

A programme for

HALVING

OPEN

UNEMPLOYMENT

BY 2000

SWEDISH GOVERNMENT JUNE 1996

Contents

■ Preface by Prime Minister Göran Persson	3
GOVERNMENT BILL 1995/96:207 An economic policy for halving open unemployment by 2000	
■ Summary	5
– <i>Measures to increase employment</i>	5
– <i>The goal of halving open unemployment</i>	7
– <i>Ongoing follow-up</i>	7
■ A strategy for halving unemployment	8
■ The economic outlook	21
■ Employment and unemployment	24
■ Sound public finances and stable prices	27
■ Tax policy	29
■ Education and competence	31
■ Labour market policy	35
■ The effects on public finances	39
■ Distributional effects	45

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Preface by Prime Minister Göran Persson



The Government's most important task is to combat unemployment. Our task is to halve open unemployment to 4 per cent by 2000. This is a very ambitious goal. It will be difficult, but not impossible.

The Government and the Centre Party have worked together on economic policy since spring 1995. This cooperation has been of decisive importance for political stability and has made a strong contribution to falling rates of interest and a stronger krona. It is an essential prerequisite for combatting unemployment.

The cooperation between the Government and the Centre Party will now be followed up in early Summer 1996 by an economic policy to halve open unemployment by 2000.

On 11 June the Government presented a broad, offensive programme for the fight against unemployment. This consists of concrete measures to promote growth and employment. The programme consists of four cornerstones:

- Massive investment in education. Regular education will be expanded by 100,000 adult education places primarily intended for the unemployed and persons with a low level of education. Higher education will be expanded by 30,000 places.
- A radical change in labour market policy. Labour market policy will be decentralised and the role of the municipalities greatly reinforced. The role of unemployment insurance as cover for adjustment will be made clearer. The great variety of different grants will be diminished. 40,000 older long-term employed will be offered employment in the public sector.

- Stimulants to enterprises. Payroll taxes will be reduced. Relief from double taxation will be introduced for small and medium-sized enterprises. Sales taxes on motor vehicles will be abolished and replaced by a higher vehicle tax. Stamp duty will be temporarily reduced to stimulate the property market and the construction sector.
- Investments for the future. Three billion kronor programmes will be introduced for adaptation to the recycling principle, the development of small business, and Baltic Sea cooperation.

All proposals in the programme for increased employment and growth are fully financed. The budget consolidation policy will be maintained.

Altogether, this is a programme which will press down open unemployment. But it is not sufficient to achieve the goal of a halving of open unemployment by 2000. The Government will therefore monitor developments on the labour market in relation to the employment goal with checkpoints every six months beginning from spring 1997. The Government will combat unemployment as resolutely as it has reduced the budget deficit

The struggle for full employment is in the final analysis a struggle for cohesion of the nation. The Government's goal of halving open unemployment by 2000 requires a national mustering of strength. The Government therefore proposes that the Riksdag gives its support to this goal.

Halving open unemployment by the turn of the century is the Government's greatest challenge. It requires hard work and taking of great responsibility. It requires leadership and offensive action. And it requires cohesion and cooperation. Between the political parties, between different interests in society and between the individual citizens of our country.



Göran Persson
Prime Minister

Summary

Measures to increase employment

The aims of economic policy are healthy growth, full employment and stable prices. Sound central government finances are a prerequisite for a sustainable reduction of unemployment. The goal is to halve open unemployment from 8 per cent in 1994 to 4 per cent by 2000. As a contribution to meeting this goal, the Government has now presented and concretised a number of additional measures to promote growth and employment. All proposals are fully-financed. The expenditure ceiling will be maintained.

- Regular education will be expanded by 100,000 adult education places in order to give in the first place unemployed persons with a low level of education a chance to improve their proficiency and thus their prospects on the labour market.
- Higher education will be expanded by 30,000 places. This expansion will take place throughout the country, with an especial focus on Malmö, Sundsvall-Härnösand-Östersund, Bergslagen and South-eastern Sweden. The Government is now providing details of how these 30,000 places will be allocated. At least half of the places will be for science and technology.
- A 1-billion kronor programme will be implemented for investment for sustainable development and adaptation to the recycling principle.

- A 1-billion kronor programme will be implemented for the development, renewal and expansion of small-sized enterprises.
- A 1-billion kronor fund will be set up for Baltic Sea Co-operation, focused, inter alia, on strengthening the development of the business sector. Additional resources will be made available to the Nordic Investment Bank.
- Payroll taxes will be reduced by five per cent for the first SEK 600,000 of the wage bill.
- Tax relief for double taxation will be introduced focused on small and medium-sized undertakings.
- Sales tax on motor vehicles is to be abolished to stimulate car sales. Benefit taxation of company cars will be reduced and altered so that it will be based on the distance driven privately.
- Stamp duty will be reduced to a third between 12 June 1996 and 31 December 1997 to stimulate the real estate market.
- A review will be made of the prospects for expansion in the service sector.
- The employment offices will be strengthened while central resources will be cut back. The role of the municipalities will be reinforced. Use of labour market programme funds will be made more flexible.
- It is intended to increase unemployment benefit levels to 80 per cent on 1 January 1998. The cost of this will be financed in full by changes in the rules for unemployment benefit eligibility.
- The role of unemployment insurance as an adaptation insurance will be reinforced. A time limit should be introduced for unemployment benefit as of 1 January 1997.
- Clear, concrete individual plans of action are to be drawn up in collaboration between the employment office and the job-seeker.

- Unemployed persons between 25 and 55 years of age will be given the opportunity to study for a year at compulsory or upper secondary school level with a special education grant at the level of unemployment benefit. Employed persons may also receive this education grant provided that they are replaced by long-term unemployed registered at an employment office.
- 40,000 older long-term unemployed will be provided with employment in the municipalities, county councils and central government with compensation at unemployment benefit level.

The goal of halving open unemployment

A national mustering of strength is required to successfully combat unemployment. Everyone must share this responsibility. It is therefore of great importance that the Riksdag give its support to the goal of halving open unemployment from 8 per cent in 1994 to 4 per cent by 2000. The Government therefore proposes that the Riksdag approve the proposals made by the Government on halving open unemployment to 4 per cent by 2000.

Ongoing follow-up

The Government will review the success of the strategy presented in this Bill for halving open unemployment. A follow-up will take place twice yearly beginning in spring 1997. This will initiate a process comparable to that applied to the Convergence Programme.

A strategy for halving unemployment

The task

The Government's most important task is to combat unemployment. The task is to halve open unemployment from 8 per cent in 1994 to 4 per cent by 2000. Unemployment undermines welfare by weakening the economy and civic morale. Unemployment creates gaps and places both adults and children under strain. The struggle for full employment is in the final analysis a struggle for national cohesion.

The Government and the Centre Party have worked together on economic policy since spring 1995. This cooperation has been of decisive importance for political stability and has contributed to falling interest rates and a stronger krona. This cooperation is now being developed further by an economic policy to halve open unemployment by 2000.

The goal of halving open unemployment is very ambitious. Over 500,000 jobs were lost during the deep recession at the beginning of the 1990s. All European experience points to the difficulty of bringing down unemployment once it has reached a high level. It is a difficult task but not impossible. However, creating work for the unemployed is not sufficient in itself. Jobs must also be created for the latent unemployed who will again seek work once the prospects for finding employment improve. Over and above this there is the normal annual increase of the workforce. Sweden will therefore need a number of years with a good improvement in employment to succeed in the struggle against unemployment.

What has been achieved?

The economic policy pursued has been successful. The picture outlined in the Spring Fiscal Policy Bill (Government Bill 1995/96:150) indicates that developments have been positive in a number of respects during the first two years of the period of office:

- GDP increased by 3 per cent in 1995 and is expected to increase by 1.4 per cent in 1996.

- The number employed increased by 61,000 persons in 1995 and a further increase of 16,000 is forecast for 1996.
- Open unemployment fell by 8,000 persons in 1995 and is expected to fall by an additional 20,000 in 1996.
- Inflation is expected to fall from 2.6 per cent in 1995 to 1.9 per cent in 1996. Inflation is now lower than it has been for decades.
- There was a record surplus on the balance on current account of SEK 35 billion in 1995 and a surplus of SEK 31 billion is forecast for 1996.

Sound central government finances and stable prices are fundamental for the Government's strategy to halve unemployment. Consolidation of public finances is a prerequisite for a sustainable fight against unemployment. The aim is to stabilise central government debt in relation to GDP in 1996, to reduce the general government deficit to less than 3 per cent of GDP by 1997 and to bring public finances into balance by 1998. The expenditure ceiling will be retained. Continuing the consolidation of public finances is a prerequisite

for being able to press interest rates down and to restore the strength of our country's economy. The economic policies pursued have also been successful in these respects during the first two years:

- The general government financial deficit has been reduced from 10.8 per cent of GDP in 1994 to 8.1 per cent in 1995 and is expected to fall to 5.1 per cent in 1996.
- Interest on five-year government bonds has fallen from around 11 per cent in April 1995 to around 7.5 per cent at the beginning of June 1996.
- From the beginning of the year the Riksbank has reduced the repo rate from approximately 8.9 per cent to 6.3 per cent at the beginning of June.
- The Swedish krona has strengthened by over 15 per cent in relation to the ecu-index since April 1995.

