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OECD Economic Surveys: Sweden 2017

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This Survey is published on the responsibility of the Economic and Development Review Committee (EDRC) of the OECD, which is charged with the examination of the economic situation of member countries.

The economic situation and policies of Sweden were reviewed by the Committee on 5 December 2016. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 5 January 2017.

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BASIC STATISTICS OF SWEDEN, 2015

(Numbers in parentheses refer to the OECD)

LAND AND PEOPLE					
Population (millions)	9.8	(1 283.0)	Population density per km²	21.9	(35.4)
Under 15 (%)	17.3	(18.1)	Life expectancy (years, 2014)	81.9	(80.1)
Over 65 (%)	19.9	(16.2)	Men	80.2	(77.5)
Foreign-born (%)	16.4	(11.1)	Women	83.8	(82.8)
Latest 5-year average growth (%)	0.9	(0.6)	Latest general election	14th September 2014	
ECONOMY					
Gross domestic product			Value added shares (% , 2014)		
In current prices (billion USD)	492.6	(45 865.0)	Primary	1.4	(1.6)
Latest 5-year average growth (%)	2.0	(1.6)	Industry including construction	26.0	(24.2)
Per capita (thousand USD PPP)	46.4	(39.7)	Services	72.6	(74.1)
GENERAL GOVERNMENT					
Expenditure (% of GDP)	50.3	(41.9)	General government gross debt (% of GDP, 2014)	45.2	(115.9)
Revenue (% of GDP)	50.5	(39.0)	General government net debt (% of GDP, 2014)	-28.5	(76.1)
EXTERNAL ACCOUNTS					
Exchange rate (SEK per USD)	8.44		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	9.13		Road vehicles	11.1	
In per cent of GDP			General industrial machines	6.5	
Exports of goods and services	45.6	(24.9)	Paper, paperboard	6.3	
Imports of goods and services	40.8	(24.7)	Main imports (% of total merchandise imports)		
Current account balance	5.2	(0.1)	Road vehicles	11.0	
Net international transfers	-1.8	(-0.7)	Petroleum, petroleum products	8.8	
Balance of income	2.3	(0.5)	Telecommunication, sound equipment	6.3	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate for 15-64 year-olds (%)	75.5	(66.3)	Unemployment rate, Labour Force Survey (15-64 year-olds) (%)	7.6	(7.0)
Men	77.0	(74.2)	Youth (age 15-24) (%)	20.3	(14.0)
Women	74.0	(58.6)	Long-term unemployed (1 year and over) (% of unemployed)	0.2	(34.1)
Participation rate for 15-64 year-olds (%)	81.7	(71.3)	Tertiary educational attainment 25+ year-olds (%)	40.0	(35.0)
Average hours worked per year	1 612	(1 766)	Gross domestic expenditure on R&D (% of GDP, 2014)	3.2	(2.4)
ENVIRONMENT					
Total primary energy supply per capita (toe)	5.1	(4.1)	CO ₂ emissions from fuel combustion per capita (tonnes, 2013)	3.8	(9.4)
Renewables (% of TPES)	46.9	(9.6)	Water abstractions per capita (m³ per capita, 2010)	287.0	
Fine particulate matter concentration (PM2.5, µg/m3)	6.1	(14.9)	Municipal waste per capita (tonnes, 2012)	438.0	(516.0)
SOCIETY					
Income inequality (Gini coefficient, 2013)	0.281	(0.311)	Education outcomes (PISA score)		
Relative poverty rate (2013)	8.9	(11.1)	Reading	500	(493)
Share of women in parliament	45.0	(27.1)	Mathematics	494	(490)
Net official devolpment aid (% of GNI)	1.4	(0.4)	Science	493	(493)

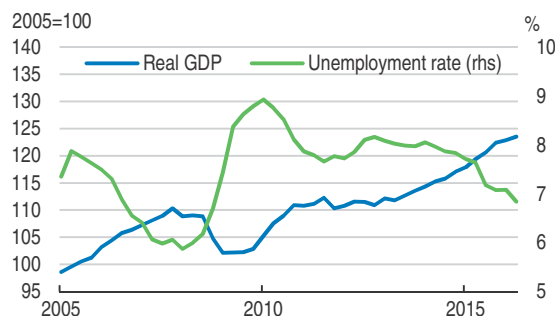
Source: Calculations based on data extracted from the databases of the following organisations: National Bureau of Statistics, OECD, International Energy Agency, World Bank and International Monetary Fund.

Executive summary

- *The economy is growing strongly*
- *The rise in income inequality needs to be contained*
- *Gender equality can be pushed further*

The economy is growing strongly

Economic growth has brought down unemployment



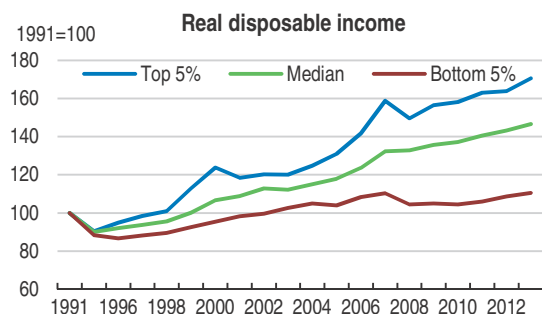
Source: OECD Economic Outlook database.

StatLink  <http://dx.doi.org/10.1787/888933446224>

Output has been lifted by an expanding labour force, investment and a recent pick-up in productivity. Unemployment is receding, although it remains relatively high for vulnerable groups, notably the foreign-born. Expansionary monetary policy is supporting growth and inflation is picking up. Macro-prudential measures have been taken to cool the housing market. Even so, prices have reached high levels, boosted by rising income, low interest rates and supply shortages.

The rise in income inequality needs to be contained

Inequalities have widened



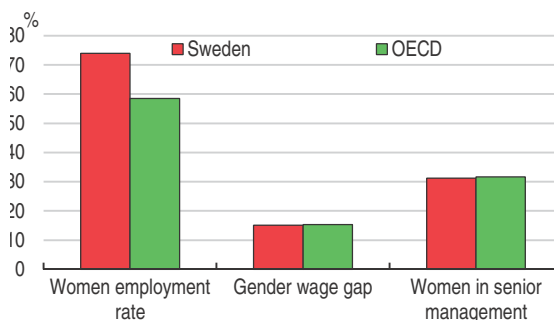
Source: Statistics Sweden.

StatLink  <http://dx.doi.org/10.1787/888933446236>

Housing market inefficiencies particularly penalise households with low income and wealth, as they are less likely to own housing, and rental regulations lower their geographical and labour market mobility. Income inequality rose more rapidly than in any other OECD country since the 1990s, albeit from a very low level. Capital gains boosted top incomes, while benefits increased more slowly than wages. High labour market entry thresholds, spatial segregation, and bottlenecks in migrant settlement reduce opportunities and social mobility. Reforms to housing, wage subsidies and migrant settlement and integration, as well as a more systematic approach to benefits uprating would raise the incomes and opportunities of the disadvantaged.

Gender equality can be pushed further

Gender wage gaps and the glass ceiling remain



Source: OECD Employment database and ILO KILM database.

StatLink  <http://dx.doi.org/10.1787/888933446244>

Sweden is one of the most gender-equal countries in the world, even though foreign-born women are lagging behind. Women have a high employment rate, outperform men in education and are well represented in government and parliament. However, gender wage differences persist: women are under-represented on private company boards, in senior management positions, in many well-paid and influential professions and among entrepreneurs. Better shared parental leaves would raise gender equality further. Fostering women entrepreneurship and promoting entry of women in senior management is also crucial.

MAIN FINDINGS	KEY RECOMMENDATIONS
Macroeconomic policies	
Despite strong output growth, inflation remains below target.	Gradually withdraw monetary stimulus as inflation rises towards the 2% target.
Fiscal policy is mildly expansionary, due to migration-related costs. Important investments are needed in education and for the integration of refugees and Sweden's low public debt provides room for manoeuvre. However, strong fiscal buffers are needed to dampen external shocks in a small open economy.	Continue to pursue prudent fiscal policy, while accommodating temporary immigration-related spending to facilitate integration.
Housing and household debt	
Macro-prudential measures, including a new mortgage amortisation requirement, have been introduced. Nevertheless, growth in household debt remains strong.	Introduce a cap on household debt-to-income ratios.
Favourable tax treatment of owner-occupied housing encourages household indebtedness and is regressive.	Reform the recurrent property tax to better align tax charges with property values. Phase out the deductibility of mortgage interest rate payments.
Inefficient land-use planning and low incentives for municipalities to encourage construction contribute to housing shortages, which reduce affordability and labour mobility.	Enhance co-operation between central and local government in land-use planning and increase incentives for municipalities to facilitate the timely release of development land. Simplify land-use planning procedures, balancing economic, environmental and social considerations.
Strict rental regulations contribute to reducing mobility, notably for low-income households, and may contribute to spatial segregation.	Ease rental regulations to incentivise rental housing supply, mobility and better utilisation of the housing stock, while maintaining tenant protection against abuse.
Income inequality and equal opportunities	
Social benefits have been uprated according to the CPI or on an ad hoc basis since the 1990s, gradually increasing the gap between benefits and work income.	Review annually the distributional consequences of uprating social benefits, taking equity, fiscal costs and work incentives into consideration.
Bottlenecks in migrant settlement and integration slow down labour market entry, even though the government has decided to scale up a new, collaborative approach to the settlement process and earmarked resources to address the issue.	Continue to simplify the procedures to help migrants get residence and work permits.
Multiple wage subsidy schemes with different target groups and different rules increase the administrative burden and reduce take-up.	Rationalise by merging and harmonising various wage subsidy schemes to better target the most vulnerable workers, ease the related administrative burden and increase take-up.
Gender equality	
Women take 75% of parental leaves, which affects their career prospects.	Encourage parents to split parental leave more equally by continuing to increase the share reserved for each parent.
Foreign-born women have a very low employment rate compared to natives and many of them are neither employed, nor in training or education.	Enhance active labour market policy for foreign-born women when the Introduction programme ends, to prevent them from drifting away from the labour market.

Assessment and recommendations

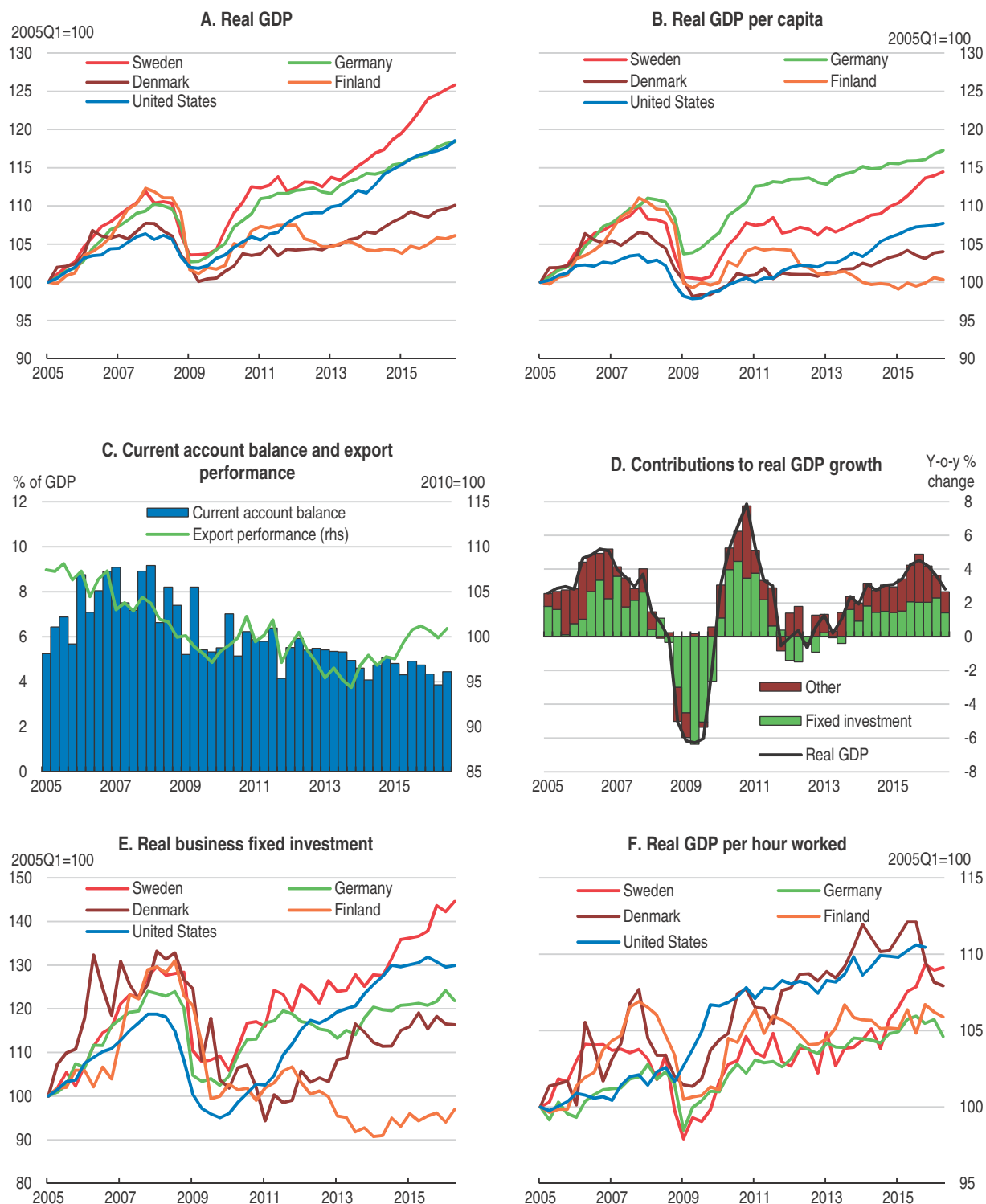
- *Inclusive and green growth fosters well-being*
- *Risks are mainly related to global economic developments*
- *Macroeconomic policies are stimulating the economy*
- *Growth is green but challenges remain*
- *Housing shortages affect economic performance and well-being*
- *Keeping income inequality low is increasingly challenging*
- *More gender equality would enhance economic performance and well-being*

Inclusive and green growth fosters well-being

Sweden weathered the global financial and economic crisis with limited damage, thanks to strong macroeconomic, fiscal and financial fundamentals, as well as a competitive and diversified business sector. Output has grown faster than in most other OECD countries over recent years (Figure 1, Panel A). Population increases, to a large part related to immigration, have contributed significantly to growth (Box 1). Even so, the country's GDP per capita has expanded faster than in most OECD countries (Panel B). Sweden's export performance has remained steady since the 2008 global downturn with large current account surpluses persisting (Panel C). In a weak global environment, growth has been primarily driven by strong domestic consumption and investment (Panel D). Although residential construction contributes heavily to the investment boom, business investment has also picked up (Panel E). This has contributed to reviving labour productivity, which is now increasing rapidly (Panel F). Growth is expected to remain solid over the coming years, even though it will slow somewhat as the economy is now operating near full capacity (Table 1).

Inclusive, sustainable and green growth over the past two decades has underpinned a high quality of life for Swedes. The country has welcomed a large number of immigrants, which have both contributed to and benefitted from economic prosperity. The foreign-born accounted for over 16% of the population in 2015, up from 10% in 1993 at the trough of the early-1990s recession. The gap in GDP per capita to the upper half of OECD countries has shrunk from about 15% in 1993 to about 5% in 2015, as a result of rising employment and strong productivity growth (OECD, 2017). At the same time, output growth has been decoupled from carbon emissions and Sweden is among the most innovative OECD countries when it comes to environment-related technologies. Inequality remains among the lowest among OECD countries but has risen fast since the 1990s. Gender inequality is low by OECD standards but persists. Inclusive green growth coupled with high well-being are clearly reflected in the various dimensions of the OECD's Better Life Index (Figure 2, Panel A), where Sweden stands out in terms of environmental quality, health, civic engagement and governance, and work and life balance. Sweden scores higher than the OECD average on all sub-components of the index, but relatively low rankings in five of the eleven sub-components (housing, social connections, jobs, education and personal security) point to possible improvements (Panel B).

The areas of relative weakness highlighted by the Better Life Index were also identified in previous OECD Economic Surveys, which pointed to problems in the operation of the housing market, rigidities in the labour market hampering access to jobs for the low-skilled, and declining educational performance (Table 2). The government has taken resolute action to address problems in education, but faces difficulties to recruit qualified teachers. Research and innovation policies are being enhanced, even though challenges remain in terms of governance, leadership and strategic vision (OECD, 2016a). Some measures have been taken to improve job prospects for low-skilled workers, but high

Figure 1. **Economic growth is robust**

Source: OECD Economic Outlook database.

StatLink <http://dx.doi.org/10.1787/888933445671>

labour market entry thresholds are still significant obstacles to hiring, particularly low-skilled immigrants. Some building subsidies and relaxation of planning rules have also been introduced, but more comprehensive reforms will be needed to significantly cut dwelling shortages in the rental markets of Stockholm, where the problem is particularly

Table 1. **Macroeconomic indicators and projections**

Annual percentage changes, volume¹

	2014	2015	2016	2017	2018
GDP	2.7	3.9	3.3	2.7	2.2
Private consumption	2.2	2.6	2.5	2.6	2.5
Government consumption	1.7	2.2	3.5	2.4	1.2
Gross fixed capital formation	5.6	6.8	7.1	3.7	3.1
Housing	15.6	15.7	15.3	7.9	4.6
Business	4.3	6.0	5.2	2.7	2.7
Government	1.6	0.7	4.9	2.1	2.6
Final domestic demand	2.8	3.5	3.9	2.8	2.3
Stockbuilding ²	0.2	0.3	0.1	0.0	0.0
Total domestic demand	3.0	3.8	4.0	2.8	2.3
Exports of goods and services	5.5	5.2	2.7	3.4	3.2
Imports of goods and services	6.5	5.0	4.5	3.5	3.5
Net exports ²	-0.2	0.3	-0.6	0.1	0.0
Other indicators (% growth rates, unless specified)					
Potential GDP	1.9	2.1	2.3	2.3	1.8
Output gap ³	-1.9	-0.2	0.7	1.2	1.5
Employment	1.4	1.4	1.3	1.1	0.7
Unemployment rate ⁴	7.9	7.4	6.9	6.7	6.7
GDP deflator	1.7	2.1	1.2	1.8	2.2
CPI	-0.2	0.0	0.9	1.5	2.0
CPIF ⁵	0.5	0.9	1.4	1.6	1.9
Household saving ratio, net ⁶	15.9	16.4	17.8	17.3	16.8
Trade balance ⁷	4.3	4.8	4.1	4.2	4.3
Current account balance ⁷	4.6	5.2	4.8	4.8	4.9
General government financial balance ⁷	-1.6	0.2	0.2	-0.1	0.1
Underlying government net lending ³	-0.3	0.2	-0.3	-0.8	-0.9
Underlying government primary balance ³	-0.2	0.1	-0.5	-1.0	-1.1
Gross government debt (Maastricht) ⁷	45.2	43.9	43.0	41.7	40.2
General government net debt ⁷	-28.5	-27.7	-26.6	-25.4	-24.4
Three-month money market rate, average	0.7	-0.2	-0.5	-0.5	-0.1
Ten-year government bond yield, average	1.7	0.7	0.5	0.5	0.8

1. Annual data are derived from quarterly seasonally and working-day adjusted figures.

2. Contribution to changes in real GDP.

3. As a percentage of potential GDP.

4. As a percentage of labour force.

5. CPI with a fixed mortgage interest rate.

6. As a percentage of household disposable income.

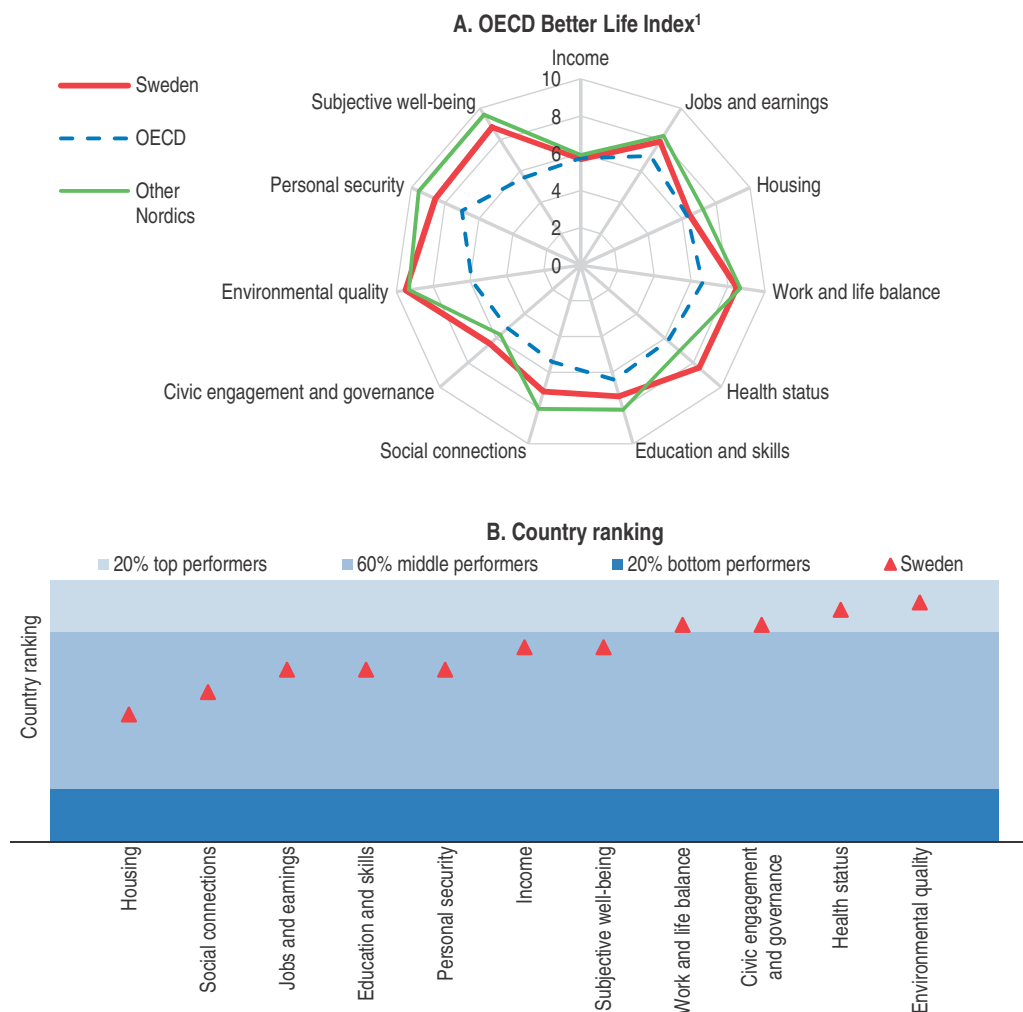
7. As a percentage of GDP.

Source: OECD Economic Outlook 100.

acute, and of other major cities (Figure 3). Unfortunately, a recent government initiative to gather cross-party agreement on some housing market reforms ended in failure. Against this background, the key economic policy priorities should be to:

- Initiate a comprehensive housing market reform.
- Support the integration of immigrants to raise long-term growth and strengthen social cohesion.
- Foster more inclusive growth through policies promoting income and gender equality.

Figure 2. **Swedes enjoy a high quality of life**



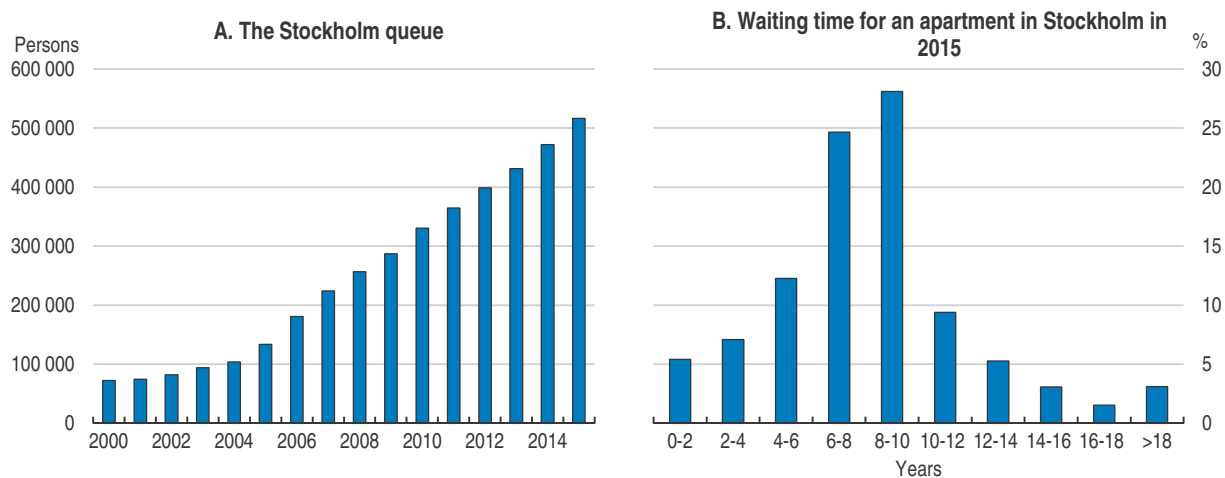
1. Each well-being dimension is measured by indicators from the OECD Better Life Indicator set. Indicators are normalised to range between 0 (worst) and 10 (best).

Source: OECD Better Life Index database 2016.

StatLink  <http://dx.doi.org/10.1787/888933445681>

Table 2. **A number of earlier OECD recommendations have been followed**

Earlier OECD recommendations	Action taken since March 2015 or planned
Macroeconomic policy (2015): Maintain expansionary monetary policy until inflation is clearly picking up. Maintain prudent fiscal policy and let automatic stabilisers work.	As inflation remained weak, the Riksbank moved the repo rate into negative territory and implemented quantitative easing. Fiscal policy has been counter-cyclical over recent years, but is turning mildly expansionary because of substantial extra immigration-related expenditure.
Financial stability (2015): Continue to implement macro-prudential policies to contain the risks related to rising household debt. Consider phasing out mortgage interest deductibility.	The countercyclical bank capital buffer has been raised to 2% of risk-weighted capital and an amortisation requirement for mortgages has been introduced. No action has been taken on mortgage interest deductibility.
Education and skills (2015): Raise the attractiveness of teaching by increasing monetary incentives, offer clearer career paths, and improve teacher education; increase support for struggling students, including immigrants, through early intervention and targeting resources based on socio-economic background; enhance support and incentives for immigrants to learn Swedish; consider consolidating existing institutions in charge of advising on and supervising education policies into an education policy council.	The education system has received an additional SEK 8.3bn (about 0.2% of GDP) in 2016 to enhance the attractiveness of the teaching profession, notably through salary increases, and to promote early intervention and equity. Special resources have been channelled to schools with low learning outcomes. Swedish for Immigrants (SFI) has been reformed and steps are taken to enable asylum seekers to begin learning Swedish earlier.
Labour market (2015): Reduce the gap in employment protection between permanent and temporary contracts and increase flexibility in entry level wages.	The government favours lowering labour costs for low-skilled workers through subsidies. The subsidy system will be simplified to increase take-up. Employment protection remains strong for permanent contracts.
Housing market (2012, 2015): Streamline land-use planning and zoning regulations and increase incentives for municipalities to release land; phase out rent controls so as to more closely align rents with market values.	In 2015, the government has pledged to work with municipalities to improve the efficiency of land-use planning and regulations. It is reinforcing incentives for municipalities to encourage construction, notably through increased financing for related infrastructure. No action is taken to ease rent controls.
Growth, entrepreneurship, innovation and R&D (2015): Simplify regulatory procedures, in particular regarding licences and permits; invest to improve the quality of roads and rail, with careful consideration of social returns; continue to broaden support for innovation and enhance co-ordination of innovation and research policies.	Starting a business has become easier, as the company registry is now required to register a company in five days. The Government is making major investments in infrastructure, road and railway maintenance, and public transport. Innovation and research policy is being gradually strengthened, but governance, leadership and strategic vision need further improvement.
Climate change mitigation (2011): Continue to gradually phase out exemptions to the carbon tax; clarify the role and the expected costs and benefits of the long-term priority to have a fossil-fuel independent vehicle fleet by 2030.	Climate change is the government's top environmental priority. Many exemptions from energy and CO ₂ taxes have been reduced or removed; the largest remaining tax expenditure is the favourable tax treatment of diesel used in transport. Cost-benefit analysis is still lacking.

