

SWEDEN

Convergence of GDP per capita has resumed but gaps with the best performing countries remain, both with respect to labour utilisation and productivity.

Priorities supported by indicators

Reduce marginal taxes on labour income

Social security contributions and income taxes combine to a marginal rate above 60%, even for incomes modestly above average full-time earnings. As a result, incentives to increase working hours are weak.

Actions taken: An in-work tax credit worth over 1¼ per cent of GDP was introduced from January 2007, making work more rewarding relative to unemployment or inactivity. This also reduces marginal tax rates for low- and middle-income earners.

Recommendations: Bring down marginal income tax rates for above-average incomes by raising the threshold from where the state income tax is paid or reducing its rate. This could be financed by expenditure cuts, elimination of some tax exemptions and increasing real estate taxes.

Reform sickness and disability benefit schemes

Sickness absence from work and the number of disability pensioners increased rapidly from the late 1990s. The numbers are now falling but remain among the highest in the OECD.

Actions taken: From 2007, the sickness benefit ceiling has been lowered and employers' contributions will be waived for hiring someone who has been out of work for more than a year, including when this has been due to sickness or disability. However, employers' co-financing of sickness benefits has been scaled back. Lay assessors will be abolished, assessment of diffuse symptoms improved and measures to combat over-use and fraud introduced.

Recommendations: Continue to improve administration in local social insurance offices, where implementation of tighter rules has not always been enforced. Introduce a time limit on receipt of disability benefits with subsequent renewal subject to re-assessment of rehabilitation options.

Reform employment protection legislation

Overly strict employment protection rules tend to preserve existing work organisational patterns by reducing staff turnover. Combined with administrative burdens and high taxes, such rules may also discourage people from leaving a safe job to start a new firm and hold back innovation.

Actions taken: Firms with fewer than ten employees have been exempted from certain elements of employment protection legislation and, from 2007, a new form of temporary contract is being introduced.

Recommendations: Reconsider those elements of employment protection legislation that are most likely to hinder business formation and flexibility.

Other key priorities

- Reduce the average age at which students begin tertiary education and speed up completion to raise the efficiency of the education system and increase the supply of skilled labour. Reform admission rules and phase out fiscal subsidies for overly-long course durations. Develop a system of tuition charging and loans for tertiary education to encourage completion.
- Reform housing policies to improve the allocation of resources and enhance labour mobility. 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.