Since the Spring Fiscal Policy Bill was presented in April 1996, there are signs that the development of the economy has been slightly weaker than forecast. Public finances seem, however, to have firmed somewhat. A particular

problem is that employment has not increased as positively nor has unemployment fallen at the expected rate. The reduction that has taken place in the number of employed persons in recent months is disturbing. This trend is related to the deeper, long drawn-out slackening of the level of economic activity internationally, especially in the EU core countries.

Further efforts are needed

In the Spring Fiscal Policy Bill it was estimated that open unemployment would fall by around 30,000 persons between 1994 and 1996. It would then amount to 7.2 per cent this year. The task is accordingly to reduce open unemployment by a further 3.2 per cent, which is equivalent to approximately 140,000 persons.

In the Spring Fiscal Policy Bill it was further expected that open unemployment would fall from 7.2 per cent in 1996 to 5.7 per cent by 2000. This is equivalent to a reduction of unemployment by over 60,000 persons. These estimates are based on a growth of 2–2.5 per cent per year up to the turn of the century and include the effect of the extensive investment in education. The measures now presented are estimated to reduce unemployment in the next few years by approximately a further 40,000 people. At the same time, the trend so far this year has been slightly weaker with respect to employment and unemployment than forecast in the Spring Fiscal Policy Bill. The overall effect of the new conditions and measures is difficult to assess. It is, however, clear that economic growth must be higher and that the Swedish economy must function better to achieve the goal that has been set up. This will require continued efforts and the support of all parties for the task.

To create a good basis for long-term sustainable development and increase in employment, a holistic approach to economic policy is required. A basic prerequisite is to put public finances back on to a sound basis and to maintain price stability. Furthermore, measures are required to promote long-term growth. This applies both to measures that strengthen the competence of the individual and measures to improve the functioning of the economy. Finally, measures are also required in the present situation that stimulate production relatively quickly.

Life-long learning

To meet the challenges of the future, a higher level of proficiency and competence is required. **Sweden's foremost means of competition must be a well-educated, qualified and well-paid labour force** – not a low-productive, poorly-paid labour force. This moreover requires a stronger increase in competence in working life and a better use of existing competence. It also requires that training continues throughout life, and not just while young.

In the Spring Fiscal Policy Bill the Government underlined that the educational system must be improved and expanded. All young people must be offered a good education that lays the basis for life-long learning. Unemployed with a low level of education shall be given the opportunity of improving their knowledge and thereby their prospects on the labour market. The regular education system will therefore be expanded by 100,000 adult education places over a five-year period at the same time as a special educational grant at the level of unemployment benefit will be introduced. This investment in education is primarily intended for unemployed persons with a lower level of education than three years at upper secondary school. It is also directed at employees who have no or only partial upper secondary education. The Government proposes moreover to increase the number of places at universities and other institutions of higher education by 30,000. This will take place successively from autumn term 1999. This massive investment in education will cost approximately SEK 9.6 billion per year when it is fully implemented and will be financed primarily by increased energy taxes and savings in the field of labour market policy.

Strong enterprises

Good conditions for enterprises and entrepreneurship are also essential to meet the challenges of the future. New jobs must be created primarily in the private sector. Tax and industrial policy shall contribute to good general conditions for entrepreneurship in Sweden. A strong pressure for change and a good climate for enterprises and entrepreneurs will strengthen Sweden's long-term competitive ability. Sweden has for a long time had a tax system that favours entrepreneurship. In this Bill **the Government makes proposals for tax relief that further improves these conditions.**

The payroll tax will be reduced from 1 January 1997 by five percentage

points on the first SEK 600,000 of the enterprise's wage bill. This will especially stimulate smaller companies. Similar reduction will be introduced for the self-employed. A permanent relief of double taxation is announced directed at small and medium-sized enterprises. Furthermore, changes are announced in interest distribution for sole traders to facilitate generation shifts. Moreover, intensified efforts will be made to simplify tax rules for sole traders. A new simpler tax collection system – tax accounts – will be introduced to simplify tax collection, especially for small businesses. Tax and benefit rules for foreign experts and other key personnel are to be reviewed. Finally, the Government has adopted decisions simplifying customs export procedures.

Better conditions for small and medium-sized enterprises

A comprehensive renewal of the business sector is required if the country is to overcome the employment crisis. Renewal must be based on investment in new knowledge, better use of competence and new technology as well as innovations.

The Government is therefore allocating SEK 1 billion to the programme for the development, renewal and expansion of small-sized undertakings. This programme, which has a clear small business profile, is intended to make it easier for Sweden to develop a knowledge-based society, to make it easier to be an entrepreneur and to initiate the adaptation to sustainable development. Among other things, the programme includes the establishment of a delegation for simplified conditions for small businesses with the task of making proposals that can stimulate new establishment and make possible simplification of regulations affecting small businesses. In addition to the programme directed at small-sized undertakings, the Government intends to initiate a broad cooperation in the counties for effective industrial and regional policies focused on small businesses.

Competition must be effective if Sweden is to remain a nation with a strong economy and a high standard of living. A high competitive pressure pushes forward structural transformation so that resources are transferred from low to high-productive activities. It also motivates companies to successively develop and improve their production technology. Our EU membership has to some extent changed the preconditions for Swedish businesses. **To further increase competition in the Swedish economy, the Government wishes to contribute to even more Swedish companies being put to the test in an inter-**

national environment more open to competition. This will be achieved by improving the ability of Swedish companies to enter new markets, not least in the Baltic Sea area, and by facilitating foreign investment in Sweden.

The services sector fills an increasingly important function in the economy. This sector is highly differentiated and contains low and high-wage professions. Sales of consumer services, i.e. services directed at households, purchased by private individuals have, however, been reduced as wage differentials have declined and with the expansion of the public sector, inter alia, the expansion of child care and care of the elderly.

A review of the system of rules is motivated in the light of the high unemployment and the fact that the provision of less-qualified services previously acted as an introduction to the labour market. The Government will institute a review of the rules for commissioning of services and analyse the role that purchase of services by private persons can have for the economy and propose changes of rules to stimulate supply and demand for services directed at households.

An efficient labour market

Labour market policy has a key role in economic policy. It is to promote growth and employment by increasing flexibility in the labour market, counteracting inflationary bottlenecks, strengthening the competence of the labour force and preventing permanent exclusion of individuals from working life. Active labour market policy has traditionally been based on the work first principle, i.e. activity rather than passivity. In recent years it has become increasingly evident that increased competence must be a key element of the strategy to get the employed back in regular work. The Government is now going the whole way. The work first principle is to be developed into the work and competence first principle.

Labour market policy is to be renewed. The local employment offices will be strengthened at the same time as central resources will be cut back. **The municipalities will be given a clearer role.** The use of labour market programme funds will become more flexible and individual-oriented. Concrete, realistic plans of action will be established by the individual and the employment office together. The purpose is to rapidly help the job seeker to return to the ordinary labour market at the same time as the responsibility of the

individual and the employment office is made clearer. Regular education is not to take place within the framework of the labour market programme, with the exception of non-Nordic immigrants who have been unemployed and registered at the Employment Office for at least two years and in some cases disabled persons. Women who have been unemployed for a longer period will be offered initial self-employment grants for an extended period. Decentralisation and control by objectives will increase at the same time as follow-up and evaluation of policies is intensified.

The role of unemployment insurance as cover for adaptation is to be reinforced. This will contribute to security for employees at the same time as it will facilitate the necessary adjustment for a person who has lost his or her job. It must be designed as an income replacement insurance. The intention of unemployment insurance is that it should provide security for a relatively short and active period of adaptation. The Government is therefore now specifying the duration of the period for which unemployment and measures outside the ordinary labour market can be combined by introducing a time limit.

The Government considers that the level of compensation should be raised to 80 per cent from 1 January 1998. This increase will cost SEK 1.5 billion and will be fully financed by changes of rules in the unemployment insurance system. In conjunction with this proposition, it is proposed to make changes in the work eligibility conditions and the employment concept that are estimated to reduce expenditure by SEK 0.5 billion from 1997. The remaining savings of SEK 1 billion are to be implemented from 1998 and will entail changes in unemployment insurance. Limiting the upward adjustment of benefit due to wage agreements to a maximum of two per cent and co-ordinating unemployment benefit with severance payments, holiday pay and parental benefit will provide sufficient financing.

Wage formation must be improved. The basic principle must be that the development of wage costs in **Sweden is to be at a low European level even at levels of unemployment substantially below those at present.** A similar view of wage development has been put forward by the Edin group, (a group of economists from the trade unions and the employer organisations) which is in agreement that wage increases in Sweden should not be exceed those in other OECD countries in Europe. **Wage formation must take into**

account the interests of the unemployed to a greater extent than at present.

In order for Sweden to overcome mass unemployment, a new contract is needed for cooperation in the field of wage formation. In conjunction with the Spring Fiscal Policy Bill, the Government invited the social partners to present their view to the Government as to how wage formation should take place in future. Wage formation must primarily be a matter for the social partners. At the same time, the state is responsible for various systems of rules that serve as a basis for wage formation. At these discussions which began on 28 May, it was agreed that the social partners would at the latest by 10 June 1996 present their views on wage formation and the prospects for a common formulation of the necessary changes in the system of negotiation and wage formation. The future actions of the Government depend on the responses made by the partners.

