances. The results of the policies pursued are very favourable in most respects. In practically all areas of the economy, the economic trend has improved during the present period of office compared with the previous period from 1991 to 1994.

- GDP growth is forecast during this Government's period of office to amount to an average of 2.5 per cent per year. Sweden is again experiencing growth.
- General government finances will improve by 11.9 percentage points of GDP during the period of office. This year, the general government financial surplus is expected to be 1.6 per cent of GDP. Sweden is once again characterised by sound public finances.
- Central government debt as a proportion of GDP is falling. Instead of using more and more resources to pay interest on central government debt, priority can be given to education, care and social services.
- Long-term interest rates have fallen. The interest margin in relation to Germany is now less than a tenth of what it was in 1994. Confidence in the Swedish economy has been restored.
- Today, a housing loan of SEK 500,000 costs SEK 1,900 less per month than in summer 1994. The situation of indebted households has eased.
- The Riksbank has been able to reduce short-term interest rates. Sound public finances and low price increases have made this possible.
- Inflation and inflationary expectations have fallen and adapted to the inflation target. An important precondition is thus in place for a well-functioning wage formation.
- Unemployment is falling. In 1994 annual average registered unemployment was 8.0 per cent. Today, it is 6.7 per cent. The target of halving registered unemployment to 4 per cent will be achieved during the year 2000.
- Between 1994 and 1998, 93,000 jobs were created in the private sector. The private sector is expanding again.
- Sweden's international trade is producing large and increasing surpluses. This year, the balance on current account reports a surplus of 3.5 per

cent of GDP, making a reduction of Sweden's international debt possible.

- The business sector is expanding by almost 4 per cent per year. Swedish companies are world leaders and are winning market shares.
- Business sector investments are increasing during the Government's period of office by 10 per cent per annum. We are building for the future.

### 1.2.2 Economic trends in 1998 and 1999

The world economy is developing well despite the crisis in Asia. In Sweden there was a substantial upturn during 1997. Continued good growth is anticipated in 1998 and 1999.

#### *International trends*

Despite the financial crisis in Asia, the world economy is continuing to develop well. It is not expected that the strong upturn in the United States and the recovery in the EU will be interrupted due to the economic crisis in Asia, provided that this crisis does not become deeper.

Weak domestic demand combined with problems in the financial sector contribute to continued stagnation in Japan. GDP growth is expected to fall in Asia and even become negative in some of the affected countries, among which Indonesia. In order for a gradual upswing of the Asian countries to take place, the reforms that have been initiated must be fulfilled. Moreover, it is important that the industrial countries do not introduce import barriers against Asian exports.

In the United States, there has been a strong increase in domestic demand and the GDP increase in 1997 was the highest for nine years. At the same time, both unemployment and inflation fell. The well-balanced financial and monetary policy has laid the basis for the exceptionally good economic development. Unemployment has fallen successively and is now below 5 per cent.

The recovery in the EU is continuing. There has been a strong growth in exports and interest rates are low, which make for an increasing rate of investment. The great challenge in the EU is high unemployment, which is still over 10 per cent.

In the Baltic Sea area, the prospects continue to be good. Growth in Finland and Denmark is expected to be strong, at the same time as the recovery in Germany is strengthening. GDP growth in the Baltic republics and Poland is expected to level off after high growth during 1997. In Russia, recovery is expected to continue after an increase in GDP in 1997 for the first time since the communist dictatorship collapsed.

## Developments in Sweden

Growth in the Swedish economy increased sharply during 1997. During the next few years, growth will, to an increasing extent, be driven by domestic demand, primarily investment and private consumption, while the contribution of exports to growth will be lower. GDP will grow by 3 per cent this year and 3.1 per cent next year provided that wage increases are in accordance with the agreement reached by the social partners.

**TABLE 1.1 DEMAND AND OUTPUT**

	SEK BILLION		ANNUAL PERCENTAGE CHANGE		
	1997	1998	1999	2000	2001
Private consumption	922.9	2.3	2.5	2.2	2.0
Public consumption	449.3	1.3	0.6	0.7	1.0
Central Government	134.2	2.5	0.5	0.5	0.5
Local Government	315.1	0.8	0.6	0.9	1.2
Gross investment	237.9	7.2	7.6	7.0	5.7
Business sector exc. housing	182.8	7.8	6.1	4.9	2.7
Housing	23.8	8.8	23.5	25.0	25.0
Public authority	30.5	2.8	4.0	2.2	2.3
Stock building	6.8	0.0	0.0	0.0	0.0
Exports	761.4	6.3	6.7	7.0	5.4
Imports	639.5	6.9	7.0	6.2	5.8
<b>GDP</b>	<b>1738.9</b>	<b>3.0</b>	<b>3.1</b>	<b>3.4</b>	<b>2.6</b>

Sources: Statistics Sweden and Ministry of Finance

The level of exports seems to have been very little affected by developments in Asia to date. Swedish companies have been successful on the world market not least due to a considerable increase in productivity. Despite slightly higher wage increases than in our trading partners, Swedish export industry continues to gain market shares.

It is positive that Swedish companies do not seem to have increased prices to the extent that might have been anticipated. Instead, businesses have concentrated on increasing their market shares. Of the total increase in value in industrial production from 1996 to 1998, it is estimated that over 80 per cent consists of increase in volume and less than 20 per cent of price increases. By way of contrast, it may be mentioned that during the last major upturn of 1986 to 1989, increase in volume only accounted for 27 per cent, while the remaining 73 per cent consisted of price increases.

The total investment activity is expected to increase markedly during 1998 and 1999. This means that the production capacity is now being expanded to a considerable extent. A brightening labour market situation, increasing income, and historically low rates of interest will lead to increased housing construction. Moreover, investment will be stimulated by the adaptation programme for the energy sector

and the local investment programme in "Sustainable Sweden". However, there is still an element of uncertainty regarding industrial investment. If there are large global effects of the crisis in Asia, industrial investment may be postponed to some extent.

After three years of stagnating income, household real incomes will increase by over 2.5 per cent this year and next year. This, combined with the improvement in the economic situation for Swedish households in recent years, will contribute to a continued increase in private consumption.

The fall in public consumption will cease and be transformed into a small increase with the additional resources to local government. Local government consumption will increase by 0.8 per cent in 1998 and by 0.6 per cent in 1999. This, together with the relatively favourable development of GDP, will mean that the employment situation will improve.

Registered unemployment fell by 93,000 persons between February 1997 and February 1998, of which 39,000 were women and 54,000 men. This has taken place at the same time as labour market policy measures have been reduced. Regular employment is increasing, especially in the private sector. In addition, the considerable interest in the Adult Education Initiative has made a positive contribution to the development of the labour market. Unemployment measured as an annual average is expected to fall from 8.0 per cent in 1997 to 5.7 per cent in 1999.

Due to a responsible wage formation in combination with there being free resources throughout the entire period, growth will be high and inflationary pressure continue to be low. The forecast assumes a rate of wage increases according to the agreements concluded on the Swedish labour market, including the low wage drift assumed by the partners. This means wage increases of 3.1 per cent in 1998 and 3 per cent in 1999.

### 1.2.3 The forecast for 2000 and 2001

The favourable combination of responsible wage formation, good profits in the business sector, low interest rates, sound central government finances and increased resources for education, care and social services, will mean that registered unemployment will be 4 per cent at the end of 2000. The Riksdag's goal of halving registered unemployment by the year 2000 will thus be achieved. Measured as an annual average, registered unemployment will be 4.4 per cent in 2000. Most jobs will be created in the private sector. It is expected that 215,000 jobs will be created in the private sector between 1994 and 2000.

**TABLE 1.2 SELECTED STATISTICS**

ANNUAL PERCENTAGE CHANGE

	1998	1999	2000	2001
CPI, annual average	0.9	1.2	2.0	2.0
Hourly wage cost	3.1	3.0	3.0	3.0
Registered unemployment	6.7	5.7	4.4	4.0
Active labour market policies	4.2	4.0	3.9	3.5
Employment	1.0	1.5	2.0	1.1
Real disposable income <sup>1</sup>	2.5	2.9	3.7	3.1
Net household savings ratio <sup>1</sup>	0.9	1.3	2.9	4.0
German long-term interest rate	5.2	5.4	5.6	5.6
Swedish long-term interest rate	5.7	5.7	5.8	5.8
TCW index <sup>3</sup>	120.2	119.5	118.5	118.0

<sup>1</sup>Including computed transfer of public sector surplus in excess of targeted surplus

<sup>2</sup>10-year government bonds, annual average

<sup>3</sup>Annual average

Sources: Statistics Sweden and Ministry of Finance

GDP growth is expected to amount to 3.4 per cent in the year 2000, and then to be braked slightly to 2.6 per cent in 2001. Investments and private consumption are the most important driving forces behind the high rate of growth. In the economic development up to 2001, it is assumed that the labour market and especially wage formation will function well at the same time as the international development is favourable. For both 2000 and 2001, it is assumed that total wage increases, including wage drift and the reduction of working hours, will be the same as in 1999, i.e. 3 per cent.

In order to study the effects of a poorer development than forecast on unemployment and public finances, two different sensitivity estimates have been made in the annex, Swedish economy.

In general, it can be said that if international developments were to be worse than assumed in the forecast, then Swedish exports would be lower. The weaker industrial conjuncture would then also have

follow-on effects for the entire Swedish economy in the form of weaker growth, and lower employment. Employment would not increase so much and the unemployment target would not be achieved.

If wage increases are higher than forecast, the Riksbank must carry out a more restrictive monetary policy, which will lead to a slackening of demand. The Swedish export industry will then also find it more difficult to compete on the international market. In this case as well, there will be difficulties in halving registered unemployment by the year 2000.

### 1.3 Sound public finances and stable prices lead to more jobs

Sound public finances and stable prices constitute a prerequisite for a long-term high growth and high employment. This view is – and has during the past three years – governed the formation of economic policy.

