

## SWEDEN

### Priorities supported by indicators

#### **Reduce marginal taxes on labour income (2005, 2007, 2009)**

**Recommendations:** Cut income taxes by raising the threshold for the state income tax or reduce its rate.

**Actions taken:** In 2009 the lower threshold for the state income tax was raised, employer social security contributions were reduced and the in-work tax credit was expanded through 2011.

#### **Reform sickness and disability benefit schemes (2005, 2007, 2009)**

**Recommendations:** Put a time limit on eligibility for sickness benefits without re-assessment and ensure that local insurance offices fully implement tightened rules.

**Actions taken:** Tighter administration, time limits on eligibility and measures for rehabilitation have lowered sickness absence rates. From mid-2008, receipt of sickness benefits can continue after six months only if the person is unable to do any work, and after one year the gross replacement rate falls from 80% to 75%.

#### **► Reform employment protection legislation (2007, 2009)**

**Recommendations:** Encourage regular employment by widening the definition of fair dismissal and lengthening the trial period of regular contracts.

**Actions taken:** No significant action has been taken on permanent contracts, but trial periods and the duration of temporary contracts have been extended. The social partners began to re-negotiate employment conditions, but negotiations stalled in March 2009.

#### **Reduce the scope of public ownership (2005)**

**Recommendations:** Ensure the application of competition law to public entities, clarify the role and competitiveness of local government entities, and strengthen the supervision of public procurement.

**Actions taken:** The scope of public ownership has been significantly reduced through privatisation at the central government level, such as in the pharmacy sector. The National Board for Public Procurement was made a part of the Competition Authority in 2007, and a new Public Procurement Act came into force in 2008.

### Other key priorities

#### **Reduce distortions in the housing market (2005, 2007, 2009)**

**Recommendations:** Phase out rent regulation and ease planning restrictions. Reverse the housing taxation cut implemented in 2007.

**Actions taken:** Since 2006, rents on newly constructed dwellings have been exempt from rent regulations. In 2008, plans were announced to allow private sector rents to better reflect local supply and demand conditions. Outright ownership of owner-occupied apartments is being introduced for new apartment buildings. No action taken to reverse the 2007 tax cut on owner-occupiers.

#### **Improve the efficiency of the education system (2007, 2009)**

**Recommendations:** Improve learning outcomes in secondary school. Reduce the average age of entry into tertiary education and shorten completion times.

**Actions taken:** The government proposed a teacher accreditation system in 2008 and measures to raise the quality of vocational education in 2009. Tertiary admission will be reformed in 2010 and tuition fees are being considered for non-EU students. While the removal of the option to gain easier access to tertiary education through work experience should reduce the age of entry, the increase in grants, and broader-based access to them, may slow completion.

#### **Boost working hours (2005)**

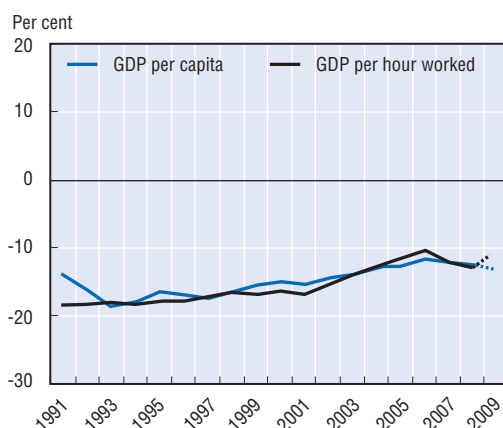
**Recommendations:** Reconsider plans to introduce a legal right to a sabbatical year and pilot schemes for reduced working hours.

**Actions taken:** The sabbatical leave scheme was terminated in 2006. Recent tax cuts and changes to sickness insurance arrangements are expected to boost working hours.

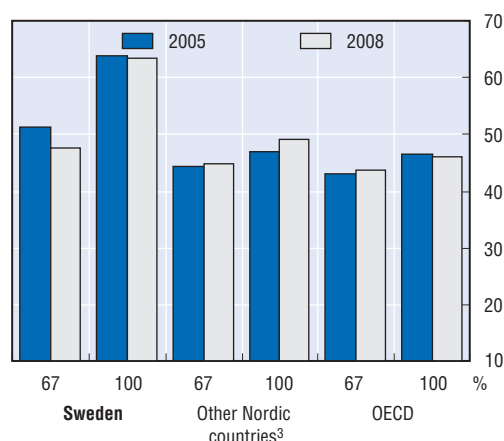
## SWEDEN

- With gains in labour utilisation and productivity, the gap with the leading countries has narrowed, although the associated gain in real living standards has been somewhat muted by declining terms of trade.
- Significant progress has been made across most key priority areas. However, tax cuts have not focused on the top marginal rate, regular employment rules remain rigid and no action has been taken to reverse housing taxation cuts.
- In other areas, labour market reforms to reduce welfare dependency have been a key focus, with tax policy changes playing an important role.

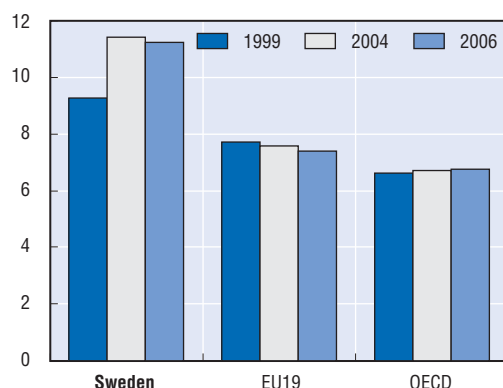
**A. Gaps in GDP per capita and productivity linger**  
Gap to the upper half of OECD countries<sup>1</sup>



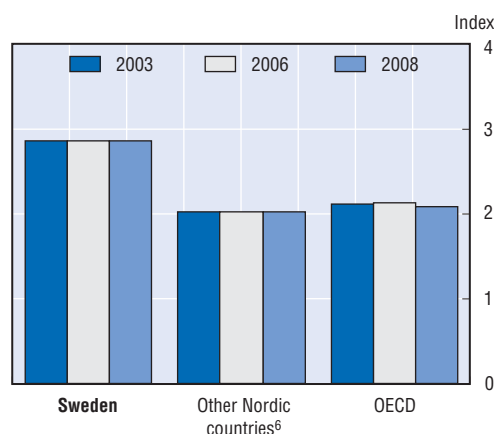
**B. Marginal tax wedges remain high**  
Percentage of total labour compensation<sup>2</sup>



**C. The share of the working-age population receiving disability benefits is very high<sup>4</sup>**  
Percentage of the population aged 20-65



**D. Employment protection legislation for regular contracts is restrictive<sup>5</sup>**



1. Percentage gap with respect to the simple average of the upper half of OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs). The gaps for 2009 are OECD estimates, based on the *OECD Economic Outlook*, No. 86.
2. Evaluated at 67% and 100% of average earnings for a single person with no child.
3. Average of Denmark, Finland, Iceland and Norway.
4. Disability benefits include benefits received from schemes to which beneficiaries have paid contributions (contributory), programmes financed by general taxation (non-contributory) and work injury schemes.
5. Index scale of 0-6 from least to most restrictive.
6. Average of Denmark, Finland and Norway. Iceland is excluded due to data availability.

Source: Chart A: OECD, *National Accounts and Economic Outlook 86 Databases*; Chart B: OECD, *Taxing Wages Database*; Chart C: OECD (2003), *Transforming Disability into Ability* and OECD estimates; Chart D: OECD, *Employment Outlook Database*.

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