Labour legislation needs to be amended. This is an important issue for both wage-earners and employers. **Labour legislation must be formulated in such a way as to serve its purpose and reflect a reasonable balance between the need of wage-earners for protection against arbitrary and discriminatory decisions and enterprises' need to continuously adapt their organisation and work force to changed circumstances and needs.** It should also be designed in such a way as not to make it more difficult for businesses to start up and expand. The 1995 Labour Law Commission did not succeed in reaching agreement on reforming labour legislation. Discussions between the social partners are now continuing with the assistance of mediators. The partners shall report to the Government at the latest by 23 August 1996 on the changes that they consider should be made to labour legislation.

Measures to quickly stimulate production

The slackening of the Swedish economy intensifies the need for measures that quickly stimulate economic activity. The Government therefore announces that the benefit value of company cars will be reduced as of 1 January 1997 at the same time as the cost to the beneficiary will depend on the distance driven privately. This proposal will be financed by alterations in how the tax bracket for state income tax is adjusted upwards. Moreover, sales tax for motor vehicles is abolished, which will be financed by an increase in vehicle tax. In this way a renewal of the vehicle fleet will be stimulated, which is desirable

both for the level of economic activity and to improve the environment.

Stamp duty on properties will be temporarily reduced to a third between 12 June 1996 and 31 December 1997. This will reduce the transaction cost of real estate, which, together with the reduced level of interest, should stimulate the property market. Further, the processing of building and plan items at the Government Office will be accelerated to allow more construction projects to start.

Regional and municipal development

Regional development is becoming increasingly important. **Growth must benefit the country as a whole.** Each region bears its own growth potential, which must be utilised for the overall development to be as positive as possible. Active central government support for regional development is required, especially in the form of continued expansion of the small and medium-sized institutions of higher education. At the same time, various actors at both local and regional level must actively contribute to creating strong and dynamic growth processes in their region. The Government intends to initiate a broad collaboration in the counties to achieve an effective growth-oriented industrial and regional policy. The intention is to mobilise a large number of actors in the counties to achieve regional and local accumulation of forces for profiling and growth.

Municipalities and county councils must also contribute to the goal of halving unemployment. In accordance with an earlier agreement the Swedish Association of Local Authorities and the Federation of County Councils have, among other things, undertaken to strive to avoid tax increases by municipalities and county councils in 1997 and 1998, and as far as possible to avoid making regular staff redundant so that they join the ranks of the open employed. The Government undertakes, inter alia, to maintain central government grants at a nominally unchanged level and to postpone the introduction of a statutory requirement for balanced municipal finances to 1999 and to 2000 for county councils.

Older long-term employed will be offered employment at their existing benefit level in the municipalities, county councils and central government in 1997 and 1998. There is a considerable need for supplementary inputs in care, nursing and other areas that can be satisfied in this way. The goal is for

this programme to cover around 40,000 older long-term unemployed. Further, expansion will take place in the role of the municipalities in labour market policy.

A sustainable development

Environmental policy has a comprehensive role in the strategy for high growth and increased employment. Growth will be stimulated by our raising just those demands for an adaptation of Swedish society that are required for growth to take place in an ecologically sustainable way. Growth based on the ruthless exploitation of nature is not sustainable in the long-term. **Sweden should therefore be in the front line as regards developing and using environmental technology. A society based on recycling creates new jobs and new businesses. Sweden shall strive to be a leading country where growth and ecology develop hand in hand.** The vision is to create the ecologically sustainable society.

A one-billion kronor five-year environmental investment programme will be implemented to stimulate the adaptation to recycling of the water and sewage systems, residential areas and construction. Otherwise, investments are required to reinforce the environmental profile in labour market policy, industrial policy, etc. A waste tax is to be introduced in 1998.

The international financing institutions have made considerable investment in the field of the environment. This especially applies to the programme of action to restore the ecological balance of the Baltic Sea. By its membership of the EU, Sweden has become a joint owner of the European Investment Bank, EIB. Over SEK 30 billion of the bank's total lending, was allocated last year to various environmental improvement measures. Since Sweden has become a member, the EIB has approved over SEK 500 million of loans to environmental projects. Environmental projects also play an important role for NIB, the Nordic Investment Bank. Around SEK 2.4 billion, almost a third, of NIB's Nordic loans in 1995 were for projects related to environmental investments. As part of the joint Nordic efforts in the field of the environment, it is moreover proposed to establish an environmental loan facility at NIB. This proposal entails a loan limit of approximately SEK 830 million to be used for environmental investment of Nordic interest in the neighbouring area. As well as beneficial environmental effects, this proposal

would provide increased opportunities for Swedish enterprises to take part in this type of project. The cost of Sweden's participation consists of the necessary reservations for the Swedish guarantee during the loan facility. The Government is striving actively in the Nordic arena to make this proposal a reality.

A new energy system is to be developed. The Government has initiated discussions with the other parliamentary parties on energy policy. The Government strives for a broad parliamentary majority around the issue of conversion of the energy system.

International cooperation

The struggle against unemployment must also take place at a European level.

The summit meeting in Madrid between the EU heads of state and government reiterated that **employment is the most important issue for the EU and its member states.** The coordination between member states needs to be reinforced. Measures that have been seen to be successful in one country can be tested in other countries. In this context the Government has proposed that the EU treaty be revised by the introduction of a special chapter on employment.

Developments in the Baltic Sea area will be especially important for our own growth and economic development for a long time to come. Increased economic integration in the region can lead to a strong dynamic development of the countries bordering the Baltic Sea and create an attractive environment for production and other industrial activity. The summit meeting in Visby aimed to vitalise the Baltic region and to increase trade and other links between countries around the region.

The Prime Minister has given an account to the Riksdag as to how the Government intends to further develop Swedish participation in Baltic cooperation. Five areas were pointed out as being especially important: the export industry, including food, energy, education and the environment, and the payments system. Different energy systems need to be linked up. More Swedes need to learn the languages spoken on the other side of the Baltic Sea, at the same time as Sweden must invite more young people from our neighbouring countries to study at Swedish universities and other institutions of higher education. Considerable progress has been made to save the environment in and

around the Baltic Sea, but further initiatives need to be taken. The recently developed democratic infrastructure must be reinforced, otherwise the conditions for a dynamic business sector can radically deteriorate. In this way, growth can be strengthened and unemployment reduced. To highlight the importance of the Baltic Sea region for growth and employment in Sweden, a billion kronor is to be allocated to a fund. The Government intends to make some changes in existing rules with respect to the guarantee limits for export and investment administered by the Swedish Exports Guarantee Board, especially for the Baltic republics and Russia.

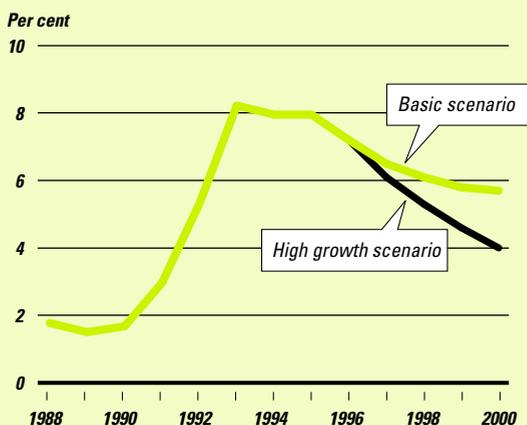
Ongoing follow-up

The Spring Fiscal Policy Bill presented forecasts for economic development according to which open unemployment is to be reduced to 5.7 per cent by 2000. These estimates included the effects of the extensive investment in education. However, there remained a gap of 1.7 per cent, around 70,000 persons, which must be closed to achieve the goal of halving of open unemployment to 4 per cent by the year 2000. The Spring Fiscal Policy Bill also included a high-called growth scenario according to which open unemployment would fall to 4 per cent by the turn of the century. Both alternatives are shown in Diagram 1.

This Bill contains a number of measures to further strengthen growth

Diagram 1

Open unemployment according to the Spring Fiscal Policy Bill.



and reduce unemployment. **The proposals now presented by the Government are expected to reduce open unemployment by approximately a further 40,000 persons in the next few years.** In the first place, this will be the result of the measure which deals with providing employment for older long-term unemployed in municipalities, county councils and central government. At the same time, the development of employment and unemployment at the beginning of 1996 has been somewhat weaker than previously assumed. The overall effect of a somewhat weaker economy and the new measures are difficult to assess.

Further, a number of measures are presented with the aim of improving the functioning of the economy. An efficient economy will be required as well as favourable conditions in other respects to achieve the goal of halving open unemployment. The estimates contained in the Spring Fiscal Policy Bill indicated that GDP growth up to the turn of the century would need to be around 3 per cent if employment is to increase to the extent required to achieve the goal. Wage formation especially must function efficiently if growth is to be achieved without inflation increasing.