#### 1.3.1 Sound public finances

##### Fiscal policy during the period of office

In 1993 Swedish public finances showed the next greatest deficit among the OECD countries at 12.3 per cent of GDP. When the Social-Democratic Government took office in October 1994, the borrowing requirement for the 1994/95 budget year was estimated at over SEK 240 billion kronor – every third krona in the central government budget was borrowed money. Confidence in Sweden was weak. On the financial markets, analyses were made of strongly

**TABLE 1.3 EMPLOYMENT, UNEMPLOYMENT AND WAGE DEVELOPMENT**

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Number employed <sup>1</sup>	4378	4185	3964	3927	3986	3963	3922	3961	4020	4098	4144
Private sector <sup>1</sup>	2986	2821	2630	2633	2698	2698	2695	2726	2783	2848	2880
Public sector <sup>1</sup>	1404	1381	1328	1290	1287	1263	1223	1232	1236	1246	1260
Registered unemployment <sup>2</sup>	3.0	5.3	8.2	8.0	7.7	8.1	8.0	6.7	5.7	4.4	4.0
Cyclical labour market policy measures <sup>2</sup>	2.0	3.6	4.3	5.3	4.4	4.5	4.3	4.2	4.0	3.9	3.5
Relative unemployment statistic <sup>3</sup>	83.2	81.0	78.91	77.4	78.2	77.8	76.8	76.3	76.4	76.6	76.9
Hourly wage cost <sup>4</sup>	5.7	3.7	2.8	2.4	3.3	6.1	4.5	3.1	3.0	3.0	3.0

<sup>1</sup>Thousands of persons

<sup>2</sup>As a percentage of the labour force on average during the year

<sup>3</sup>Labour force as a percentage of the population in working age

<sup>4</sup>Annual percentage change

Note: Employment levels in the private sector and the public sector are not consistent with the total for the years 1991 to 1992. Component sectors have been recomputed by Statistics Sweden in accordance with reclassification and changes in methods introduced in 1992/93 and allocated by quotas from SNI69 to SNI92. The total is in accordance with the original series, corrected, inter alia, for classification of ALU employees and youth trainees.

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

increasing inflation, or that Sweden would soon have to seek assistance from the IMF. The situation was on its way to becoming as serious as that which affected some Asian countries at the end of 1997. There was a risk that the start of the recovery would be halted. Ultimately, it concerned the legitimacy of democratic institutions.

The main task for the newly-appointed Social-Democratic Government was therefore to consolidate public finances swiftly and resolutely. The Government proposed a comprehensive consolidation programme to quickly stop the increase in central government debt. The consolidation programme was based on three basic principles. It would act as quickly as possible so as to stop the increase of central government debt at an early stage. Its distribution policy effects were designed so that those who had best resources contributed most. Moreover, priority was given to education, care and social services over transfers.

The consolidation programme amounted to 126 billion kronor and it has been completed as of the 1998 budget. The size and profile have been continually adjusted to achieve the budget policy goals:

*Central government debt in relation to GDP was to be stabilised at latest by 1996*

In October 1991, central government debt was SEK 650 billion. In October 1994, central government debt had almost doubled to SEK 1,230 billion. Central government debt in relation to GDP peaked at 84 per cent already in 1994-95. This target was met.

*Deficit in general government finances to be at most 3 per cent of GDP in 1997*

This target has been met. The deficit in general government finances in 1997 was 1.1 per cent of GDP, according to the most recent Swedish national accounts, and 0.8 per cent of GDP according to the statistic used in EU co-operation. Sweden thereby complies with the convergence requirements for participation in the third stage of the EMU.

*General government finances to be in balance by 1998*

This target has been achieved by a broad margin. In 1998 it is estimated that general government finances will report a surplus of 1.6 per cent of GDP. To some extent, this surplus can be explained by accounting factors. If these are corrected for, the surplus shrinks to 0.8 per cent of GDP. Sweden is among the four EU member states with the strongest public finances.

**TABLE 1.4 EU MEMBER STATES' PUBLIC SURPLUS/DEFICIT**

PER CENT OF GDP

	1998
Belgium	-1.7
Denmark	1.1
Finland	0.3
France	-2.9
Greece	-2.2
Ireland	1.1
Italy	-2.5
Luxembourg	1.0
Netherlands	-1.6
Portugal	-2.2
Spain	-2.2
United Kingdom	-0.6
Sweden <sup>1</sup>	0.8
Germany	-2.5
Austria	-2.3
<b>EU</b>	<b>-1.9</b>

<sup>1</sup> According to the Ministry of Finance (ENS definition). The Commission states 0.5 per cent for Sweden

Sources: European Commission and Ministry of Finance

*Targets for economic policy*

The budget policy goals have made a strong contribution to a stable development of the Swedish economy with successively lower rates of interest. In addition to these targets, there are also targets for unemployment and inflation. Experiences of goals for economic policy is good. General government finances are improving at a rapid rate. Unemployment is falling. Inflation is low. As all goals have been supported by a majority in the Riksdag, they have been effective and had a considerable impact on the Swedish public debate, the economic policy, and thereby also the economic development.

The ambition has been to formulate goals that are to govern policies and other actors in an economically desirable direction. The goals have been clear, easily communicable, and easily quantifiable. The goals that have guided economic policy have had a decisive influence for good economic development, as reported in this Bill.

**Consolidation policy**

As of the present year, Sweden has moved from being a country in deficit to one in surplus. Such a budget consolidation which also by international comparisons reach notable dimensions, is not possible to carry out without affecting the economic situation of private individuals and public activities. In order to re-establish confidence in the Swedish econ-

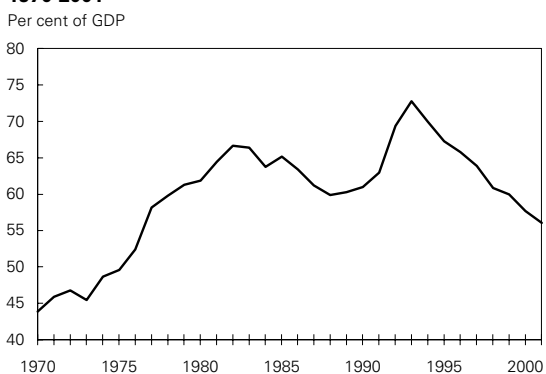


omy, and to durably reduce the risk for Sweden again encountering problems with central government finances, it was necessary to carry out the consolidation policy with openness and clarity. The new budget procedure has played a great role in this context. The acute financial crisis has now been dealt with and Sweden has better opportunities than for a long time to retain stability and amortise central government debt. Some conclusions may now be drawn as to how budget consolidation has taken place.

*Public finances have largely been consolidated through expenditure cuts*

In 1994 the deficit in general government finances was 10.3 per cent of GDP. In 1998 there is a general government financial surplus. Between 1994 and 1998, general government expenditure in relation to GDP has fallen by 9.1 percentage points. During the same period, general government revenue in relation to GDP has increased by 2.8 percentage points.

**DIAGRAM 1.1**  
**Consolidated general government expenditure**  
**1970-2001**



*Consolidation depends largely on structural measures*

According to OECD, Sweden in 1994 had a structural deficit of 9.1 per cent of GDP. According to the same estimate, Sweden has a structural surplus of 1.0 per cent of GDP in 1998. Among the EU member states, only Denmark has a larger structural surplus.

*Consolidation is not due to one-off savings*

The whole consolidation of public finances that has taken place during the past four years consists of durable reinforcements of public finances. The Government has deemed it to be important not to include in the consolidation programme those measures that only temporarily increase central government revenue or reduce expenditure. In the financial balance, which is the statistic used by the Government, as well as by the EU among others, to evaluate public finances externally, revenue from sales of state-owned enterprises is not included for instance. Furthermore, the accounting effects of the transfer

into company form of the National Pension Fund's properties are not incorporated in the Government's assessment of the balance target for 1998.

*Consolidation of general government finances has had high distribution policy ambitions*

The Government has continuously analysed the distribution policy consequences of the budget consolidation. The result is that the fifth of households which are best off have contributed 43 per cent of the budget consolidation. The fifth of households, which are worse off, have contributed 11 per cent. From an equality perspective, women and men have contributed approximately as much. Despite this, the Government is aware that the consolidation of public finances has meant strains for many people.

**Fiscal policy in coming years**

After 1998, the goal shall be a surplus in general government finances. There are a number of reasons why Sweden should have an ambitious goal for general government finances:

- The public debt can be amortised. Having a large debt makes Sweden sensitive to interest rate fluctuations on the international capital markets. The largest expenditure item in the Swedish central government budget is interest on central government debt, which is estimated at SEK 103 billion in 1998.
- With a surplus in general government finances in a normal cyclical situation, there is a margin to counteract cyclical downturns without the deficit threatening to become too large and triggering a rise in interest rates.
- Sweden must equip itself for the future. The proportion of elderly people will rise some way into the twenty-first century. The public sector must then be sufficiently strong to be able to meet this development. The situation is not unique for Sweden but since Sweden has high ambitions for the public welfare, Sweden must also have high ambitions for the financial strength of the public sector.
- A high level of savings makes possible a high level of investment without Sweden having a deficit in payments with other countries. In that way, Sweden's high international indebtedness can be reduced at the same time as production capacity can be increased. A high level of public savings contributes to a high level of national savings, which has a positive effect on Sweden's long-term growth potential.