Figure 3. **The shortage of rental housing is acute in Stockholm**

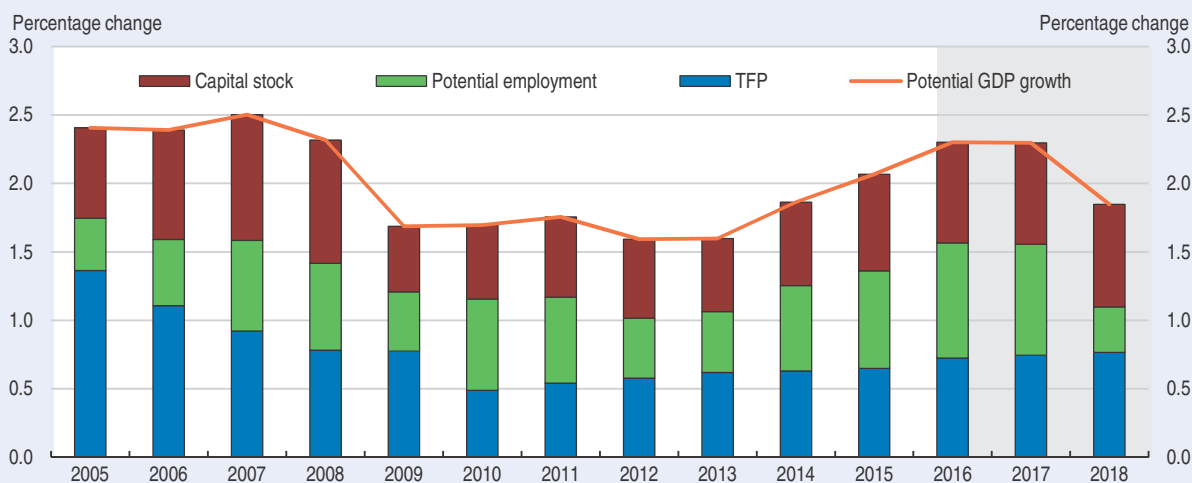
Source: Stockholm Housing Agency.

StatLink  <http://dx.doi.org/10.1787/888933445694>

Box 1. Contributions to potential output growth

Potential GDP is boosted by strong potential employment growth, capital deepening and rising total factor productivity (TFP) (Figure 4). Potential employment rises as working-age population grows, largely through immigration, and labour force participation increases. It currently contributes about one percentage point to annual potential GDP growth, but is expected to slow from 2018. While the contribution of the capital stock to growth had fallen in the wake of the 2008 global downturn, it has been lifted again by the recovery in fixed investment over the past few years. The global fall in TFP growth since the turn of the century has not spared Sweden (OECD *Economic Survey of Sweden* 2015). Productivity growth declined in the wake of the global financial crisis of 2008, partly as a result of labour hoarding and reduced investment. However, high competitiveness due to strong integration in global value chains and the ability to supply high-value services, as well as a pick-up in business investment, has pushed up TFP, which is expected to contribute significantly to growth over the coming years. TFP is affected by global trends in technology, but also by research and innovation policies and the impact of framework policies on the allocation of resources towards their most productive uses (OECD, 2015a). Given the rapid expansion of the labour force, skills development and labour market matching will have a decisive impact on productivity growth going forward. Recent research shows that skill mismatch is associated with lower productivity across OECD countries (Adalet McGowan and Andrews, 2015).

Figure 4. Labour, capital and productivity all contribute to growth

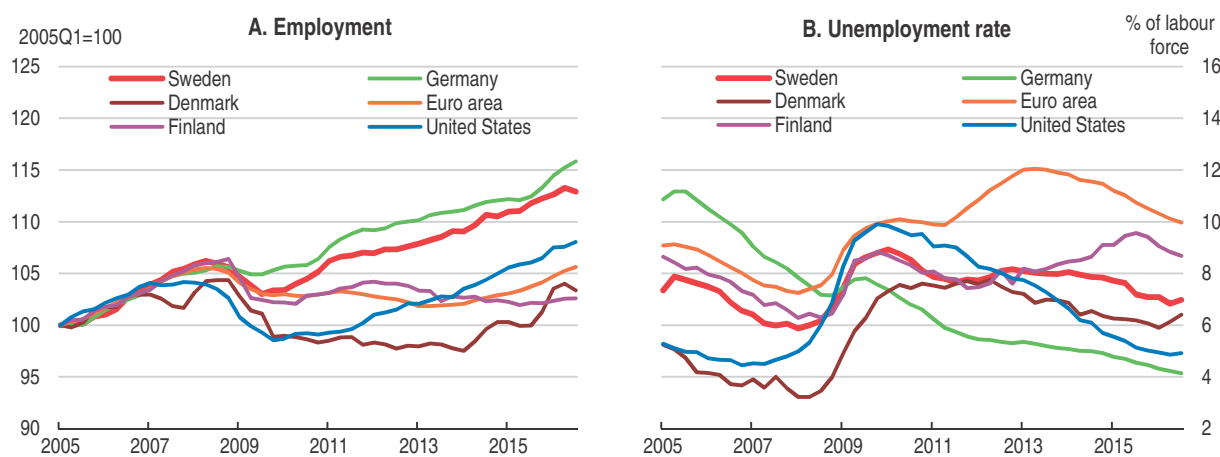


Source: OECD Economic Outlook database.

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Employment has increased more rapidly than in most OECD countries over recent years (Figure 5, Panel A). The unemployment rate has receded and is now around 7% (Panel B). Shortages of workers are appearing in some sectors, like construction, education and municipal services. The unemployment rate is now estimated to be below the structural unemployment rate, which is estimated at around 7.5%. The relatively high structural unemployment rate reflects high labour force participation and mismatches between labour supply and demand. Low-skilled workers, especially immigrants, face difficulties finding jobs, reflecting high skills requirements for most jobs in Sweden. Indeed, despite strong output growth, unemployment is increasing among some vulnerable groups, in particular immigrants and the low-skilled (Figure 6, Panel A) (OECD,

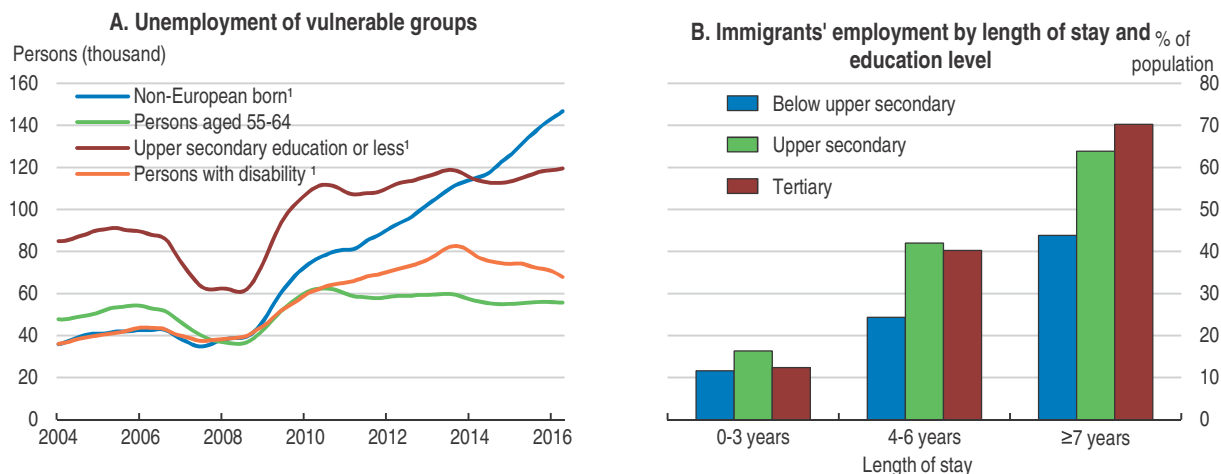
Figure 5. **Unemployment is declining**



Source: OECD Economic Outlook database.

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Figure 6. **Some groups are struggling to access employment**



1. Aged 16-64.

Source: Statistics Sweden and Swedish Public Employment Agency.

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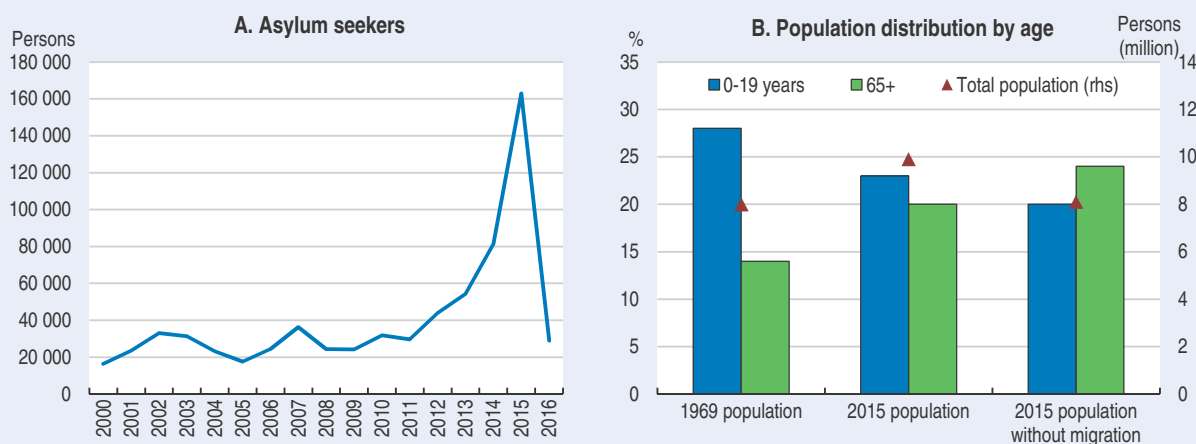
2016b). Reducing unemployment further will require increasing employment in vulnerable groups, and the government is taking steps to achieve this goal by, inter alia, investing in education and training and improving job matching policies, with a focus on those who are furthest from the labour market. Nevertheless, meeting the government objective of achieving the lowest unemployment rate in the European Union by 2020 is made even more difficult by the inclusion of many full-time students in Swedish unemployment statistics and large recent inflows of refugees (Box 2).

Box 2. Immigration and population structure

Inflows of asylum seekers relative to the population have been the highest in the OECD in the latest years. About 160 000 asylum seekers reached Sweden in 2015 (Figure 7, Panel A). However, the inflow decreased to around 30 000 asylum seekers in 2016, which is close to inflows prevailing before the Syrian crisis. The share of foreign born in Sweden has risen from 7.5% in 1980 to over 16% in 2015. The composition of the migrant population in Sweden has changed from mainly Nordic work migrants working in the manufacturing industry in the 1980s towards largely humanitarian and family reunion migrants. Estimates suggest that about half of the current foreign-born population originally came to Sweden as refugees or as the family of refugees (Statistics Sweden, 2016; OECD, 2016c). Over recent years, a large number (more than 35 000 in 2015) of unaccompanied minor asylum seekers, whose integration is challenging, arrived to Sweden. To spread the burden more evenly across municipalities, a new assignment model is being designed. The government is also increasing funding for the reception of unaccompanied minors and reviewing the compensation system for municipalities receiving unaccompanied minors.

Integrating a large inflow of immigrants is a great challenge for education, skills, labour market and social policies. However, migration also gives a welcome boost to the demographic structure of Sweden's population. Without migration, the population size would have stagnated at its 1969 level of 8 million, instead of increasing to 10 million currently. Migration has also contributed to a younger population directly, as many migrants are in the age-group 20-35, and indirectly through childbirth. Without migration, older people would represent a much greater share of the population and the youth a much smaller share (Panel B; Statistics Sweden, 2016).

Figure 7. Migration rejuvenates the population



Source: Statistics Sweden and Swedish Migration Agency.

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Immigrants will make a substantial contribution to future output growth, provided efficient integration allows them to develop their skills and find matching jobs. Measures are being taken to speed up the integration of immigrants, including enhanced language courses, validation of qualifications, and training (Swedish government, 2016). However, integrating low-skilled immigrants will take time, which may push up the unemployment rate temporarily. The large share of refugees among immigrants has historically resulted in extremely low employment rates (Figure 6, Panel B), even though the employment rate of refugees is somewhat higher than the EU average.

Risks are mainly related to global economic developments

The current global economic environment is challenging. As a small, open economy, Sweden is particularly exposed to developments in world trade as well as its trading partners, including China and the United Kingdom, which accounted respectively for about 4% and 7% of Swedish total exports in 2015. Even though the direct impact of Brexit on Swedish exports is likely to be limited, there is great uncertainty about potential indirect effects on the economy. Currency movements, notably vis-à-vis the euro and the Norwegian krone, would affect growth. High and rising household debt could result in unbalanced growth, heightening financial risks and household vulnerability to housing price declines and interest rate increases. Sweden is also vulnerable to a number of largely unpredictable shocks (Table 3).

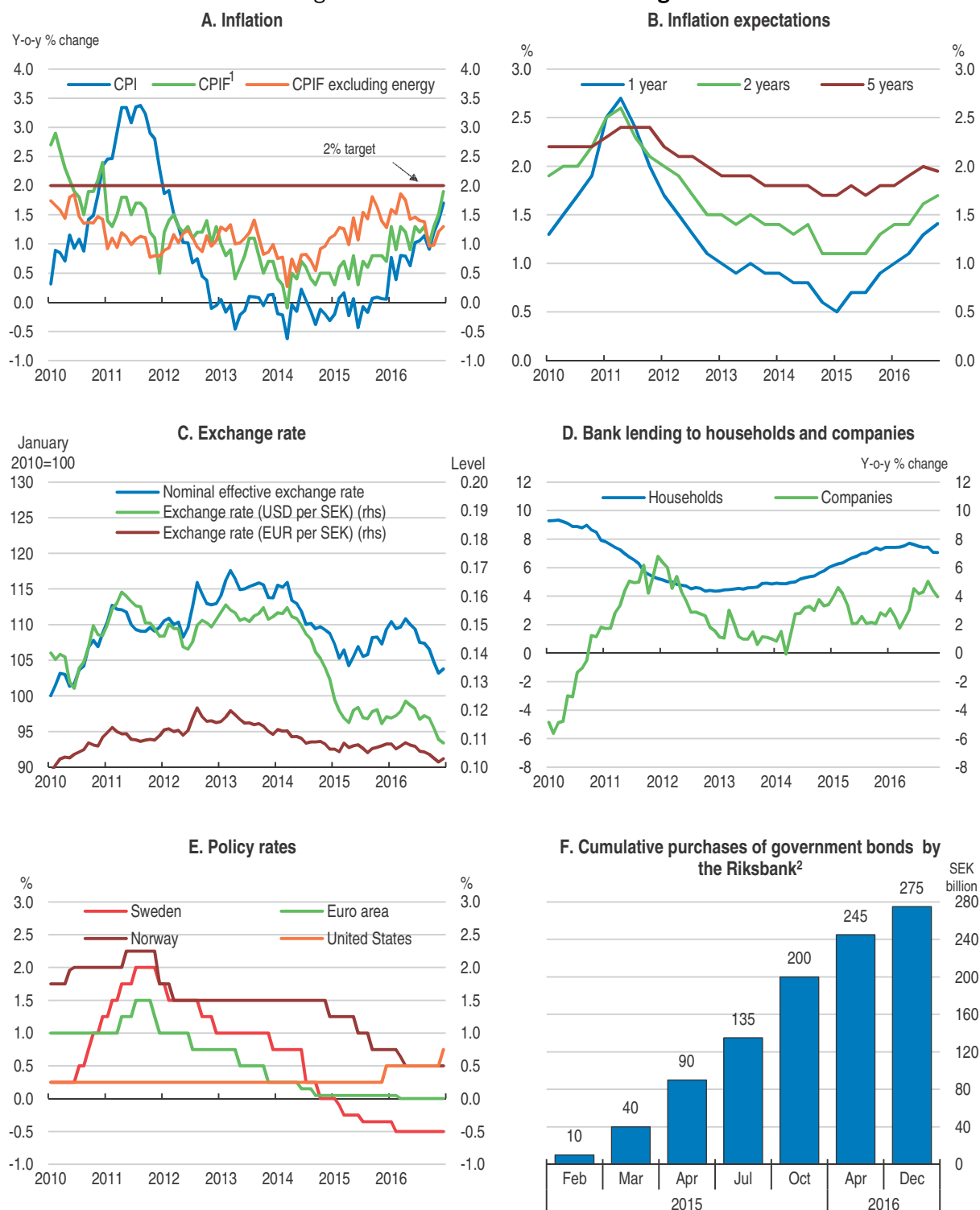
Table 3. **Shocks which would affect economic performance**

Vulnerability	Possible outcomes
Intensification of geo-political tensions	Geo-political tensions could harm global trade, generate erratic and difficult to manage migration flows and increase uncertainty, which would create economic and financial instability, jeopardising growth.
Further European Union fragmentation	Trade and investment flows will be negatively impacted if European Union integration weakens further. This would weigh on Swedish exports. Heightened uncertainty and financial market instability would also lower growth.
Global or regional financial crisis contagion	The Swedish financial system is dominated by a few large banks, which are dependent on foreign wholesale funding. A liquidity crisis triggered by events outside Sweden could lead to difficulties in the banking sector, falls in asset prices and a credit squeeze, which would cause a deep recession.

Macroeconomic policies are stimulating the economy

Inflation has picked up since 2015, mainly reflecting the earlier depreciation of the krona and rising capacity utilisation, but remains below the 2% target, even when energy is excluded and mortgage rates are held constant (Figure 8, Panel A and C). The persistent deviation from the inflation target over recent years has triggered a heated debate about the monetary policy framework, which is currently being reassessed (Box 3). Inflation expectations are slowly heading back towards the inflation target (Panel B). Credit is growing rapidly, especially for households (Panel D). Nevertheless, highly expansionary monetary policy abroad creates a need for low interest rates in Sweden to prevent an appreciation of the krona, which would lower import prices and threaten the upturn in inflation (Panel E). Uncertainty surrounding global economic developments also calls for caution in monetary policy action. Hence, the Riksbank does not expect to raise the repo rate before early 2018. The Central Bank is also carrying out quantitative easing, through

Figure 8. Inflation is still below target



1. CPIF refers to the CPI with a constant mortgage rate.

2. The dates refer to decisions by the Riksbank. The amount decided in December 2016 is to be purchased by mid-2017.

Source: OECD Economic Outlook database, Statistics Sweden and Riksbank.

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Box 3. The monetary policy framework, the Goodfriend-King report and the inflation target

The introduction of Inflation targeting and greater independence for the Riksbank in the early 1990s created a strong monetary policy framework, which anchored inflation expectations and contributed to macroeconomic growth and stability. However, inflation has undershot the 2% target by an important margin. Since 1993, average annual consumer price index inflation (CPI) has been 1.3%. Average annual CPIF inflation, which holds the mortgage rate constant, has been 1.7%. The inflation undershoot suggests monetary policy may have been excessively tight on average. This has been the subject of a heated debate in Sweden in recent years (Svensson, 2013). The increase in the repo rate from 0.25% to 2% between mid-2010 and mid-2011, which may have been partly motivated by concerns about rising household debt, was particularly criticised, as it was followed by almost three years of near-zero inflation.

The recent independent review of Swedish monetary policy estimates that the 2010-11 rate hikes were not unreasonable given the information available at the time, but that the Riksbank was slow to cut rates when the economy subsequently weakened (Goodfriend and King, 2016). It criticised excessive attention devoted to defining the future repo rate path given prevailing uncertainties, excessive reliance on model-based forecasts, government dithering in introducing a clear regime for macro-prudential policy and unhelpful tensions among Executive Board members.

A few recommendations from the report stand out. One is to use the CPIF instead of the CPI as the inflation target. Since the CPI includes mortgage rates in the calculation of owner-occupied housing expenses, there is a mechanical link between the instrument (the policy rate) and the target. This creates difficulties in communication and evaluation of results of monetary policy, which risks weakening confidence in the inflation target. Hence, the CPIF or the EU Harmonised index of consumer prices (HICP) would be more suitable inflation targets than the CPI (NIER, 2016, Apel et al., 2016). Specifying a tolerance band around the inflation target could also facilitate communication (Riksbank, 2016b). Another recommendation, which is fully justified, relates to the clarification of the legal powers of the Financial Supervisory Authority (FSA) and the Riksbank. The report discusses further the allocation of financial stability responsibilities between the Riksbank and the FSA and proposes the creation of a joint Prudential Policy Committee. It seems undesirable to re-open the debate on the respective roles of the FSA and the Riksbank in maintaining financial stability, which has been settled fairly recently after protracted discussions. An agreement between the government and opposition parties was reached in October 2016 regarding the formal mandate of the FSA to introduce new macro-prudential tools, subject to government approval. The role of the Riksbank in financial stability, notably through its lender of last resort function and liquidity management capacities, should also be more formally recognised.

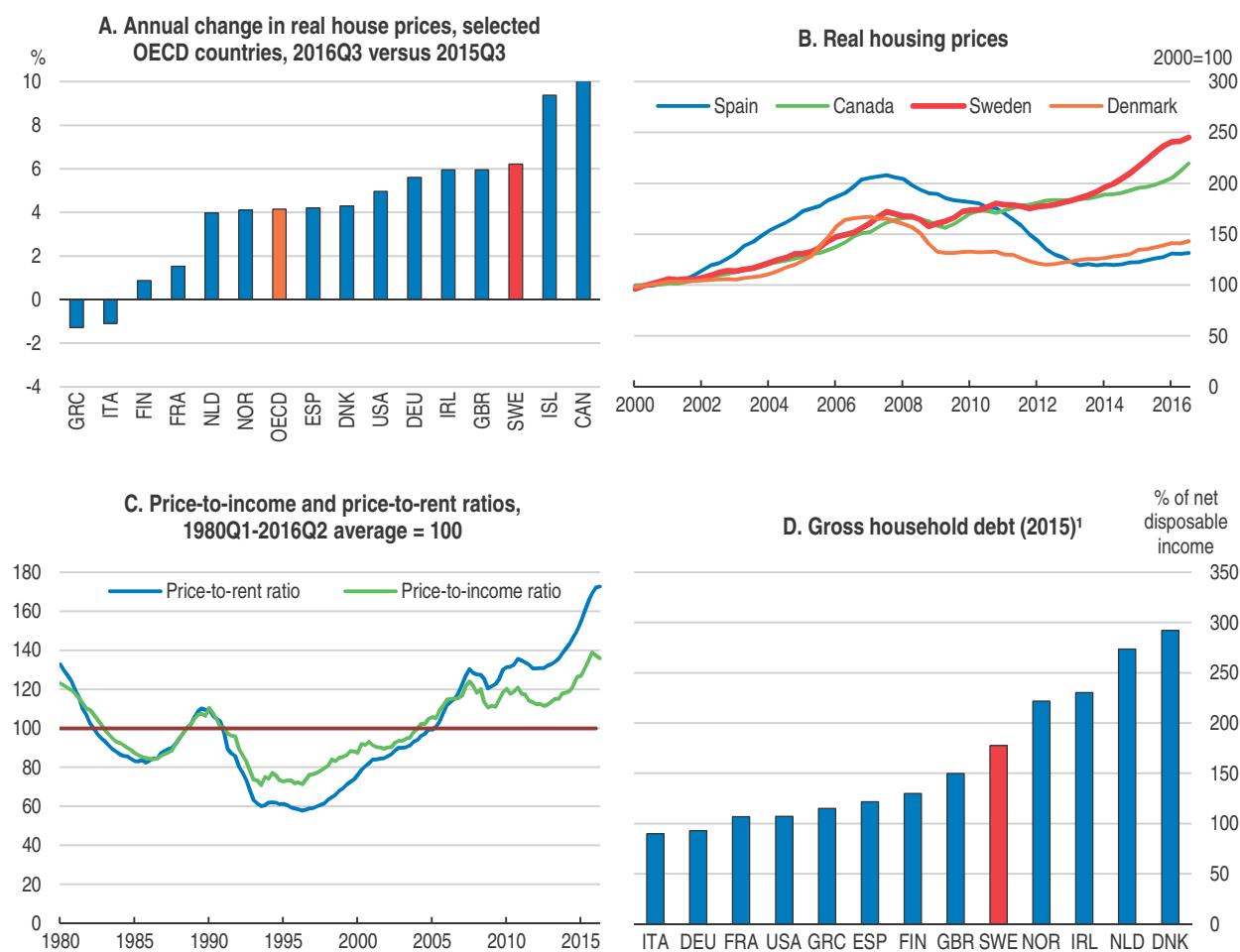
the purchase of government bonds (Panel F), and has stated that it is ready to make monetary policy even more expansionary, should it be needed to preserve the credibility of the inflation target (Riksbank, 2016a).

Sweden has a large, interconnected and wholesale-funding dependent banking system, which calls for continued vigilance, even though wholesale funding tends to be beneficial in a negative interest rate environment. Low interest rates hurt the profitability of insurance companies and can lead to excessive risk taking. Nevertheless, the Swedish financial system remains solid (Riksbank, 2016c; Finansinspektionen, 2016a). Bank profitability is high, capital buffers are strong and the stress tests carried out by the European Banking Authority in 2016 show that Swedish banks are resilient. As credit growth, notably to households, is strong, the counter-cyclical capital buffer has been set at 1.5% of risk-weighted assets from June 2016 and at 2% from March 2017 (Finansinspektionen, 2016b). Furthermore, tighter rules will apply to risk-weight calculations, as improvements in capital to total assets ratios have not matched those on

risk-weighted capital ratios in recent years. The Swedish financial system also seems to have limited direct exposure to negative impacts from climate change (Finansinspektionen, 2016c).

The current very low interest rates and the sharp increases in housing prices have been associated with steep growth in household debt. Real housing price increases in Sweden have been among the strongest in the OECD (Figure 9, Panel A) although they have slowed recently (Panel B). This is due to insufficient supply responses to meet the growth in housing demand, partly as a result of stringent planning and zoning regulations. This increase is all the more worrying as the global financial crisis of 2008 had only a modest effect on Swedish housing prices, which are now well above historical peaks. Price-to-income and price-to-rent ratios are also well above their long-term averages (Panel C). These ratios are crude indicators of housing price overvaluation, especially because they fail to capture the evolution of financing and supply conditions, but they have tended to return to their long-term averages in the past across OECD countries, albeit after protracted periods. In 2015, household debt reached 180% of net disposable income, more than double the level of 1995 (Panel D).

Figure 9. **Housing prices are soaring**



1. 2014 for Italy, 2012 for Ireland.

Source: OECD Analytical Housing Prices database, and Eurostat.