Another important prerequisite is increased confidence in economic policy and economic development so that demand and investment increase. Companies must have greater confidence in the Swedish economy and in the rules of play on the labour market so that they invest more and increase employment. Public confidence in the social insurance system must be strengthened. Easily comprehensible, stable rules must apply for illness, unemployment and pensions. Individuals who feel secure are also capable of taking initiatives that promote development.

At the same time, there is considerable uncertainty with respect to economic trends. The level of international economic activity is at present falling off. It cannot be ruled out that this phase will be deeper and last longer than expected. Furthermore, there is uncertainty about the Swedish economy's ability to create jobs to the required extent. A national mobilisation is required around the task of halving open unemployment by the end of the century. The social partners not least must contribute to the discussions in progress on wage formation and labour legislation leading to agreements that strengthen the Swedish economy.

The Government will regularly follow up developments on the labour

market. A review in relation to the goal of a halving of unemployment by 2000 will be presented to the Riksdag every six months in connection with the Spring Fiscal Policy Bill and the Budget Bill. This will take place from spring 1997. In that way a similar procedure will apply as for the convergence programme. **At the time of these reviews, further measures will be taken if developments diverge in a negative way from the intended direction.** These reviews will be related to the follow-up of the policy for work, social security and development that was presented in the Government Bill on Economic Policy to Strengthen Growth and Employment and in employment programme for several years presented by Sweden and the other EU countries each year. **In this way employment and unemployment are given the same ambitious treatment as the EU convergence criteria.**

A procedure of this kind strengthens the prospects for achieving the goal of halving open unemployment by the turn of the century.

■ The economic outlook

International trends

Growth in the OECD area is expected to be slightly weaker this year than last year. The Government's assessment is that the present falling-off is temporary. However, there are indications that the turnaround in the level of economic activity may take place somewhat later than forecast. **The level of employment and growth in Sweden are therefore very dependent on the development of the international economy.** It can thus not be ruled out that this slackening off will be deeper and last longer than expected. Sweden is a small and open economy and highly dependent on trade. A deep recession in the rest of Europe, the USA or Asia would be a serious obstacle to halving unemployment.

It is above all in Europe that growth is weaker than forecast. The OECD and the EU Commission have both revised GDP growth downwards so that they are now close to the assessment made by the Swedish government in the

Spring Fiscal Policy Bill. OECD estimates growth in OECD Europe at 1.6 per cent in 1996 and 2.7 per cent in 1997. The Commission's forecast for the EU countries is 1.5 per cent in 1996 and 2.4 per cent in 1997. The corresponding assessment in the Spring Fiscal Policy Bill was 1.7 per cent in 1996 and 2.5 per cent in 1997.

Most analysts of cyclical fluctuations anticipate that the slackening of activity in Europe will be mild and of short duration, and that growth will accelerate again next year. A number of indicators point in that direction in Germany. The United Kingdom and France both reported good growth for the first quarter of 1996. A contributory reason for renewed growth is that interest rates have fallen. Moreover, the rate of inflation is very low in most EU countries, making the prospects for further interest rate cuts good.

The rate of growth has on the other hand begun to pick up again in the United States. Private consumption and investment increased sharply in the first quarter of 1996. Unemployment continues to fall despite there having been no appreciable increase in employment. Furthermore, the Central and South American economies have recovered after the problems that arose in connection with the Mexico crisis in January 1995 and good growth is expected.

Growth has also accelerated in Japan. After several years of stagnation, the Japanese economy has started to recover. Very low rates of interest combined with financial policy stimulants have assisted this development. The deficit in the balance on current account continues to fall. Growth in the other Asian economies remains very good. The rate of growth in China is expected to remain at around 10 per cent.

A number of East European countries are now in a phase of recovery after the deep crisis following on from the collapse of the planned economy. In 1996 the former Eastern block is expected to have a positive rate of growth for the first time since 1989. The potential for continued increases in production are very good, not least in the light of the marked decline in the level of production in recent years. However, uncertainty exists throughout the region as to the rate at which adaptation to the market will take place in future. The Baltic republics, with the exception of Lithuania, continue to report a high growth rate of 4–5 per cent. Russia experienced a negative growth rate last year, but it is expected to increase to between 2 and 4 per cent this year.

The Swedish economy

The Spring Fiscal Policy Bill assessed growth at 1.4 per cent in 1996 and 2.0 per cent in 1997. There are indications that the trend in the Swedish economy is slightly weaker. It is difficult to make an assessment of the situation, however, and statistics do not present an entirely clear picture.

The development of foreign trade was slightly weaker than expected in the first quarter of 1996, which was probably due to weaker growth in Europe. However, exports were stronger in April despite the recent strengthening of the Swedish krona, which indicates that Swedish enterprises are retaining their market shares. The balance of trade for April shows that exports increased by 5 per cent from the beginning of the year, which is more than the forecast for the entire year in the Spring Fiscal Policy Bill. Statistics for particular months must, however, be interpreted with considerable caution.

The outcome statistics indicate that private consumption has also increased somewhat more weakly than forecast. According to Statistics Sweden, retail sales for the first quarter of this year were 1.3 per cent below the level for the corresponding period last year. Registration of new cars has also been somewhat poorer than expected. The discrepancy here, however, is relatively small, although it may be an indication that households are less willing to consume than has previously been assumed. Neither is there any indication in Statistics Sweden's most recent investigation into purchasing intentions, that households are about to increase their rate of consumption.

As far as gross investment is concerned, very little information has been obtained since the Spring Fiscal Policy Bill. New housing construction was slightly lower than expected in the first quarter. However, this was compensated for by a considerably larger number of reconstruction starts than previously anticipated. This has led to an upturn in housing construction. According to the latest business tendency survey, the expansion of industrial production is also continuing on a relatively large scale. In the light of this information and the continued decline in interest rates, it is probable that investment trends will continue to be positive.

There are also other signs that indicate that growth is recovering. Industry has strong expectations of an inflow of orders. The continued good development of central government finances increases faith in the future and improves the prospects for low rates of interest.

The improved prospects for price stability and the decline of inflationary expectations made it possible for the Riksbank at the beginning of 1996 to initiate a reduction of instrumental rates – so far this year the repo rate has fallen by around 2.6 percentage points. Interest rates on five-year government bonds have fallen since 1 January by around 0.6 percentage points and the corresponding interest differential in relation to German interest rates has declined by approximately 1.0 percentage points. In the Spring Fiscal Policy Bill, interest on a Swedish five-year bond at the end of 1996 was calculated to have fallen to 7.5 per cent. The recent fall in the rate of interest increases the probability of a further fall from this level. The Swedish krona has also strengthened slightly more than previously assumed.

A lower rate of growth has a negative effect on public finances. At the same time, recent information indicates that public finances have developed better than previously forecast. Tax revenues have increased more rapidly than expected. This has, inter alia, led the National Debt Office to make a downward revision of its forecast for central government borrowing requirement for 1996 by around SEK 15 billion to SEK 50–60 billion kronor in the light of tax revenues for January–April 1996 being approximately SEK 10 billion higher than the National Debt Office had previously estimated.

Taken as a whole, the assessment is still made that the public deficit will be below 3 per cent of GDP in 1997 without further budget reinforcement measures being required. It is also considered possible to meet the goal for balance in public finances in 1998.

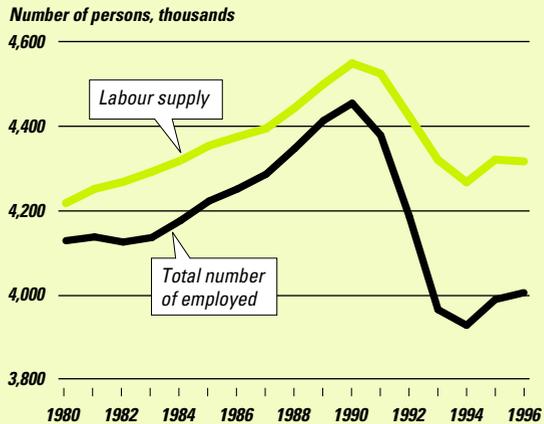
Employment and unemployment

Over half a million jobs disappeared in the early 1990s. Of these around 410,000 were in the private sector and approximately 120,000 in the public sector. The depth of the recession was due to the interaction of a number of

factors. A rapid increase in the real rate of interest and a dramatic turnaround in household saving led to a marked fall in domestic demand. At the same time, the growth of Swedish exports was very poor at the beginning of 1990s since the overheating of the Swedish economy towards the end of the 1980s had undermined industry's competitiveness.

Diagram 2

Total number of employed and labour supply.



The decline in the value of the Swedish krona in November 1992 led to a strong increase in Swedish competitiveness. The first signs of recovery could be detected in summer 1993 with a slight increase in exports and industrial production. In 1994 Swedish export industry developed very well. However, the domestic market was still stagnant due to the high level of interest rates, uncertainty about public finances and the weak development of household income. Swedish export industry continued to be successful in 1995 while the Swedish currency subsequently appreciated considerably as the economic policies pursued gave results and confidence was restored in Sweden.

