

# Summary

## Key messages

- Sweden's strong economic performance and impressive productivity gains since the mid 1990s may not be sustainable over the long term, given the pressures of an ageing society. To fully reap the benefits of globalisation, and reduce the risk of job flight, a comprehensive policy response is required. Its ambitious public policy goals, including high standards of public welfare and social cohesion, could be at risk if reforms are not undertaken to further strengthen the foundations for economic growth. Sweden should not wait for a crisis of the kind that developed in the early 1990s to carry out reforms. The roots of that crisis were partly due to policy mistakes, and a failure to tackle structural issues properly in time.
- A fundamental change in policy and governance is not appropriate or necessary, but three issues require attention: the need to address labour market issues and especially the need to boost job creation, improve labour market flexibility and reduce the relatively high inactivity levels; the need to improve the management and performance of public sector service provision; and the need to develop a more resilient economy based on a stronger service sector and a greater contribution by entrepreneurs.
- Local levels of government will need to play a key role in tackling these issues. If the goals of a strong economy and high quality public services are to be sustained, this part of government cannot be neglected. Local authorities are particularly well placed to improve public sector service provision and to promote entrepreneurship. They also play an important role in meeting environmental goals.
- Sweden's high standards of environmental protection raise growing challenges, including how to take these forward in the EU context, and finding the best way to balance high standards and significant regulation with the cost to business. Although Sweden appears generally competent and innovative in this field of regulation, effective regulation of this complex sector has to be viewed as a continuous "work in progress".
- Sweden's capacities for carrying out necessary reforms and securing an effective regulatory framework in support of its goals need to be enhanced. Its current regulatory framework does not match best international practice in important respects. Three issues stand out. First, a process or structure is needed to promote a strategic reform vision. Second, there is a need to address issues arising from a complex and bureaucratic agency structure, notably its impact on local government efficiency. Third and not least, there is no framework or forum that systematically brings together the central and local levels of government to manage issues and build a common purpose.

SUMMARY

---

---

*Sweden has a generally successful, well managed economy, which has been skilfully piloted out of a major crisis*

---

Sweden's economy has made a remarkable recovery from the major crisis of the early 1990s. The crisis triggered a wide ranging policy response, including the deregulation of a wide range of product markets, often ahead of other OECD countries. Accession to the EU in 1995 was also a major step. The upswing has been sustained since then. Sweden's GDP per capita is above the euro area average. Key factors behind this performance are:

- Impressive productivity growth, helped by policy reforms which have supported structural change in the economy including the emergence of high growth sectors such as telecommunications. A better quality labour force has also helped. The ICT industry has become the flagship of the Swedish corporate sector, but other specialist sectors such as car manufacturing and pharmaceuticals are also thriving.
- A strong policy of market openness that is linked to a high level of international trade. Sweden is a small open economy with large and successful export industries. International commerce has grown significantly faster than the national economy. The OECD's indicators of barriers to trade show that Sweden is more open than many other OECD countries.
- A highly credible monetary policy, and a financial sector which helps to underpin the economy.

Not all factors affecting Swedish performance are so positive. Flexibility in the labour market and entrepreneurial culture are major issues. Overall economic performance remains surpassed by a number of OECD countries, particularly outside Europe.

---

*Regulatory reform made a significant contribution to the turnaround of the economy*

---

Regulatory reform was a significant factor behind the resurgence of the economy following the early 1990s crisis. Product market deregulation was tackled quite vigorously, and the competition law strengthened. This delivered a considerable productivity "dividend". Empirical evidence gathered by the OECD suggests that deregulation since 1988 has directly added 0.45% to annual productivity growth, and more if indirect effects are taken into account. Another important area is market openness. Substantial efforts have been and continue to be made to minimise regulatory burdens on companies engaged in international trade.