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Containing increases in household debt is important for financial stability, although the experience of Sweden and other continental Nordic countries suggests that the risk of default on residential mortgages is limited, even during severe downturns. More importantly, highly indebted households tend to reduce consumption disproportionately when housing prices fall, as illustrated by recent developments in Denmark and the Netherlands, the two OECD countries with the highest household debt-to-income ratios. The vast majority of Swedish mortgages carry a variable interest rate, which increases the vulnerability of households to interest rate increases. While a larger share of fixed-term mortgages could reduce risks for households, the mortgage rate fixation period appears to be set according to household preferences, rather than by bank product supply (Holmberg et al., 2015).

The Financial Supervisory Authority has introduced a number of macro-prudential measures to contain the rise in household debt in recent years, including a cap on loan-to-value ratios and minimum capital risk-weights on mortgages. A compulsory amortisation requirement for new loans with a loan-to-value above 50% entered into force in June 2016. The implementation of this measure was delayed by almost a year because of a lack of clarity in the legal macro-prudential policy framework. To allow timely policy implementation, the government and opposition parties have agreed in October 2016 to broaden the mandate of the FSA to introduce new macro-prudential tools, subject to government approval.

The loan-to-value cap could be complemented by a cap on debt-to-income ratios, as the share of households with high debt-to-income is increasing. Indeed the cap on loan-to-value allows borrowing to go up with housing prices (Benes et al., 2016). Recent studies suggest that introducing a debt-to-income cap of 600% on new loans could slow debt accumulation significantly, with a fairly modest adverse impact on output (Alfelt et al., 2015; Finansinspektionen, 2016d; NIER, 2016). Some flexibility to adapt to specific cases could be provided by setting the limit as a maximum percentage of a lender's new loans which should not exceed the cap, as was done in the United Kingdom.

Sweden's taxation of owner-occupied residential property is among the lowest in the OECD. There is no tax on imputed rents, recurrent taxes on residential immovable property are low, and tax allowances for mortgage interest deductions are high. Favourable taxation contributes to high demand for housing. In addition, it tends to benefit relatively high-income households most, as they buy more expensive homes, while lower-income households most often rent. Reforming the recurrent property tax to better align tax charges with market values of properties, phasing out mortgage interest deductibility, or a combination of the two would reduce tax incentives to invest in housing. Interest deductibility should be phased out over a long period to avoid destabilising the market. The currently low interest rates and rapidly rising housing prices provide a good opportunity to start.

Sweden enjoys a strong fiscal position, with gross government debt (Maastricht definition) at 43% of GDP and net government assets amounting to 28% of GDP. Furthermore, Sweden entered the 2008 global financial and economic crisis with a large budget surplus, leaving room for the operation of automatic stabilisers and discretionary fiscal stimulus. The structural fiscal balance came down continuously from 2010 to 2014. As growth was taking hold, fiscal policy tightened in 2015, bringing net lending to balance. Fiscal policy is turning mildly expansionary again in 2016-17 (Figure 10) but this is largely

explained by temporary spending associated with the recent inflow of migrants (Fiscal Policy Council, 2016). The fiscal surplus target is in the process of being revised down from 1% of GDP to a third of a per cent of GDP over the business cycle, combined with a strengthening of the fiscal policy framework, which is welcome (Box 4).

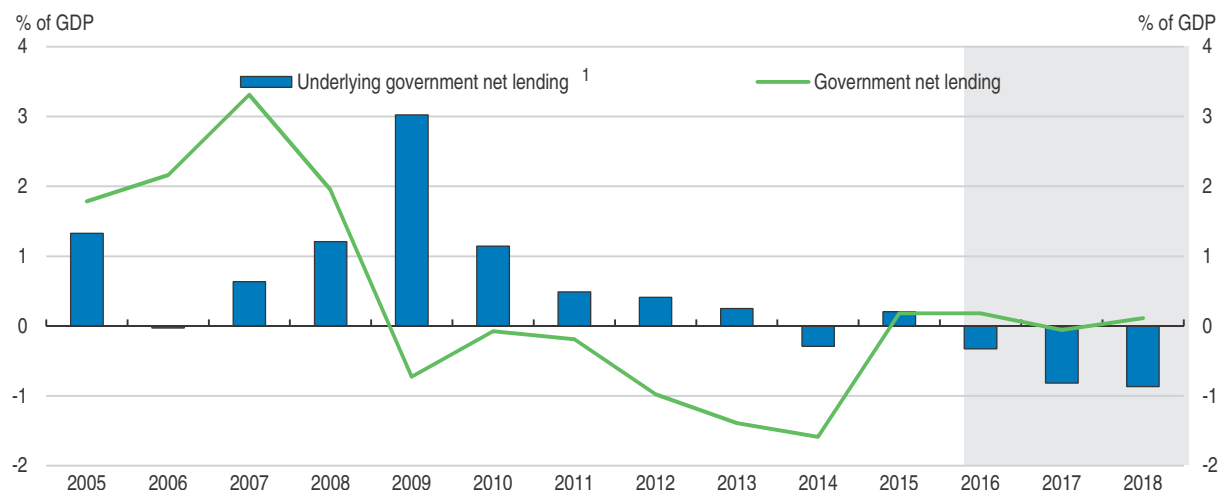
Box 4. The fiscal policy framework and the budget target

After the deep recession of the 1990s, which resulted in large budget deficits and high interest rates on public debt, a strong fiscal framework was progressively put in place to restore budget discipline and confidence in public finances. Its main elements are: i) a two-step budgetary process where total government expenditure is first determined and allocated across broad expenditure areas, before specific expenditures within these areas are decided; ii) an annual ceiling for central government expenditure for the next three years; iii) a balanced-budget requirement for local governments; iv) a general government surplus target over the business cycle. In addition, an independent fiscal policy council was established in 2007.

The fiscal policy framework has contributed to strengthening public finances, even though the surplus target has not been met since its introduction, partly as a result of necessary fiscal support to soften the 2009 recession. The average surplus over the past ten years, which broadly correspond to a business cycle, was 0.3% of GDP, while the target was set at 1% of GDP. Since the introduction of the target in 2000, the average surplus has been 0.4% of GDP. Nevertheless, gross government debt (Maastricht definition) declined from about 70% of GDP in the mid-1990s to about 43% of GDP in 2015. Due to asset revaluations, government net wealth improved even further, to about 28% of GDP in 2015, compared to a net debt of more than 25% of GDP in the mid-1990s. Along with other changes in the macroeconomic policy framework, including the introduction of inflation targeting in 1993, the surplus target has also contributed to economic performance by increasing the predictability of economic policy.

Despite these achievements, some adjustments to the fiscal framework appear necessary, both to adapt the surplus target to the current economic and demographic situation, and to strengthen the monitoring of public finances. With a surplus target of 1% of GDP, government net wealth would reach, under plausible assumptions, about 40% of GDP in 2040 (NIER, 2015). Such an accumulation of assets does not seem optimal, especially if it requires either raising taxes from an already high level or limiting spending on necessary public services and growth-enhancing investments. The surplus target was set at a relatively high level in 1997 to ease the impact of population ageing through pre-funding of pensions and to create margins for counter-cyclical fiscal policy (Calmfors, 2015). However, ageing is now starting to weigh on public finances. The old-age pension system's net lending, which is part of the general government fiscal balance, is expected to turn negative in 2017 (Ministry of Finance, 2016a).

In June 2016, most political parties agreed upon a revised fiscal policy framework, which should soon be enacted by Parliament and enter into force in 2019. The fiscal surplus target is lowered from 1% to a third of a percent of GDP over the business cycle, which leaves significant margins to absorb economic shocks. The need to ensure that the target is actually met calls for reinforcing fiscal monitoring, with a clearer assessment of deviations from the target – which is currently based on a range of potentially conflicting indicators – and more stringent requirements for the government to explain how it aims to correct deviations (Fiscal Policy Council, 2016). A general government debt anchor of 35% of GDP (Maastricht definition) is introduced. The surplus target and the debt anchor will be revisited by Parliament every eight years. The assessment of deviations from the target will be based on structural net lending, and deviations from the target will need to be justified by the government. The Fiscal Policy Council will be in charge of assessing whether the fiscal position deviates from the target and whether deviations are justified.

Figure 10. **The underlying budget balance is projected to turn negative**

1. Underlying government net lending in % of potential GDP.

Source: OECD Economic Outlook database.

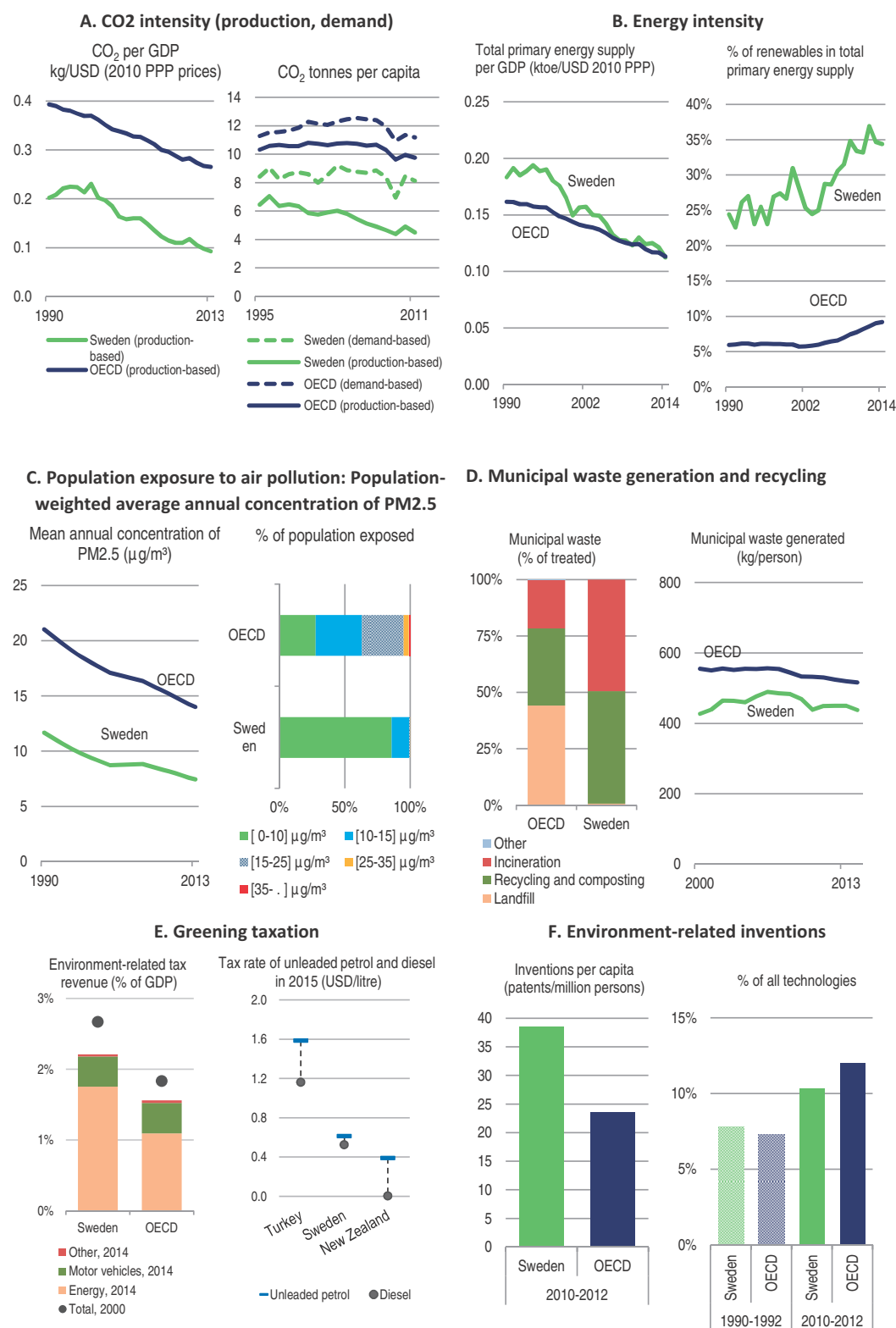
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Growth is green but challenges remain

The Riksdag ratified the Paris Agreement on climate change in October 2016. Furthermore, it endorsed a goal to achieve zero net greenhouse gas emissions by 2045, plus intermediate goals of reducing overall emissions by 63% and transport sector emissions by 70% compared to 1990 by 2030. Sweden's natural resource endowment influences strongly both the economy and its environmental footprint. The availability of water and wood, along with the policy choice to use significant amounts of nuclear-generated electricity have kept CO₂ intensity in production to little more than one third of the OECD average and declining. Per capita emissions are also falling relative to the OECD average (Figure 11, Panel A).

As low-cost measures to reduce greenhouse gas emissions have already been implemented, reducing emissions further will require enhancing the coherence and cost-effectiveness of policies, for example by reducing overlaps between policy instruments, reducing carbon price differences across sectors and phasing out environmentally harmful subsidies (OECD Economic Survey of Sweden, 2015). Taking account of CO₂ embodied in imports and exports, per capita emissions in consumption have not declined. However, emissions from production elsewhere are in general not within the control of Swedish policymakers.

Low CO₂ emissions are mainly due to the fuel mix in electricity generation, characterised by a high share of nuclear- and hydropower; a declining share of oil has been offset by rising generation from biofuels and waste (Panel B). Nuclear waste is stored in temporary facilities, awaiting approval for long-term underground storage. The main political parties recently decided to reverse the earlier agreement to phase out nuclear power, but cost considerations and safety concerns continue to make the future of nuclear energy uncertain. Renewable energies are set to play an increasing role in future electricity generation.

Figure 11. **Environmental performance is strong**

Source: OECD (2016) Green Growth Indicators (database). For detailed metadata, see <http://stats.oecd.org/wbos/fileview2.aspx?IDFile=02a134e1-c3ec-4c5c-9a05-4ebb41a60539>.

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Water abstractions per capita are relatively high by OECD standards, but the abundance of water resources means that this puts no pressure on supplies. Average water quality is very high with use of pesticides and leaching of nitrogen and phosphorus generally lower than in other countries. Air quality too is very high, with negligible exposure to hazardous levels of particle pollution although recommended limits are sometimes exceeded in certain cities (Panel C).

Per capita generation of municipal waste is below the OECD average though by less than in the past. Landfill taxes and local decisions have virtually ended the use of landfill with rates of both recycling and incineration (often with heat recovery) significantly higher than in most countries (Panel D).

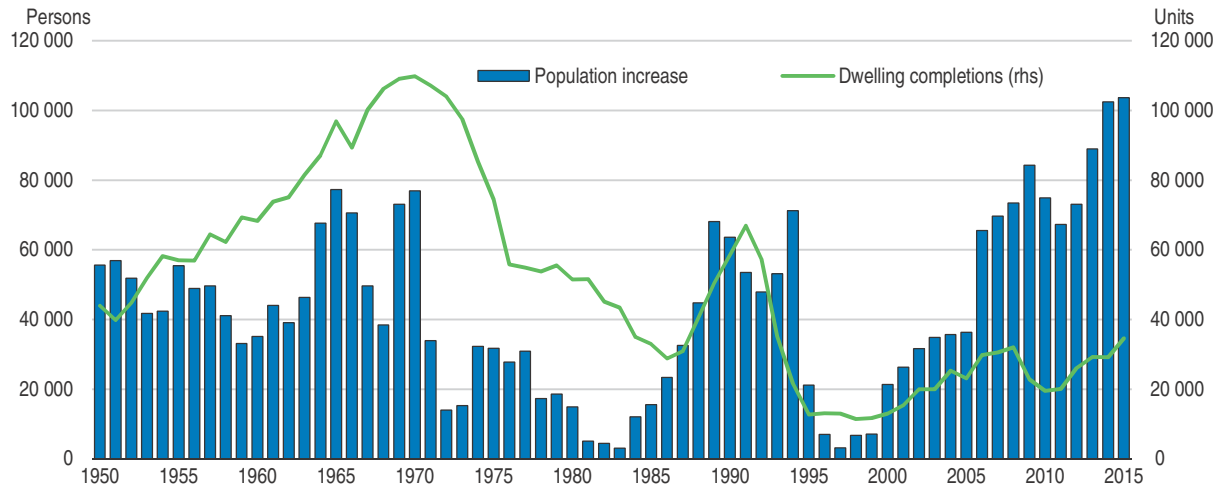
As in many countries, revenue from environmentally-related taxes, expressed as a share of GDP, has declined since 2000, reflecting a greener economy. But it is significantly higher than in most countries, due to high energy taxation, with negligible revenue from other taxes apart from those on vehicles (Panel E). The Swedish NO_x tax has been an important tool in reducing air pollution but raises no revenue as it is repaid to emitting companies (independently of their actual emissions, so as to maintain the incentive to cut them). Many exemptions from energy and CO₂ taxes have been reduced or removed; the largest remaining tax expenditure is the favourable tax treatment of diesel used in transport relative to petrol, notwithstanding a tax rate on diesel which is one of the highest in the OECD (OECD, 2014).

Since the beginning of the century, per capita patenting activity has been similar to the OECD average. Within the total, however, Sweden seems to be producing fewer “green” innovations than in the past (Panel F).

Housing shortages affect economic performance and well-being

In addition to its potential negative impact on macroeconomic and financial stability, a dysfunctional housing market affects the economy and society in several ways. Housing shortages may reduce labour mobility, leading to higher unemployment and lower productivity, as they hamper job matching (Adalet McGowan and Andrews, 2015). Low affordability may result in poverty. Wealth inequality between homeowners and renters is exacerbated by rising housing prices. Shortages and the associated high prices of housing also affect many citizens’ well-being, through overcrowding and long commuting. They also lead to spatial segregation, which especially affects immigrants and complicates their integration. Hence, there is a need for comprehensive reform to improve the functioning of the housing market.

The dwelling stock has failed to keep up with population increases since 2005 (Figure 12). In previous population upswings, the construction of public housing contributed significantly to the increase in the number of dwellings. As subsidies to public housing companies were abolished in the 1990s, the contribution of public construction to expanding the dwelling stock has shrunk and the private sector has not made up for this fall, especially in terms of supply of affordable housing (Emanuelsson, 2015). By 2025, as many as 710 000 dwellings may need to be built to end shortages, especially in the three main cities (National Board of Housing, Building and Planning, 2016). The shortage of dwellings at the national level hides large regional differences and internal migration exacerbates shortages, notably in the big cities. Hence, it is important to ensure that enough housing is available in growing agglomerations, in particular to facilitate labour

Figure 12. **Residential construction has not kept up with population growth**¹

1. The average number of persons per dwelling was 2.2 in 2015.

Source: Statistics Sweden.

StatLink  <http://dx.doi.org/10.1787/888933445786>

mobility and to attract business investment. To address housing shortages, in March 2015 the Swedish government announced a programme to support dwelling construction, which aims at ensuring that 250 000 dwellings are built over the period 2015-20. Subsidies for construction of rental housing will target growth areas and will be highest for small flats and student dwellings, where the shortage is most acute. Rents will be capped for 15 years, and stringent energy-efficiency norms will be imposed. The cost, estimated at about 0.2% of GDP per year, will be financed by cutting current tax breaks for domestic building work, including home improvement.

Housing supply has shown little responsiveness to demand since the early 1990s, which has resulted in growing dwelling shortages. The government is planning to reinforce incentives for municipalities to encourage construction, notably through increased financing for related infrastructure. The government is working with municipalities to improve land-use planning, which is essential to achieve a stable housing system with access to decent housing for all. Land-use planning is combined with other policy instruments, including environmental taxation and transport infrastructure, to affect urban shapes and CO₂ emissions. Efficient co-ordination between the various local and national authorities responsible for these policies will be key to ensuring green urban development (OECD/IEA/NEA/ITF, 2015; OECD, 2016d). Streamlining land-use planning and building regulations could also help foster competition in the construction and building materials industries and help contain construction costs, as both the cumbersome land-use planning process and strict building standards currently give an advantage to established companies over new entrants (OECD *Economic Survey of Sweden*, 2012).

As underlined in the two previous Surveys (2012 and 2015), loosening rental regulations, which are among the most stringent in the OECD, could revive investment in the private rental market. Rent increases negotiated between landlord and tenant associations and applying to the entire rental stock have resulted in low rents relative to housing prices in areas of high demand, which has discouraged investment and encouraged conversion of rental dwellings to co-operatives (tenant-owned apartments).

Acute rental housing shortages affect labour mobility and the attractiveness of the main cities, particularly Stockholm, as business locations. Some measures have been taken in recent years to improve the functioning of the rental market. Private landlords have participated in annual rent-setting negotiations with the Swedish Union of Tenants on the same terms as the municipal housing companies since 2011. Legislation passed in 2013, including more generous tax rules, has also made it easier to sublet dwellings in co-operatives. However, low returns for investors and tight regulations remain obstacles to the expansion of the private rental market.

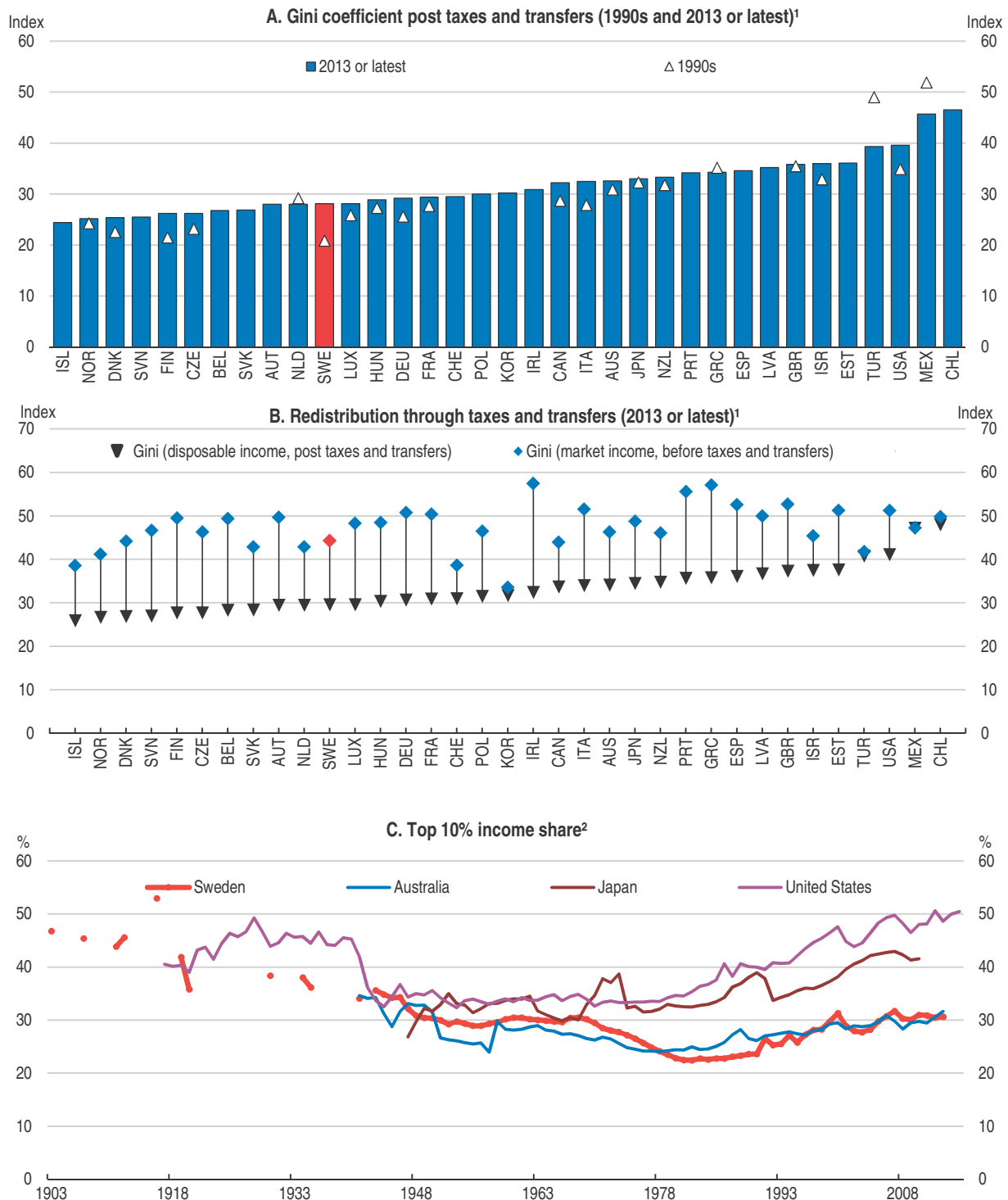
Allowing a progressive adjustment of rents towards market levels, in particular in higher segments of the market, would allow supply to expand, especially if combined with less stringent land-use planning. Furthermore, it would lead to better utilisation of the existing housing stock by reducing lock-in effects. Easing of rental regulations should be progressive and co-ordinated with other housing market reforms to ensure smooth convergence towards market rents and protect tenants against sudden jumps in rents. Access to housing for low-income households could be facilitated by some prioritisation in the allocation of municipal housing, which is now essentially governed by a waiting list. Allocation rules could be designed to limit the increase in spatial segregation, for example by taking into account the existing social mix in specific locations.

Addressing structural weaknesses in the housing market would increase income equality and equality of opportunity, notably by facilitating access to better schools and jobs. Mortgage interest deductibility and the property tax are regressive and rent controls hamper labour mobility, especially for individuals with low income and wealth.

Keeping income inequality low is increasingly challenging

Sweden is well known for being relatively egalitarian in international comparison. Still, since the late 1980s there has been a long trend of rising income inequality. The Gini coefficient of household disposable income has increased more in Sweden than in any other OECD country with available data, and is now the highest among the Nordics (Figure 13). Equity depends on high employment, wage compression and redistribution. Including the value of free public services reduces the level of inequality indicators considerably, but does not materially change Sweden's ranking relative to other OECD countries according to the latest internationally comparable data available (OECD, 2011). Social benefits and largely free public services serve the dual purpose of redistribution and risk pooling. Reasonable and well-designed benefits can make an economy more dynamic, but redistribution and wage compression can be self-defeating if they weaken incentives to work, take risk and invest, notably in education. Publicly funded education, childcare and active labour market policies with a well-designed job-search and conditionality regime partially address these issues by boosting incentives to work and study (OECD *Economic Survey of Sweden*, 2015).

The scope for reforms to make growth more inclusive, such as those which enhanced education and increased female employment following the Second World War, diminished as Sweden converged towards the best policy frontier on several dimensions, and trade-offs between efficiency and equity became starker (Bergh, 2011; Andersen and Maibom, 2016). Rapid public sector expansion, government direct interventions to keep ailing industries alive and expansionary macroeconomic policies reduced inequality and boosted employment in the 1960s and 1970s. However, these policies eroded competitiveness,

Figure 13. **Inequalities have been widening, but remain low**

1. The Gini index measures the extent to which the distribution of income deviates from a perfectly equal distribution. A Gini index of zero represents perfect equality and 100, perfect inequality.
2. Market income including capital income.

Source: OECD Income Distribution and Poverty database; The World Wealth and Income database.

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which could only be restored through recurrent currency devaluations, and resulted in macroeconomic imbalances that culminated in the early 1990s economic crisis, with mass unemployment, a drop in the employment rate from 83% to 73%, and a significant rise in market income inequality. Taxes and transfers did, however, dampen the rise in household disposable income and consumption inequalities (Domeij and Flodén, 2010).