**TABLE 1.5 PUBLIC FINANCES**

PER CENT OF GDP

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Income ratio	65.2	61.9	61.6	60.5	59.7	59.6	63.7	62.8	62.5	60.8	60.1	59.7
Tax ratio	55.8	52.8	51.1	50.2	49.8	49.9	54.1	54.2	53.9	52.9	52.4	52.3
Expenditure ratio	61.0	63.0	69.4	72.8	70.0	67.3	65.8	63.9	61.0	60.0	57.7	56.1
Interest on central government debt	4.5	4.4	4.7	5.5	6.3	6.5	6.6	6.1	5.3	5.0	4.2	3.8
Financial balance	4.2	-1.1	-7.8	-12.3	-10.3	-7.8	-2.1	-1.1	1.6	0.8	2.3	3.5
Central government borrowing requirement, SEK billion <sup>1</sup>	25	75	150	242	185	138	21	6	-1	-6	-24	-31
Net debt <sup>1</sup>	-8.2	-5.3	4.8	11.0	21.9	23.6	20.3	21.7	20.0	18.1	15.8	13.1
Central government debt <sup>1</sup>	45.5	47.9	61.1	78.3	84.0	84.0	83.6	82.4	78.6	74.7	69.9	65.4
Consolidated gross debt	43.8	53.0	67.1	76.0	79.3	78.0	77.2	76.9	74.3	71.0	66.8	62.9

Sources: Statistics Sweden and Ministry of Finance

<sup>1</sup>When in surplus, corresponding to the budget policy goals for 2000 and 2001.*An average surplus of 2 per cent of GDP*

After consultations with the Centre Party, the Government concretised the surplus requirement for the period after 1998 at a long-term goal of a 2 per cent surplus of GDP on average over the business cycle. As a consequence of this, the general government net debt in relation to GDP is expected to disappear by about 2007.

*Surplus targets for 1999, 2000 and 2001*

As a gradual adaptation to the long-term goal, general government finances shall show a surplus equivalent to 0.5 per cent of GDP in 1999, 1.5 per cent in 2000 and 2.0 per cent in 2001.

The targets for these years apply for the growth estimated in the 1997 Spring Budget Bill. If the growth for cyclical reasons was to considerably diverge from this, the equivalent divergence from the stated goals will be tolerated. If growth for cyclical reasons is considerably higher, the general government surplus should be higher. In the same way, the general government surplus should be lower if the growth is considerably lower due to cyclical reasons.

Wage formation plays a decisive role, however. If the rate of wage increases in the Swedish economy exceeds that agreed by the social partners, including the wage drift stipulated by the partners, growth in the Swedish economy will in all probability be lower than estimated. If so, then this would be a structural problem and not a cyclical one.

*Central government debt*

Central government debt grew rapidly in the first years of the 1990s. Interest expenditure for central government debt constitutes the largest item in the 1998 budget. In the light of the growing importance of management of central government debt, the Government is submitting a bill on central government debt to the Riksdag today. In this Bill it is proposed that the goal for central government debt pol

icy should be a long-term minimisation of central government borrowing cost.

*Stepping into the twenty-first century*

General government finances continue to develop more positively than previously assumed for 1998 and onwards. The main reason is that expenditure is lower than expected. This has created scope for further, offensive measures. The Government therefore proposes that additional resources be made available to education, care and social services. Already during this year, the level of central government grant to local government will be increased by SEK 4 billion.

Moreover, a mustering of strength is proposed in six coming areas which are of great importance for growth and employment in Sweden: Knowledge and competence, Participation in the information society, Sustainable Sweden – setting an example, Entrepreneurship, European co-operation, and Sweden for all.

All these measures have been fully taken into account in the estimates of general government finances. Also previously presented Bills, for instance on transport policy, housing policy and dental insurance have been fully taken into consideration in the accounts. The budget policy goals continue therefore to steer budget policy.

**TABLE 1.6 NEW MESASURES**

SEK MILLION

	1999	2000	2001
<b>Coming areas</b>			
Knowledge and competence	1 030	1 100	1 460
Participation in the information society	400	600	800
Sustainable Sweden – setting an example	125	200	2 200
Entrepreneurship	1 780	2 070	1 780
European co-operation	1 050	1 050	1 050
Sweden for all	350	350	800
<b>Total</b>	<b>4 735</b>	<b>5 370</b>	<b>8 090</b>
<b>Other reforms</b>			
Dental insurance	500	500	500
Housing Policy Bill and building incentives	990	1 100	200
Freezing of tax assessment values	810	490	420
Bill concerning the Elderly	300	300	300
Pensions	1 420	2 980	3 090
Justice system	200	250	300
Development assistance			204
Local government	4 000	4 000	4 000
Other measures	540	370	1 085
<b>Total</b>	<b>8 760</b>	<b>9 990</b>	<b>10 099</b>
<b>Total before financing</b>			
	<b>13 495</b>	<b>15 360</b>	<b>18 189</b>
Less financing			
	3 875	4 105	4 380
of which expenditure reductions	1 875	1 905	2 180
New income tax scale step	2 000	2 200	2 200
<b>TOTAL</b>	<b>9 620</b>	<b>11 255</b>	<b>13 809</b>

After these proposals, general government finances will have a surplus of 1.6 per cent of GDP in 1998 and 0.8 per cent in 1999. This exceeds the goals laid down by the Riksdag for balance in 1998 and a surplus of 0.5 per cent of GDP in 1999. Of the surplus in 1998, 0.8 percentage points are, however, only due to technical accounting reasons, relating to the incorporation of the National Pension Fund's properties. The remaining difference from the goal in 1998 will allow Sweden to begin to amortise central government debt already this year with a view to strengthening political opportunities and reducing central government interest expenditure.

In 2000 and 2001, the general government financial surplus is forecast at 2.3 and 3.5 per cent respectively of GDP. The budget policy goals, 1.5 per cent in 2000 and 2 per cent in 2001, will be surpassed in

these years as well. However, this forecast is uncertain and is conditional, among other things, on a well-functioning wage formation.

To "mortgage" these forecast surpluses already today would be to undermine the budget consolidation that has been carried out. The risk would increase that the Government would later have to come back to the Riksdag with proposals for cuts and tax increases. On a number of occasions previously, the Riksdag and Government have booked up future budget resources without being able to meet the expectations on either budget outcome or reforms. The most flagrant mistaken assessments were made at the beginning of the 1990s.

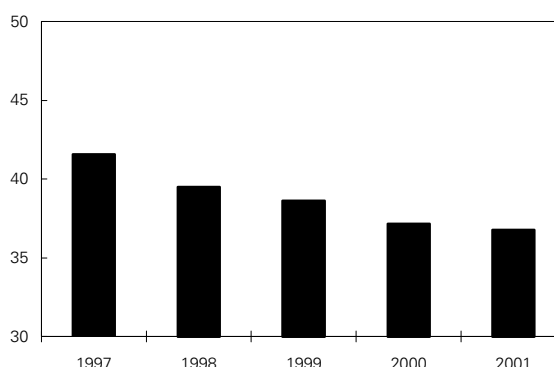
#### *The expenditure ceiling*

The new budget process means that the Government presents proposals for a nominal expenditure ceiling for the coming three years in connection with the Spring Budget Bill. The central government expenditure ceiling previously decided upon by the Riksdag will be maintained. It is proposed that the expenditure ceiling for 2001 will be SEK 770 billion kronor, equivalent to 36.8 per cent of GDP. Thereby, the central government expenditure will continue to fall in relation to GDP.

**DIAGRAM 1.2**

#### **The central government expenditure ceiling**

Per cent of GDP



Source: Ministry of Finance

#### *The pension reform*

The Government is also presenting today bills on the reformed old age pension system (Government Bill 1997/98:151 and Government Bill 1997/97:152). The proposals in these bills are based on the agreement concluded in 1994 between the Social Democrats and the four right-wing parties.

The old age pension system plays a decisive role for citizen's welfare and it is of the greatest importance that the rules are reliable. It is therefore a success that there is a broad political unity on the detailed design of the new old age pension system. The new rules for calculating pensions combine demands for justice and efficiency, at the same time as they produce a more stable system financially than to-

day's. The Swedish pension reform entails far-reaching changes and has attracted attention internationally. As one of the first countries, Sweden is now carrying out the necessary changes to maintain the general pension system and meet its commitments as the number of pensioners rises.

The Government will continue the work of modernising the social security system.

### 1.3.2 Stable prices

A foundation for overall economic policy is that price stability is a prerequisite for successful economic development. High inflation leads to poorer conditions for sustainable high growth and thereby also for stable high employment. Stable prices create a good basis for a well-functioning wage formation. High inflation reduces the possibility for a good distribution policy and a fair allocation of assets and revenues.

The overall task for monetary policy is price stability. The Riksbank carries out monetary policy independently and the Governing Board of the Riksbank has defined price stability so that the annual increase of the consumer price index should be restricted to 2 per cent with a tolerance interval of one percentage point upwards or downwards.

The Government supports this approach to monetary policy and stands behind the inflation target.

#### The position of the Riksbank to be reinforced

In order to strengthen credibility for price stability, the Government in November 1997 submitted a Bill to the Riksdag based on a five-party agreement on monetary and foreign exchange policy:

- The Riksbank will be given a general objective for its activity, established by law. The goal for monetary policy shall be to maintain a fixed value of money. Since the Riksbank is an agency under the Riksdag the bank has furthermore an obligation to support the general economic policy, inter alia with the end 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 stipulates 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 the holder of this office 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 duties or if guilty of serious dereliction of duty.

- A new management structure will be introduced at the Riksbank, where the Governing Board will have a controlling function and an Executive Board will be established which will decide on all monetary policy matters and manage the Riksbank.
- The responsibility for overall foreign exchange policy 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.

In March this year the Riksdag made a first decision on the constitutional amendments proposed in the Bill. A second decision on the constitutional amendments and the decisions or other amendments to the law will be made by the newly-elected Riksdag in the autumn.

