

SWEDEN

Convergence of GDP per capita has resumed in recent years, but the gap with the best performing countries remains somewhat larger than before the 1990s crisis, because of lower labour utilisation and productivity.

Policy priorities

Reduce marginal taxes on labour income

Challenge and recommendations: Social security contributions and income taxes combine to a marginal rate above 60%, even for incomes modestly above average full-time earnings. To reduce distortions to hours worked, effort and human capital formation, it was recommended that the threshold from where the state income tax is paid be raised or its rate reduced, and that this be financed by spending cuts, elimination of some tax exemptions and higher real-estate taxes.

Actions taken: The in-work tax credit, introduced in January 2007, will be increased by a fifth in 2008 (to 1.5% of GDP), reducing marginal tax rates slightly for lower and middle income groups. No specific initiatives have so far been announced on the state income tax.

Reform sickness and disability benefit schemes

Challenge and recommendations: To bring down the extent of sickness absence from work and the number of disability pensioners, it was recommended to continue efforts to enforce implementation of tighter rules by local insurance offices. It was also recommended that a time limit on receipt of disability benefits be introduced, with subsequent renewal subject to re-assessment of rehabilitation options.

Actions taken: A comprehensive reform programme for sickness and disability benefits was announced in September 2007. It includes a one-year time limit on sickness benefits, stricter rules for qualifying for sickness and disability benefits, measures to ensure swifter administration and measures to increase the incentives to work for people receiving disability benefits. Measures to combat over-use and fraud are also being prioritised.

Reform employment protection legislation

Challenge and recommendations: To stimulate labour mobility and entrepreneurship, it was recommended to reconsider those elements of employment protection legislation that are most likely to hinder business formation and flexibility. Moreover, the strict criteria for fair dismissal under regular contracts makes it risky to hire immigrants and others whose capabilities can be difficult to gauge.

Actions taken: From 2007, temporary contracts can be made for up to 24 months compared with 12 months previously. No action has been taken on regular contracts.

Encourage students to start and complete tertiary education earlier

Challenge and recommendations: To increase the supply of skilled labour and the efficiency of the education system, it was recommended to reduce the average age at which students begin tertiary education and speed up completion. This should be achieved by reforming admission rules, phasing out fiscal subsidies for overly-long course durations and developing tuition charges and loans for tertiary education.

Actions taken: The admission rules will change in 2008 and 2010, focusing on increasing the direct transition of students from upper-secondary school to higher education, stimulating student performance in upper-secondary school and reducing incentives to repeat courses in, for example, adult education.

Reform housing policies to reduce distortions and facilitate labour mobility

Challenge and recommendations: Starting from a highly regulated housing market, it was recommended to allow rents to be determined by market conditions, in particular for private rental housing, increase competition in the construction sector and improve the land planning process.

Actions taken: Subsidies for rental housing were cut in 2007. No national measures have been taken to ease regulations of rent setting, construction sector competition or land planning.