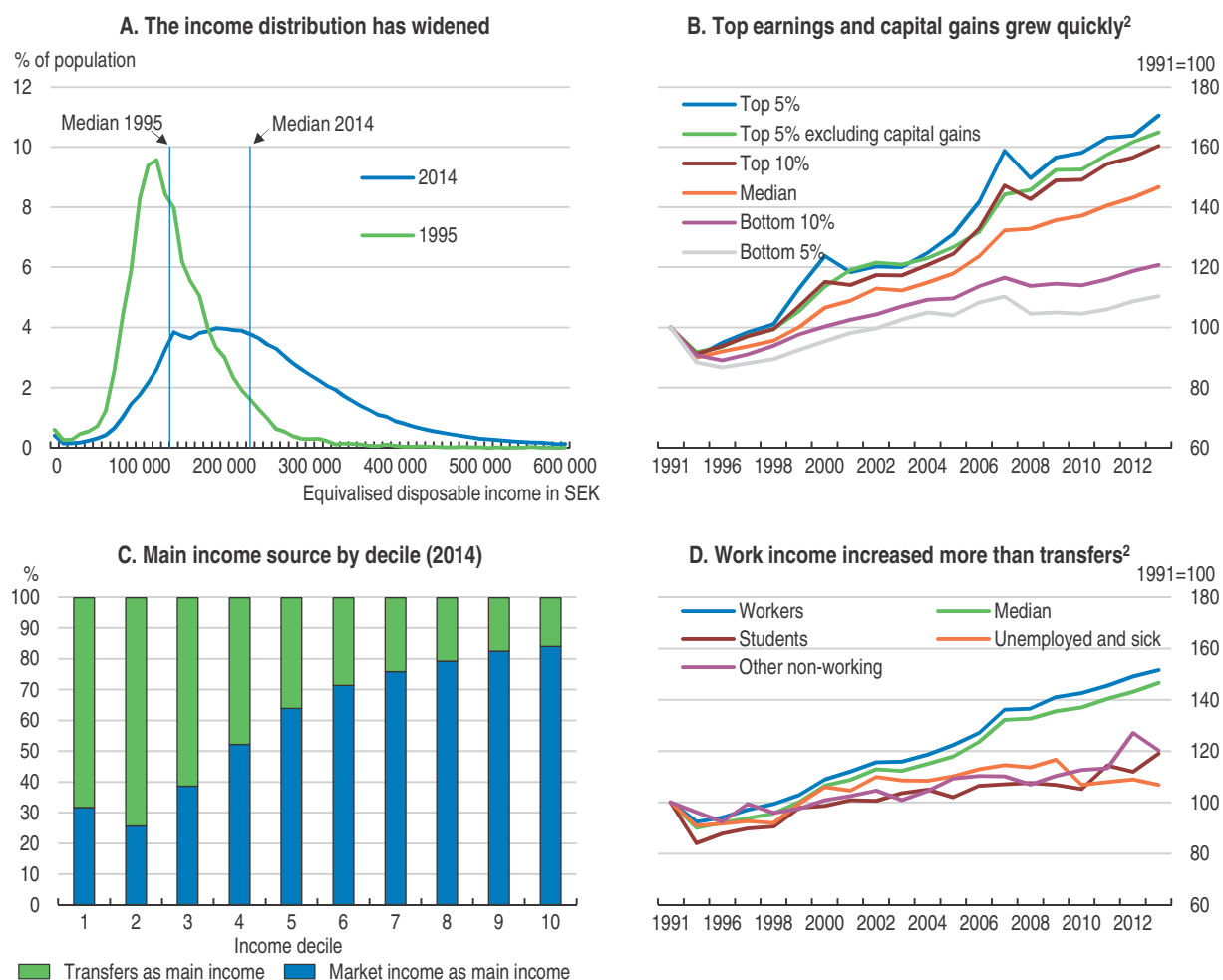
The reforms of the late 1990s were instrumental to reverse the relative economic decline that was taking place at the time, even though they also increased inequality. Product and labour markets were deregulated, and collective wage bargaining was made considerably more flexible. A 1997 agreement between employers and unions stipulated that wage rises would be set with reference to exporting industries, and with flexibility to adjust wages locally within the co-ordinated framework. This agreement has formed the basis for Swedish wage bargaining since then (Domeij and Flodén, 2010; Elvander, 2002; Lindbeck, 1997).

The distress caused by the 1990s crisis created an impetus to assess distributional effects of policies. Data and estimation methods were developed further and following renewed requests from the Riksdag, the government issued the first Distribution Policy Report in 1992. From 1996 onwards, distribution reports have been published as annexes to the annual budgets (Waldenström, 2012; Ministry of Finance, 2016b). Furthermore, since 2011 the Fiscal Policy Council has been tasked with evaluating the distributional effects of fiscal policy (Fiscal Policy Council, 2013).

Living standards rose for all, but more slowly at the bottom than at the top. The median real income grew by an average of 2.7% per year from 1995 to 2014. Strong income growth at the high end of the distribution has largely been driven by growing capital incomes, and weaker growth in the lower part results to a large extent from slower growth in social benefits than wages (Figure 14, Panel A and B). Those who are not in employment have therefore seen their relative living standards eroded. A majority of individuals in the three lowest income deciles have public transfers as their main source of income (Panel C and D). The young and old saw slower income growth than other age groups. Singles, notably single parents, experienced slower income growth than couples, and the foreign-born experienced weaker income growth than natives. Median incomes for those above 60, singles and single parents grew less relative to the population median in Sweden than in most other countries with available data from 2005 to 2014, while relative incomes of youth and foreign-born grew approximately at par with the EU average (OECD *Economic Survey of Sweden*, 2015; Fiscal Policy Council, 2014; Ministry of Finance, 2015 and 2016b; Eurostat, 2016).

Relative poverty, measured as the share of individuals living on less than 60% of the median income followed a similar pattern as inequalities from the 1990s, and the same groups were affected. The share of the population with incomes below the relative poverty line almost doubled, from 7% to 14% between 1995 and 2013. More than 30% of the foreign-born fell below the poverty line. The proportion was the same for single parents. However, incomes rose in real terms for all groups over the same period, and the incidence of low material living standards (material deprivation) is the lowest in the European Union (Ministry of Finance, 2015 and 2016b; Figure 15).

Benefit levels have been increased recently, notably for unemployment insurance, sickness insurance and various child-related benefits. The income tax system was also adjusted, notably by gradually tapering the Earned Income Tax Credit on high incomes.

Figure 14. **The income distribution has widened since the 1990s¹**

1. Equivalised disposable income.

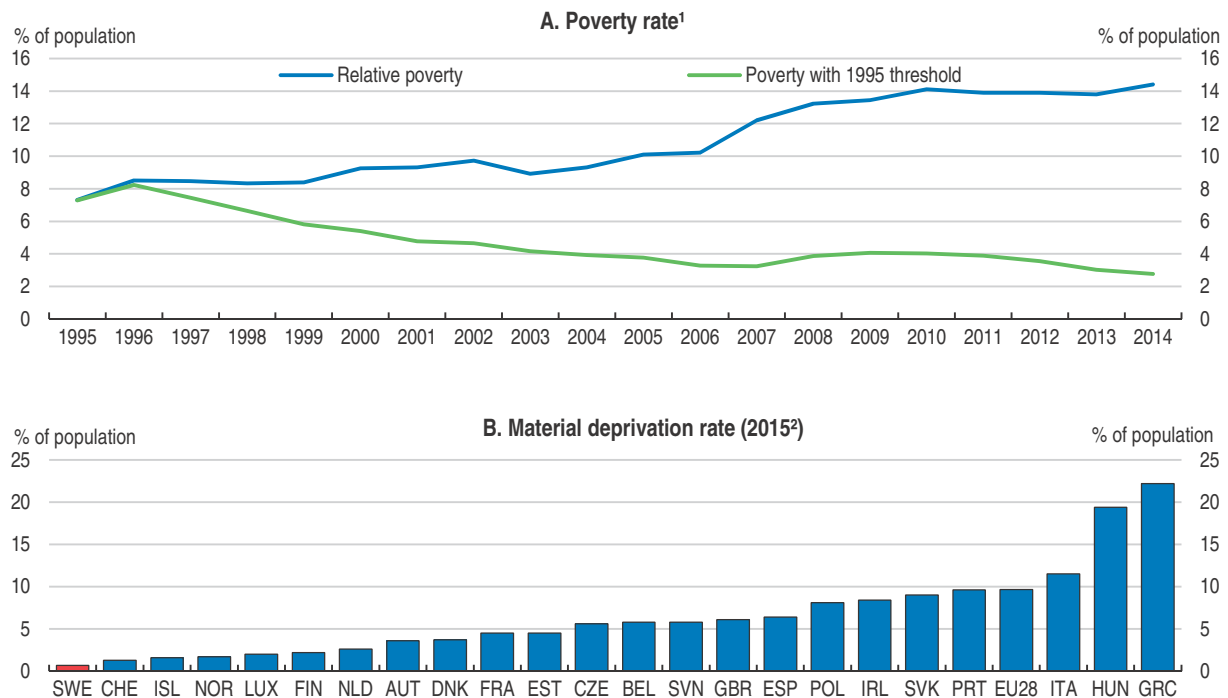
2. Median equivalised disposable income within each group.

Source: Statistics Sweden, Income Distribution Survey; Ministry of Finance, 2016b.

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These measures are estimated to reduce inequality and increase disposable income by an average of 1.7% in the first earnings decile in 2016. Strengthened public services, notably within education, health and childcare, benefit low-income households and households headed by single mothers disproportionately (Ministry of Finance, 2016b). However, since the crisis in the 1990s most major working-age benefits have been uprated according to the consumer price index or uprated on an ad hoc basis (ISF, 2014). A more systematic and transparent regime for uprating benefits should be considered, taking equity, fiscal costs and work incentives into consideration. Such a regime could include analysing the distributional consequences of alternative uprating scenarios in the annual budget process, thus informing decision makers of the consequences of both action and inaction.

Almost half of the increase in the relative poverty rate and 40% of the change in the Gini coefficient of disposable income from 1987 to 2013 can be attributed to demographic and structural factors not directly related to the overall employment level, the wage distribution or taxes and transfers. Changing household composition has likely increased

Figure 15. **Falling absolute poverty and low deprivation**

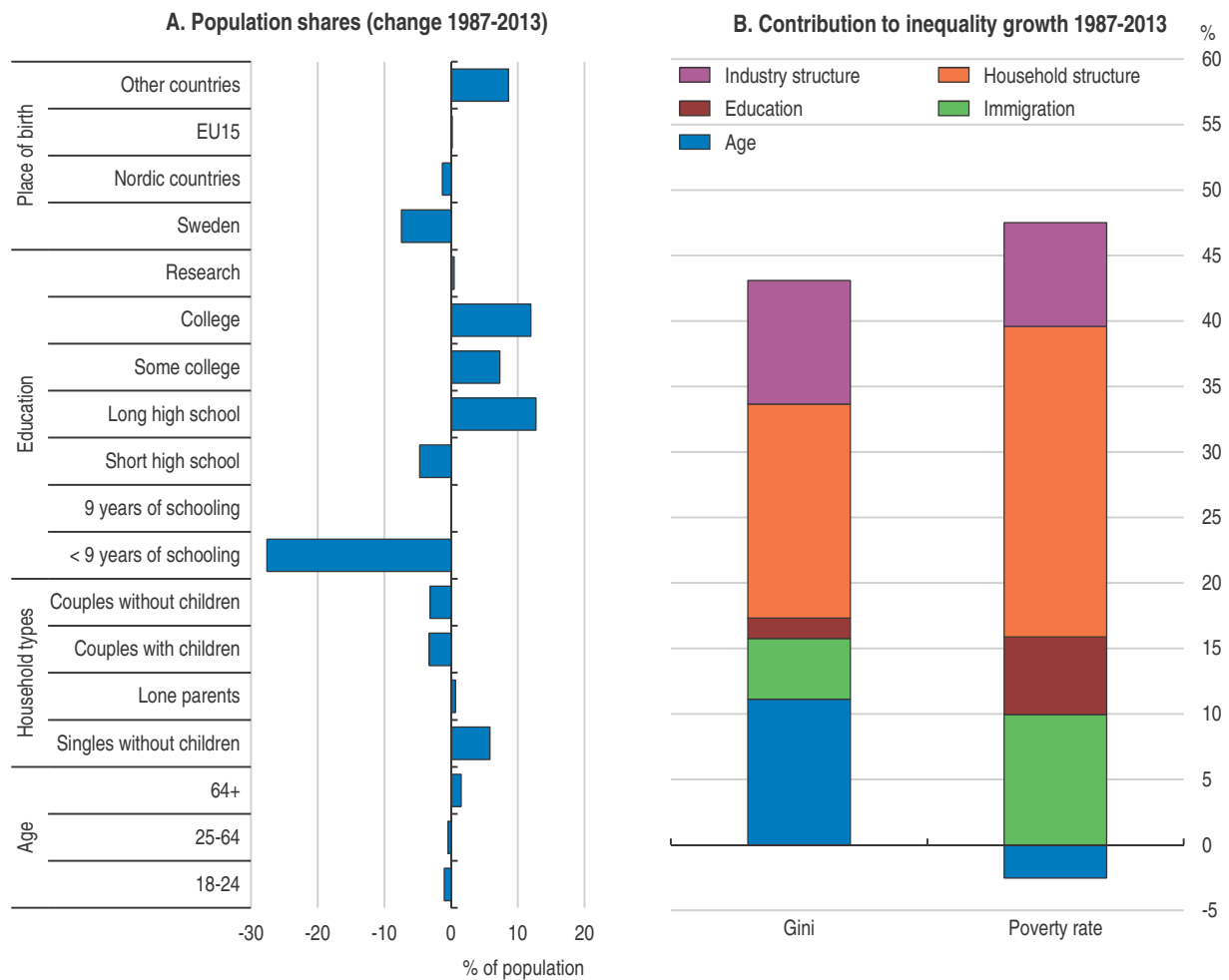
1. The relative poverty threshold equals 60% of median earnings in the year in question. The 1995 threshold equals 60% of median earnings in 1995, adjusted by the consumer price index.
2. 2014 for Ireland and Switzerland.

Source: Ministry of Finance (2016b); Eurostat, Income and Living Conditions database.

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inequalities more in Sweden than in most other countries (OECD, 2011), and accounts for 16% of the rise in the Gini of disposable income, with an increasing share of single-headed households. Sweden is one of the OECD countries least affected by population ageing from 1987 to 2013, but ageing nonetheless accounts for 11% of the Gini increase. Industry structure accounts for 9% of the increase, mainly as a result of the fall in relatively well-paid manufacturing employment, the rise in relatively low-paid accommodation and food services jobs, and the increase in high-paying ICT, professional and financial services positions. These findings lend support to previous research suggesting that even though labour market polarisation caused by globalisation and skill-biased technological change has taken place in Sweden, its consequences are less pronounced than in many other countries (Goos et al., 2009; Eurofound, 2014; Adermon and Gustavsson, 2015).

Immigration to Sweden has been high compared to other OECD countries, and with a higher share of humanitarian and family reunion migrants. Even with non-EU migrants increasing from 3% of the population in 1987 to 12% in 2013, migration only accounts for a relatively modest 5% share of the increase in the Gini coefficient. However, these estimates only account for changing population shares. In addition, non-EU migrants are more likely to be young, low-qualified and single, and they have seen their average income fall considerably relative to other groups over the period. Furthermore, increasing migration has increased relative poverty more than the Gini coefficient, as migrants' incomes tend to cluster below the poverty line. Changes in family structure, with more single-headed households, also contribute strongly to relative poverty growth (Figure 16; Robling and Pareliussen, 2017).

Figure 16. **Structural change increased inequalities**

Source: Robling and Pareliussen (2017).

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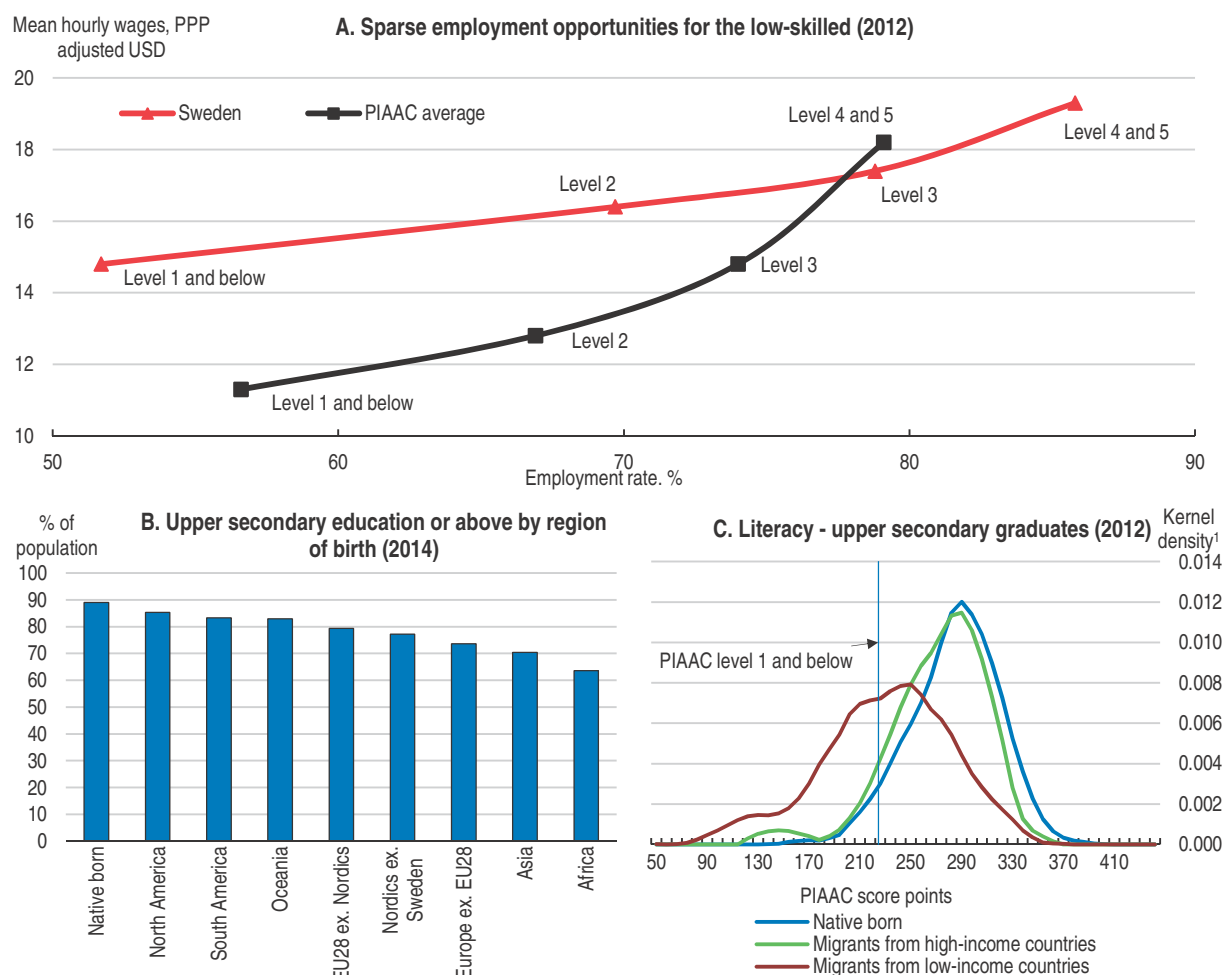
The two trends of high humanitarian and family reunion migration, and declining school results, increase the supply of low-skilled and low-qualified labour, while demand is tilted towards high skills and qualifications. Minimum wages, set sector-wise in collective bargaining, are binding in sectors that typically employ the low-skilled, such as retail trade and hotels and restaurants. Workers and employers in these sectors are less likely than average to belong to unions, but the wage floor in non-organised segments generally seems to be close to the level set by collective agreements. Low-skilled jobs account for only about 5% of total employment (OECD, 2016c). Minimum wage increases in those sectors where the minimum wage is binding have been found to exclude workers with low skills and weak labour market positions from employment (Forslund et al., 2014; Eliasson and Skans, 2014).

Thirteen percent of Swedes aged 16 to 64 scored at or below level 1 in the literacy module of the OECD Survey of Adult Skills (PIAAC) in 2012, and more than half of the individuals scoring at this level were foreign-born. This indicates very low reading skills, and the employment rate of individuals with weak literacy is low (Figure 17, Panel A). Most natives and immigrants from high-income countries have at least upper secondary

education and are also unlikely to score at or below 1 in the PIAAC literacy test. Other migrants, notably from Asia and Africa, generally have lower qualifications and are significantly more likely to have low literacy proficiency (Figure 17, Panel B and C). The employment gap between migrants and natives is well explained by migrants' education and literacy proficiency (OECD Economic Survey of Sweden, 2015; Bussi and Pareliussen, 2015).

The Swedish policy response to increase the employability of low-skilled migrants has so far mainly been a mix of two broad policy tools: upskilling and enhancing transparency on migrants' skills on the one hand, and temporarily lowering the cost of hiring through wage subsidies on the other (OECD, 2016c). Swedish tuition for immigrants has recently been made more flexible and more resources are set aside to improve the recognition of foreign qualifications. Furthermore, the government intends to broaden newly arrived migrants' access to training and vocational introduction employment (Ministry of Finance, 2016c).

Figure 17. **Low demand for low-skilled workers, but increasing supply**



1. The Kernel density is estimated using the Epanechnikov function.
Source: OECD Survey of Adult Skills (2012); Statistics Sweden.

Entry into the two-year Introduction programme, which features language classes and other activities as the first step of migrant upskilling, usually takes place only after several administrative procedures, notably obtaining a residence permit and a permanent address. The migrant surge in 2014 and 2015 created backlogs in the treatment of asylum applications and issuance of residence permits, and obtaining housing and a social security number also takes time. New and more collaborative approaches in the pilot project “Meeting points and information” reduced the settlement process by four weeks, leading to financial savings and increased migrants’ satisfaction and sense of control. The new approach is being implemented nation-wide, starting in 2016 (Swedish Social Insurance Agency, 2016; Ministry of Employment, 2016). This project illustrates the high potential gains from reducing bottlenecks to speed up the asylum- and settlement process. Many reforms to improve migrants’ human capital and labour market outcomes have been implemented in the past few years. For many of them it is too early to quantify their effects, but a major reform in 2010, placing responsibility of integration with the PES, improved migrants’ employment and earnings significantly (Andersson Joona et al., 2016).

Children of immigrants, notably those who are native-born, fare better in Sweden than in other European OECD countries, even though immigrant adults face challenges. However, the difficult labour market integration of their parents together with residential and school segregation still reduces opportunities for migrant children compared to natives (OECD, 2016c). The education system has an important role to play to level the playing field and create equal opportunities for children with different family backgrounds. A trend of declining results in the OECD Programme for International Student Assessment (PISA) was reversed in 2015, but the impact of socioeconomic background has increased. Higher variation between schools is affected both by the pupils’ own backgrounds and by the average socio-economic mix in the school. Variation between schools seems to be driven mainly by residential segregation, and to a limited extent by the introduction of school choice and independent schools in the 1990s. The government is appropriately implementing measures to counter weaknesses in the school system by channelling more resources to schools with low learning outcomes, strengthening early interventions for struggling pupils and training more special needs teachers, but continues to face a shortage of qualified teachers (OECD *Economic Survey of Sweden*, 2015; SNAE, 2016; Böhlmark et al., 2015; Holmlund et al., 2016; Ministry of Finance, 2016c).

Employment levels and integration of migrants in the labour force also depend on labour costs, which have been cut through tax policies and wage subsidies. The basic tax allowance in the personal income tax and the Earned Income Tax Credit incentivise work for low-wage earners. Wage subsidies are available in multiple shapes, but to increase their scale and effectiveness, they will need to be merged or harmonised in order to increase oversight and reduce the administrative burden they impose both on employers and Public Employment Service caseworkers (OECD, 2016c). The fiscal cost of tax allowances and credits and wage subsidies limits the possibilities to extend them. Lowering entry-level wages in combination with higher rewards to work experience should also be considered by the bargaining parties in the labour market, as it would lower entry thresholds, while preserving life-time incomes (Labour Market Economic Council, 2016).

Beyond labour costs, the flexibility of the labour market also matters in hiring decisions. Employment protection legislation for regular contracts in Sweden is fairly strict despite a generous social safety net, with heavy notification procedures in case of dismissal, stringent regulation of the order of layoffs in case of redundancy, a relatively

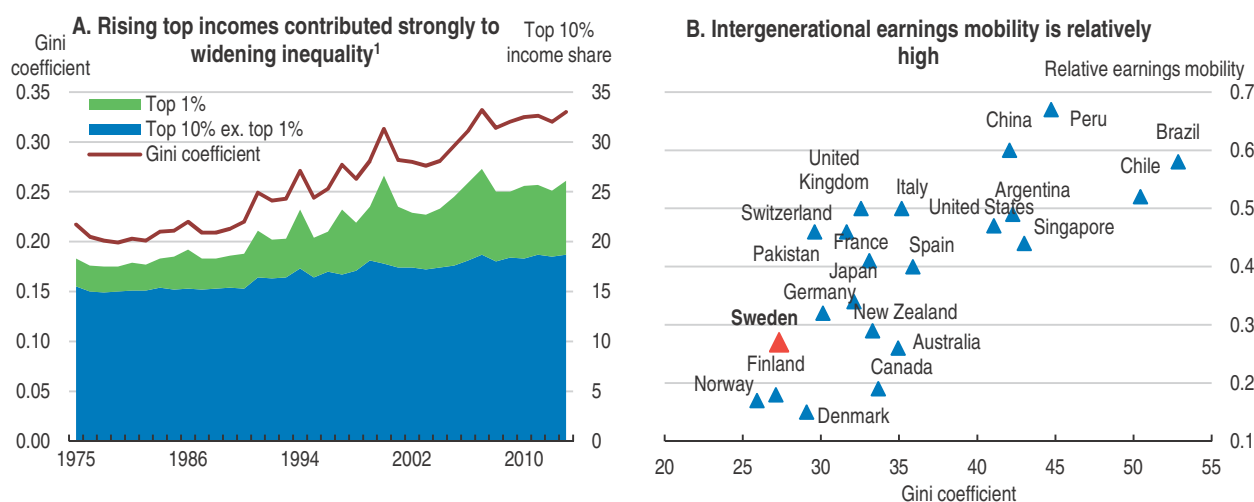
broad definition of unfair dismissals and sizeable compensation following such dismissals. Making regular contracts more flexible can boost transitions from joblessness to employment sizeably in countries with well-designed activation policies, like Sweden. In general, gains from increasing flexibility far outweigh the costs in terms of transitions to joblessness, but the costs materialise quickly and are typically borne by labour market insiders. The short-term negative effects of employment protection legislation reform are lower and more short-lived if the reform is undertaken in an expanding economy, and also if the share of employees on fixed-term contracts is high (OECD Economic Survey of Sweden, 2015; Cournède et al., 2016; OECD, 2016e). In Sweden, collective agreements allow some flexibility and could also play an extended role in skills adjustment and training.

A substantial part of the increase in inequality over the past decades was driven by rising incomes at the very high end of the distribution (Figure 18, Panel A). Top incomes rose mainly as a result of realised capital gains, boosted by asset prices until 2006 (Roine and Waldenström, 2012 and 2015), while dividends have grown fast following a 2006 tax reform that increased both the scope and incentives for income shifting. In addition to affecting income inequality, wealth also matters for equality of opportunity. In contrast to relatively high income mobility in general (Panel B), fathers' relative incomes determine 90% of sons' incomes among the top 0.1%, largely because of capital income, and mobility from the bottom 75% to the top 0.1% is close to non-existent (Björklund et al., 2012a and 2012b).

Official figures suggest that wealth concentration has only increased slightly after having bottomed out in the early 1980s. However, estimates based on Financial Account discrepancies suggest that the wealth share of the top 1% may have more than doubled between 1975 and 2006. Foreign wealth holdings, declared and undeclared, are substantial at the very top of the income distribution (Roine and Waldenström, 2009).