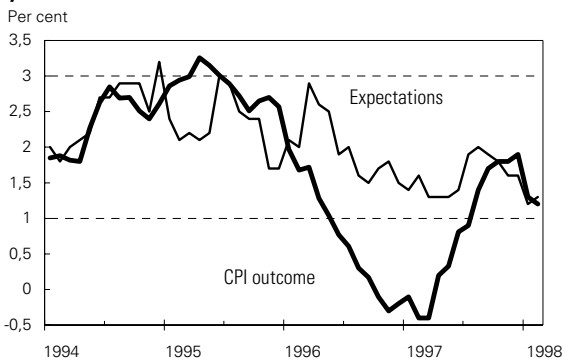
#### Swedish economy less prone to inflation

There are a number of signs that inflationary tendencies have reduced – and are continuing to diminish – in the Swedish economy:

- The inflationary expectations of households and businesses have fallen.
- Awareness among the social partners has increased that Sweden cannot have wage cost increases that markedly differ from our trading partners'.
- Productivity has increased markedly.
- Competition has increased in Sweden. There are clear signs of increased competition within the food industry and certain service sectors, for instance. This reduces the possibilities for businesses to increase their price margins or pass on cost increases to consumers. Sweden's entry into the EU has contributed to this development.
- The Asia crisis has led to global inflationary pressure being reduced even more.
- The Riksbank's price stability goal has received increased credibility in Swedish opinion.

As a result of the reduced inflationary tendencies growth can be high and unemployment fall markedly if the rate of wage increases continues to be in accordance with the agreement concluded on the Swedish labour market, including the wage drift stipulated by the social partners.

**DIAGRAM 1.3**  
Household's inflation expectations for the coming year and CPI outcome 1994-1998



Source: Statistics Sweden

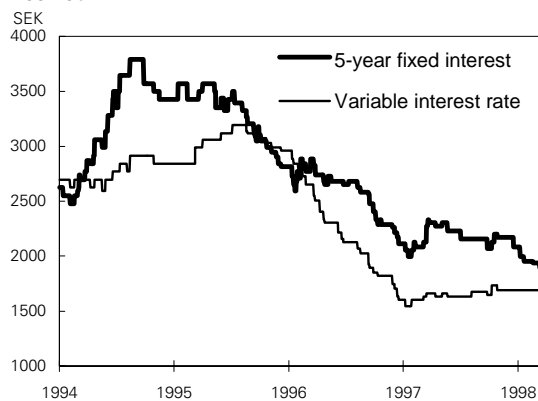
Note: The dotted lines in the diagram show the Riksbank's tolerance interval for inflation

### Interest rates

One of the main aims of the consolidation policy introduced in October 1994 has been to create pre-conditions for lower interest rates. Low rates of interest are of very great importance for the Swedish economy. The increased confidence in economic policy is shown clearly in the financial markets. Since August 1994, most interest rates have more than halved:

- The long-term interest rates have reached their lowest level for almost 40 years. The ten-year interest rate is now under 5.5 per cent. In summer 1994 the same interest rate was over 12 per cent.
- The interest rate margin in relation to Germany, which was over 4.5 percentage points in summer 1994 for the long-term interest rates, is now under 0.4 per cent.
- The short-term interest rates have fallen. The low inflation and the increased confidence in the economic policy carried out have led to the Riksbank being able to reduce its repo rate. At the beginning of 1996, the repo rate was almost 9 per cent. In April 1998, it was just over 4 per cent.
- Interest rate expenditure has reduced sharply. Diagram 1.4 shows how the monthly cost after tax for a normal housing loan of SEK 500,000 has fallen since 1994. Compared with August 1994, the monthly cost after tax has been reduced by around SEK 1,900. A similar development has taken place for loans for tenant-owned housing. Those who live in rented housing have also been favoured by the falling interest rates as falling interest expenditure has affected rents.

**DIAGRAM 1.4**  
Monthly cost for a housing loan of SEK 500,000, 1994-98



Source: Ministry of Finance

### The krona

The krona's effective exchange rate is today at approximately the same level as in January 1997. During this period, the krona's exchange rate has been largely unchanged in relation to the European currencies, while the dollar has appreciated by around 15 per cent in relation to the krona and the other European currencies. Diagram 1.5 shows a trade-weighted exchange rate index, including inter alia the Asian currencies. A lower index means a stronger krona.

**DIAGRAM 1.5**  
Trade-weighted exchanged rate index 1997-1998

1 January 1997 = 100



Source: Ministry of Finance

### EMU

On 1 January 1999, the third stage of the EMU will start and the EU's common currency, the euro, will be introduced. The decision on the selection of countries will be made by the Council consisting of heads of state and government in May 1998. The Commission recommended in March this year that eleven member states take part in the currency union from the start.

In December 1997, the Riksdag approved, in accordance with the Government's proposal in Government Bill 1997/98:25, that Sweden should not introduce the euro when the third stage of the EMU

outset. Given this decision, it has been clear that Sweden will not take part in the currency union from the start. Sweden should keep the door open for a later Swedish entry into the currency union. If the Government finds later that Sweden should take part, this issue should be subject to a decision by the Swedish public.

The Government's view is that it is not at present appropriate to take part in the European exchange rate co-operation, ERM. The present system with a floating exchange rate within the framework of a monetary policy focused on price stability works well.

In order to durably safeguard sound public finances in the third stage of EMU, the member states have introduced a stability and growth pact. The part of the pact that relates to monitoring is expected to come into force already on 1 July. Sweden and the other countries that are not expected to introduce the euro on 1 January 1999 will also take part in the pact with the exception of the rules on sanctions and directives. In the pact the member states have undertaken to have a medium-term goal for general government finances close to balance or in surplus. Sweden has more ambitious goals than the EU and will meet this obligation by a broad margin.

### 1.3.3 More jobs

At the beginning of the 1990s Sweden passed from being a country with full employment to one marked by mass unemployment. Between 1991 and 1994 over 450,000 jobs disappeared. The goal is to take Sweden back to full employment. A partial goal is that registered unemployment should be reduced to 4 per cent by the year 2000.

The Government's strategy is based on strengthening Sweden by knowledgeable people, a good business climate, and an adaptation to ecological sustainability. In a stable economic environment, the quality of and access to education, care and social services are to be improved. This contributes to making possible a high participation in the labour force for both women and men.

Education, development and competence are to characterise the whole of Sweden. Both young and old, women and men, are to be given the possibility of improving their knowledge and competence. Labour market policy is to be reorganised to increase the quality of the measures and to contribute to a greater extent to reducing bottlenecks during cyclical upturns and increasing employment. There are thus favourable conditions for achieving high growth without increasing income gaps. Policies will be based on this strategy.

Employment policy is based on five foundation stones:

- The work and competence line applies. Unemployment is to be reduced primarily by more people finding work, or taking part in education that provides increased possibilities for work.
- The major part of the increase in employment in the coming years should take place in the private sector.
- In the public sector, activities should be given priority over transfers. Education, care and social services constitute the core of welfare.
- A well-functioning wage formation is required to strengthen employment.
- Central government finances are to be sound and prices stable.

The policies carried out are well in accord with these foundation stones:

#### *The work and competence line*

Work and education are to be given priority. Vacancies are to be filled quickly. Vocational and geographical mobility are to be encouraged. During 1997 unemployment has fallen considerably. To some extent this is due to increased employment. Between February 1997 and February 1998, employment increased by 38,000 persons.

The primary reason for the favourable development is the major investment in education. During the period from 1997 to 2000, an additional 60,000 permanent higher education places and 140,000 places in adult education and qualified vocational training will be created through the Adult Education Initiative. To this, the current reorientation of labour market policy towards more vocationally-focused training and fewer practice placements shall be added. An important element in this reorganisation is the IT initiative that the Government is carrying out together with the Federation of Swedish Industries. In this way, the competence of the labour force will be reinforced, flexibility on the labour market increased, inflationary shortage situations counteracted and a well-functioning wage formation encouraged. The result is that unemployed persons will have a chance of returning to the labour market at the same time as the exclusion of persons from working life will be prevented and the basis laid for a high, future growth.

#### *The private sector expands*

The major part of the increase in employment in coming years should take place in the private sector. Not because the public sector is too large but because the private sector is too small. Between September 1991 and September 1994, over 300,000 jobs disappeared in the private sector in Sweden. Without a strong base consisting of private employment it is

impossible in the long run to retain a strong public sector.

Between 1994 and 1998, it is estimated that over 90,000 extra jobs will be created in the business sector. This is one of the reasons why it has been possible to supply more resources to local government. A continued expansion of the private sector is necessary to strengthen Sweden in the long-term.

#### *Activities given priority*

Education, care and social services are strengthened. Through previous decisions, an additional SEK 8 billion will be made available to the local government sector in 1998 to promote employment and secure quality. In 1999 SEK 12 billion will be made available to local government, In 2000 SEK 16 billion will be provided to local government.

Now the Government proposes a further increase in level of SEK 4 billion from 1998. The level of resources provided for education, care and social services will thus have been increased by a total of SEK 20 billion in 2000 compared with 1996. Altogether, SEK 72 billion extra will then have been provided in the five-year period 1997-2001.

#### *Wage formation*

The consequences of deficiencies in wage formation are different than previously. Before it was, at least during a transitional period, possible to fail and to live with the consequences. This is no longer the case. The social partners therefore bear an especially great responsibility. Unemployment can be reduced given reasonable, low wage agreements. If wage increases are too high, mass unemployment will persist. This responsibility rests heavily with all those who have an influence on Swedish wage formation.

The agreements concluded to date on the Swedish labour market for the above-mentioned years have increased annual wage costs by 3 per cent. This includes an assumed wage drift by the partners. Keeping total cost increases at 3 per cent at most should be the lead-star for the wage development in 1998 and future years. This includes both costs for reduction of working hours and wage drift.

It is of great importance that the social partners take into consideration the new conditions and do their utmost to make possible a halving of registered unemployment. This applies to all parties on the Swedish labour market, also those who have already concluded agreements. They must do all that is in their power to limit wage drift to the historically very low levels stipulated by them.

The agreements made to date indicate an increased assumption of responsibility by the social partners and that wage drift is in the process of adapting to expectations of durable low inflation.

#### *Sound central government finances and stable prices*

At the outset of the present mandate period, the central government borrowing requirement was estimated at over SEK 240 billion. By 1998, this borrowing requirement is expected to be wholly eliminated – the central government debt can instead be amortised by SEK 1 billion. In 1994 the deficit in public finances was 10.3 per cent of GDP. This year, computed according to the proposals made in this Bill, it is expected to show a surplus of 1.6 per cent of GDP. Inflation during the next few years is expected to be under or close to the Riksbank's inflation target of 2.0 per cent.