There is considerable potential for building on this success. Competition remains below average in some important parts of the economy, such as the construction sector and food retailing. The infrastructure sectors offer a mixed picture, with some sectors such as electricity in need of renewed attention, and others such as aviation and the railways still very much a "work in progress". Public procurement is in need of reform, even if it is to a large extent governed by EC-Directives, with limited scope for reform in a single member state. Not least, Sweden has a relatively high level of labour market legislation, higher than the OECD average and higher than the other Nordic countries. Efforts to promote competition in the public sector remain insufficient.

Although Sweden now has a relatively robust competition agency, with a strong public presence, there are a number of areas for improvement including the need for stronger powers and greater independence.

---

*A strong emphasis on high standards of social welfare, and a governance framework with strong and distinctive traditions*

---

Economic success, which has enabled Sweden to develop and maintain high levels of social welfare, remains an essential support for the achievement of social goals. These include economic security including full employment, and equality through the reduction of income differences and the mitigation of poverty, as well as homogeneity of living conditions throughout the country. Swedish ambitions for a high quality environment have also grown steadily.

Swedish governance has developed around a strong and pervasive role for the state as guardian of society, and a large tax-financed public sector, reflecting citizens' traditional willingness to pay for quality social services through taxation. The welfare system is extensive and generous. Public ownership and production are substantial. Sweden is also distinguished by a political and societal culture which is particularly strong on transparency and integrity, reflected in the fact that consensus building is the cornerstone of decision making. Other important features of Swedish governance include a clear distinction between strategic policy-making and implementation, reflected in the institutional and rule-making structure which puts considerable responsibilities on a large number of implementing agencies, and a strong role for local government in the implementation of nationwide policies.

Some of these governance characteristics raise challenges for further reform, such as the consensus building traditions which have an impact on the timing of decision making. The importance of local government needs to be taken into account in order to secure a shared understanding of common goals between the different levels of government.

---

*The challenge of sustaining a strong economy: the demographic burden, pressure on growth, and implications for the generous welfare system*

---

Sweden's core challenge is to ensure that the current strong economic performance can be sustained so that its ambitious social goals and welfare system can be maintained, against a background of increasing demand for higher standards, especially in public services. Although important steps have been taken to counter the impact of an ageing population, Sweden's own statistics show that over the next 35 years the proportion of the population aged over 65 will increase by almost 40%, and the ratio of those over 65 to the working age population will peak at around 40%. The direct effect of these changes on labour supply can be expected to slow the rate of growth of GDP per capita.

---

*The core targets for improving performance: addressing challenges in the labour market, and securing the sustainability of public finances*

---

The Swedish labour market faces certain challenges despite a generally high employment rate. Labour market constraints are already an important issue. Specific issues include a total labour supply which is only average in international comparison; a relatively high incidence of sick leave and disability benefits; limited job creation in response to economic growth; room for improvement in the employment rate; and low labour market flexibility.

SUMMARY

---

Although public finances are in relatively good shape compared with most other OECD countries, there is a major challenge ahead with the ageing population. Preparations to meet this challenge such as the 1999 pension reform and the fiscal surplus target need to be followed through. Complementary measures to meet possibly higher than expected public expenditure should be considered. One way to contain public expenditure is to make the provision of public services more efficient.

---

*The contribution which can be made by regulatory reform: improving the performance of the public sector*

---

Regulatory reform can promote a more efficient public sector by introducing competition in the provision of public services. Outsourcing via public procurement is one way of introducing greater competition. Sweden has adopted the EC Directive on public procurement, but it has proved difficult to ensure full compliance with their requirements, notably the legal remedies prescribed. Further work on implementation of the Remedies Directive is currently under way. Rules in the legislative and institutional framework set by EC Directives that may prove burdensome for some companies as well as reluctance by some municipalities and state institutions to change the way they operate and put activities out to tender, appear to hamper progress in this area.