Given the importance of capital income in explaining the increase in income inequality in Sweden, the decision to discontinue the collection of wealth statistics when

Figure 18. **Intergenerational mobility still high, despite rising top incomes**



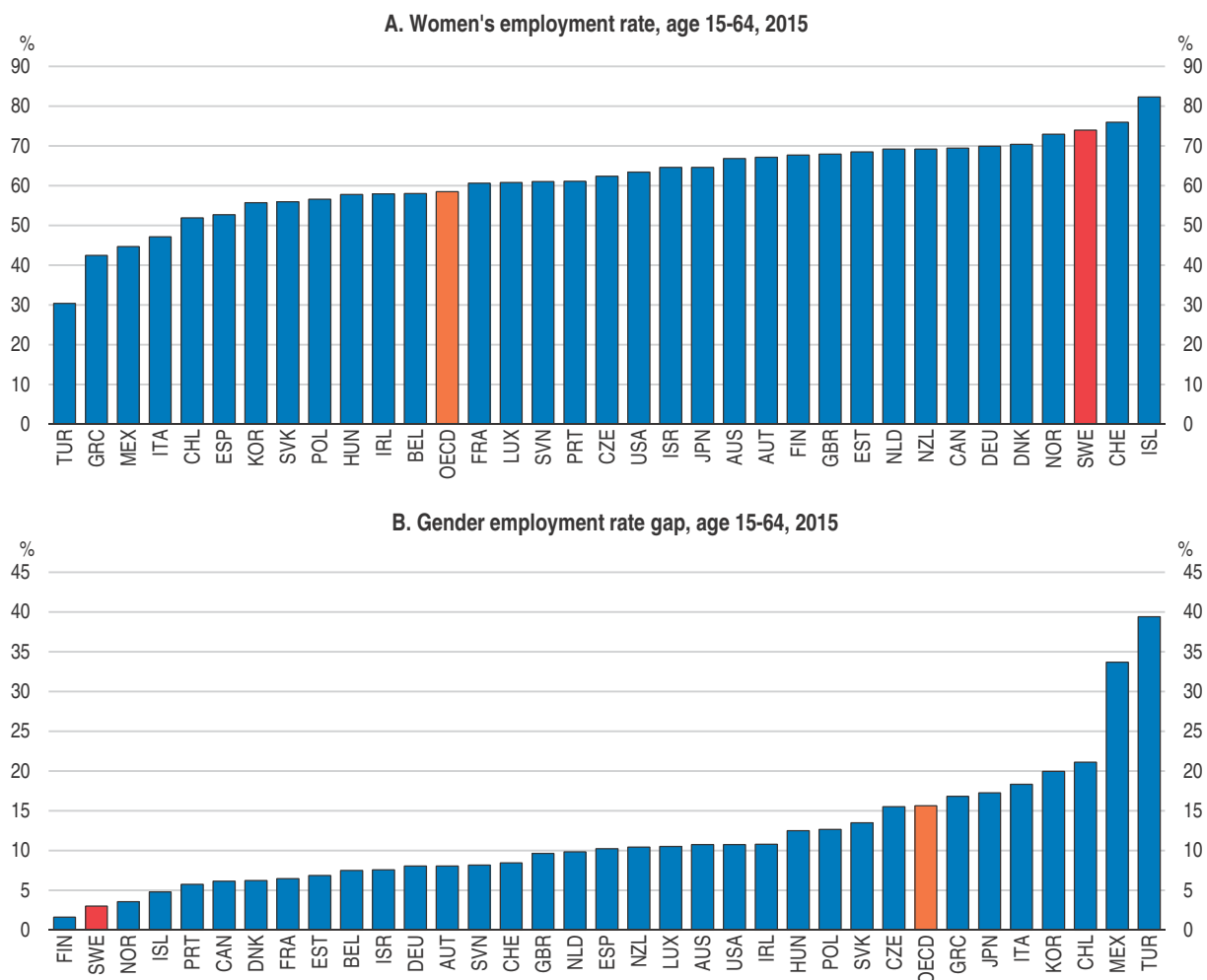
1. Household disposable income including realised capital gains.
Source: Statistics Sweden; Corak, 2016.

the wealth tax was abolished in 2007 is unfortunate. It would be desirable to resume the collection of such statistics.

More gender equality would enhance economic performance and well-being

Sweden, along with the other Nordic countries, is among the best performers in international gender equality rankings. It comes first in the Gender Equality Index of the European Institute for Gender Equality (2015), fourth in the Global Gender Gap index of the World Economic Forum (2016) and sixth on the gender equality indicator of the United Nations Development Programme (2015). Sweden has the third highest women employment rate and the second lowest gender gap in employment rates in the OECD (Figure 19). In order to promote further gender equality, the Riksdag has decided that women and men are to have the same power to shape society and their own lives. Accordingly, the government has set out four intermediate objectives: equal division of power and influence; economic equality; equal distribution of unpaid housework and provision of care; and stopping men's violence against women (MHSA, 2015). Furthermore,

Figure 19. **Swedish women's employment rate is high**



Source: OECD Labour Force Statistics.

StatLink  <http://dx.doi.org/10.1787/888933445859>

the Government has recently established a gender equality agency, to reduce fragmentation and enhance implementation effectiveness of gender equality policies. Gender policy should also pay attention to men's weak outcomes in some areas, including under-representation in some traditionally female-dominated professions where job opportunities are growing (e.g. education, social services) and under-achievement in education.

Gender equality is positively associated with GDP per capita and negatively with income inequality (Gonzales et al., 2015). Causality between income level and gender equality runs in both directions (Duflo, 2012). On the one hand, high incomes and standards of living entail more opportunities for women, including better access to health and education. High development levels are also generally associated with more economic and political rights and opportunities for individuals, and especially for women. On the other hand, gender equality favours economic growth in several ways. The reduction in the gender gap in education in OECD countries has had a positive and significant impact on GDP per capita growth over the period 1960-2008 (Thévenon and Salvi Del Pero, 2015). Educational attainment in Sweden is now higher for women than for men (Salvi del Pero and Bytchkova, 2013).

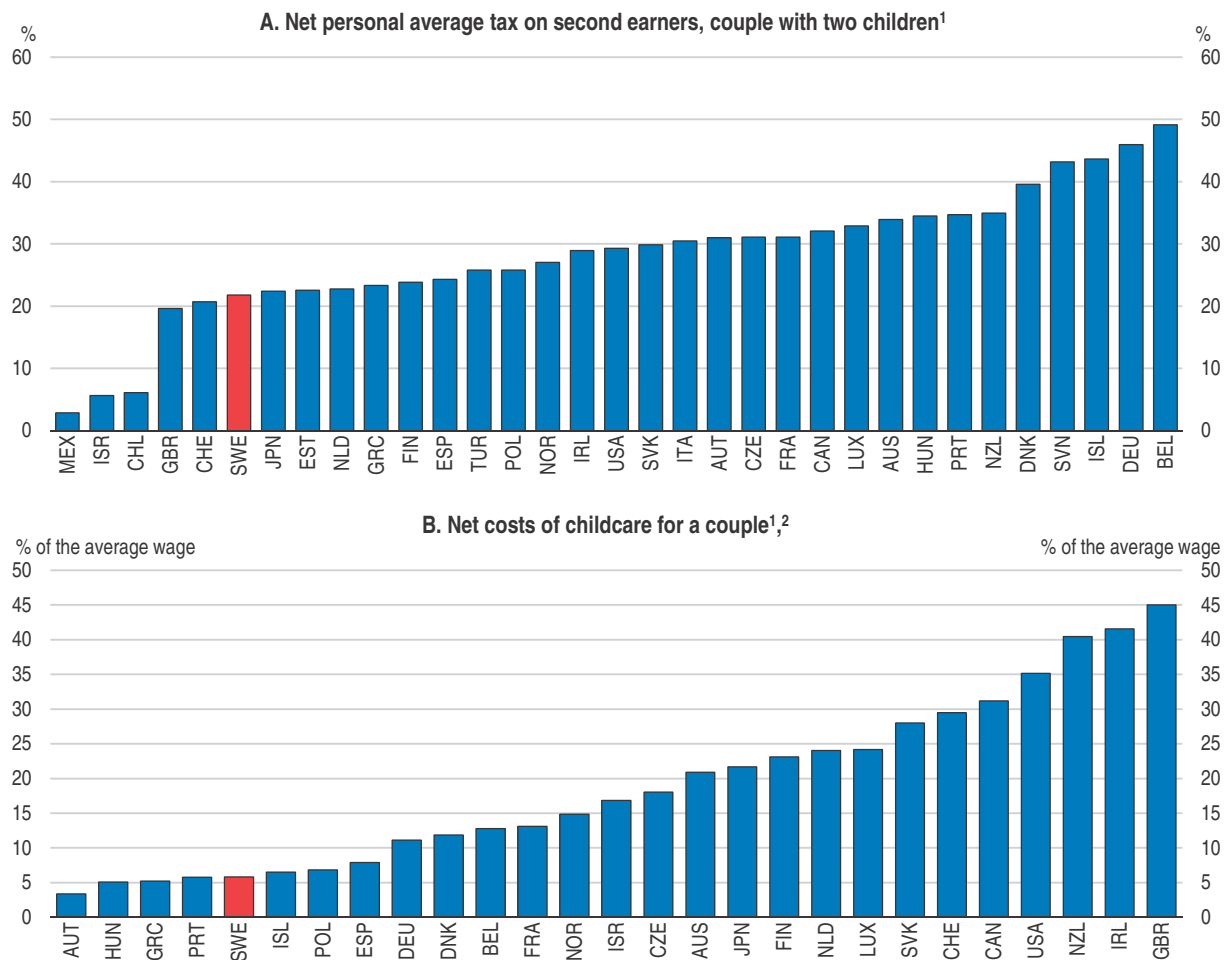
The impact of gender inequality on economic growth in Sweden is mainly related to gaps in labour participation and weaker career opportunities for women. Increasing women's labour force participation further would lift output. Simulations based on OECD long-term growth scenarios suggest that halving the gender gap in participation by 2030 would raise the level of Swedish GDP by 2.3% in that year. Fully closing the gap would raise GDP by 4.6% (OECD, 2012b). There is growing international firm-level evidence that gender diversity is also associated with greater innovation and profitability (Catalyst, 2011; Curtis et al., 2012; Hunt et al., 2015; Noland et al., 2016). Furthermore, high women labour participation and small gender wage gaps reduce overall income inequality.

The following policies have played a major role in promoting the integration of women in the labour market: individual taxation results in relatively low taxation of second earners (Figure 20, Panel A); social security legislation is based on individual insurance; access to affordable childcare and parental leave insurance also favour women employment. The net cost of childcare is among the lowest in the OECD (Panel B).

A particular challenge for Sweden is to raise the employment rate of foreign-born women, to bring it closer to the high employment rate of natives. The gap in employment between native and foreign-born women is 18 percentage points, against 11 for men. Women aged 20-64 with below-secondary education born in Asia or Africa had an employment rate as low as 33% in 2015, even though their participation rate was above 50% (Fiscal Policy Council, 2016). A particular problem is that many women drift away from the labour market after the end of the Introduction programme. One year after completing the programme, nearly one in five women is neither employed, nor in education or training (NEET), or even registered with the public employment service. The NEET rate is nearly 27% for women arrived after the age of 15, compared to about 16% for their men counterparts and around 11% for native-born women with two native-born parents. In July 2016, the government announced a new programme to tackle segregation, including a requirement for the public employment service to focus on measures to increase employment among foreign-born women (Swedish Government, 2016a). Reaching out to foreign-born women

Figure 20. **Taxes on second earners and childcare costs are low**

2012



1. The first earner earns 100% of the average wage and the second 67%.

2. For children aged 2 and 3. In a number of countries, available fee information relates to a particular region or municipality: Austria (Vienna), Belgium (Wallonia), Canada (Ontario), Finland (Helsinki), Germany (Hamburg), Iceland (Reykjavík), Japan (Tokyo), Poland (Warsaw), Switzerland (Zürich), United Kingdom (England) and the United States (Michigan).

Source: OECD Taxing Wages 2016, OECD Tax-Benefit Models.

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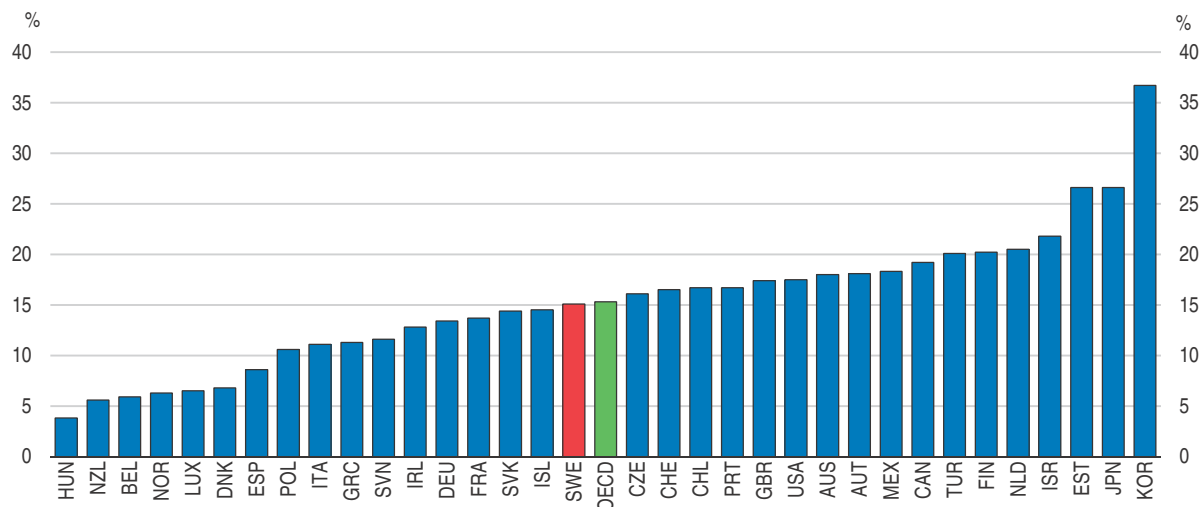
in a systematic way when the Introduction programme ends, to prevent them from drifting away from the labour market, is essential (OECD, 2016c).

Nearly 20% of Swedish women work part-time, among which more than half would like to work longer, but are often employed in sectors where part-time jobs are prevalent. While closing the gender participation gap would increase the labour force by 3.4% in 2030, convergence in full-time equivalent terms would lift labour input by close to 10%. The part-time penalty in terms of pay, job security, training and promotion, is relatively low in Sweden (OECD, 2010). However, the part-time wage penalty increases with the level of wages. It is less than 10% (15%) for women (men) at the median wage, but close to 20% (30%) for women (men) in the highest decile (Wahlberg, 2008). Part-time work also results in lower pension entitlements and contributes to the gender income gap of older people.

The Swedish gender pay gap is close to the OECD average (Figure 21). A large part of

Figure 21. **The gender wage gap is close to the OECD average¹**

2014 or latest year available

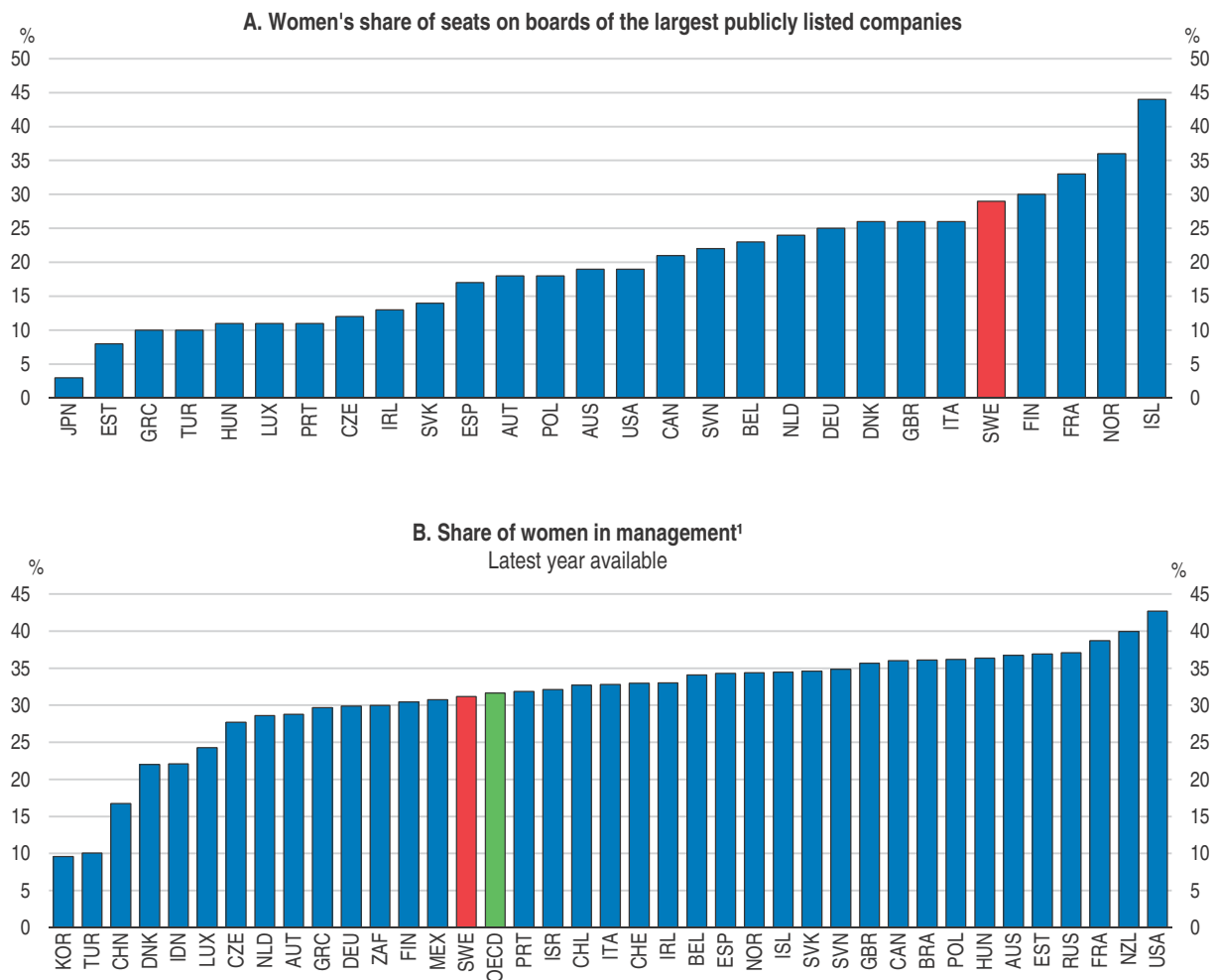


1. The gender wage gap is defined as the difference between male and female median wages divided by the male median wage.
Source: OECD Employment database.

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the gap results from differences in age, education, occupation, sector of employment and hours worked. The gender gap adjusted for such differences was 4.6% in 2015 (Swedish National Mediation Office, 2016). The unadjusted gender wage gap has been reduced by 3.8 percentage points between 2005 and 2015, while the adjusted gap has fallen by 2.2 percentage points. Despite the decrease in the gender wage gap, two observations point to persisting gender inequality. First, wages tend to be lower in professions with a high proportion of women than in male-dominated occupations. This may result from lower productivity in some female-dominated sectors, notably in social services and wholesale and retail trade, than in men-dominated sectors. Hence, improving productivity in low-pay sectors would allow reducing the gender wage gap. Higher pay may also attract more men to female-dominated sectors, which would reduce job segregation. Lower wages in women-dominated professions could also result from undervaluation of the work done by women (Bettio and Verashchagina, 2009; Levanon et al., 2009). Second, the gender wage gap tends to increase with the wage level and is particularly high in the top percentiles of the distribution, suggesting the existence of a glass ceiling for women (Albrecht et al., 2015).

Sweden has almost reached gender parity in political representation, but progress has been slower in the business sector. The women's share of board members of the largest listed companies is below one third, even though it is one of the highest among OECD countries (Figure 22, Panel A). The government intended to submit legislation requiring that at least 40% of listed company board members be women to the Riksdag in 2017. In case of non-compliance, firms could have been fined up to five million krona (about USD 600 000). But the project was abandoned, as it appeared that it was unlikely to gather the necessary support in Parliament. Despite the economic and societal benefits of improved gender equality, quotas have some drawbacks. Ideally, firms should be allowed to select freely the best candidates for a position solely on the basis of their competences. It is sometimes argued that targets are

Figure 22. **Less than one third of company board members are women**

1. Covers Category 1 of the International Standard Classification of Occupations (ISCO), which includes legislators, senior officials and managers.

Source: OECD Employment database; ILO, Key Indicators of Labour Market (KILM) database.

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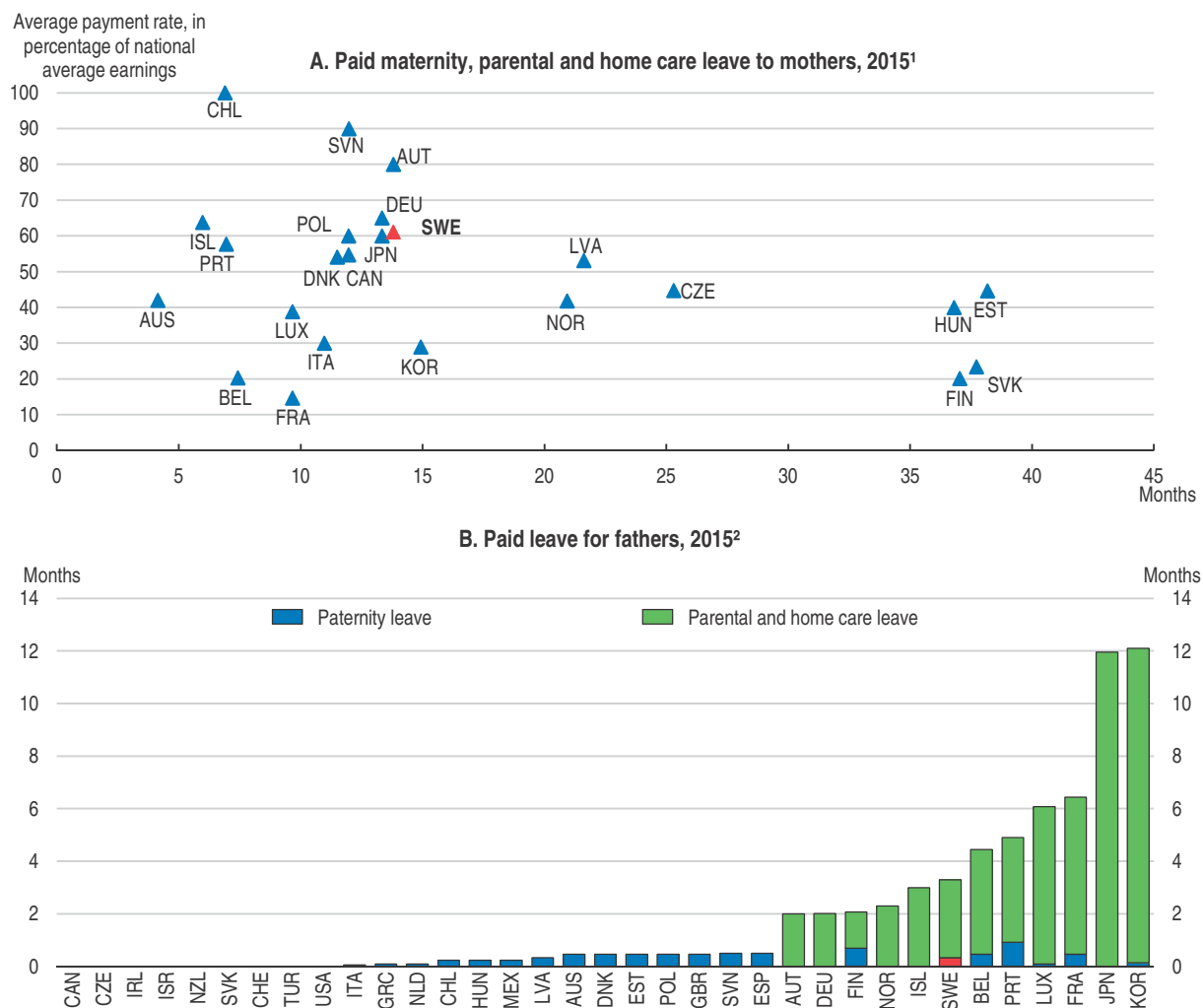
better than mandatory quotas, as they incentivise firms to move towards gender equality, while providing the necessary flexibility to avoid sub-optimal decisions in terms of human resources management (OECD, 2016f). Quotas on company boards may also mask ongoing power imbalances between genders, as women continue to be under-represented in executive positions. For these reasons, targets rather than binding quotas are sometimes advocated. Nevertheless, the persistence of cultural influences and implicit perception bias in candidates' selection provides support for the imposition of gender quotas, at least temporarily (Duflo, 2012). Norway successfully introduced gender quotas in 2003. Belgium, France, Germany, Iceland, Italy and Spain have started to implement similar regulations, though sanctions in case of non-compliance appear to be less severe than in Norway.

Despite their high level of educational attainment, women are under-represented in senior management, even though with a women's share of about 30%, Sweden is close to the OECD average (Panel B). The under-representation of women in senior management warrants special attention not only from an equity point of view, but also because female

executives seem to have more of an impact on firm performance than female board members (Noland et al., 2016).

Parental leave in Sweden combines a relatively long duration and a high replacement rate (Figure 23, Panel A). The current system is credited with increasing the participation of women in the labour market, promoting men's involvement in childcare, supporting fertility and enhancing children's well-being (Ferrarini and Duvander, 2010). Parents established in the labour market are entitled to receive 78% of previous earnings up to a relatively high cap for up to 13 months and parents can share the leave as they wish, except for a part reserved for each parent, which was extended from two to three months in 2016 (Panel B). Women take 75% of parental leaves, even though the "daddy quota" has led to a doubling in the number of parental leave days taken by men (OECD, 2016g). A more equal split of parental leaves would bring benefits in many areas. Long leaves have a detrimental

Figure 23. Parental leave is fairly generous



1. Countries with no paid home care leave are not shown.

2. 2016 for Sweden.

Source: OECD Family database.

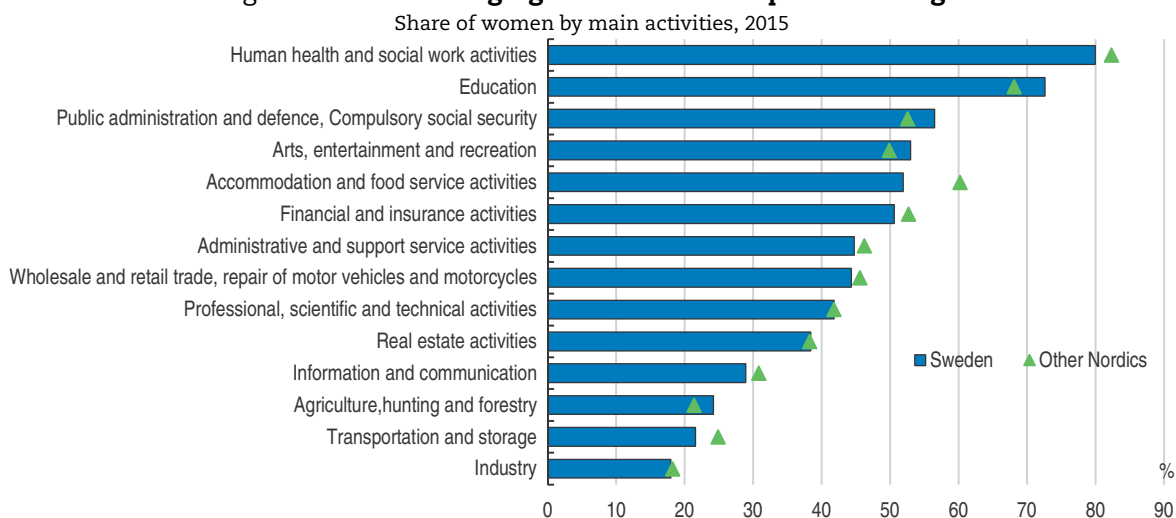
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impact on careers (Evertsson and Duvander, 2011; Thévenon and Solaz, 2013). They may erode human capital, through foregone experience, depreciation of skills during the leave and lower investment in careers. They may signal weaker work commitment. Employers may also discriminate against childbearing age women because of their higher probability of leave (Johansson, 2010). Moreover, fathers taking parental leave tend to be more involved in childcare beyond the leave period. Better sharing parental leaves can lead to better long-term sharing of childcare and unpaid work. This in turn can facilitate women's careers. Fathers' involvement in childcare is associated with better children's cognitive development and well-being (Huerta et al., 2013). Hence, the government could progressively raise the share of the parental leave reserved for each parent further.