#### **A national employment action plan**

Sweden has for a long time driven that the employment issue be placed high up on the EU's agenda. At the summit meeting in Amsterdam in 1997 the basis was laid for an intensified co-operation for increased employment by increased exchanges of experience between member states and stronger co-ordination and monitoring of employment policy. A co-ordinated employment policy in the EU directs the focus on the member states achieving concrete results in important areas such as long-term and youth unemployment, equality of opportunity, entrepreneurship, competence development, and the situation of the disabled on the labour market.

At the summit meeting in Luxembourg in November 1997, the first summit meeting which was exclusively devoted to the matter of employment, it was decided that the new section on employment would have a concrete and immediate content. A number of employment guidelines were adopted which were to form the basis for continued work. These guidelines – 19 in all – are to be incorporated in national plans of action worked out by the member states in a perspective extending over a number of years. The plans of action will thus become a kind of "annual reports" showing how the guidelines have been translated into action at the national level. Sweden's plan of action (Annex 4) will be submitted to the EU Commission in connection with this Bill being presented to the Riksdag.

The 19 guidelines have been divided into four main areas: improving employability, developing entrepreneurship, improving enterprises' and the employees' ability to adapt, and strengthening equality policy. Within each main area, there are a number of guidelines that contain recommendations and concrete measures.

Each member state shall take a position on all guidelines but it is up to each country to design its own measures in the areas taken up in the guidelines. As previously, the main responsibility for employment and labour market policy will rest on the individual member states.

The Swedish employment policy is well in line with the recommendations of the guidelines. The Government shares to the full the approach in the guidelines that the employability of labour force is best promoted by active measures with the emphasis on education and development of competence rather than passive cash support.

The Government also values that the guidelines highlight education and the development of competence as an important means for creating a flexible European labour market. The guidelines emphasise that this work should take part in collaboration with the social partners, which fits in well with the Swedish tradition of tripartite co-operation.

As regards long-term unemployment, youth unemployment and the number of unemployed in active labour market programme measures, there are also quantitative targets. Sweden meets these targets in all three cases. With respect to combating long-term and youth unemployment, Sweden's ambitions are higher. Active measures are usually initiated at an earlier stage than the guidelines have set as a goal. In addition, the proportion of unemployed in active measures is the highest in Europe.

The need for strengthening equality policy has been put forward as a special main area. This is a big step forward, which should be followed up by an integrated equality perspective also in other main areas. The aspects dealt with in the other main areas of the guidelines, for instance, long-term unemployment, youth unemployment and active measures are of fundamental importance for equal conditions for women and men on the labour market.

The guidelines establish that women's increased employment is the decisive factor for equality of opportunity. This approach is well in accord with the goal of Swedish equality policy, which is the right for all individuals to be able to earn their livelihood regardless of sex. Easily available child care, paid parental leave for both women and men and the fact that the tax and social insurance system is based on the individual and not the household as its smallest unit have played a decisive role in Sweden for the rate of employment of women and men being almost equal.

#### **1.4 Education, care and social services**

The main direction of welfare policy is to prioritise activities over grants. Among activities, the Government has consistently given priority to education, care and social services since taking office. This has had a decisive importance for economic policy. In the SEK 126 billion programme to consolidate the Swedish economy after the 1991-94 period, central

government grants to municipalities and county councils have been exempted from cuts despite practically all other budgetary items being affected by extensive savings requirements. However, it has not been possible to shield the local government sector from the effects of the previous weak economic development.

Municipalities and county councils have been exposed to difficult economic strains. The alternative – not doing anything about the central government financial problems – would, however, have been worse for municipalities and county councils. Increasing interest expenditure for central government debt would rapidly have thrust aside important expenditure. As a result of the successful economic policies the Government could, within the framework of the budget policy goals, propose increased resources to municipalities and county councils a year ago. In 1997, SEK 4 billion was made available, in 1998, a further SEK 4 billion. With that the support to municipalities and county councils during the current year is SEK 8 billion higher than it would otherwise have been. Education, care and social services have been given priority.

In the Budget Bill for 1998, a further investment of SEK 4 billion was proposed for the local government sector in 1999 and an additional SEK 4 billion in 2000. Altogether, the proposed additional resources thereby amount to SEK 16 billion in 2000 compared with 1996. Education, care and social services are strengthened.

Since the economic development has been better than anticipated, the Government now proposes that a further SEK 4 billion be made available during the current year and onwards. In this way, the additional resources amount to SEK 12 billion in 1998, SEK 16 billion in 1999 and SEK 20 billion in 2000 and in future. During the five-year period 1997-2001, municipalities and county councils will be provided with a total of SEK 72 billion extra. Education, care and social services will be further reinforced. The new resources are to be used to strengthen quality in school, care and social services and to safeguard employment without an increase in local government tax.

In connection with the Spring Budget Bill, the Government has also decided to submit the Bill concerning a National Plan of Action for Policy relating to the Elderly (Government Bill 1997/97:113), with the intention of laying down the goals and guidelines for a long-term policy relating to the elderly and providing proposals for measures in certain important areas, especially care of the aged. These proposals entail that SEK 300 million per year will be made available during the period 1999-2001.

In the light of local government's investment requirements for expansion and adaptation of housing and premises for the elderly during the coming years, the Government has furthermore proposed to intro-



duce temporary building assistance totalling SEK 400 million for 1998 and 1999. Moreover, assistance is to be provided to municipalities with overpowering financial commitments for housing, to allow education, care and social services to be given priority.

Dental care will also be reinforced. The Government has recently submitted a Bill, 1997/98:112, to the Riksdag concerning a reform of dental care assistance, proposing a change in dental insurance arrangements as from 1999. This proposal entails an expansion of the cost frame for dental care by SEK 500 million.

## **1.5 An offensive for sustainable growth and increased employment**

Sweden is to take the step into the twenty-first century through offensive policies, which aim at achieving sustainable high growth and increasing employment. In this way, we can safeguard welfare in the long-term.

Six areas are of strategic importance for Swedish growth and employment: Knowledge and competence, Participation in the information society, Sustainable Sweden – setting an example, Entrepreneurship, European co-operation and Sweden for all.

Altogether, the proposed measures include SEK 18 billion for the period 1999 to 2001.

### **1.5.1 Knowledge and competence**

What is produced will in future depend to an increasing extent on knowledge, efficiency and creativity. Sweden's successes on the world market will depend on our ability to quickly find new solutions and develop new products. The most important investment we can make during the coming years in society will therefore be to invest in increased knowledge and competence by broad training and leading-edge research.

Sweden's future lies in a qualified, well-educated labour force. There are three reasons to give priority to education – growth, distribution and democracy. With a high level of education in Sweden, it is possible to have a sustainably high growth and increasing employment. Education is important as a distribution policy instrument for equal opportunities. In order to deepen and reinforce democracy, investment in education which benefits the whole population is important. Policies therefore focus on strengthening the entire educational system from pre-school to qualified further training for those already in work.

Every young person who leaves compulsory school or upper secondary school without sufficient knowledge represents a failure. Therefore, a further SEK 72 billion will be made available to local government over the five-year period 1997–2001. A better school requires resources – for staff, books, development of educational methods, and new technology. It also requires a committed teaching staff with opportunities for further training and stimulation in their important work. Moreover, strengthened initiatives are required for development and control of quality and results in school. A national school policy is to ensure uniform standards throughout the education system.

The Government intends to carry out a ten-point programme for quality and equal standards in schools. To this end, the Government will propose that SEK 110 million be allocated annually between 1999 and 2001. In brief, the programme will consist of the following:

Quality control should be strengthened at both central and local level. The National Education Agency has been instructed to investigate the need for increased possibilities for sanctions. A national inspection board is to be established at the National Education Agency to inspect schools. The teaching professions should be developed and the base of recruitment for teachers broadened. A new training for headteachers should be introduced to meet today's requirements for educational leadership. A national examination bank should be established as a support for teachers' work. The national course examinations in the upper secondary school are to be made compulsory. Schools should open up more to working life and a new upper secondary technology programme be established. Modern apprenticeship training is to be further developed. Teaching in natural sciences, technology and the environment is to be stimulated. Culture is to have an important role in schools and co-operation with music and culture schools should be strengthened. An IT programme for schools is to be presented. The Government intends to submit proposals on the matters that require a decision by the Riksdag at a later date.

In adult education, a further 140,000 places will be established between 1997 and 2000 in the Adult Education Initiative. To make possible continued broad participation, it will be made possible in the 1998/99 academic year to study with special training grant for a second year. This will mean that many can continue to choose knowledge and competence rather than passive unemployment.

The Government further proposes that grants for young people under 20 years of age who have attended a base year with a natural science and technical specialisation with satisfactory result shall be retained. The trail activity with qualified vocational training will be extended to the end of 2001 and expanded from 8,800 to 12,000 places as from 1999.

The strong expansion of higher education throughout the country will continue. By strengthening the small and medium-sized institutions of higher education, with permanent research resources, they will be increasingly strong forces in regional development as well. The number of students in postgraduate and graduate engineering courses and within natural science courses will be increased especially to meet requirements in these areas. In 2005, the number of graduate and postgraduate engineers is expected to have more than doubled compared with the mid-1980s to over 100,000 postgraduate engineers under 65 years of age and approximately 200,000 other engineers including upper secondary school engineers. The co-operation of institutions of higher education with the community will be developed at all levels.

Those in work must also be given opportunities for further training. The development of competence in working life is important for the Swedish business sector's ability to succeed in an increasing international competition and for the quality of public sector activities. Therefore, the Government has appointed a working group at the Government Office for the development of competence in working life. The social partners are taking part in the working group whose task is to submit proposals on how the partners joint work for increased development of competence in working life can be supported by the Government. The working group is to produce a report on its work at the latest by 12 June 1998.