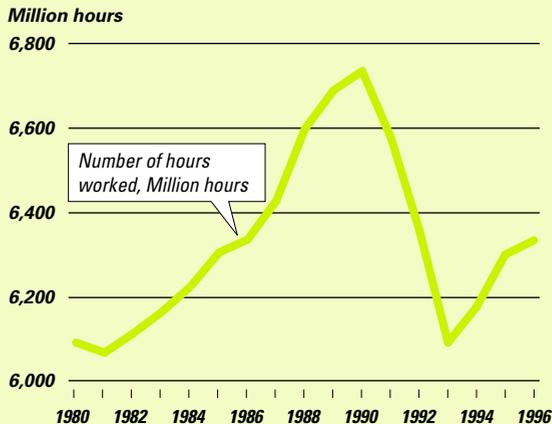
Between 1994 and 1996 employment in the private sector is estimated to have increased by around 97,000 persons. At the same time, employment is expected to decline by approximately 20,000 persons in the public sector. In all, this means that the number employed will increase by around 77,000.

However, employment has declined in the first part of 1996 due to the falling-off of economic activity.

Half of the fall in the number of hours worked between 1990 and 1993 has been regained in 1996. However, in the same period only just over a tenth of the loss of jobs has been regained. The explanation lies, inter alia, in increased overtime and decreased absence due to illness.

Diagram 3

The number of hours worked in the Swedish economy.



There is a corresponding difference between the development of employment and unemployment. Despite an estimated increase in employment by around 2 per cent from 1994 to 1996, unemployment is expected to fall by only 0.8 percentage points. The difference is explained by increased labour force participation. Many people who previously did not think it worthwhile to look for work now make up part of the labour force. This is largely due to better prospects of finding employment. Many of those who have been studying or undergoing training – despite preferring to have an ordinary job – are now back on the labour market. Altogether, it is estimated that the labour force has increased by 50,000 persons from 1994 to 1996 therefore.

Since the middle of 1995, the number of newly-notified vacancies has fallen below the number notified a year earlier. There were 26,000 vacancies in April 1996, 5,000 fewer compared with the same period the previous year. This decline has largely been in the manufacturing industry.

It is above all temporary work that has been sensitive for changes in the demand for labour. When the increase in employment gained momentum in 1994, it was above all temporary jobs that increased. Permanent jobs also

increased after some delay as the upturn stabilised. **The reduction in employment that is taking place today largely reflects a fall in the number of temporary jobs.**

Unlike previous downturns, men were more affected than women at the beginning of the 1990s. This was primarily due to the most marked fall in employment taking place in manufacturing industry and the construction sector. Since the economy has begun to recover, however, unemployment has fallen more sharply among men than women. The reason for this is that men traditionally work in the export industry while women work in undertakings that are oriented towards the home market and in the public sector. The number of unemployed men is still larger than the number of unemployed women, but if development continues at the same rate as at present, the proportion of unemployed women will exceed that of men by the end of 1996. In May 1996 male unemployment was 7.7 per cent and female unemployment 6.5 per cent.

The deteriorating situation on the labour market has led to the proportion of long-term unemployed increasing to 43 per cent of the total number of unemployed, or 134,000 persons. This is a somewhat higher proportion than a year ago. The proportion is substantially the same for women and men.

Sound public finances and stable prices

The Government is determined to continue the consolidation of public finances. This is a decisive prerequisite for pressing down rates of interest and for restoring the strength of our economy and the level of employment. The goals are to stabilise central government debt in relation to GDP by 1996, to limit the deficit in public finances to less than 3 per cent of GDP in 1997 and for Sweden to have balanced public finances by 1998. The expenditure ceiling will be maintained.

In the Spring Fiscal Policy Bill the Government presented estimates for public finances that showed that the general government financial deficit would amount to 3.3 per cent in 1997 and 0.8 per cent in 1998 in the absence

of further budget reinforcements. The Government therefore proposed measures to improve public finances of over SEK 10 billion for 1997 and over SEK 12 billion in 1998. SEK 6 billion of these cuts are permanent savings and SEK 2 billion permanent tax and fee increases which thus improve public finances from 1999 and onwards. The consolidation programme was thereby expanded from SEK 118 billion to SEK 126 billion, or to approximately 8 per cent of GDP. The budget policy goals are expected to be met by these new actions. The improvement of public finances which is to be achieved, from a deficit of 12.3 per cent of GDP in 1993 to balance in 1998, is without parallel in the OECD countries.

The burdens of the consolidation programme entail a reasonable distributional policy. A good distributional profile has been achieved by a combination of expenditure cuts and tax and fee increases. Spending cuts make up about half of the consolidation programme, and half consists of tax and fee increases. The result is that the fifth of households with the highest standard contribute 37 per cent of the budget reinforcements while the fifth with the lowest standard contributes 15 per cent.

In its Bill "The State Budget Act" (Government Bill 1995/96:20), proposals have been made on changes to the provisions on the state budget and fiscal power contained in the Instrument of Government and the Riksdag Act. The purpose is to achieve better control over the budget development. The result will be to make Sweden's budgetary process more stringent. Institutional reforms of the budget process are important to achieve a permanent improvement in public finances. Sweden is now one of the countries with the most stringent budget procedures. This reduces the risk for Sweden falling back into the same budgetary morass as in the early 1990s.

Monetary and foreign exchange policy

The general task of monetary policy is to safeguard the value of money. Price stability improves the prospects for healthy economic development and makes a country less vulnerable to turbulence on the international capital markets. The Riksbank is responsible for monetary policy and its Governing Board has defined the goal of price stability as meaning that an increase in consumer prices is to be limited to 2 per cent with a tolerance of 1 per cent in both directions.

The Riksbank's goal is well in accord that applied in other EU countries. The Government supports this direction of monetary policy.

The increased confidence in the economic policies pursued has led to a fall in bond rates and an appreciation of the krona. Over the past year the interest rate on five-year bond rates has fallen by over three percentage points and the krona has strengthened by around 15 per cent. Further, the rate of inflation has declined and inflation prospects for the coming years are in line with the Riksbank's goals. This has enabled the Riksbank in recent months to reduce short interest rates. The repo rate has been reduced by around 2.6 percentage points since the year-end 1995/96.

Sweden's EU membership has led to changed conditions for monetary and foreign exchange policy. Sweden is now able to participate in the European currency cooperation and in the European exchange rate mechanism (ERM). Sweden will later take a position on participation in the third stage of the monetary union (EMU). Stable exchange rates are desirable and must be supported by low inflation and a good balance in public finances if they are to be robust. **It is not presently under consideration to link the krona to the ERM. A decision on participation in ERM should be made by the Riksdag in autumn 1997.**

Tax policy

The increase in employment must take place primarily in the private sector, which will require a good climate for growth. This requires maintaining good conditions for enterprises and entrepreneurship. The design of the tax system plays an important role in this context. The Government is proposing a number of changes in the field of taxation in to stimulate economic growth.

Stamp duty on real estate is to be temporarily reduced to a third from 12 June 1996 to 31 December 1997. This will reduce the transaction cost for transfers of real estate, which, together with the low rate of interest is expected to stimulate the property market. The National Pension Insurance fund

shall also in future pay stamp duty in the same way as other taxpayers.

Sales tax on motor vehicles is to be abolished, which will be financed by an increase in vehicle tax. For vehicles in environmental class 3, part of the sales tax will remain, however. This will stimulate a renewal of the vehicle fleet which is desirable for economic activity and to improve the environment.

In the autumn the Government intends to introduce a bill on new rules for benefit taxation of company cars. It is intended that benefit taxation shall be based on a correct valuation of the benefit taking into account the level of interest rates, and will no longer encourage excessive private driving. The Government wishes already at this stage to make clear that the proposal will be based on an alternative that will entail the substantial removal of the present excess taxation of company cars. This will be financed by a lower upward adjustment of the tax bracket threshold for state income tax.

In order to stimulate small business especially, payroll tax will be reduced from 1 January 1997 by five percentage points for that portion of the wage bill under SEK 600,000. A similar reduction will be introduced for the self-employed.

Sweden has long had a system of taxation favourable to business. The Government has previously declared that the tax charged to enterprises is to be restored to the level established in conjunction with the 1990–91 tax reform. This has been quantified as a tax reduction for enterprises of SEK 2 billion kronor. Subsequently, a so-called temporary risk capital deduction and a right to make deductions for losses in newly-started businesses have been introduced.

The 1992 Business Tax Commission was given the task of finding a form for more permanent relief for enterprises. The intention is to improve the tax situation with respect to new investment and capital supply. The model for general relief at enterprise level that was previously under consideration has, however, shown itself to be unsuitable for a number of reasons.

General relief at owner level is of less interest for a policy aimed at promoting investments. The main effect of such a measure is to affect the composition of Swedish household saving. The effect on investment will be limited. This applies to large companies but also to smaller enterprise without access to the organized capital market. For those considering saving in these companies, yield after tax from an alternative investment in listed shares has

increased as a result of the general relief. This circumstance counteracts the effect of the tax relief for dividends and capital gains from smaller companies. The effects on investment will therefore be slight for these companies as well.

Work on the Business Tax Commission will be accelerated, and the Government will in the Autumn put forward a proposal for a permanent double taxation relief focused on small and medium-sized undertakings. Tax relief is estimated at SEK 3.5 billion. The new rules will apply from 1997.