Full rights to the parental leave minimum benefit are available for children up to the age of seven. They are seldom used by natives when children are over the age of three, but more by female immigrants, which exacerbates language learning disadvantages for their children, who do not participate in early childhood education and care (Swedish Government, 2016b).

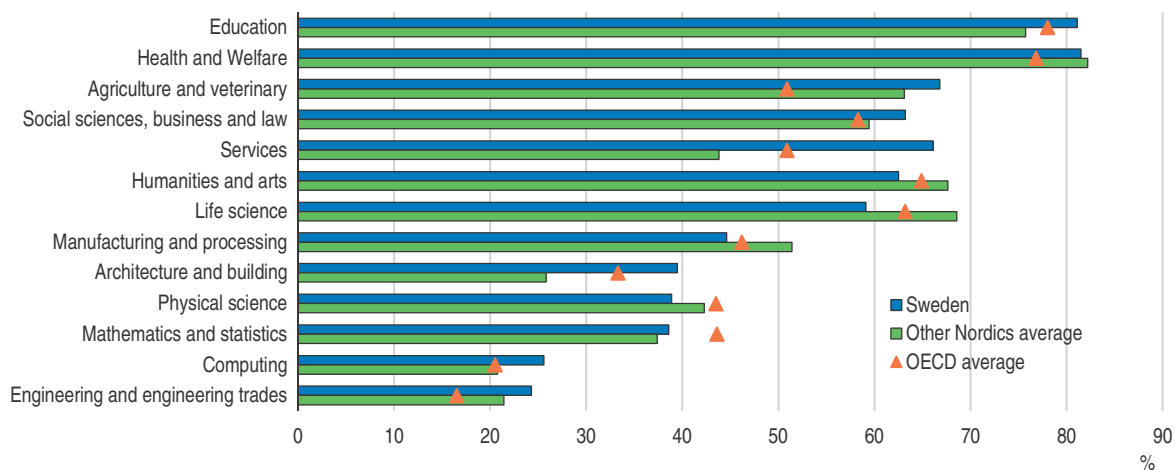
Women are under-represented in many high-productivity, well-paid and influential professions, accounting for less than 30% of information and communication employees and only slightly over 40% of professional, scientific and technical workers. Conversely, they are over-represented in low-productivity and low-pay sectors. They account for 80% of health and social workers and more than 70% of education employees (Figure 24). The distribution of genders between professions matches education choices. Women account for only about a quarter of engineering and computing graduates, but for more than 80% of education and health and welfare graduates (Figure 25). Education choices are determined by preferences but are also influenced by social norms. The internalisation of social norms is partly unconscious, but may also reflect perceived hurdles in accessing a profession. Sweden, like several other European countries, has developed vocational training programmes specifically designed to lower employment segregation. Such programmes

Figure 24. Gender segregation across occupations is high



Source: OECD Labour Force Statistics.

StatLink <http://dx.doi.org/10.1787/888933445908>

Figure 25. Education choices vary widely across gendersShare of women graduating by field of education, 2014¹

1. Level of education: total tertiary education (ISCED2011 levels 5 to 8). 2013 for the OECD average and for the fields below life science.
Source: OECD Education at a Glance.

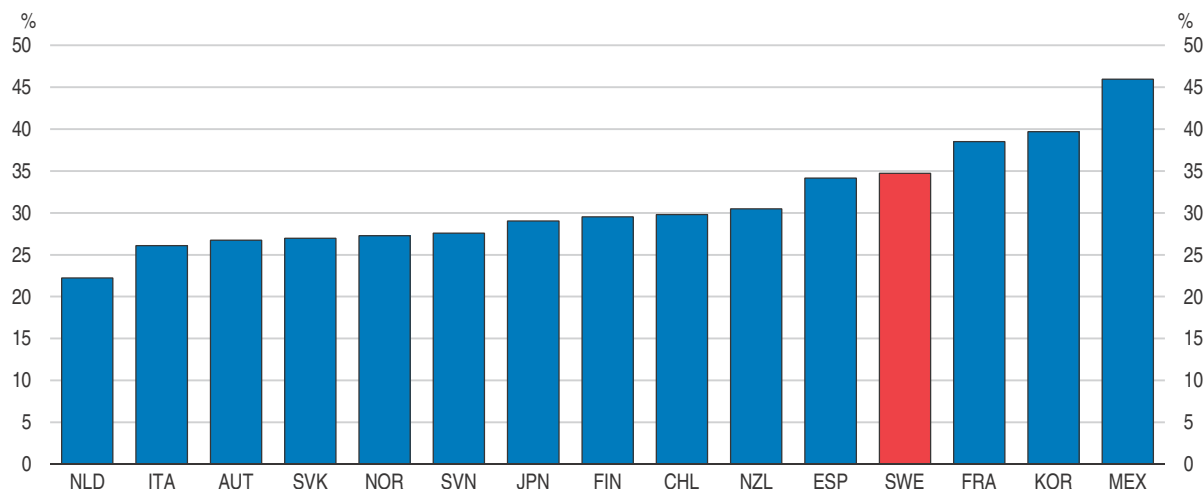
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generally target girls, but attention should also be paid to encouraging boys to enter traditionally women-dominated professions (Bettio and Verashchagina, 2009).

Women entrepreneurship is growing faster in Sweden than across the OECD, but only slightly over a third of Swedish sole proprietor enterprises are owned by women (Figure 26). On current trends, parity in entrepreneurship would be reached only around 2050 (Piacentini, 2013; Swedish Agency for Economic and Regional Growth, 2015a). The government has been promoting women entrepreneurship for years through business development programmes,

Figure 26. Only a third of sole-proprietor enterprises are owned by women

Latest year available



Source: OECD Entrepreneurship database.

StatLink <http://dx.doi.org/10.1787/888933445929>

which include advisory services, coaching, mentoring, networking and training. The most recent development is the national strategy for business promotion on equal terms (for women, youth and foreign-born) for the period 2015-20 (Swedish Agency for Economic and Regional Growth, 2015b). Business promotion has traditionally focussed on sectors like industry and manufacturing, where women are under-represented, and needs to be expanded in the service sector. Closer cooperation between schools and trade associations, civil society groups and the business community could promote further girls education in science, technology, engineering and mathematics (OECD, 2015c).

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ANNEX

Progress in structural reform

This annex summarises key recommendations made in previous Economic Surveys and Environmental Performance Reviews, and actions taken since the *OECD Economic Survey on Sweden* published in March 2015.

Recommendations in previous <i>Surveys</i>	Actions taken
Business regulations, infrastructure and innovation	
Simplify regulatory procedures, in particular regarding licences and permits.	Starting a business has become easier, as the company registry is now required to register a company in five days.
Streamline land-use planning and zoning regulations and increase incentives for municipalities to release land.	In June 2016, the government presented 22 steps for more dwellings, including several legislative measures to make the planning system more efficient. Support to municipalities based on the number of dwellings permitted has been introduced and will be disbursed in late 2016.
Invest to improve the quality of roads and rail, with careful consideration of social returns.	The Government has made major investments in railway maintenance and investments in public transport in rural areas.
Continue to broaden support for innovation and enhance co-ordination of innovation and research policies. Lower financing constraints by fostering the development of debt and equity instruments and platforms for corporate finance.	Innovation and research policy is being gradually strengthened, but governance, leadership and strategic vision need further improvement.
Skills and education	
Raise the attractiveness of teaching by increasing monetary incentives, offer clearer career paths, and improve teacher education.	Resources have been set aside to give approximately 60 000 teachers a substantial increase in salary from July 2016. In addition, a career reform affecting 17 000 senior teachers will be fully implemented.
Increase support for struggling students, including immigrants, through early intervention and targeting resources based on socio-economic background.	Measures are being taken to enable teachers to devote a larger proportion of their working hours to teaching. Special resources have been channelled to schools with low learning outcomes.
Enhance support and incentives for immigrants to learn Swedish.	Swedish for Immigrants (SFI) has been reformed and steps are taken to enable asylum seekers to begin learning Swedish earlier.
Consider consolidating existing institutions in charge of advising on and supervising education policies into an education policy council.	No action taken.
Labour market and social policies for greater inclusion	
Reduce the gap in employment protection between permanent and temporary contracts and increase flexibility in entry level wages.	An amendment to the employment protection legislation, which entered into force in May 2016, enhances the protection of fixed-term employees by limiting the scope for a succession of fixed-term contracts. The government favours lowering labour costs for low-skilled workers through subsidies. The subsidy system will be simplified to increase take-up.

Recommendations in previous <i>Surveys</i>	Actions taken
Consider extending the coverage of unemployment insurance by easing the entitlement conditions in terms of duration of past work, and moving to a system with mandatory contributions to unemployment insurance.	No action taken on coverage, although the government is investigating the issue. Basic insurance, covering the unemployed who are not members of an unemployment insurance fund or do not satisfy the conditions applicable for entitlement to income-related benefits, can be regarded as mandatory. The government has raised the ceiling and the basic level of compensation in the unemployment insurance system.
Policies to enhance the efficiency of capital taxation and the housing market	
Move towards more neutral taxation across types of assets. In particular, to tax owner-occupied housing like other assets, a tax on imputed-rent would be first-best. A property tax based on market value could proxy imputed-rent taxation. Alternatively, abolish mortgage interest deductibility.	No action taken.
Phase out the restrictions on apartment rentals, including on buying an apartment to rent it out. Continue to phase out rent controls so as to more closely align rents with market values.	No action taken.
Climate change mitigation policies	
Continue to gradually phase out exemptions to the carbon tax. Clarify the role and the expected costs and benefits of the long-term priority to have a fossil-fuel independent vehicle fleet by 2030.	Climate change is the government's top environmental priority. Many exemptions from energy and CO ₂ taxes have been reduced or removed; the largest remaining tax expenditure is the favourable tax treatment of diesel used in transport. Cost-benefit analysis is still lacking.
Recommendations from the 2014 Environmental Performance Review	
Climate change	
Develop a strategic action plan, including intermediate domestic targets, for achieving the 2030 and 2050 climate policy objectives. Establish institutional arrangements to enhance inter-agency coordination for developing and implementing climate-related policies.	Sweden has established a cross-party parliamentary committee on environmental objectives, which endorsed a goal to achieve zero net greenhouse gas emissions by 2045, accompanied by intermediate goals of reducing overall emissions by 63% and transport sector emissions by 70% compared to 1990 by 2030. The Environmental Targets Committee, consisting of heads of relevant agencies, has been set up to enhance inter-agency coordination.
Systematically evaluate the incentive mix in the transport sector, including motor fuel and vehicle taxes, the tax treatment of biofuels and the taxation of company cars and commuting allowances; reform the tax treatment of company cars; and increase the energy tax rate on diesel, with a view to reaching energy tax parity with petrol.	Energy- and CO ₂ taxes on gasoline and diesel will be uprated in line with GDP growth from 2017. The government plans to improve tax incentives to buy cleaner vehicles by mid-2018, and is also considering a road-use tax for heavy vehicles and taxation of air travel.
Chemicals and air pollution	
Further extend the use of environmental taxation in areas other than energy use. Remove the refund mechanism for the NO _x charge. Ensure that all rates are systematically adjusted to maintain the incentive and revenue-raising functions of taxes.	Some categories of consumer goods and appliances containing hazardous chemicals will be taxed and VAT on repair of appliances will be reduced from 2017.
Water	
Improve transparency in water pricing policy for different sectors. Include environmental and resource costs in the calculation of cost recovery and promote more efficient delivery of water services through inter-municipal cooperation and private sector participation.	No action taken.

Thematic chapters

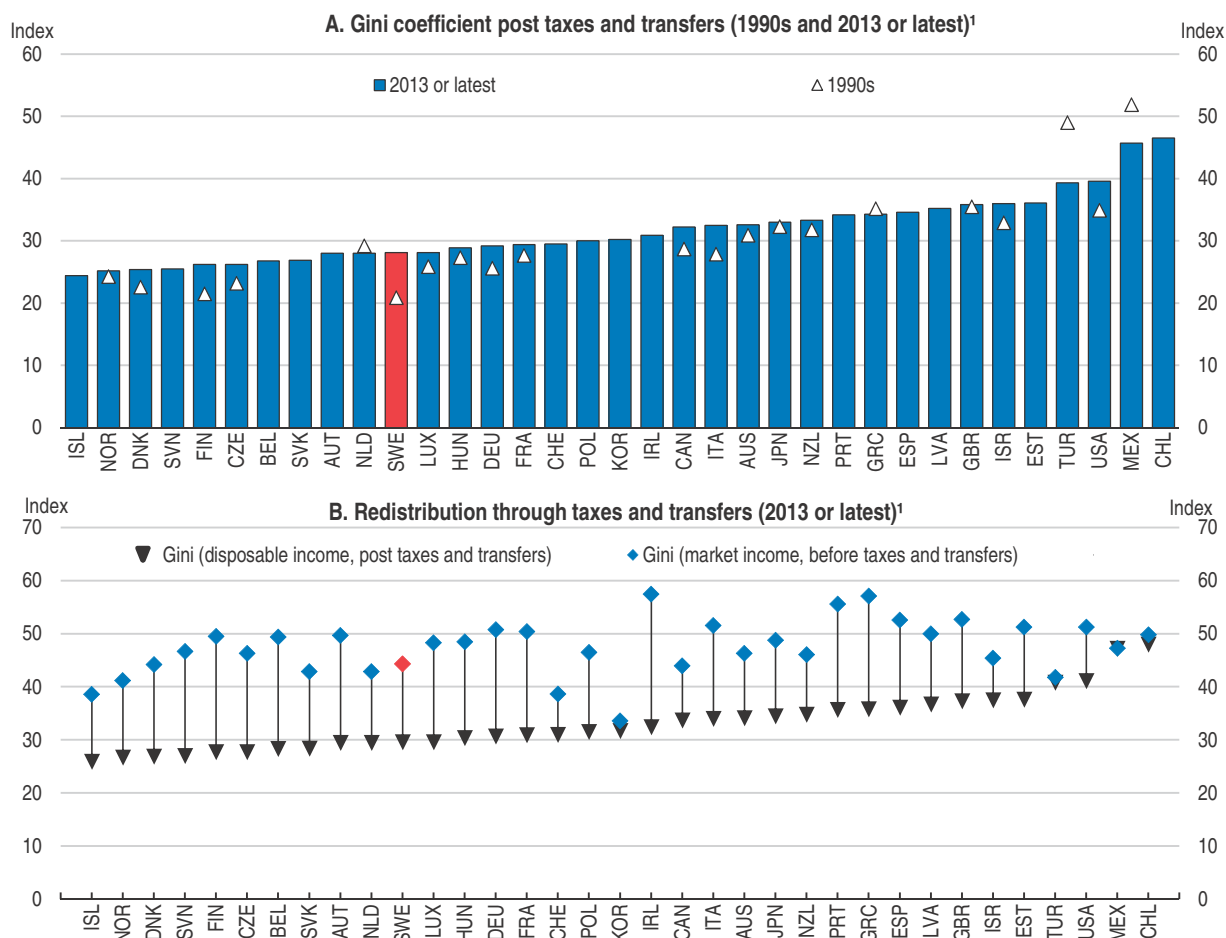
Chapter 1

Income, wealth and equal opportunities in Sweden

Sweden is an egalitarian society in international comparison, and has managed to combine equity with economic efficiency. Rapidly rising inequality and relative poverty from a historical low in the 1980s partly stem from ageing, changing family structures and migration. Living standards increased for all groups, but social benefits rose less than earned income. Incomes of newly-arrived immigrants and single mothers trailed the median. Bottlenecks in the migrant settlement process are costly to migrants and society, and high entry wages further slow integration. Spatial segregation leads to school segregation and potentially reduced social mobility for the least endowed, and rental regulations reduce the scope for settling where job opportunities are the best. Fast-growing capital incomes, likely linked to increasing wealth concentration and income shifting, increased inequality. Low intergenerational income mobility in the very top of the income distribution is a concern. Social benefits should be uprated more systematically and regressive housing-related taxation reformed to strengthen redistribution. Migrant settlement and integration need to be better coordinated and adapted to individual starting points. The number of wage subsidies and their administrative complexity should be reduced to ease labour market entry. Dysfunctional rental regulations should be reformed to increase mobility and limit spatial segregation.

Income inequality in Sweden fell to historical lows in the 1980s but has since increased. Social benefits rose less than earned income growth, and fast-growing capital gains and dividends boosted top incomes. Today, Sweden is still one of the most egalitarian OECD countries, but the Gini coefficient of household disposable income has increased more in Sweden than in any other OECD country with available data, and is now the highest among the Nordics (Figure 1.1). Furthermore, following record-high, mostly humanitarian and family reunion immigration, 16% of the population was foreign-born in 2015. The foreign born are less likely to be employed, and they often earn less and work in occupations with lower status than natives with similar education.

Figure 1.1. **Inequalities have been widening since the 1990s, but remain low**



1. The Gini index measures the extent to which the distribution of income deviates from a perfectly equal distribution. A Gini index of zero represents perfect equality and 100 represents perfect inequality.

Source: OECD Income Distribution and Poverty database.

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To shed light on the sources of income inequality in Sweden, this chapter gives an overview of developments in income inequality over time, in particular after the 1980s, but some trends are traced back to the 18th century. Income is measured as equivalised disposable income unless otherwise specified (Box 1.1), but other measures of income and wealth are also used. The chapter seeks to explain how structural trends, such as longevity and household structure, as well as different sources of market income, taxes and transfers, have shaped the rise in inequalities over the past two decades, and how policies can be adjusted to contain the rise in inequality in a rapidly changing society.

Box 1.1. Income measures

Income inequality is often derived from equivalised disposable income. This measure takes into account market (factor) income, taxes, transfers and economies of scale in household consumption.

Market (factor) income: The starting point for all income measures is individual market income, which consists of wages, salaries and income from self-employment, as well as capital and property income.

Household income: Even though individual incomes are relevant, notably in the study of gender equality, they fail to adequately capture differences in living standards. To evaluate income inequality it is therefore common to pool the market incomes of all the members of a household to arrive at household market income.

Disposable income: Disposable income is obtained by adding transfers and subtracting direct taxes from market income, usually at the household level. Disposable income can also be adjusted by adding the consumption of public services, but this is seldom done because such data are not readily available.

Equivalised income: Household income can be reported on a per capita basis. However, the needs of a household do not grow proportionally to the number of household members because of economies of scale in household consumption. The needs for housing space and electricity will for example not be three times as high for a household with three members than for a single person. It is therefore common to assign household income to members of the household using an equivalence scale. There is no internationally recognised standard equivalence scale, but some of the most commonly used scales include the “(old) OECD equivalence scale”, which assigns a value of 1 to the first household member, 0.7 to each additional adult and 0.5 to each child; the “OECD-modified scale”, which assigns a value of 1 to the household head, 0.5 to each additional adult member and 0.3 to each child; and the square root scale, which is the square root of the number of family members. Statistics Sweden uses an equivalence scale which assigns a value of 1 to the first adult, 0.51 to the second and 0.60 to subsequent adults, 0.52 to the first, and 0.42 to subsequent children (Table 1.1). Equivalised income is derived by dividing pooled household (disposable or market) income by the relevant number from the equivalence scale.

Table 1.1. Commonly used equivalence scales

Household	Equivalence scale				
	Per capita	(Old) OECD scale	OECD-modified scale	Square root scale	Statistics Sweden
1 adult	1	1.0	1.0	1.0	1.0
2 adults	2	1.7	1.5	1.4	1.5
2 adults, 1 child	3	2.2	1.8	1.7	2.0
2 adults, 2 children	4	2.7	2.1	2.0	2.5
1 adult, 1 child	2	1.5	1.3	1.4	1.5

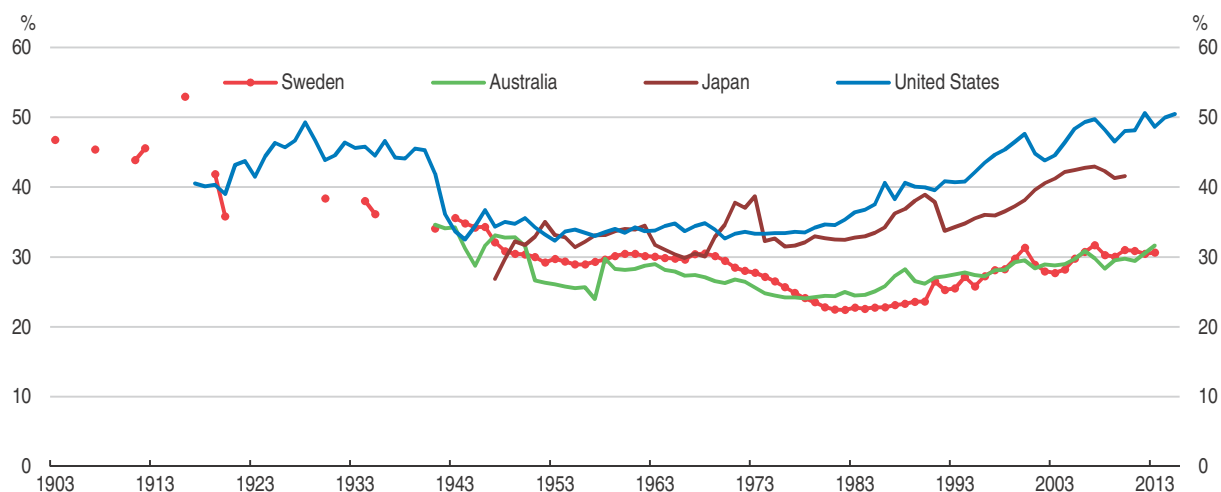
Source: OECD (2013); Statistics Sweden (2016).

Inequality fell to a historical low in the 1980s

A long trend of falling income inequality in Sweden turned in the 1980s (Figure 1.2). The falling trend pre-dates the rise of the welfare state in the 1960s and 1970s by several decades, and drivers of equity have varied over time. Several early reforms and societal trends associated with the modernisation and industrialisation of the country from the 18th century onwards brought about strong economic growth combined with greater equity. Such win-win opportunities became increasingly scarce towards the end of the 20th century. Sweden has converged towards the best policy frontier on several dimensions, which implies starker policy trade-offs between efficiency and equity (Andersen and Maibom, 2016).

Figure 1.2. **A secular decline in inequality reversed around 1980**

Top 10 percent income share¹



1. Market income including capital income.

Source: The World Wealth and Income database.

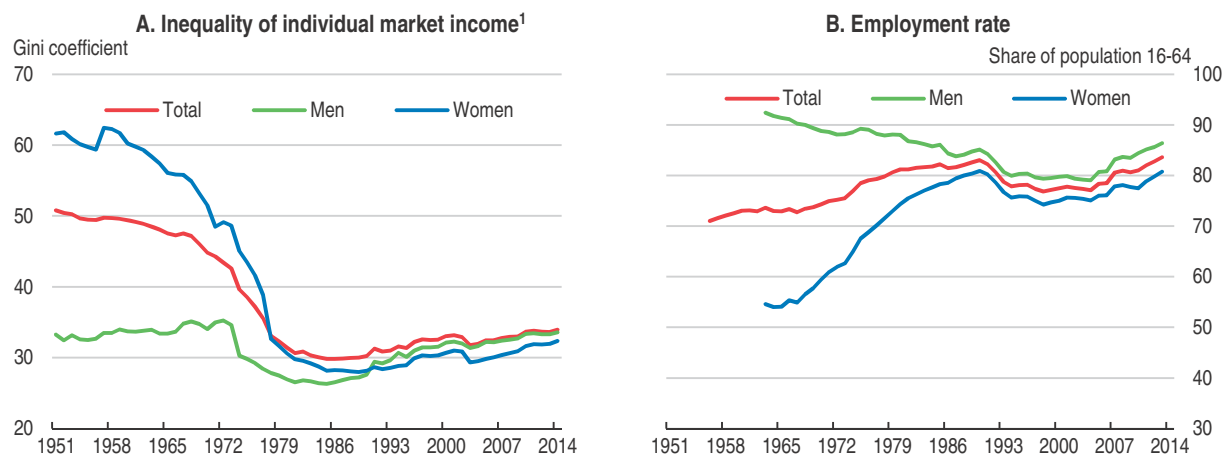
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Starting in the late 1700s, land reform rearranged what was previously a patchwork of plots into organised squares around farms. The reforms also gave farmers ownership of their plots, which spurred productivity improvements to the benefit of the mostly rural population. The growth of local savings banks from the 1840s and steadily rising savings (Soltow, 1989) underpinned this trend, making for better functioning and more inclusive credit intermediation. Compulsory elementary school was introduced in 1842, making access to education more egalitarian. Increasingly meritocratic recruitment of civil servants and the removal of aristocratic rights to high positions in 1845 coincided with the establishment of a free press and civil servants earning salaries instead of charging fees for their services. These changes opened up opportunities that were earlier reserved for the aristocracy and the well connected. Furthermore, they increased the accountability and efficiency of the public sector, facilitating the emergence of Swedish industry, which was also boosted by increased freedom of movement of goods, labour and capital. The expansion of manufacturing jobs increased the productivity of labour migrating from the countryside, although part of the surplus workforce emigrated, notably to

the United States. The growing membership of trade unions from the end of the 19th century and their cooperation with employer unions, further school reforms increasing the quantity and quality of compulsory education, progressive taxation of income (1903) and wealth (1911) and early social insurance schemes from the late 19th century lifted equity further in the first half of the 20th century (Bergh, 2011).

Inequalities continued to fall steeply after the Second World War. Many of the early reforms mentioned above continued to have an effect, and the welfare state expanded progressively. The 1940 school reform and the introduction of universal sickness insurance in 1955 had important and lasting equalising effects (Bjorklund et al., 2009; Bergh, 2011). However, the spectacular fall of the Gini coefficient of individual market income from above 50 in 1950 to around 32 in 1985 was almost entirely driven by rising female employment (Figure 1.3; Johansson and Lindh, 2006). An expanding public sector gave women employment opportunities, eased labour force entry by expanding childcare, elderly care and schooling, and also increased demand for such services. Increasing female employment has, in addition to lowering inequality of individual income, been found to lower inequality of equivalised income (OECD, 2011).

Figure 1.3. **Rising female employment boosted equity after World War II**



1. Gini coefficients from 1951 to 1990 are calculated on the basis of income deciles from Johansson and Lindh (2009) and spliced in 1991 with coefficients calculated from tax data in income brackets from Statistics Sweden.

Sources: Johansson and Lindh (2009), Swedish National Data Service; Statistics Sweden, Incomes and Taxes database; and OECD Annual Labour Force Statistics database.