**TABLE 1.7 KNOWLEDGE AND COMPETENCE**

SEK MILLION

	1999	2000	2001
Special training grant, second year	520		
Qualified vocational training	400	815	1 000
Ten-point programme	110	110	110
Other initiatives		175	350
<b>Total</b>	<b>1 030</b>	<b>1 100</b>	<b>1 460</b>

### 1.5.2 Participation in the information society

Information technology is very important for Sweden's competitiveness. With our world-leading knowledge-based enterprises, Sweden shall retain its position as a leading IT nation.

The new information technology contains considerable opportunities for change. Here there is both growth potential for society as a whole and prospects for achieving increased efficiency, a more comfortable daily life and better life. Therefore the whole of Swedish population must take part in the information society. The use of IT is dominated by men to-

day. This is an effect of, and contributes to maintaining, a labour market divided by gender.

The Government is responsible for IT and knowledge of IT being made available to as many people as possible. It is important that the use of IT contributes to a utilisation of people's creativity and willingness to work and the development of the competence of both women and men. IT policy shall therefore lead to increase women's use of IT.

In March 1996, the Government Bill 1995/96:125 Measures to Broaden and Develop Use of Information Technology was presented. This Bill reported on the goals for an overall IT strategy. Moreover, three priority areas were identified. the legal system, education and society's supply of information, where a number of goals were established for each area. A programme of action was also presented to broaden the use of IT.

The Government subsequently presented assessments of certain key issues for increased growth and employment in the information society. Moreover, a large number of implemented, ongoing and future measures in the programme of action to broaden use of IT have been reported. Examples of such measures are a committee investigating electronic means of payment, an investigation on possible co-ordination of legislation for radio, TV and telecommunications, the work of the IT Commission, the Data Act Commission's activities and the IT foundation's activities. The Government has also presented guidelines for continued work in developing central government administration.

The Government has moreover invested around SEK 1.3 billion in the period 1997-99 in a national programme for IT training. This programme results from an agreement between the Government, the Swedish Federation of Industry, and representatives of the IT companies. This training will be organised in project form within the framework of labour market training and 10,000 people are expected to participate, who will receive a high quality training. In this way, the risk decreases for bottlenecks in the fast growing economy.

In the Government Bill 1997/98:136 Government Administration in the Service of the Citizens, the Government has presented guidelines for IT use in central government administration.

The millennium shift entails a risk for serious disruptions in different electronic systems which inter alia has led the Government to appoint a 2000 delegation with the task of monitoring the work of adaptation in various sectors of society.

Within the areas of expenditure, the Government plans extensive measures, which will stimulate use of IT as such and also give other positive effects. In addition, the Government proposes that an additional SEK 1.8 billion be allocated during the years 1999 to 2001 for special initiatives, of which the major part, SEK 1.5 billion, will be invested in schools. The Gov-

ernment intends to present a programme for IT in school to the Riksdag. The point of departure is that all pupils should be provided with knowledge and opportunities to use computers as a modern information tool.

Within the university computer network SUNET further upgrading of the transmission capacity is to take place.

IT adaptation of agency information systems is to continue and be accelerated. The goal is to simplify information to the public and enterprises, so that Internet, for instance, can be used to fill in forms. Also in central government administration, Internet is to be used to an increasing extent to make inter-agency co-operation more efficient. Electronic trade in Europe is to be stimulated. Information networks are to be established focusing on trade and investments in the Baltic Sea region. A database with household-related environmental information is planned under the auspices of the National Board for Consumer Policies to increase knowledge about environmental issues. The Government views a special development of IT competence for employees in the public sector as an important task in the coming years. Furthermore, an investment in IT in the cultural sector is proposed. A new IT commission is to be appointed.

**TABLE 1.8 IT**

SEK MILLION

	1999	2000	2001
Education	340	540	740
Others	60	60	60
<b>Total</b>	<b>400</b>	<b>600</b>	<b>800</b>

### 1.5.3 Sustainable Sweden – setting an example

The global market for environmental technology and environmentally-compatible and low resource-use products is growing rapidly. If Sweden and Swedish industry takes a lead in a development towards environmental sustainability, this can provide competitive advantages in the markets of the future. Therefore, ecological adaptation is also part of a policy to strengthen the Swedish business sector and increase employment.

Sweden shall set an example and be a driving force for an ecologically sustainable development.

During the coming three years, technical development is to be stimulated and the provision of new work by SEK 12.5 billion being provided for energy investments, infrastructure and local investment projects in the country's municipalities.

The close dialogue with the business sector is of decisive importance. Many enterprises have realised the importance of sustainable production and envi-

ronmentally-friendly goods. The Government wishes to reinforce this co-operation and continue the investment programmes into the next century. By setting an example, Sweden can increase competitiveness and become a better country to live in, also for our children and grandchildren.

In spring 1997, in connection with the energy policy Bill 1996/97:84 A Sustainable Energy Supply, the Riksdag adopted a programme comprising SEK 9 billion over a seven-year period to achieve a more efficient use of energy and an increased use of renewable sources of energy. The adaptation of the energy system is a component in Sweden's endeavour to set an example with respect to creating ecologically sustainable development. Moreover, a decision has been taken on a five-year programme for investment grants of SEK 1 billion for ecocycle adaptation of buildings and technical infrastructure.

The Riksdag decided in connection with the Budget Bill in 1998 on local investment programmes to promote an ecologically sustainable development. A total of SEK 5.4 billion has been allocated for local investment programmes for the period 1998 to 2000. There has been a substantial response to date. In a first stage, some thirty municipalities will be provided grants for their applications for support to their investment programmes. Of the country's 288 municipalities, 286 have expressed interest. It is proposed that this support be increased by SEK 2 billion for 2001.

Environmental monitoring is to be reinforced. In order to safeguard biological diversity in the forest, additional resources are to be made available for conservation, biotope protection, and purchasing of land. Environmental supervision and initiatives for advice and information to forest owners are to be reinforced. The good economic development has enabled funds to be allocated to compensate earlier savings that were necessary for state finance reasons.

Housing policy is also to be reorganised in an ecological direction. In the Bill 1997/98:119 Housing Policy for Sustainable Development, the present interest grant system will be reformed and supplemented with an investment grant for ecologically sustainable investments in multi-occupier housing.

**TABLE 1.9 SUSTAINABLE SWEDEN – SETTING AN EXAMPLE**

SEK MILLION

	1999	2000	2001
Environment and conservation	125	200	200
Local inv. programmes			2000
<b>Total</b>	<b>125</b>	<b>200</b>	<b>2200</b>

### 1.5.4 Entrepreneurship

Since 1994, the number of people employed by companies with fewer than 100 employees has increased by 100,000. Over 27,000 new enterprises have been established each year. These are record levels. Entrepreneurship and new entrepreneurship have a decisive importance for growth and employment.

Initiatives to promote entrepreneurship and improve the conditions for business are therefore proposed. Up until 2000 100,000 new companies can have been established in Sweden.

During recent years, a number of measures of special importance for smaller enterprises have been introduced, inter alia with respect to taxation, access to risk capital and simplification of regulations. Regulations for sole traders and partnerships now correspond more closely to those applicable to limited companies. A newly-started sole trader will be able to set off losses in active business activity (self-employment) against earned income (employment). An easing of owner taxation for owners of unlisted limited companies has been introduced. Social security contributions have been reduced especially to favour smaller enterprises. A newly-created sixth National Pensions Fund has been permitted to invest in unlisted shares for SEK 10 billion.

The Small Business Committee appointed by the Government has presented a number of rule simplifications. The Government has already made decisions regarding a number of these. As examples may be mentioned less restrictive rules regarding the granting of "F" (business) tax cards and easing of tax supplements for accrual errors in VAT reporting.

There is no doubt that what has most favoured Swedish businesses has been the Government's energetic and comprehensive measures to strengthen public finances which has led to these now also being in balance. Interest levels have halved and investment as a result has increased strongly.

Carrying out unfinanced tax reductions would risk a serious deterioration of the business climate. The favourable development of public finances now makes possible further – financed – tax reduction and measures to increase access to risk capital.

Increased opportunities have been provided for sole traders and partnerships to make allocations to reserves. The relief for owner taxation of unlisted shares has been expanded. The set-off right for capital losses on unlisted shares has been expanded. Tax on advertising printed matter has been abolished.

Moreover, the special property tax on hydraulic power has been abolished, which means an easing especially for electricity intensive industry. Deduction rules for pension costs, taxation of personnel options and deduction for pension savings for sole traders are to be simplified.

The Commission on Simplification of Rules has been given expanded directives and can now also put

forward proposals that simplify accounting rules especially for small-sized enterprises.

Many new technology-based enterprises and other small-sized enterprises with considerable growth potential lack financial resources to be able to benefit from their development potential. The state supplements the market by so-called seed capital through the National Board for Industrial and Technical Development (NUTEK). It is proposed to increase the resources that are primarily for this purpose and other small enterprise development by SEK 50 million per year over a three-year period.

The Government has also taken several initiatives to stimulate female entrepreneurship. Business loans to women, advice to female entrepreneurs and local and regional resource centres to women are a few examples. The Government also supports research programmes on female entrepreneurship, which increase knowledge of the area.

The Government will now continue the work of simplifying rules.

- It shall be easier to register companies. The goal is that it should only be necessary to fill in one form and take contact with one agency. The Government intends to implement such simplifications during this year. The Swedish Patent and Registration Office is to be given the main responsibility for making suggestions for concrete measures within six months.
- Agency processing times are in a first step to be shortened by 25 per cent in specially selected cases. The Government intends to tighten up existing punctuality goals in government letters of instruction and to introduce such for all executive agencies. Monitoring and follow-up are to be made more stringent
- The burden for businesses to have to supply information is to be reduced. The Government intends to introduce measures to reduce considerably the obligatory provision of information by businesses and to increase re-use of business data.
- Handling of customs issues by businesses is to be further simplified. The Government intends to give priority to simplifications for customs issues, at both national and community level.