The Government will further in conjunction with the Budget Bill propose changes in the tax rules to facilitate generation changes. A review of taxation of sole traders to simplify the system of rules will also be carried out. The Government will further consider if there are reasons for introducing a special benefit treatment of foreign experts and senior executives.

The Government is also preparing a new system for payment of taxes and charges which is to make easier and more efficient the work of companies and tax administration. Work on the new system of so-called tax accounts aims at being able to implement the new system in 1998.

As part of the financing of the measures presented in the Bill, the present beneficial treatment of public savings programmes is to be abolished as of 1 January 1997. Tobacco tax will be increased from the same date by 15 per cent. A waste tax will be introduced in 1998. In addition, the permissible amount for allocations to accrual funds will be reduced as of the 1997 income year.

Education and competence

A country's citizens is its most important resource for the ability to develop.

In an increasingly internationalised world, considerable demands are made on the individual's ability to adapt to new circumstances. The transformation of society makes ever higher demands on skills and competence. Previously, it was sufficient to be educated while young, now life-long learning is necessary.

Education is an essential requirement for achieving a high rate of long-

term growth. The key to lower unemployment, higher growth, increased equality and expanded freedom of choice is more than anything else education and increased competence. To create long-term stable growth, and to strengthen the individual's competence in a changing labour market, Sweden must consistently invest in skills and competence.

The most effective distributional policy is one which stimulates economic growth, eliminates skill deficiencies, and reduces unemployment. However, increased skills are not only important for our economic welfare but also form the basis for social, political and cultural development. Therefore a second educational revolution is required in Sweden on the threshold of the twenty-first century. More people undergoing education – both at school and university as well as in adult education – means increased investment in skills and competence. Despite longer formal education women are much more seldom than men in positions where their competence is made full use of. The resources and experiences of both sexes must be made full use of for higher growth.

Education for unemployed adults

A special programme of state investment in adult education will be carried out for five years amounting to some SEK 9.6 billion per year when it is fully implemented and providing at least 100,000 adults, especially the unemployed, education up to upper secondary school level.

The strong increase in adult education is a contribution to the struggle against unemployment. The target group for this investment in education is in the first place the unemployed and those employees who lack or who have only partial upper secondary school education. Priority is to be given consistently to those who have the shortest education and the greatest need for upper secondary school competence to acquire a stronger position on the labour market. Three-year upper secondary school competence is often a necessary basis in order to be able to change occupation and train for work in other sectors. This investment in education will also contribute to breaking the gender imbalance on the labour market.

The municipalities should be responsible for carrying out the investment in adult education. Municipalities can apply for special grants for five years from 1 July 1997.

Municipalities are free to choose the form of organisation and the course arranger that meets the requirements of the target group and local conditions in the most efficient and best way. The municipalities shall bear the main responsibility for these activities and for the quality of the education but they should be able to involve many different course-providers by commissioning or purchasing education to carry out these activities and satisfy the varying interests and needs of this large group of adults. Municipalities must establish a close cooperation with the employment offices in planning and implementation so that, in the first place, unemployed persons who are in need of upper secondary education can benefit from this investment in education.

The investment in adult education that is to take place with special state funds is to be for education at upper secondary school level up to three-year upper secondary school level and will provide formal competence. Grades, and the equivalent folk high school certificates, are to be awarded. An individual plan of study is to be drawn up and continually reviewed in a dialogue between the individual and the school. For the unemployed the study plan will be part of the individual plan of action drawn up by the employment office and the job seeker. It is important that every municipality through the employment board finds new forms for cooperation between the municipal occupation and study guidance service and the employment office in order to make use of all available competence.

A special delegation will be set up to lead the investment in education in the initial phase. The Government will carefully monitor the investment by following up and evaluating the activities that result. This work will take place in close cooperation with the relevant authorities and the Swedish Association of Local Authorities.

Study finance

Adults between 25 and 55 who are unemployed and study at compulsory school or upper secondary school level will be able to receive a special study grant for a maximum of one study year at the level of unemployment benefit. Even employees in the same age group with at least five years of work experience will be eligible for the special study grant if the local parties concerned have reached agreement in which the employer undertakes to employ a long-term unemployed person in place of the person studying. The person

who at the end of the year wishes to continue studying will be able to do so with the ordinary study grant.

The special study grants will be introduced on 1 July 1997 and amount to SEK 2.4 billion net. Those beginning studies earlier and who continue after 1 July 1997 will also be able to apply for the special study grant. There is also SVUXA (special adult study assistance) which amounts to SEK 1.5 billion net. Study support has recently been examined by a commission of investigation. This Commission has proposed that the system of study support be reformed and a single grant established. The Government will consider the Commission's proposals.

Expansion of higher education

Education and research of key importance for promoting the business sector and employment, and also for the general development of society. Higher education will therefore continue to expand. This takes place from a good initial situation where Sweden already today in an international comparison has a high level of education. This is, however, unevenly distributed. The level of education among employees in the public sector is considerably higher than in the private sector.

The number of applicants to higher education has doubled since autumn 1991. Despite the strong expansion, many eligible applicants are unable to obtain a place to study. A continued expansion of higher education is therefore necessary to create places for young people and to make it possible for adults to undergo basic university training or further training at tertiary level. Higher education is also an important means of regional policy. The coming expansion will therefore take place primarily at smaller and medium-sized institutions of higher education. The business sector must demand and employ highly-qualified staff if this investment in education is to be of real benefit to society as a whole.

In the Employment Bill the Government has made proposals on the distribution of the 30,000 new higher education places planned for 1997 to 1999. This expansion will replace the temporary training places financed by labour market programme funds. Half of the new places will be in science and technology subjects. In the Budget Bill and the Research Policy Bill to be presented at the same time the Government will give more detailed motiva-

tion of the decisive importance of higher education and research for increasing employment.

Financing

The investment in education will be financed as was reported in the Spring Fiscal Policy Bill by increased energy taxes, savings in labour market programmes and through some cuts.

Labour market policy

An active labour market policy assists enterprises to fill vacant places quickly at the same time as providing the individual with support in difficult periods of transition. The aim is to fill vacant places as quickly as possible and to keep periods of unemployment as short as possible. **A good labour market policy entails mutual obligations on the part of society and the individual citizen.** Society assumes responsibilities towards the individual only to the extent that the individual meets his or her responsibilities. The responsibility of the individual consists in accepting the challenge of developing competence and actively seeking work.

The awareness that unemployment does not mean exclusion from the community encourages unemployed people to take the initiatives required to improve their prospects on the labour market. An insurance that provides cover for loss of income is of key importance in this context. The Government therefore considers that the level of compensation shall be increased to 80 per cent as of 1 January 1998. This increase will be fully financed by changes of rules in the system.

The increase of unemployment benefit to 80 per cent will be partly financed by a more stringent work qualification period and a stricter employment concept. The remaining portion will be financed by changes in unemployment insurance from 1998. Sufficient financing will be provided by restricting upward adjustment of benefit due to pay agreements to a maxi-

imum of two per cent, and by coordinating unemployment benefit with severance pay, holiday pay and parental benefit.

Unemployment insurance will be given a clearer focus by the work qualification period being made more stringent. The Government proposes that as a minimum part-time work (50%) for at least 9 months over a 12-month period (counting only months with 80 hours work) will be required for eligibility. The income on which compensation is based will be calculated on the basis of the past twelve month's income. Moreover, the employment concept will be reinforced by no labour market programme measures being regarded as work for the purposes of meeting the requirements of the work qualification period for eligibility for unemployment benefit. This means that unemployment insurance will become more uniform and fair since, according to the present rules, only certain labour market programme measures are equated with work.

The overall effect of the more stringent work qualification period and employment concept is to make it more difficult to qualify for unemployment benefit. More work will be required before an individual is eligible for full employment benefit.

The high level of unemployment and the large volume of measures have placed new demands on labour market policy. Transforming unemployment insurance from an insurance providing adjustment cover to a long-term means of support threatens the work-first principle. The active labour market policy must not be downgraded to simply being a means of qualifying for a new period of compensation. Quality will then be imperilled.

These measures are to form part of an individual plan of action for a return to the regular labour market. As has previously been announced, the Government proposes a time limit, inter alia to make clearer the role of unemployment insurance as adjustment cover. In conjunction with this Bill, it is proposed that the total period of compensation of the adjustment cover insurance combined with labour market programme measures or study with a grant equivalent to employment benefit should be maximized at three years with a possible prolongation to four years for persons who have had regular employment during the period of compensation. It should be possible within this span of time to find a good solution even for job seekers who require extensive effort to be made to find regular employment.

The Government proposes that the total period of benefit be divided up into two benefit periods of which the two first will run for at most 300 days and the third for the remaining period. To be eligible for a new period of benefit within the period of compensation, the job seeker should be required to have been in regular employment for six months or to have participated in labour market programme activities or study with assistance equivalent to unemployment benefit during the same period.

Persons between 55 and 64 years of age who have been registered at the employment office for over two years will be offered employment by municipalities, county councils or the central government with compensation at the level of unemployment benefit. There is a considerable need for supplementary inputs in care, nursing and other areas which can be met in this way. The aim is that the programme should cover around 40,000 older long-term unemployed.