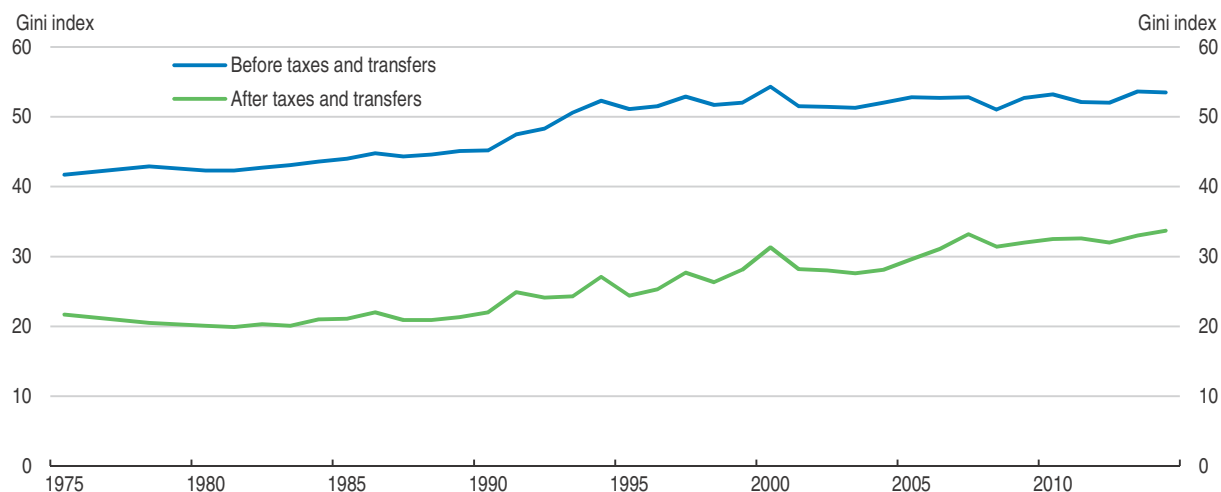
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Living standards rose for all income groups, but more slowly at the bottom than at the top

Household market income inequality rose steadily from 1975 to 1994, but has remained stable since. Disposable income inequality bottomed out in 1981, and did not rise much until the 1990s. Taxes and transfers have a strong redistributive effect in Sweden. However, this equalising effect has fallen both in absolute and percentage terms since the 1990s, as stable household market income inequality is accompanied by a continued rise in the Gini coefficient after taxes and transfers (Figure 1.4). Inequality has increased more in Sweden than in any other OECD country with available data, reflecting high

income growth in the middle- and higher parts of the distribution. But incomes of the bottom 10% of the population have also grown somewhat more than in the OECD median country. To measure inequalities correctly, the consumption value of free or subsidised public services should in principle be included in the income measure. This reduces the level of inequality indicators considerably, and the equalising effect differs between countries. Comparable data accounting for public services are not regularly compiled, but 2007 data showed that accounting for public services did not materially change Sweden's ranking relative to other OECD countries (OECD, 2011).

Figure 1.4. **Inequality trends before and after taxes and transfers¹**



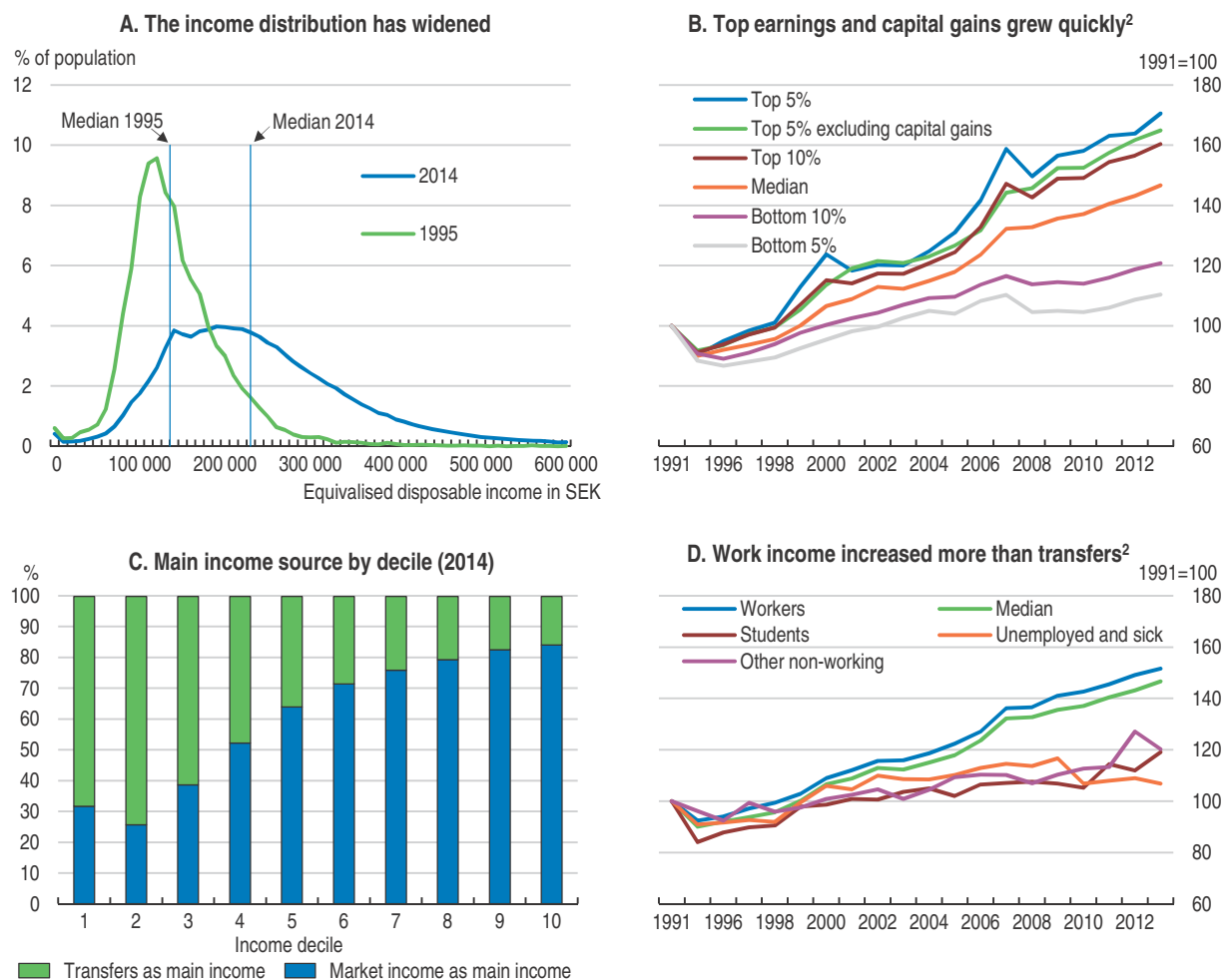
1. Equivalised income including capital income. An old definition of households is used to enable comparison over time. Inequality levels are therefore higher than in official statistics.

Sources: Statistics Sweden.

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The median real income for the total population grew by an average of 2.7% per year from 1995 to 2014, but growth was slower at the lower end of the distribution than at the higher end, pushing up inequality (Figure 1.5, Panels A and B). Income growth at the high end of the distribution has largely been driven by growing capital incomes, contrary to the United States and the United Kingdom, where salaries played a greater role (Heathcote et al., 2010; Blundell and Etheridge, 2010). Weaker income growth in the lower part of the distribution is to a large extent a result of social benefits growing more slowly than wages. A majority of individuals in the three lowest income deciles have public transfers as their main source of income (Figure 1.5, Panel C). Those who are not in employment have therefore seen their relative living standards eroded (Figure 1.5, Panel D; Ministry of Finance, 2016a).

The gap between earned and benefit income was widened further by the introduction of the Earned income tax credit (EITC) from 2007 and the lowering of replacement rates in the unemployment and sickness insurance, introduced to improve work incentives. However, sickness insurance spending increases rapidly despite the tightening (Fiscal Policy Council, 2016). Furthermore, higher fees to participate in occupational unemployment insurance led to outflows from such insurance in the years leading up to the Great Recession. The government has started increasing the unemployment benefit

Figure 1.5. **The income distribution has widened since the 1990s¹**

1. Equivalised disposable income.

2. Median equivalised disposable income within each group.

Source: Statistics Sweden, Income Distribution Survey; Ministry of Finance, 2016a.

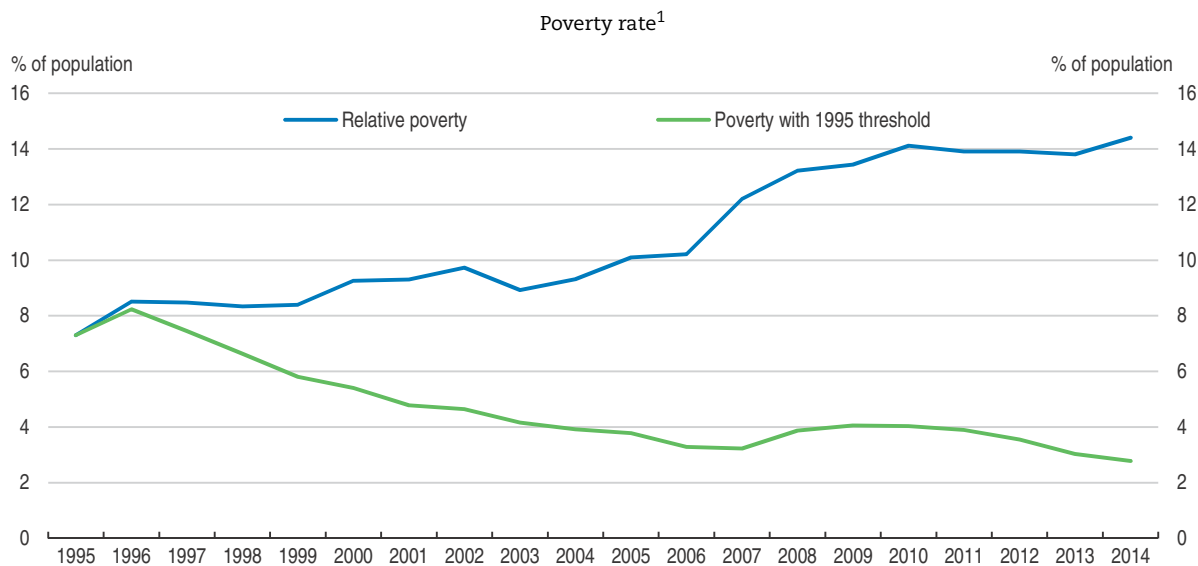
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ceiling, which had fallen from above the median in 1992 to below the 10th income percentile in 2014 (OECD Economic Survey of Sweden, 2015; Fiscal Policy Council, 2014; Ministry of Finance, 2016a).

Incomes grew for all age groups (in real terms). However, young adults (20-29) and older individuals (65+) saw lower median income growth than others (2.3%), since student aid and old-age pensions increased at a slower pace than earned income over the period. Couples have also seen their incomes grow faster than singles. Single mothers had the slowest income growth of all household types, with an average of 1.7% per year, as their incomes to a larger extent consist of transfers that have increased more slowly than wages. Foreign-born persons have also experienced slower income growth than natives over the period, with average income growth for those who have been in the country for less than 10 years of 1.7%, and around 2% for those with longer stays (Ministry of Finance, 2015 and 2016a).

Relative poverty, measured as the share of individuals living on less than 60% of the median income followed a similar pattern as inequalities from the 1990s, and the same groups were affected. The share of the population with incomes below the relative poverty line almost doubled between 1995 and 2013 to 14%. The incidence of relative poverty for the foreign-born and single parents increased by more than 18 percentage points, and more than 30% of individuals in each of these groups are now below the poverty line. The incidence of relative poverty among young adults (age 20-29) and single persons doubled from approximately 10% to above 20%. However, the incomes of all these groups rose in real terms over the same period (Ministry of Finance, 2015 and 2016a; Figure 1.6).

Figure 1.6. **Relative incomes fell while purchasing power increased in the lower part of the distribution**



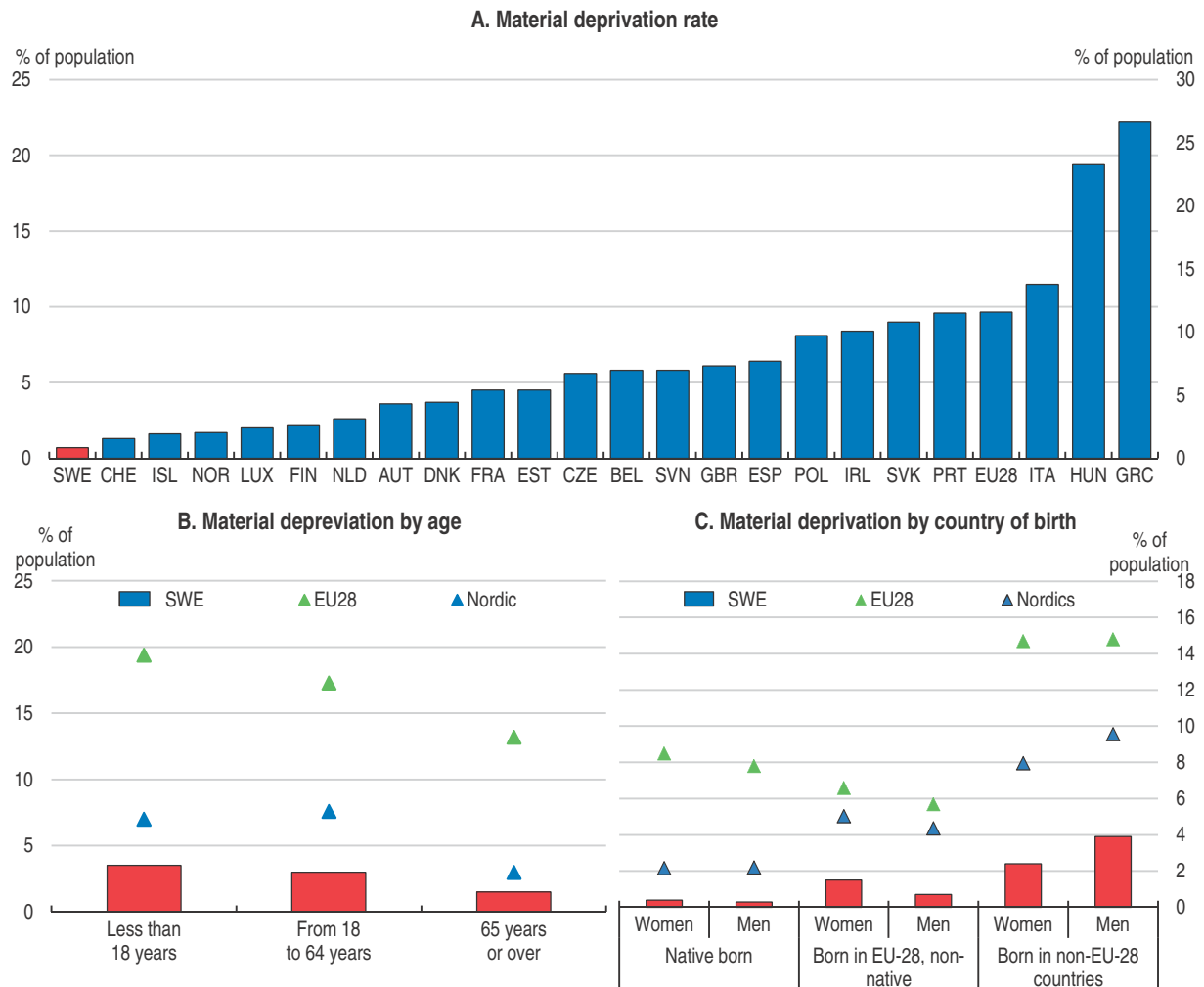
1. The relative poverty threshold equals 60% of median earnings in the year in question. The 1995 threshold equals 60% of median earnings in 1995, adjusted by the consumer price index.

Source: Ministry of Finance (2016a).

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To supplement measures of relative poverty, the European Commission has adopted an index of material deprivation. Severe material deprivation is defined as the inability to pay for at least four of the following items: rent, mortgage or utility bills; adequate home heating; unexpected expenses; regular meat or protein consumption; holidays; a television set; a washing machine; a car; a telephone (Eurostat, 2016). According to this definition, only 0.7 % of the Swedish population faces severe material deprivation, the lowest share in the European Union, and significantly lower than in the other Nordics (Figure 1.7 Panel A). Older persons, who are over-represented among persons in relative poverty, are less likely than other age groups to experience material deprivation (Figure 1.7, Panel B). They are likely to own their dwelling and have lower mortgage costs and more financial assets than the rest of the population, and public services, such as health care and old-age care are provided free of charge or highly subsidised.

Migrants are more likely to earn low incomes and to experience material deprivation than natives. Migrants from outside of the European Union, notably men, are more exposed than EU migrants (Figure 1.7, Panel C). Households with three or more children

Figure 1.7. **The incidence of material deprivation is low in Sweden**In 2015¹

1. 2014 for Panel C.

Source: Eurostat, Income and Living Conditions database.

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and single-person households are more likely to be materially deprived than single parents.

The reforms of the late 1990s increased inequality, but brought about sustained economic growth

The very low level of inequality in the 1980s and early 1990s was unprecedented in a historical perspective, and partly driven by rapid public sector expansion in the previous decades, government direct interventions to keep ailing industries alive, and unsustainable macroeconomic policies. These policies boosted employment in the short term but eroded competitiveness, which could only be restored through recurrent currency devaluations. In the late 1980s, a further employment boost came from rapid credit expansion and asset price increases, largely driven by the deregulation of the domestic credit market and unlimited interest rate deductions coupled with high marginal tax rates and high inflation resulting in low or negative real after-tax interest rates. Economic and

financial imbalances culminated in the early 1990s economic crisis, with mass unemployment, a drop in the employment rate from 83% to 73%, and a significant rise in market inequality. Taxes and transfers, however, dampened the rise in household disposable income and consumption inequalities (Domeij and Flodén, 2010).

The product- and labour market reforms of the late 1990s helped reverse the decline that was taking place at the time, even though they also increased inequality. The breakdown of highly centralised wage bargaining in the 1980s also contributed to higher inequalities. Wage bargaining coordination was restored, but became considerably more flexible in the 1997 Agreement of Industry Development and Wage Formation which has formed the basis for Swedish wage bargaining since. The agreement stipulated common guidelines for wage setting across industries, introduced a principle of proportionality of industrial action and strengthened the powers of the national conciliator. To preserve international competitiveness, the agreement stipulated that wage rises would be set with reference to exporting industries, while there would still be flexibility to adjust wages locally within the coordinated framework. A tax reform in 1990-91 reduced the highest marginal tax rates and the value of deductions and broadened the tax base by making more types of capital incomes and fringe benefits taxable. The new income definition alone mechanically increased the Gini coefficient in 1993 by about 2 percentage points. The increase in inequality resulting from lower marginal taxes was fully offset by raising housing and child allowances (Domeij and Flodén, 2010; Elvander, 2002; Lindbeck, 1997; Björklund et al., 1995).

The crisis led to better tracking of the income distribution

The distress caused by the economic crisis of the 1990s underlined the need for analyses to assess the distributional consequences of policy, a need that the Riksdag (Parliament) had pointed out already in 1986. Sweden has long had high ambitions of using economic policy for the purpose of income equalisation. Better data and estimation methods increased the opportunity to assess policies' distributional effects, and following renewed requests from the Riksdag, the government issued the first Distribution Policy Report in 1992. The next report came in 1994, and annual (sometimes biannual) reports were issued from 1996 onwards as annexes to the annual budgets. The reports usually contain a description of the income distribution in a historical and international perspective across several dimensions, an in-depth analysis of an inequality-related subject and an analysis of the distributional consequences of government policies (Waldenström, 2012; Ministry of Finance, 2016a). Since 2011, the Fiscal Policy Council has been tasked with evaluating the distributional effects of fiscal policy in the short and the long run (Fiscal Policy Council, 2013).

The uprating system led to a gradual erosion of working-age benefits

Working-age benefits have fallen behind earned incomes because they were cut or frozen as a consequence of the 1990s crisis. Most major benefits and associated ceilings have since either been uprated according to the consumer price index, which over time grows more slowly than wages, or not systematically uprated. This has increased fiscal space and hence reduced the need to explicitly prioritise between existing expenses and new political projects. Some benefits have been increased on an ad hoc basis, others have not. Many benefits are fairly modest following two decades with this system, and a more systematic and transparent regime for uprating benefits should be considered. If benefits

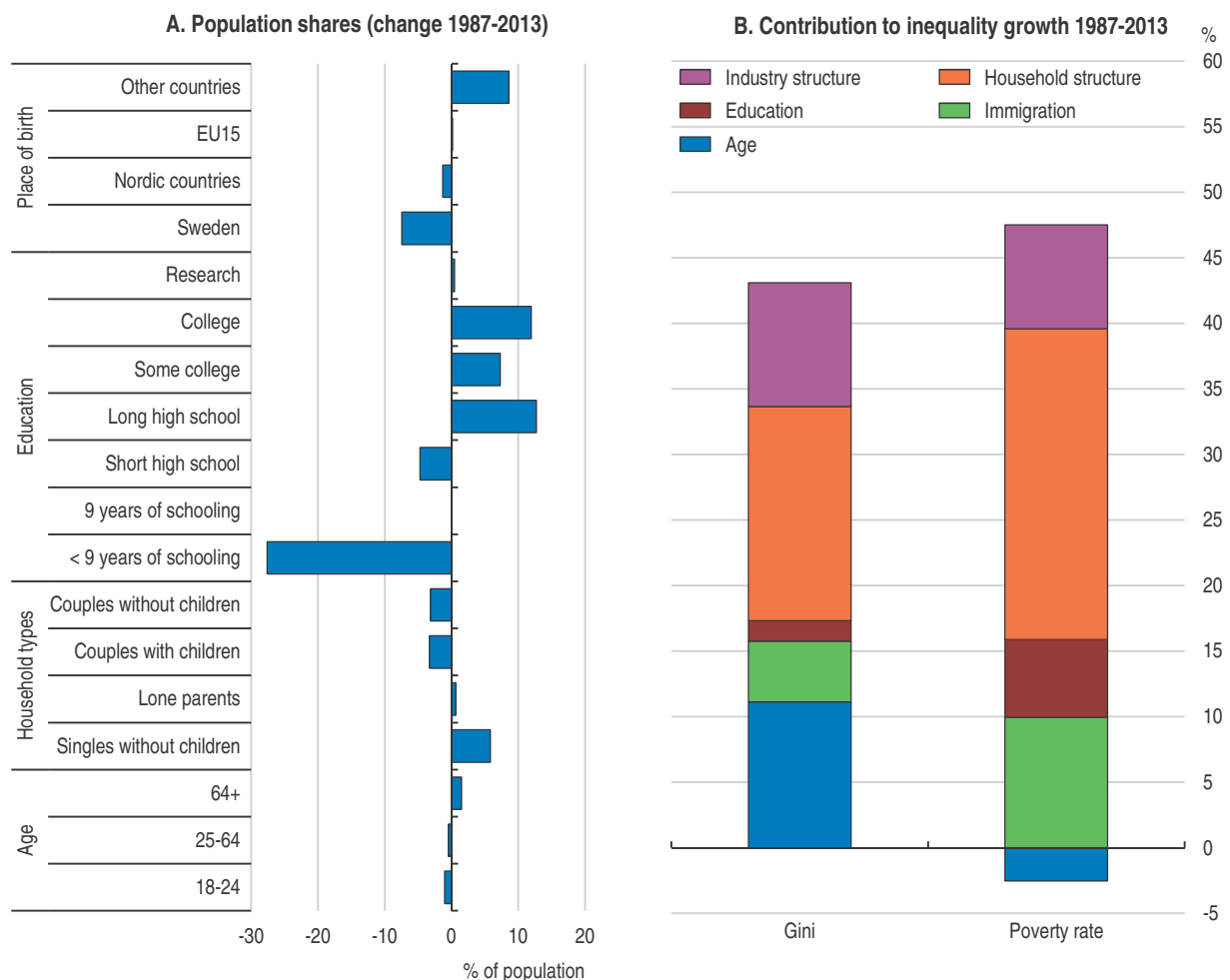
are systematically uprated in line with wages, the position of benefit recipients' in the income distribution compared to workers will remain unchanged in the absence of active prioritisation. However, such a system will increase fiscal costs and may reduce work incentives if wages at the lower end of the distribution rise more slowly than the chosen wage index (ISF, 2014; Sutherland et al., 2008). Alternatively, an annual process where the distributional consequences of uprating of all the main benefits are analysed systematically under different uprating scenarios, including a wage index, the CPI and no uprating, would highlight the consequences of inaction, but leave the actual increases to political discretion.

The current government has implemented policies that will likely reduce inequality. Notable benefit changes include a raised floor and ceiling for unemployment insurance, a higher sickness insurance replacement rate, a higher social assistance norm, various increases to child-related benefits and increased means-tested housing benefits for pensioners. The income tax system has also been adjusted, notably by gradually tapering the earned income tax credit on high incomes, raising the basic allowance for pensioners with low incomes and tightening several tax deductions. These measures are estimated to reduce the Gini coefficient by 0.4 percentage points in 2016 and increase disposable income by an average of 1.7% in the first income decile. Disposable incomes in the top 60% of the distribution are slightly lower than they would be without reforms, with a 1.4% fall in the tenth decile. Some public services have also been strengthened, notably within education and care, benefitting low-income households disproportionately. Single persons, notably single women and single parents, have gained the most from the government's policies (Ministry of Finance, 2016a).

The rise in inequality was partly due to demographic and other structural trends

During the quarter of a century since inequality bottomed out in the late 1980s, Sweden experienced significant structural change not directly related to the overall level of employment, the wage distribution or taxes and transfers. Research based on detailed micro-data shows that about 70% of the change in the Gini coefficient of equivalised market income from 1987 to 2013 can be attributed to the effect of changing household composition, age structure, industry structure, educational attainment and immigration (Figure 1.8; Box 1.2). Redistributive policies dampened the increase in inequality caused by these factors considerably, but the mechanical effect of changing structural factors can nonetheless explain more than 40% of the increase in the Gini coefficient of disposable income and almost half of the increase in the relative poverty rate, defined as individuals living on less than 60% of the median disposable income. These results should not be interpreted as contradicting other studies, pointing to forces such as weaker redistribution and higher male earnings dispersion as the main factors behind increasing inequality (e.g. OECD, 2011), but rather as complementing them. Indeed, the structural factors impact inequality through different channels, including redistribution and earnings dispersion (Robling and Pareliussen, 2017).

Household composition accounts for 16% of the Gini increase and 24% of the increase in relative poverty, largely driven by an increasing share of single and single parent households, who tend to have relatively low incomes. Marriage rates fell more steeply in Sweden than the OECD average from the 1960s, but cohabitation outside marriage is also relatively common in Sweden. Household structure has been found to increase inequalities more in Sweden than in most other countries (OECD, 2011; Robling and Pareliussen, 2017).

Figure 1.8. **Structural change increased inequalities**

Source: Robling and Pareliussen (2017).

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Ageing is less advanced in Sweden than in most other OECD countries, partly due to high immigration. Even so, age accounts for 11% of the Gini increase when taxes and transfers are taken into account, as the population share of retirement age cohorts, with relatively low incomes, increased. However, the contribution to relative poverty from ageing is slightly negative, as most pensions are uprated by a wage index and seldom fall below the poverty line (Robling and Pareliussen, 2017).