In the Government's future work, the small business perspective will be even more central. When the Small Business Committee has presented its final proposals, the Government therefore intends to present a programme for simplification of rules that, among other things, contain a system for ensuring that efficient analyses of consequences are made as to how various proposals affect small enterprises, and to issue a general directive to the committee system that the special conditions of small businesses are to be taken into account by all committees.

It is important for the Swedish economy that competition functions well. The Government will therefore submit to the Riksdag at a later date a document on the direction of competition policy.

The Government has been carrying out work against fraud for some years. Among other things, legislation has been made more stringent regarding prohibition against engaging in trade, and tax control. This work is continuing and is focused on counteracting ecological offences at the national and intentional level.

**TABLE 1.10 ENTREPRENEURSHIP**

SEK MILLION

	1999	2000	2001
Tax reductions	1 730	2 020	1 730
Seed capital, etc.	50	50	50
<b>Total</b>	<b>1 780</b>	<b>2 070</b>	<b>1 780</b>

### 1.5.5 European co-operation

The Government is deeply committed to the work of building up a strong and peaceful Europe on the threshold of the twenty-first century. Thanks to European co-operation, countries are linked more closely to one another and old conflicts are being resolved. With more new members, the European Union's fundamental objectives – peace, democracy and economic development – can be further promoted.

Sweden has been a member of the EU for over three years. During this period, EU co-operation has been deepened, for example by common efforts to increase employment. An important part of the EU's work is now focused on integrating new members into the community. The Government regards assisting the successful joining of candidate countries as one of its most important tasks.

The expansion can and should be carried out without increasing the ceiling on expenditure as a proportion of GNI. In order to facilitate this expansion, the budgetary resources that now exist under this ceiling must be reserved for new members.

EU membership has considerably expanded Sweden's possibilities of influencing Europe's development. This has also entailed new possibilities for our country's citizens and businesses. However, increased efforts are required to improve knowledge on Swedish European policy and on how its opportunities can be made use of. It is also important to carry out concrete initiatives to better make use of the new market opportunities in Europe.

During the first six months of 2001, Sweden will be the chair country for the first time. This means that Sweden will lead the work of the Council of Ministers and represent the EU externally. It will also mean that Sweden will be host for important meet-

ings, which traditionally take place in the chair country, such as the meetings of the European Council and informal Council of Minister meetings. Being chair country makes great demand on organisational competence and administrative resources. The resources for this work have been allocated.

The Government now proposes a three-year programme of SEK 800 million annually for development work with Central and Eastern Europe. This programme is to contribute to good neighbourliness in the Baltic Sea region and a dynamic and democratically integrated Europe. This co-operation is focused on hastening Estonia, Latvia, Lithuania and Poland's membership of the EU and further integrating Russia and the Ukraine into the European co-operation structures. The co-operation in the social sector is to be increased during the coming three-year period. The Government intends to intensify co-operation in the Nordic area and to link this in suitable parts with the business sector related co-operation in the Baltic Sea region.

Sweden's development co-operation with Estonia, Latvia, Lithuania and Poland in the legal field is intensified to accelerate these countries becoming members of the EU and to increase the rule of law and reduce criminality in our vicinity.

A special initiative to further develop co-operation between Sweden and Poland will be carried out during 1999.

In order to highlight the importance of the Baltic Sea region for employment and growth in Sweden, a billion kronor has been previously made available, the so-called Baltic billion. These funds are used in the fields of energy, the environment, infrastructure, transfer of knowledge, and Swedish export industry. This activity has been successful and should continue. In the Government's view a further billion kronor should be made available during the coming five-year period, i.e. at SEK 200 million per year. The Government is endeavouring among other things to achieve an increased participation in Baltic Sea trade by small and medium-sized enterprises. In this way, Sweden can contribute to the Baltic Sea region becoming Europe's foremost growth region.

New resources are allocated in order to increase knowledge about European policy and its possibilities. A special information initiative is planned inter alia on the euro and on the practical effects of Sweden not taking part in the currency union at the start of 1999 for the business sector and consumers.

Support will be provided to Swedish enterprises to make use of market and trade potential in the new developing Europe, among other ways through initiatives for small-sized enterprises, strengthening export promotion organisation in Sweden and measures to make use of immigrants' special knowledge of countries and languages.

The international market offers possibilities that are unknown for many companies. This applies not

least to procurement taking place in international organisations. Through their competence and capacity, Swedish businesses should have better prospects of winning contracts than is presently the case.

**TABLE 1.11 EUROPE**

SEK MILLION

	1999	2000	2001
Central and Eastern Europe	800	800	800
Baltic Sea initiatives	200	200	200
Information initiatives	20	20	20
Market place Europe	30	30	30
<b>Total</b>	<b>1050</b>	<b>1050</b>	<b>1050</b>

### 1.5.6 Sweden for all

In a few decades, Sweden has through immigration become a country characterised by cultural and ethical diversity. Almost a million of the country's inhabitants were born abroad. In an internationalised world, a country with an international population has a headstart. Making use of this advantage will require both changed attitudes and political initiatives. This will be one of the major challenges of the new century.

Immigrants and Swedes with an immigrant background do not have the same possibilities on the labour market as others and often still live almost isolated from the rest of Sweden. Everyone who lives in Sweden should feel at home here regardless of ethnic background. Language is the key to Swedish society. Those who do not have a command of Swedish are easily excluded – this applies not least to the labour market. Tuition in the Swedish language must be strengthened therefore.

In December 1997 the Riksdag took a decision on goals and guidelines for future integration policy. This decision was based on proposals in the Government Bill "Sweden, the Future and Diversity – from immigration policy to integration policy" (1997/98:16). According to this Bill, society's ethnic and cultural diversity is to be a starting point for the design of general policy in all sectors and at all levels of society. A new agency will be established on 1 July 1998 with the responsibility for integration policy goals and approaches having an impact in all areas of society and for actively stimulating integration processes in society. This Bill also gives an account of how the introduction of newly-arrived immigrants can be improved. Furthermore, the Government has paid out a total of SEK 180 million in the 1995/96 and 1997 budget years to support development projects in distressed housing areas. For the period 1998-2000 SEK 490 million has been allocated for this purpose.

Integration policy is to safeguard fundamental democratic values. It is to strive for women's and men's equal rights regardless of ethnic and cultural background.

In order to turn around development, reduce segregation, achieve the integration policy goals and a Sweden for all, it is proposed that there be additional resources during the coming three-year period. Initiatives are planned within various areas. Of central importance are measures to provide good knowledge in Swedish language from an early age, create good conditions on the labour market and for bringing about a durable improvement of the situation in distressed housing areas with a large number of residents with an immigrant background. Furthermore, the potential that culture and sports have as bridge-builders between different cultures should be made use of to achieve increased integration.

The Government has the intention of presenting a metropolitan area bill during the spring. The potential of the manor cities lies in their diversity, creativity and growth potential. The problems of the big cities are the rapidly growing gaps between the rich and the poor and between native and immigrant Swedes. The Government's policy is to further the possibilities of the big cities without leaving large groups outside the community, the education system, the housing market, the labour market, cultural life and democratic meeting places.

The Government also intends to introduce proposals for more stringent legislation against ethnic discrimination in working life during the spring.

**TABLE 1.12 SWEDEN FOR ALL**

SEK MILLION

	1999	2000	2001
<b>Total</b>	<b>350</b>	<b>350</b>	<b>800</b>

### 1.5.7 Security and solidarity

In addition to the six coming areas, initiatives are also to be taken in a number of areas to strengthen Sweden on the verge of the new century:

#### *A more secure Sweden*

The individual has an obvious demand for security for life, health, integrity and property. Security of life and property are achieved by effective action to prevent and punish crime. In the light of the increased demands made on the legal system during the recent years, a further SEK 200 million will be made available in 1999, SEK 250 million in 2000 and SEK 300 million in 2001. The new funds shall inter alia be used to secure the community police reform and the struggle against petty crime and to strengthen the combating of fraud.

### *Pensions*

The reduced base amount will be increased. The base amount has since 1993 been reduced by two per cent when calculating pensions. Moreover, the upward adjustment of the base amount due to price changes has been limited as of 1995 as part of the work of consolidation central government finances. The size of the upward adjustment has been limited to the size of the central government budget deficit.

The Government proposes in this Bill that the base amount for 1999 be adjusted with the full price changes since the budget deficit for 1997 was less than SEK 50 billion. The Government also proposes that pensions during 1999 shall be calculated on the basis of a base amount reduced by one per cent instead of two per cent. As from 2000, pensions will be based on a non-reduced base amount.

### *International solidarity*

The Government regards development assistance as an important instrument to promote international security and solidarity. After considerable cutbacks since 1992, the Riksdag approved of a government proposal to increase the development assistance frame for 2000 from 0.7 to 0.72 per cent of gross national income (GNI). With the end of further marking Sweden's international taking of responsibility the Government now proposes a continued increase in the assistance frame to 0.73 per cent of GNI in 2001. In all, development assistance is forecast to increase by SEK 200 million by 2001.

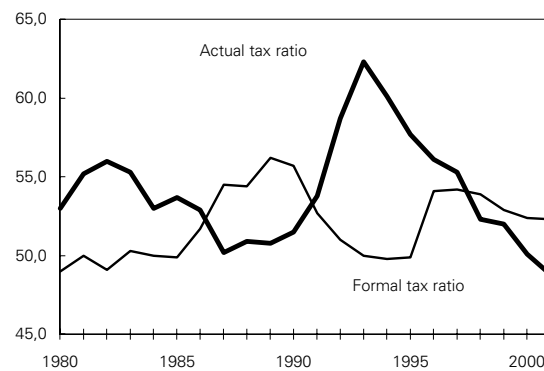
## **1.6 Fair taxes**

This year 10 per cent of total tax income goes to pay interest on central government debt. Even if public sector finances now show a surplus, taxpayers will have to pay the price for previous years' deficits for a long time to come.