Wage formation

Wage formation must also be improved. It does not function satisfactorily at present. This is expressed, inter alia, by wage increases generally being at a higher level than in competitor countries. Wage increases are also expected to exceed the EU average in the next few years. It is almost impossible to achieve a sustainable reduction of unemployment as long as wage formation continues to operate in this way. Efficient wage formation is therefore a prerequisite for the restoration of full employment.

The Swedish welfare state is now at a decisive crossroads. If it is to be possible to halve open unemployment by 2000, and to achieve long-term full employment, those already in work cannot lay claim to all fresh resources created. **Sweden's future ability to be a well-developed welfare state with high employment and low unemployment is dependent on efficient wage formation. What is now needed is sound and balanced wage formation at a good European level.**

Labour legislation

Labour law needs to be changed. **Labour law must be designed in such a way as to serve its purpose and to reflect a reasonable balance between the needs of employees for protection against arbitrary and discriminatory decisions**

and the needs of businesses to be able to adapt their organisation and workforce to continually changing circumstances and needs. It shall also be designed in such a way that it does not make it difficult for companies to start up and expand.

The Labour Law Commission, which includes representatives of the social partners, presented the results of its work in May 1996. The social partners reported that they could not support the proposals put forward by the chairman of the Commission. The Government considers it to be of the greatest importance that the social partners reach agreement on this central issue. The social partners have informed the Government that they intend to continue efforts to reach one or more joint agreements between the parties in the area of labour legislation. In this context the Government has made mediators available to the social partners, who are to report on the results of their deliberations at the latest by 23 August 1996.

Working hours

Today's labour market makes ever higher demands for flexibility. There are increasing demands for quick production times, high quality and developed competence. Working hours adapted to the conjuncture and the volume of business are becoming increasingly common. At the same time, there is an increasing number of new forms of work. Companies' greater demands for flexibility affect the situation of employees and make quite new demands on legislation on working hours and the working environment. Overtime working has increased in recent years. The new development moreover affects women and men differently.

Laws must better than before combine the increased need of activities for flexibility with employees need for security and influence over the length and location of work. When flexibility increases, it will become increasingly important that laws take into consideration different patterns of working hours and use of time. The Working Hours Commission appointed by the Government in January 1995 has, inter alia, been given the task of evaluating how a balance is to be struck between these demands and needs. The basis has been that the social partners should themselves reach agreement on these matters by collective agreements, but it will probably also be necessary to make some changes in legislation. The Working Hours Commission should also

study whether there is any correlation between shorter working hours and the possibility for more people to obtain work.

The goal of the Government of halving open unemployment by 2000, must be placed in the foreground for future policies. After the Working Hours Commission has presented its findings this autumn, the Government will introduce a Bill in the Riksdag on these matters.

■ The effects on public finances

In order to maintain confidence in public finances, **expenditure increases and revenue reductions are to be fully financed by decisions being made at the same time on expenditure cuts or revenue increases. All of the proposals presented here are fully financed.**

The changes in appropriations requested for the 1995/96 fiscal year entail a gross increase of SEK 3 billion. They are financed by contributions from the state enterprise sector (Table 1).

The ceiling on expenditure will be maintained. In the Government Bill 1995/96:150, the Government proposed an expenditure ceiling for central government including the social insurance sector outside of the Budget of SEK 723 billion for 1997 and SEK 735 billion for 1999. In this context, preliminary frames were also announced for the respective areas of expenditure. In the Government Bill 1995/96:222 Certain Measures to Halve Unemployment by 2000, Changed Appropriations for the 1995/96 Fiscal Year, Financing, etc., some proposals were presented which will affect the distribution between frames for areas of expenditure without affecting the ceiling for total central government expenditure (Table 2).

The tax proposals are presented and announced as a contribution to creating the desired stability at the same time as promoting the domestic economy. The various tax proposals are fully financed (Table 3).

Table 1 **Specification of changes in expenditure appropriations for the 1995/96 budget year in relation to the central government budget**

SEK 000s

	Amount in central government budget	Proposal for new appropriation amount	Change Increase (+) decrease (-)
Reforms			
<i>Head of state and government</i>			
<i>Cooperation and development in Baltic Sea region, appropriations with reserves</i>			
		1,000,000	+1,000,000
<i>Ministry of Industry and Commerce</i>			
<i>Programme for development, renewal and growth of small-sized enterprises, appropriations with reserves</i>			
		1,000,000	+ 1,000,000
<i>Ministry of Environment</i>			
<i>Investment grants for promotion of adaption in an environmentally-sustainable direction, appropriation with reserves</i>			
	100,000	1,100,000	+ 1,000,000
Total	100,000	3,100,000	+ 3,000,000
Financing			
<i>Yield from Securum</i>			
			+ 3,000,000

Table 2 **Specification of previously announced measures**

Million kronor	1995/96	1997	1998	1999
Reforms				
<i>Ministry of Education</i>				
Investment in education	900	6,600	8,000	9,600
<i>Ministry of Labour</i>				
Increased compensation level in unemployment insurance (80%)			1,500	1,500
Total reforms	900	6,600	9,500	11,100
Financing¹				
<i>Ministry of Labour</i>				
Work qualification period		300	300	400
Employment concept		200	200	300
Replacement (unemployment insurance)		1,200	1,500	1,600
Savings, unemployment benefit			1,000	1,000
Efficiency improvements in labour market programme measures	500	1,185	1,185	1,185
Changes in recruitment assistance and labour market training		900	900	900
Samhall		100	100	100
Agencies in expenditure area 14			30	30
<i>Ministry of Education</i>				
Savings in expenditure area 16				1,000
<i>Other ministries</i>				
Withdrawal of, inter alia, appropriation savings and appropriations with reserves (Labour, Finance, Transport and Communications and Defence)		600		
Savings listed in the Budget Bill		400	200	100
Total financing	500	4,885	5,415	6,615

1) The remaining part of the investment in education will be financed by increased energy taxes.

Table 3 *Specification of changes on the income side*

Million kronor	1995/96	1997	1998	1999
Tax reliefs				
Temporary reduced stamp duty for properties and plots	800	2,000	200	
Abolition of sales tax on cars	600	1,500	1,500	1,500
Changes in taxation on car benefits		900	1,000	1,000
Double taxation relief			3,500	3,500
Reduced social insurance charges		2,100	2,300	2,300
Total tax relief	1,400	6,500	8,500	8,300
Financing				
Increased vehicle tax	300	1,600	1,600	1,600
Increased tobacco tax by 15%		1,300	1,200	1,200
Increased tax on public savings programmes to 30%			400	400
Use of remaining SEK 2 billion frame from Government Bill 1994/95:25	400	800	700	1,600
Reduction of maximum allocation to accrual funds from 25 to 20%			3,000	3,000
Restricted upward adjustment of bracket threshold before 1997		900	1,000	1,000
Waste tax			400	400
Total financing	700	4,600	8,300	9,200
Balance effects, tax measures	-700	-1,900	-200	900
Yield from Securum	800	2000	200	0
Balance	100	100	0	900

By an offensive industrial policy for growth and employment, the Government intends to facilitate the growth of enterprises and to halve unemployment by 2000.

A special three-year programme for the development of small-sized enterprises is therefore proposed with the aim of strengthening business expansion. SEK 1 billion has been allocated for this purpose. Moreover, the focus of regional and industry policy is to be changed in order to make improved use of all regional and industrial policy resources. Furthermore, a one-billion kronor fund will be established aiming at strengthening cooperation and development in the Baltic Sea region over a five-year period. Additionally, a five-year programme is proposed for adaptation to sustainable development. This programme is aimed at pushing forward technological development and creating employment primarily by the adaptation of buildings to the recycling principle, recovery and recycling, reduced dumping of construction materials, and measures related to water and sewage. It is proposed to allocate SEK 1 billion for this purpose. A maximum of SEK 200 million of the funds allocated for special initiatives in certain municipalities and county councils for 1996 will be available for use for projects aiming at restructuring local government activities. As a result of these projects, the prospects for continued adaptation to the economic situation will be improved in such a way as to guarantee the quality of local government activities in a longer-term perspective.

The investment in education will be followed up by expanding the regular education system by 100,000 adult education places and 30,000 new higher education places. A start will be made on the special investment in adult education already in the 1996/97 school year. From autumn 1997, the special five-year investment programme for adult education will be initiated in new forms. This entails a six-month postponement in relation to the announcements made in Government Bill 1995/96:150. The permanent expansion of higher education will start in 1997 with 15,000 places. In order to create scope for good planning of the continued expansion, the remaining 15,000 places will be made available first in autumn 1999. As a basis for planning, the Government has produced a proposal on the allocation of these 30,000 places. Half of the new places will be concentrated on sciences and technology. The costs of this investment in education will be financed by changes and changed priorities in a number of areas of expenditure, inter alia

the educational sector. Financing will take place mainly in the labour market sector and through increased energy taxes. Moreover, financing will take place by the investment in education having an effect on open unemployment and relieving the pressure on unemployment insurance.

In the field of labour market programmes, it is proposed that labour market policy be reoriented. The employment offices will be reinforced and central resources cut back. The municipalities will be given a stronger role. Use of labour market programme funds will be made more flexible. To increase the quality of public service, temporary public sector work will be offered to those aged 55 years old or older, who have been registered at the Employment Office for more than two years. Unemployed persons between 25 and 55 years of age will be given the opportunity of studying for one year at compulsory or upper secondary school level with a study grant at the level of unemployment benefit. Employees will also be eligible for the study grant provided that they are replaced by a long-term unemployed person registered at an employment office.