Rationalising public sector activities in competitive markets also needs attention. Public sector entities show a growing tendency to operate in areas where private companies already exist either at the national or at the local level. This distorts the competitive playing field and impedes the creation of new small firms. Part of the explanation lies in state ownership of companies that were previously monopolies and now operate in liberalised markets. However policies to even out regional differences appear to be encouraging government agencies and municipalities into new ventures. A number of reports have challenged this practice, but firm action, such as addressing gaps in the Competition Act to tackle anti competitive behaviour by state entities, has not yet been taken.

---

*The contribution of regulatory reform: improving economic resilience by encouraging entrepreneurship and strengthening key sectors*

---

The economy currently depends fairly heavily on large companies, including an ICT sector that must counter the effects on its competitiveness of a decline in prices over time. The service sector, although it has been growing, remains small by OECD standards and linked to this, entrepreneurial activity is relatively muted, limiting the potential number of new jobs. A more dynamic structure would boost resilience to unpredictable shocks as well as help to create additional jobs and meet predictable future demands on the economy.

Regulatory reform can help promote structural change to improve the economy's dynamism and resilience, and to lift job creation prospects. SMEs have an important role as drivers of business development and as suppliers of new jobs, but an effective policy framework for the development of entrepreneurship in Sweden is not yet in place. Broad policy issues that hold back progress include a lack of competition in the public sector, low venture capital availability, and employment protection legislation. Although Sweden is among the better OECD countries for its efforts at reducing administrative burdens, these

burdens do not seem to be fully controlled, and a more systematic approach is needed. Lack of information about the extent and source of administrative burdens hampers progress, and makes it hard to raise the political profile of the issue. The role of local government in burden reduction has also been overlooked. The setting up of a new body in charge of reducing administrative burdens in 2006 may help in the future.

A more resilient economy calls for improving and updating the regulatory framework for important sectors. Sectors such as food retailing and housing need to operate within a regulatory framework that supports competition and in the case of housing, mobility, which is not yet the case. The infrastructure sectors are often subject to rapid change, and their regulatory frameworks need regular review. Specifically, the regulatory framework for telecommunications needs updating to sustain a high performance, and issues in the electricity market need to be addressed to boost performance.

---

### *The essential role of local governments*

---

Swedish counties and municipalities have important delegated tasks across a wide range of public services, as well as a central role in planning and licensing. They are thus key actors in policies aimed at improving public sector efficiency and stimulating entrepreneurship. Important areas for attention at this level are procurement; the provision of services by local government entities in often competitive markets (or ones that should be competitive); and the promotion of entrepreneurship, not least through review of permit and planning processes which are often slow and may benefit from stronger competition.

Ensuring that these levels of government are helping the attainment of social and economic policy goals is an issue for urgent attention. The principle of local autonomy to tailor actions to local conditions needs to be reconciled with the expectation of homogeneity of living conditions across the country. Reaching a shared understanding of objectives at all levels of government remains a challenge and requires an effective management of corresponding trade-offs.

---

### *The importance of meeting environmental goals efficiently*

---

Sweden's Environmental Code and Environmental Quality Objectives have established an innovative regulatory framework which promotes collaboration across all policy areas and levels of government. However attachment to high standards of environmental protection raises some challenges. This includes how to take these forward in the EU context and finding a way to balance high standards and stringent regulation against business sector costs, whether this is the competitiveness of large firms in international markets, or the burdens of SMEs at home. The cost of environmental regulation is a particular issue for SMEs, which would be helped by the application of an effective RIA process. Meeting environmental goals usually affects a large range of other policies, placing a premium on policy co-ordination, and managing trade-offs is a delicate task. Although Sweden appears quite innovative from an international perspective, effective regulation of this complex sector remains a challenging task.

---

**SUMMARY**

---

---

*Taking account of the EU in regulatory policy*

---

EU accession had a strong impact on the regulatory framework, boosting competition in some markets. Accession opened the EU's Single Market fully to Swedish companies, and has given Sweden the opportunity to influence EU-wide developments. Some EU legislation such as the transparency directive which addresses state subsidies has also been a positive addition to Swedish policy and regulation. The EU has been a positive force for the development of Swedish competition law and policy.