Taxes have no intrinsic value but are motivated only by the utilisation of the revenue. The real tax ratio, i.e. the formal tax ratio plus the public deficit, shows how much tax must be paid to finance welfare. Unfinanced tax reductions that lay behind the formally lower tax ratio at the beginning of the 1990s, only entail that the tax take-up was postponed.

**DIAGRAM 1.6**  
**The actual tax ratio**

Per cent of GDP



Source: Ministry of Finance

The consolidation of public finances has mainly been carried out in a fair way. Tax increases have made a strong contribution to that. High income earners have contributed primarily by increased capital taxes, but also low and medium income earners have experienced tax increases.

As central government finances have been improved at a rapid rate there is scope for taking offensive measures. Tax reductions in future are possible to consider but only if certain conditions are unconditionally fulfilled. General tax deductions may not be made before a satisfactory quality has been ensured in education, care and social services. They may not be financed by debt. And they must be designed in a fair way from the point of view of distribution policy.

The temporary extra income tax ceases as of 1999 in accordance with the Riksdag decision of 1994. In order to safeguard the goal of fair distribution that was stated in connection with the tax reform, a further bracket will be introduced in the tax scale for income exceeding SEK 32,400 per month. In all, the effect of this will be that around 1 million wage earners will have a lower marginal tax. The increases in child allowances and the allowances for families with many children, which were introduced at the year-end are also in line with the tax reform in 1990-1991. By the threshold for state tax not being increased at the same rate as income increases, large groups of wage earners have started to pay state income tax. This development should be reversed so that the reform's intention that at most 15 per cent of income earner shall be liable to pay state income tax is achieved in the long run.

### **1.6.1 A tax policy for entrepreneurship**

A number of measures have been introduced to stimulate small and medium-sized enterprises. A main direction has been to improve supply of risk

capital. Tax reduction focusing on small and medium size enterprises amount to about SEK 7 billion per year. The easing of owner taxation for unlisted shares and reduction of payroll-tax on the part of the wages sum under SEK 850,000 per year are two examples. Sole traders have received corresponding relief. Moreover, a possibility has been introduced to set off deficits in newly started business activity against income from employment.

The Government is carrying out a broadly based work to reduce red tape and make it easier to become and be an entrepreneur. A new and simpler system for accounting and payment of taxes and charges, tax accounts, has recently come into effect. Tax supplements at wrong accruals have been halved. The conditions for obtaining an F tax card have been relaxed. In order to further improve conditions for entrepreneurship, the Government now proposes a number of new measures:

- The possibilities for sole traders and partners to make provision for reserves will be strengthened as the ceiling for allocation to accrual reserves is re-established at 25 per cent. In this way expansion can be made easier with the aid of retained profits.
- Easing of owner taxation of unlisted shares will be expanded to further ease expansion with the aid of external capital.
- The set-off right for capital losses on unlisted shares will be expanded.
- The tax on advertising printed matter is to be abolished which will be a relief primarily for smaller companies.
- The special tax on hydroelectric power plants is to be abolished which will mean a relief primarily for intensive industrial users of electricity.
- Rules for tax deduction for pension costs will be simplified.
- Taxation of personal options is to be simplified.
- The Simplification Commission has been given expanded directives and can now also present proposals to the end of simplifying rules of accounting especially for small businesses

An overview is presently taking place of the whole energy tax system to improve the environmental effects. The result will be presented in 1999. From the perspective of environmental concerns, there is at this stage no reason for increasing the total take-up of energy taxes even if individual taxes can be changed. Taxation of electricity in the production stage has however had negative effects for energy-intensive industries. It is therefore proposed that the special tax on hydroelectric power plants is abolished. This will entail reduced electricity prices for both industry and consumers.

The Government intends to present a new co-ordinated design of the taxes which affect road traffic. The intention is, within the framework of a largely unchanged tax take-up, to achieve better control effects with respect to traffic safety and the environment. The Government intends already in the spring to present a proposal on extended tax relief for electric cars and a new design of the exhaust requirement for light trucks and buses.

### 1.6.2 Tax controls for justice

In order that the tax system is to be able to retain its legitimacy, it is important that taxes and charges that are decided upon are also paid. Controls and follow-ups are of decisive importance therefore.

The possibilities for tax control have been improved sharply during the mandate period. The general clause against tax evasion has been given a new and more effective shape. Special tax fraud units have been created at the local tax authorities. In this way the competence and experience which is available at the tax administration will come better to use. Moreover, the bottleneck problems will be avoided which have been common previously.

During the spring, the Government has put forward proposals on reformed preliminary decisions. The possibilities for tax planning in connection with transfer of a company have been reduced. The responsibility to submit statements for control has been expanded further so that practically all transactions with securities are covered.

Swedish Customs is responsible for a new control activity throughout the country for commercial transports of good subject to excise taxes. The Customs will also be given better possibilities to check postal packages that contain alcohol and tobacco.

The strong increase in smuggling of cigarettes is a problem that not only can be checked with increased control. In order to prevent smuggling, and the elements of organised crime that follow in its tracks, the Government proposes a reduction of the tax on cigarettes.

### 1.6.3 Tax policy and internationalisation

Certain countries make use of capital's mobility to attract capital and investment from other countries. This takes place *inter alia* by their offering better tax conditions for foreign establishment than the ones that apply to companies active within the country. Sweden has actively worked for a discussion on this in the EU. This work has been very successful and during autumn 1997, member states could agree on common rules of conduct to avoid harmful tax com-



petition. The work is also continuing to achieve common rules on taxation of interest and other capital incomes. It is necessary to devote continued attention to the effects that internationalisation can have on Swedish capital taxation and excise taxes.

#### 1.6.4 Property taxation

Property tax is part of capital taxation. This is underlined by interest on housing loans being deductible. In order that property tax should be as fair as possible, the tax assessment value should reflect market value in an as correct way as possible. A special investigator has therefore been given the task of evaluating the tax procedure. Awaiting the investigator's analysis of the translation procedure, it is proposed that the freezing of tax assessment values at the 1997 level which was decided for 1998 shall also apply in 1999.

A new committee of inquiry shall examine property taxation and among other things, analyse the tax neutrality of different forms of grant of property rights. This commission shall also consider whether there is any suitable way to improve the conditions for permanent residents in attractive coastal areas and stimulate environmental investment.

### 1.7 Distribution policy

Swedish economy experienced at the beginning of the 1990s its greatest test in modern times, with negative growth, reduced real wages, and strongly increasing unemployment. As a result, public finances deteriorated. In January 1995 the borrowing requirement was estimated at SEK 229 billion Sweden was on the verge of a collapse of state finances.

A secure welfare cannot be based on loaned money. Without a firm ground consisting of sound public finances, there is in the long run no scope for carrying out a fair distribution policy. The weak groups do, therefore, have the most to win from a consolidation of public finances.

As of the 1998 budget, the consolidation programme of SEK 126 billion has been completed. One of the most important principles for the government work in forming the programme has been that all citizens should share the burdens fairly.

Quite the contrary to what many feared, the distribution policy analyses indicate that the crisis and budget consolidation have been managed with a maintained relatively even distribution of economic resources. Through welfare policy, the burdens of the deep economic crisis, and the consolidation of public finances have been mainly distributed in a fair way.

The fifth of households with the highest economic standard have contributed 43 per cent of the total budget reinforcements while the fifth of households with the lowest standard have contributed around 11 per cent. The tenth of households with highest standard have experienced the greatest reduction in relation to incomes. Equality has moreover been safeguarded, the net effects being on average largely the same for women and men.

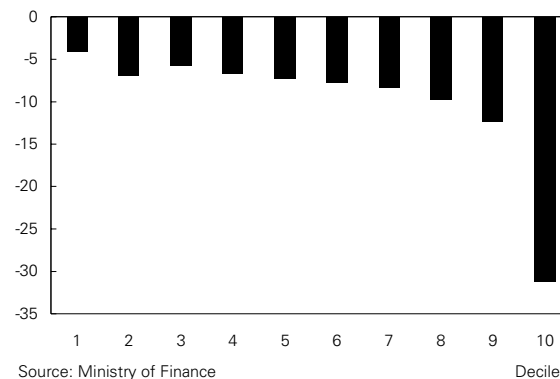
The diagram below shows the final analysis of the distribution policy effects. The households in the diagram are divided into ten equally large groups, so called deciles. In decile 1 are the households with the lowest economic standard. Decile 10 contains the households with the highest economic standard. The consequence analysis includes the direct effects of all proposed and decided measures in tax and transfer systems up to and including the 1998 Budget Bill.

As a consequence of the high unemployment and the growing gaps in wages and capital incomes between 1991 and 1997, the spread of market incomes has increased considerably. This has, however been largely compensated by transfers and the tax system. Despite the increased spread in market incomes, the spread in disposable income has not increased markedly since 1991.

DIAGRAM 1.7

Proportion of the consolidation programme contributed by each decile

Per cent



The proportion of households with a lower economic standard (under 50 per cent of median income) has increased from 4.1 to 5.8 per cent. An important reason for this is however that the number of students has increased, which has a positive distribution policy profile in the longer run. The results for 1996 and 1997 are based on an updated extrapolation and show thus an assessment of the probable outcome (see further Government Bill 1997/98:1, annex 7).

However, income statistics do not show the full picture. They do not take into account public activities. During the 1980s, the spread of disposable income increased. At the same time, greater resources were invested in public services. Childcare was ex-

panded and resources to care, old age care and education were increased. At the beginning of the 1990s, the increase in resources was braked and households had to bear an increasing share of costs by charges and fees. The considerable resources which are now being supplied to education, care and social services should counteract this development.

Public services must be safeguarded. The basis for justice is that children, the old, the sick and the disabled receive the care and social services on good quality. Through a good economic development, re-

sources for care and social services increase. Individuals shall not have to pay unreasonable charges.

Knowledge and experiences must be distributed more equally. In that way all will have better possibilities for employment. This will take place by better basic knowledge and more training. Justice can only be achieved when people are given equal possibilities for education and work. Sweden shall yet again demonstrate that a good growth and an increased employment are best matched with an even distribution of the economic resources.



