

## SWEDEN

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

### Policy priorities

#### **Reform sickness and disability benefit schemes**

**Challenge and recommendations:** To reduce sickness absences, it was recommended that a time limit be put on access to disability benefits (with regular re-assessment) and the powers of the national agency over local boards be strengthened to ensure that existing policies are implemented as intended.

**Actions taken:** Local social insurance offices have been turned into government agencies, which should improve implementation. Since 2005, part of sickness benefits is financed by employers. However, the disability benefit level has been increased.

#### **Reduce the scope of public ownership**

**Challenge and recommendations:** To strengthen competition, it was recommended that competition law be applied to the public sector; the opportunities for private firms to seek redress through the courts be increased; the sorts of activities that local governments can legitimately be involved in be clarified, and a level playing field be ensured; and the public procurement supervisory agencies be streamlined and strengthened and given power to enforce sanctions.

**Actions taken:** No recent action.

#### **Reduce tax wedges on labour income**

**Challenge and recommendations:** To boost labour supply and human capital development, cutting overall marginal income tax rates by raising the threshold for the state tax, broadening tax bases by restoring and then increasing the property tax, and removing exemptions from the VAT were all recommended.

**Actions taken:** Half of the fourth step of the earlier-decided multi-year programme to provide deductibility for employee pension contributions has been implemented. Further “green” tax shifts have been introduced, involving higher basic allowances for low and middle income earners along with lower social insurance contributions for employers to compensate for higher environmental taxes. As the last step in a multi-year programme, marginal and average income tax rates have been reduced in 2006, in particular for low- and middle-income earners.

#### **Boost working hours**

**Challenge and recommendations:** Greater labour supply is needed in order to ensure that the welfare system will be sustainable in the long term. It was recommended that plans to introduce a legal right to a year of sabbatical leave and the pilot scheme for lower hours (25% fewer hours with no loss of pay) be reconsidered.

**Actions taken:** The sabbatical leave scheme and the pilot scheme for lower hours were introduced on 1 January 2005. However, the adverse impact of this scheme on labour utilisation will be offset in part by a new employment package promoting both labour supply and demand (via training and bonuses for jobs in municipalities).

#### **Liberalise the housing market**

**Challenge and recommendations:** To reduce distortions that have broken the link between supply and demand, it was recommended that rent controls be phased out and planning restrictions eased.

**Actions taken:** Measures are under way to increase transparency in allocation of rented apartments, and government guarantees to help young people rent apartments are being considered. A government-commissioned review of the role of social housing is to report in 2007. But no action has been taken to ease rent controls.