EU accession has also, however, affected important Swedish traditions of consensus building and accountability. Time for consultation is limited, for example. Management of EU regulatory processes needs to be adequately resourced, within the framework of an overall strategy which identifies the most important issues. Local government is often a key stakeholder, but needs to be more involved in these processes. Special care is needed in the transposition of EU law to ensure that it does not add to existing regulatory burdens (it is estimated that 44% of such burdens stem from EU legislation). Finally, developing and applying specific tactics for issues that are especially important can be very effective, as Sweden has demonstrated, for example, in the area of acid rain.

---

*The tools for effective reform and regulation also need attention*

---

The most important tool is Regulatory Impact Analysis, which needs further development. Assessed against international best practice, Swedish RIA shows a number of gaps, and responsibilities for its management are fragmented, which may result in a lack of commitment to the process. Benchmarking (regulatory practices, competition between firms, or international benchmarking) is another potentially powerful tool, and opportunities to apply it should be pursued, especially at local government level. Sweden already does well at meeting environmental goals through the creative design and application of effective tools such as the refunded emission payment to reduce NO<sub>x</sub> emissions, and these efforts need to be sustained.

---

*Moving forward: creating a momentum for reform*

---

Although the number of recent reports issued in Sweden suggest that awareness of the need for action is high, consensus seems hard to establish on reform issues. This is particularly the case for increasingly sensitive issues such as public procurement and health care. The absence of a major crisis also means there is no strong spur to action. A process or structure additional to traditional ones may be needed to boost reform, promoting a strategic reform vision and helping to establish consensus on important issues. Communication of this vision should not be neglected. Because of strongly rooted transparency and consensus making traditions, reforms that are tackled through public debate in Sweden are more likely to gain support.

---

### *Strengthening capacities for reform: institutions and tools*

---

Sweden's institutional capacities for reform need development across a number of fronts:

- Tackling the issue of rule making in stovepipes, which impacts transparency, accountability and efficiency. Sweden has a strong tradition of autonomous action for the different parts of government. Co-ordinating mechanisms are important, but there is also a need for rationalisation. Agencies are responsible for the largest part of the Swedish regulatory system, and streamlining the large and growing number of agencies would reduce complexity, particularly co-ordinating their impact at the local level.
- Developing a stronger focal point for regulatory policy within government. Although there has been a steady flow of technical developments in Swedish regulatory policies, and particular attention to the needs of SMEs, this does not yet amount to a comprehensive and coherent regulatory policy. Regulatory policy is dispersed across several institutions, including agencies, which makes it hard to manage major reforms that involve a large number of potentially powerful players. For example, improving the performance of the public sector is a very broad institutional challenge.
- Addressing the issue of co-ordination between national and local levels of government, which currently undermines capacities to meet public policy goals. There is no framework or forum yet in place that systematically brings together the central and local levels of government to manage issues and build a common purpose, which is unusual relative to other similar OECD countries. There may be a tendency to over regulate local governments, with a need to move further to agree on shared objectives.
- Capitalising on the role of Parliament and the National Audit Office in promoting reform. Both institutions have played an important role in recent times drawing attention to reform issues such as competition between the public and private sector, and pushing for action.
- Strengthening the contribution to pro-competitive reform that can be made by the competition authority. Experience with the current framework reveals the need for improvements. The Competition Authority appears to need enhanced skills and competencies, more independence, and stronger enforcement.
- Reviewing the capacities of independent regulators. Although the agency model which has been adopted for Swedish regulators secures a certain independence from ministries, it falls short of international best practice in some respects, including the lack of sanctions, an unclear relationship with the Competition Authority, and a relative lack of transparency and independent status which would give regulators more clout in dealing with ex monopolies.