The nature of unemployment insurance as cover for adjustment will be reinforced. A time limit will be introduced in unemployment insurance after 1 January 1997 to strengthen the work-first principle. The Government considers that the level of compensation in unemployment insurance should be increased to 80 per cent as from 1 January 1998. This increase will cost SEK 1.5 billion kronor and is to be fully financed by changes of rules in unemployment insurance. In conjunction with this Bill, changes are proposed in the work qualification period and the employment concept that are estimated to reduce expenditure by SEK 0.5 billion kronor from 1997.

The remaining savings of SEK 1 billion will be introduced from 1998 and will relate to changes in unemployment insurance.

In the Convergence Programme presented in June 1995, sales of state assets of SEK 50 billion were announced for the period up to the end of 1998. This included Nordbanken and Securum. Parts of the state's holding of Nordbanken shares have subsequently been sold. Further details of these measures will now be announced.

The Government will shortly present proposals to the Riksdag on the sale of the holding in Stadshypotek AB. The shares in Stadshypotek AB are held by Stadshypotekskassan as a component in the restructuring of Stads-

hypotek. In the preliminary material on this reconstruction, it was noted that both borrowers and the state had contributed to building up Stadshypotek's equity. The borrowers in Stadshypotek have received 55 per cent of the capital in 1994. The Government considers that this group has thereby been compensated for its contribution to the build-up of capital. The assets now held by Stadshypotekskassan therefore belong to the state. The value of the shares is now estimated to be around SEK 5.5 billion kronor. The position of Stadshypotekskassan's bondholders is not to deteriorate due to the sale of the shareholding.

The yield from Securum will be used as part of the financing of measures now proposed by the Government. The yields required for financing the proposed measures have been allocated to fiscal years in tables 1 and 3, but in practice it is intended that the contributions will be received in 1997 and 1998.

Distributional effects

A fair distribution of welfare depends to a large degree on an even distribution of wage incomes, which is in turn made possible by high, stable employment. **High-quality education and efficient wage formation are key factors for employment trends.** The changes that the state can make to taxes, grants and publicly financed activities cannot in the long term compensate for large changes in the distribution of earned incomes.

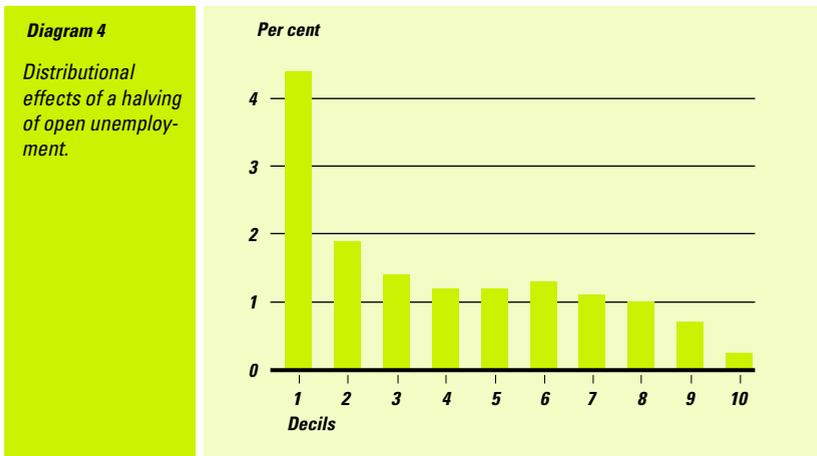
In recent years income gaps have increased, inter alia, due to the underlying trend towards greater pay differentials. There is a similar trend in practically all countries that maintain income distribution statistics. Demand is increasing for persons with advanced, modern education at the same time as technological development is creating an increasing number of innovations that replace unqualified work. Production which previously employed a large number of people with a low level of education has moved to countries with low wages. In a number of countries the costs of high unemployment have necessitated cuts in social welfare systems. The consequence has been further increases in income gaps.

Measures to increase and improve education are thus not only important for long-term economic growth and the ability to reduce unemployment, but are also important elements of distribution policy. Effective investment in higher education can be of great importance if it prevents the permanent economic and social exclusion of the long-term unemployed as has occurred in many other countries as a result of a high level of unemployment. Investments in education in sectors with a high level of wages and a shortage of labour power moreover counteract the underlying international tendency to increased pay differentials.

The investment in education contained in the Employment Bill includes both measures specifically directed at the long-term unemployed, adult education at upper secondary school level for those with a low level of unemployment, and investment in higher education. If more people take part in education, this may in the short term lead to an increased spread in household annual incomes, since more people will receive study grants instead of unemployment benefit or earned income. Income gaps will be counteracted, however, as increased education leads to reduced unemployment and higher wages as a result of increased competence.

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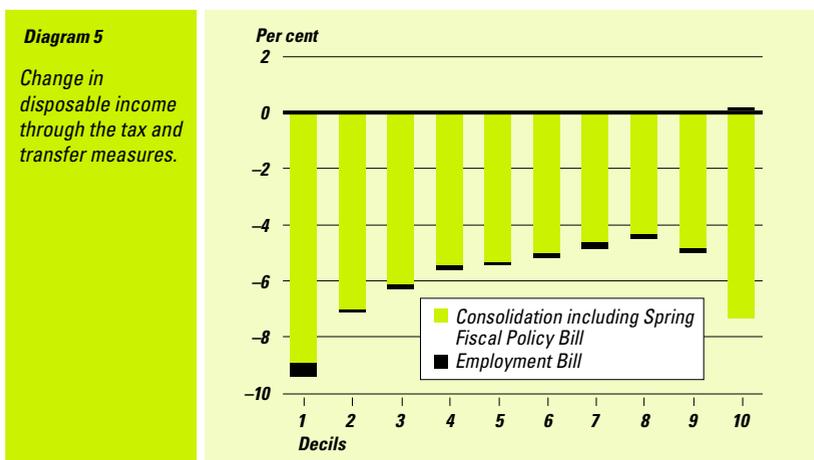
Diagram 4 shows the estimated distributional effects of a halving of open



Note: A simplified calculation that only shows the direct effects on household disposable incomes. The change of disposable income if unemployment benefit is replaced by previous wage incomes, equivalent to a halving of the number of days in open unemployment.

unemployment. The analysis shows that a reduction in unemployment can be expected to increase income for households with a low or average economic standard. Moreover, reduced unemployment has other very important, long-term effects, such as a more even distribution of lifetime income, reduced risks for health problems, and increased reserves for social welfare policy. These are effects that do not show up in the statistics on annual income distribution.

Diagram 5 shows a calculation of the distributional effects resulting from the most important changes of rules now proposed in the tax system and in unemployment insurance that affect households. These are primarily changed taxation of company cars, increased taxation of public savings programmes, changed upward adjustment of bracket thresholds for state income tax, and an increased level of compensation to 80 per cent in unemployment insurance, the time limit and more stringent work qualification periods etc. The cal-

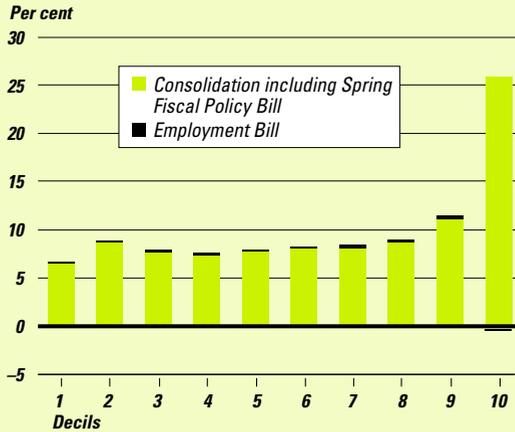


culcation has been made using the same methods and on the basis of the same material as the analyses in the Supplementary Bill in 1995 (Government Bill 1994/95:150) and in the Spring Fiscal Policy Bill (Government Bill 1995/96:150) and shows the direct effects of measures when they have come into effect (full effect) in 1996 prices. The diagram also shows the distributional effects of tax and transfer measures in the consolidation programme including the Spring Fiscal Policy Bill.

The total effects of the Consolidation Programme, the Spring Fiscal Policy Bill and the Employment Bill are regarded as having a reasonable distribution policy profile. The measures now announced have relatively small direct distributional effects. Even after the measures in the Employment Bill, households in deciles 9 and 10 together contribute around 37 per cent of the budget reinforcement (Diagram 6).

Diagram 6

Share of total budget reinforcement contributed by each decile.



AN ECONOMIC POLICY FOR HALVING OPEN UNEMPLOYMENT BY 2000

“This Government Bill contains the Government’s proposed guidelines for economic policy to strengthen employment and reduce unemployment. The Bill proposes that the Riksdag give its support to the goal of halving open unemployment from 8 per cent in 1994 to 4 per cent by 2000, and that arrangements be made to review progress twice yearly. In addition, a number of measures to increase employment are presented.”

Introduction to Swedish Government Bill 1995/96:207. An economic policy for halving open unemployment by 2000.



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