

SWEDEN

Productivity growth over the past decade has picked up, helping Sweden to slightly narrow its income gap vis-à-vis the United States.

Priorities supported by indicators

Reform sickness and disability benefit schemes

On an average day, one out of eight workers is absent on sick leave. Whereas employment rates have risen since the mid-1990s, the number of people actually at work as a share of population has not and growth in total hours worked has been subdued.

Actions taken: Employers now pay a bigger share of sickness benefits, administration has been tightened, sickness certificates give a better assessment of ability to work, and the benefit rate has been cut slightly.

Recommendations: Ensure the reforms are carried out as intended in all local social insurance offices. Strengthening the powers of the national agency over local boards would help achieve this. Go ahead with the proposal to put a time limit on access to disability benefits without a re-assessment of the needs.

Reduce the scope of public ownership

Sweden has the OECD's biggest public sector, in both commercial and social activities. Central and local governments undertake activities that compete with the private sector, often on an uneven playing field.

Actions taken: Some municipalities are privatising or contracting out activities, but progress is slow.

Recommendations: Ensure that competition law applies to the public sector in practice, not just in principle. Increase the opportunities for private firms to seek redress through the courts. Clarify the sorts of activities that local governments can legitimately be involved in, and ensure a level playing field. Streamline and strengthen the public procurement supervisory agencies, and give them power to enforce sanctions.

Reduce tax wedges on labour income

High taxes on earned income discourage labour supply and reduce the returns from entrepreneurship and higher education. Growth, innovation and human capital development are all harmed as a result.

Actions taken: Tax rates continue to rise, especially at the local level. A planned reduction in the state income tax has been postponed, and the threshold for the top marginal rate was boosted by less than under the normal indexing rules.

Recommendations: Cut overall marginal income tax rates by raising the threshold for the state tax. Broaden tax bases by restoring and then increasing the property tax and by removing exemptions from the value-added tax.

Other key priorities

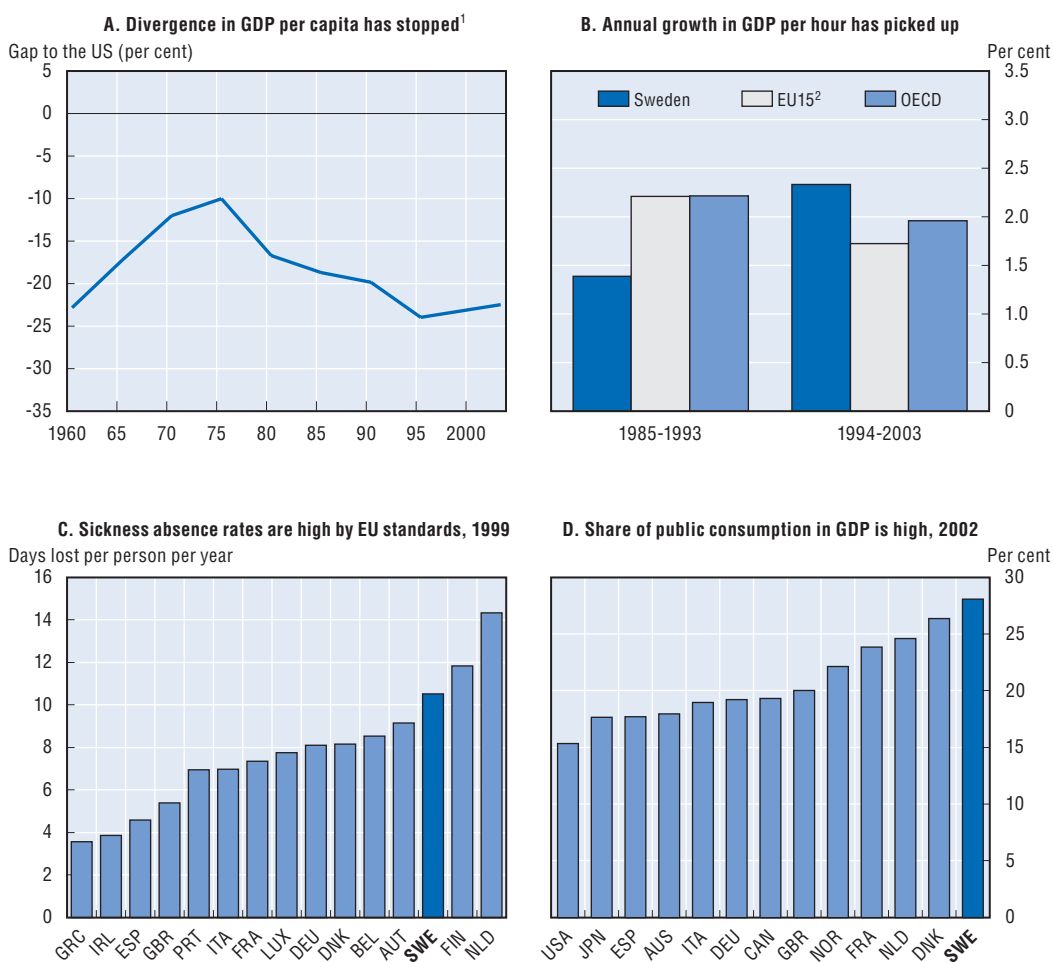
- Boost working hours. Government plans to introduce a legal right to a year of sabbatical leave and pilot schemes for lower working hours should both be reconsidered.
- Liberalise the housing market by phasing out rent controls and easing planning restrictions. Serious distortions have almost broken the link between supply and demand, leading to shortages in high-growth areas, reducing labour mobility.

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Structural indicators

	1990	1995	2000	2003
Trend GDP per capita (% growth rate)	1.7	1.4	2.7	2.1
Trend employment rate	80.1	75.4	72.6	72.6
Trend participation rate	81.9	79.2	76.3	76.2
Structural unemployment rate (NAIRU)	2.2	4.8	4.8	4.7

Source: Estimates based on OECD Economic Outlook, No. 76.



1. Percentage gap with respect to US GDP per capita (in constant 2000 PPPs).

2. Excluding Austria and Luxembourg.

Source: Charts A and B: *National Accounts of OECD Countries, 2004*; *OECD Labour Force Statistics, 2004*; *OECD Economic Outlook, No. 76*; Chart C: *Third European Survey of Working Conditions, 2000*; Chart D: *OECD Economic Outlook, No. 76*.