Immigration to Sweden has been high compared to other OECD countries, and with a higher share of humanitarian and family reunion migrants. However, even with non-EU migrants increasing from 3% of the population in 1987 to 12% in 2013, migration only accounts for a relatively modest 5% share of the increase in the Gini coefficient. In contrast, it has a stronger effect on relative poverty, accounting for 10% of its increase. However, these estimates only account for changing population shares. In addition, non-EU migrants are more likely to be young, low-qualified and single, and they have seen their average income fall considerably relative to other groups over the period (Robling and Pareliussen, 2017).

Box 1.2. Structural changes and inequality

The influence of structural changes on inequality has been decomposed with micro-data from Statistics Sweden. Subgroups of the population with certain characteristics were re-weighted by their population shares in 1987 to construct counterfactual income distributions for 2013, and inequality measures were then derived and compared to their actual 2013 values. However, when several interdependent characteristics are included, the results will depend on the sequence in which they are calculated. This is corrected for by calculating the mean contribution from all possible orderings. Results are presented in Table 1.2.

Table 1.2. Structural contributions to increasing inequality

	Gini coefficient (in %)		60% of median poverty rate (in %)	Top decile income share (in %)	
	Market income	Disposable income	Disposable income	Market income	Disposable income
2013	53.4	33.2	19.3	34.8	26.0
1987	43.8	20.9	10.4	26.5	17.9
Change	9.6	12.3	8.9	8.3	8.0
% structural contribution to change	68.9	43.1	45.0	59.0	39.2
Of which:					
Household structure	47.5	16.4	23.7	23.2	8.0
Age composition	67.4	11.1	-2.5	39.9	10.4
Industry structure	16.8	9.4	7.9	16.3	9.9
Immigration	9.0	4.6	10.0	4.6	1.7
Education	-71.9	1.6	5.9	-25.0	9.2

Source: Robling and Pareliussen, 2017 (forthcoming).

Industry structure accounts for 9% of the increase in the Gini coefficient and 8% of the increase in relative poverty, mainly as a result of the fall in relatively well-paid manufacturing employment, the rise in relatively low-paid accommodation and food services jobs, and the increase in high-paying ICT, professional and financial services positions since 1987 (Robling and Pareliussen, 2017). This supports previous research suggesting that labour market polarisation caused by globalisation and skill-biased structural change has taken place, but to a relatively limited extent, and with less important consequences in Sweden than in many other countries, as jobs lost in middle-skilled occupations have to a large extent been replaced by high-skilled jobs (Goos et al., 2009; Eurofound, 2014; Adermon and Gustavsson, 2015; Åberg, 2016).

The effect of education structure on the Gini coefficient is only slightly positive when taxes and transfers are taken into account, but the larger population share with higher education and hence higher incomes raises the median income and accounts for 6% of the rise in relative poverty (Figure 1.8; Robling and Pareliussen, 2017).

Combining equity with economic efficiency

Inequality can reduce growth, as discontent can feed voter demand for sub-optimal policies; it can lead to underinvestment in human capital by credit-strapped households; it can reduce domestic demand, as people with higher income consume a lower share of their income; and more inequality can reduce trust. On the other hand, inequalities can

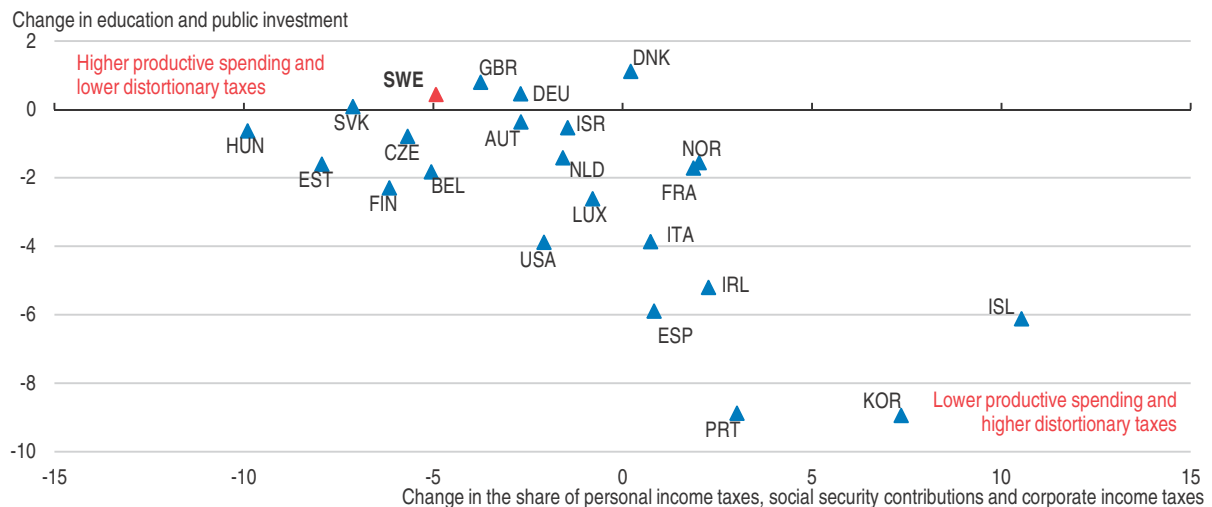
spur growth to the extent they result from incentives to work, undertake risk and invest, notably in education (Aghion et al., 2015). Capital accumulation by the most affluent can also lead to higher investment. Empirical studies find both positive and negative correlations between inequality and growth, depending on estimation method, inequality indicator, data and country coverage. A significant negative impact on growth from inequality at the bottom end of the income distribution has been identified across OECD countries (OECD, 2015). Lower investment opportunities for the poorer segments of the population, notably in education, is identified as an important channel. Income inequality is still low in Sweden, education is free from the first grade to university and redistribution through taxes, transfers and a wide range of public services is significant. Underinvestment in human capital because of credit constraints should hence not be a major concern in Sweden. Higher inequality, notably at the lower end of the distribution of disposable income, tends to undermine trust in people (“generalised trust”). Higher trust levels are associated with better macroeconomic performance (Gould and Hijzen, 2016).

Fournier and Johansson (2016a) find that bigger governments are associated with lower inequality and lower growth, but that the adverse effect on growth is partly offset if governments are efficient and well-functioning. Furthermore, increasing public investment and education spending and reducing pension spending as a share of the total can in general yield large growth gains without adversely affecting the income distribution. Shifting spending towards family benefits and child care increases growth, reduces inequality and encourages female labour force participation, particularly at the lower end of the income distribution. Cutting public subsidies boosts growth, but increases inequality in general. The scope to pursue such policies, both boosting growth and reducing inequality, is however more limited in Sweden than in most OECD countries. The size of the Swedish public sector has not changed dramatically since the 1990s, but the efficiency of public spending has improved, with a reduction in public subsidies, pension reform, reforms to sickness, disability and unemployment benefits, an expansion of the education system and public childcare as a statutory right from 1995 (Bergh, 2011; Gunnarsson et al., 1999; Figure 1.9). Simulations indicate further potential growth gains in the order of 4% of GDP by 2060 by increasing the quality of education (measured as PISA results), and similar gains from increasing public investments and reducing subsidies as a share of total spending. Potential GDP gains from reducing the size of government, reducing pension spending and increasing family benefits are limited (Fournier and Johansson, 2016b). Such simulations provide useful illustrations, but are sensitive to the modelling framework and assumptions.

Wage compression, redistribution and growth

Low inequality in Sweden is largely the result of a high degree of wage compression, high employment and the role of taxes and transfers. Wage compression and redistribution are strong drivers of equity, but can lose effectiveness if they weaken work incentives and hiring excessively, thereby lowering employment (Figure 1.10). Maintaining high employment and hours worked is also crucial to secure the tax revenues that are necessary for redistribution and high-quality public services.

Countries with the lowest inequalities in gross wages are also those which redistribute the most (Figure 1.11). Centrally coordinated wage bargaining is an important factor behind wage compression, despite significant room for local wage adjustments in Sweden, and strong unions may also influence the strength of social protection. Barth and Moene (2012)

Figure 1.9. The evolution of the shares of productive spending and distortionary taxationChanges over the period 1998 to 2013, in per cent of total primary expenditure and revenues¹

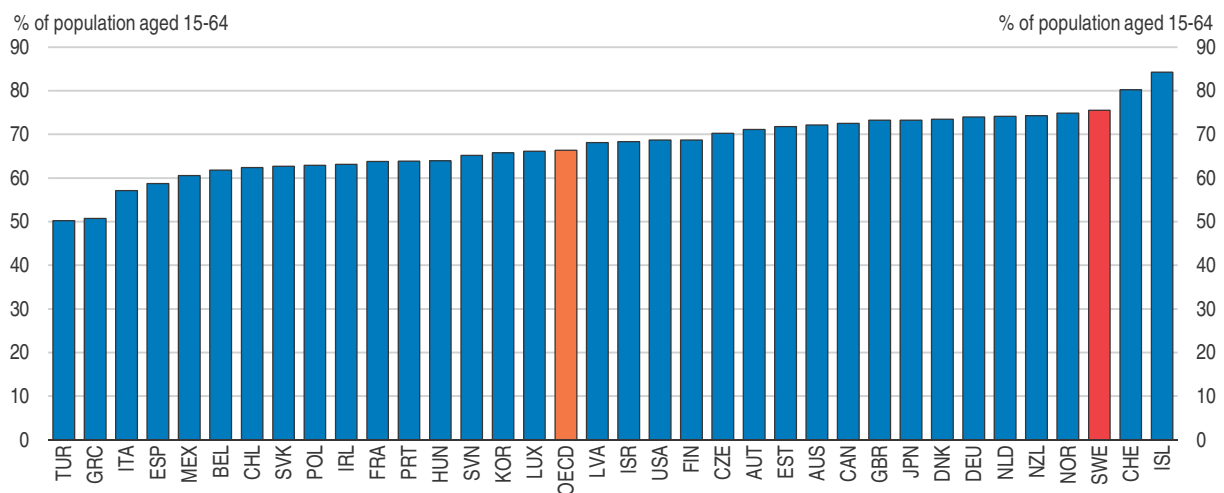
1. Education and investment data are expressed as a percentage of total primary expenditure; personal income tax, social security contributions and corporate income tax receipts are expressed as a percentage of total primary revenues.

Source: Fournier and Johansson (2016b).

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Figure 1.10. The employment rate is high

In 2015

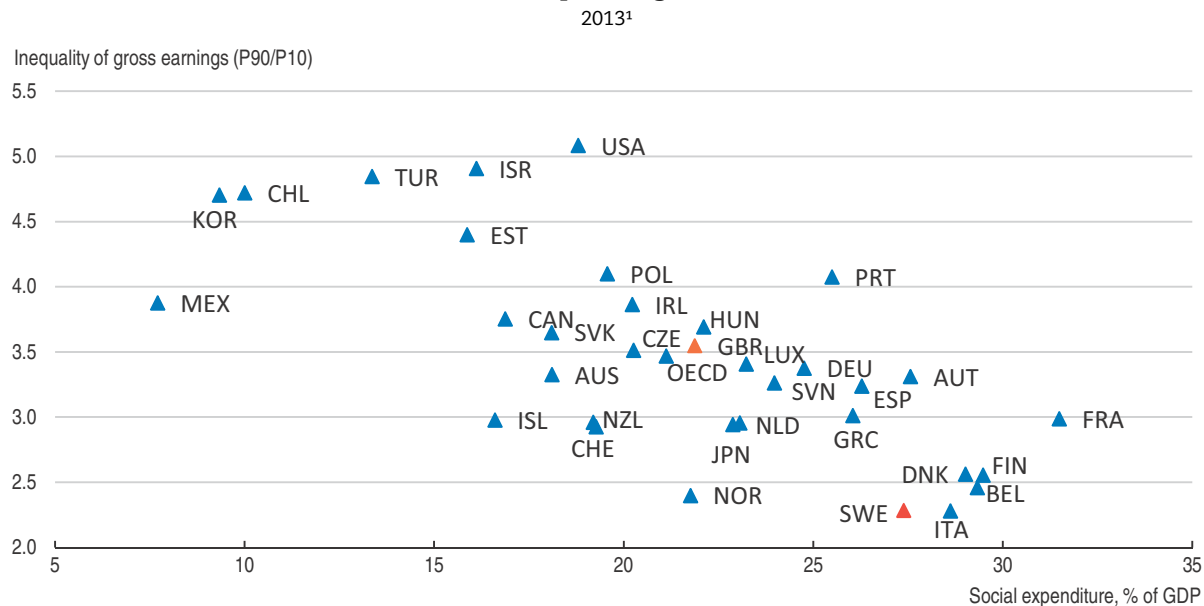


Source: OECD Economic Outlook database.

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and Barth et al. (2015) show that this relation can also be explained by a multiplier effect. Wage compression is associated with a larger middle class, which tends to demand more public goods and social insurance than the well-off, who are less exposed to the risk of income losses and in a better position to self-insure. Better social protection increases the bargaining position of marginal workers, which reinforces further wage compression.

Wage compression and redistribution, coupled with active labour market policies, can create favourable conditions for inclusive growth. Compressed wages and redistribution

Figure 1.11. **Countries with low gross earnings inequality also tend to have higher social spending**

1. 2011 for inequality of gross earnings of Estonia, France, Luxembourg, Netherlands, Poland, and for social expenditure of Mexico.
Source: OECD Earnings Statistics database and OECD Social Expenditure database.

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may weaken incentives to invest in human capital and to shift jobs, and a large public sector may reduce productivity growth. However, free higher education reduces the private cost of building human capital. Social benefits and largely free public services serve the dual purpose of redistribution and risk pooling. Reducing the individual cost of job losses increases risk-taking and acceptance of structural change. Many benefits also incentivise labour participation, as they depend on work history. Reasonable benefit levels can therefore make an economy more dynamic. Even so, these positive effects do not apply to individuals on passive benefits, and activation of the unemployed is important to counteract reduced work incentives. Several reforms in the past decade to limit access to passive benefits are therefore welcome. However, as individuals are increasingly and for the most part rightly classified as job seekers, structural unemployment (and labour market participation) has gone up. Sweden has a well-designed job-search conditionality regime, with regular activity reporting and gradual sanctions for non-compliance. Intensifying matching measures such as coaching, guidance and specialist assessments should cater well for individuals close to the labour market. But more marginal groups, such as the low-skilled, migrants and those with long absences from working life, may need additional and more targeted activation measures, such as job practice, training and rehabilitation (OECD Economic Survey of Sweden, 2015).

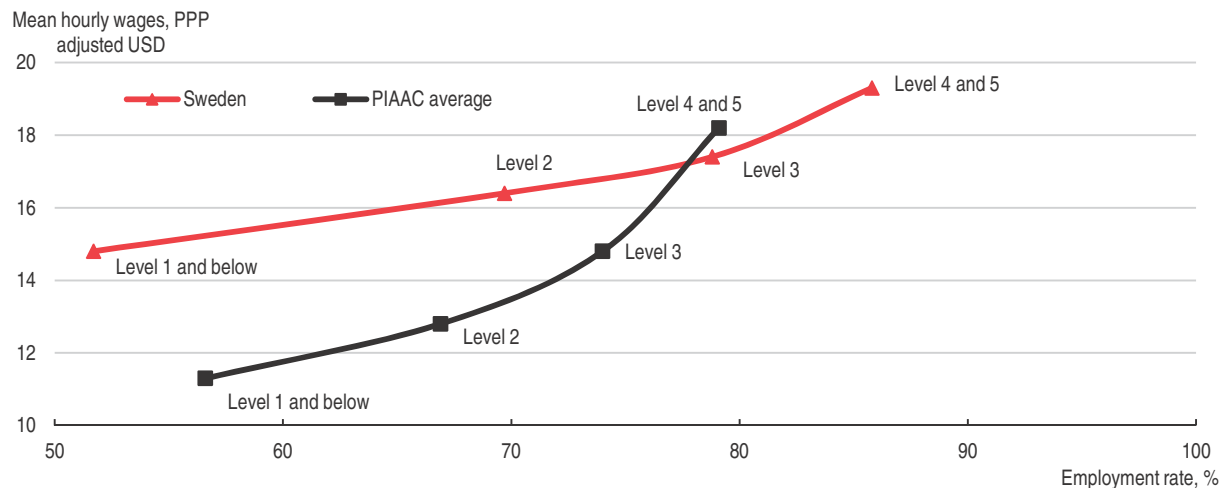
Wage compression can also contribute to structural change. The returns to productivity-enhancing investments increase, as gains at the company level do not fully translate into higher wages. Companies with low productivity are forced to invest or scale down. Investments in human and physical capital are therefore incentivised, as is the transition of workers from ailing to growing companies and industries. Two-tier collective bargaining, where central coordination is combined with a significant part of wage increases negotiated locally, also provides some flexibility locally and between industries

(OECD Economic Survey of Sweden, 2015). Despite this flexibility, high entry-level wages make it difficult to employ low-skilled workers.

Absorbing the increasing supply of low-skilled workers is challenging

The compressed wage structure in Sweden requires relatively high skills and at least a secondary education to pass the threshold to enter the labour market. Compression in the lower part of the wage distribution can be combined with high employment, since productivity is high even at the low end of the human capital distribution. However, skills and qualifications required to gain employment are difficult to match for some. Thirteen percent of Swedes aged 16 to 64 scored at or below level 1 in the literacy test of the OECD Survey of Adult Skills (PIAAC) in 2012, and the employment rate of individuals with weak literacy is low, both compared to high-skilled Swedes and to the average participating country in PIAAC (Figure 1.12).

Figure 1.12. **Employment opportunities for the low-skilled are limited**
In 2012



1. How to read this figure: Sweden shows high employment rates for middle- and high-skilled individuals, but low employment for the low-skilled (Level 1 and below). At the same time wages are high for those low-skilled individuals who are employed and wages increase less with skills than for the PIAAC average, indicating that high minimum wages reduce employment prospects for the low-skilled in Sweden.

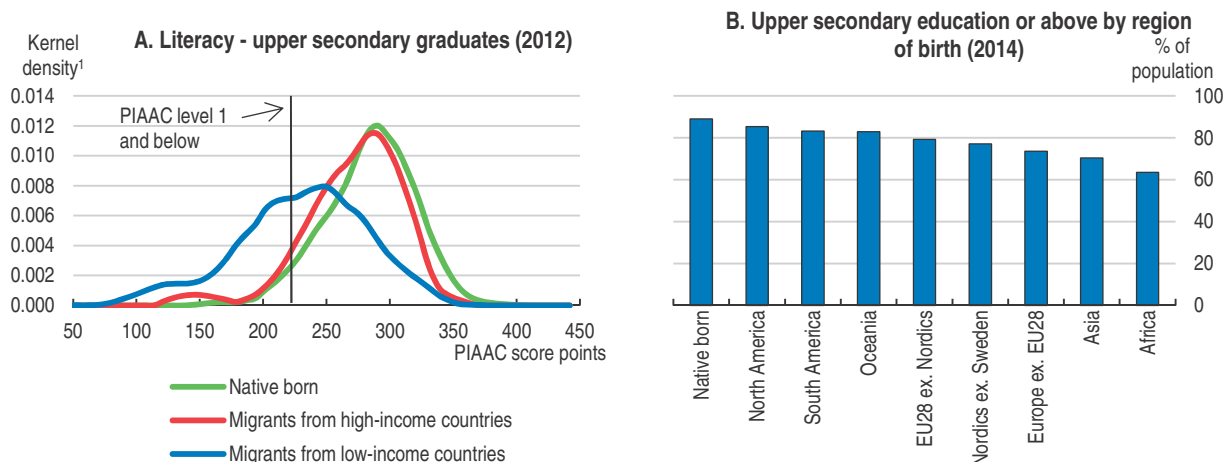
Source: OECD Survey of Adult Skills (2012).

StatLink <http://dx.doi.org/10.1787/888933446039>

Low literacy skills, however, is a marginal phenomenon among native Swedes, whose skills have been nurtured by relatively high-quality schooling. Even so, a trend of falling learning outcomes for the past few decades, and the dramatic deterioration in 15-year olds' OECD Programme for International Student Assessment (PISA) scores until 2012 suggests that younger cohorts are doing less well than their predecessors in international comparison (OECD Economic Survey of Sweden, 2015). This trend now seems to have been broken, as Sweden improved results in all three subjects in PISA 2015. Migrants from high-income European countries, the United States and Canada, are also unlikely to score at or below 1 in the PIAAC literacy test, and their literacy scores are in general not far below natives for a given education level, despite taking the test in Swedish (Figure 1.13, Panel A). They are somewhat less educated than natives, but have significantly higher qualifications

than Asian, African and European migrants from outside the European Union (Figure 1.13, Panel B). These migrants mostly arrived to Sweden for humanitarian and family reunion reasons, which is generally associated with more difficulties to integrate into the labour market than migration motivated by work or studies. Migrants with education and skills that are lower and less adaptable to the labour market needs in a destination country (less portable) will also have an incentive to migrate to countries with more wage compression and higher benefit levels (Pareliussen, 2017 forthcoming).

Figure 1.13. **Migrants have lower education and literacy than natives**



1. The Kernel density is estimated using the Epanechnikov function.

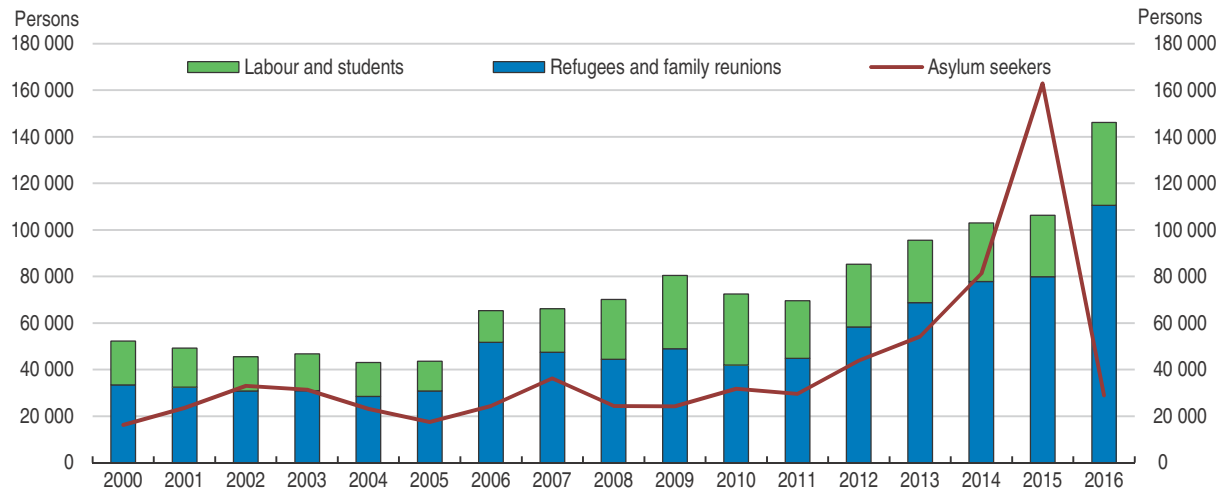
Source: Statistics Sweden and the OECD Survey of Adult Skills.

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The share of foreign born in Sweden has risen from 7.5% in 1980 to 16% in 2015. At the same time the composition of the migrant population has changed from mainly Nordic work migrants working in the manufacturing industry in the 1980s towards largely humanitarian and family reunion migrants (Figure 1.14). Estimates suggest that about half of the current foreign-born population originally came to Sweden as refugees or as the family of refugees. Inflows of asylum seekers relative to the population have been the highest in the OECD in the latest years (OECD, 2016a). About 160 000 asylum seekers reached Sweden in 2015. However, inflows decreased to around 30 000 in 2016, mostly as a result of external factors, even though the tightening of immigration policy also contributed.

Migration affects inequalities in several ways; directly, as migrants have different career profiles than natives, with lower earnings and employment; and indirectly, as labour market competition affects employment and earnings of natives, notably those in low-skill occupations (Robling, 2015; Robling and Pareliussen, 2017). Robling (2015) finds a negative employment effect of non-Nordic migration, which roughly doubles migration's direct impact, and explains more than 10% of the increase of the Gini coefficient and 20% of the increase in relative poverty since the 1980s. Engdahl (2016) finds a limited negative short-term effect on employment and wages, mainly driven by migration from the other Nordics, who are closer substitutes to Swedish labour. Low-educated natives and earlier migrants are particularly vulnerable to labour market competition from new migrants. Long-term

Figure 1.14. **Non-labour immigration is high**
Gross inflows¹



1. Excluding free movement immigrants from EEA countries.

Source: Swedish Migration Agency.

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labour market effects should be less pronounced, as firms will adapt their production structure, individuals will adapt their investments in human capital, and migrants may bring new ideas and open new trade linkages.

The settlement of migrants takes too long

The migrant surge in 2014 and 2015 created backlogs in the treatment of asylum applications and issuance of residence permits, a process that lasted 125 days on average even in 2013, before the surge. Backlogs should abate going forward as funding has been increased and the number of new asylum seekers has plummeted. Asylum applicants are allowed to work under certain conditions, and they will be offered 40 hours of language training. Reducing backlogs, increasing access to and volume of language tuition as well as civic orientation classes should be prioritised going forward.

A cumbersome administrative process starts once a residence permit has been issued. The responsibility for integration is then transferred from the Migration Board to the Public Employment Service in order to start the two-year Introduction programme with language classes, upskilling and labour market activities and access to the Introduction benefit (OECD, 2016a). However, the Introduction programme does not start until the individual has found permanent residence, and normally the programme does not start until a social security number is issued by the Tax Agency. Time needed to obtain a social security number can be substantial, and the number is not issued until the migrant has found permanent residence. Migrants can find their own housing, or they will be allocated housing by the PES. Housing allocation is supposed to be determined by where their education and experience are best matched to the employment needs of the local municipality, but in practice it has been determined by the availability of housing and preferences of municipalities regarding the number of migrants to accept. Waiting times for housing allocation are long, and compensation from the government to municipalities is not always reflecting the true cost of settlement (OECD, 2016a). All municipalities have

from March 2016 been obliged to accept migrants, which may ease the situation. Migrants need to register with the Social Insurance Agency to obtain child support, parental leave benefits and dental care support, and they also need to register with the social services of the municipality of residence (Swedish Social Insurance Agency, 2016).

A pilot project “Meeting points and information” involving among others the Migration Board, Tax Authority, PES, Social Insurance Agency, Pension Agency and the Association of Local Authorities and Regions, gathered the most important actors in the settlement process in municipal Service Centres at the same time, with a checklist of processes to be completed. The project reduced the process from about four weeks to four hours, improved cooperation between different institutions and their understanding of the settlement process and increased migrants’ confidence and sense of control of their situation. Public savings due to efficiency gains were found to be substantial. This way of working is to be gradually rolled out nation-wide (Swedish Social Insurance Agency, 2016; Ministry of Employment, 2016). The large gains from reducing the settlement time by only four weeks illustrates the potential to be reaped from streamlining and removing bottlenecks in the asylum, settlement and integration processes. Faster settlement means speedier integration and employment, better lives and longer working careers for migrants. Major remaining bottlenecks for migrant settlement are related to obtaining a residence permit and a social security number and to finding housing.

Raising migrants’ skills

Once low-skilled migrants are settled, the Swedish policy response to increase their employability rests mainly on two broad pillars: upskilling and enhancing transparency on migrants’ skills on the one hand, and temporarily lowering the cost of hiring by means of wage subsidies on the other (OECD, 2016a). The importance of up-skilling, starting with language is evident. The employment gap between migrants and natives is well accounted for by migrants’ education and literacy proficiency, as measured in PIAAC (OECD Economic Survey of Sweden, 2015; Bussi and Pareliussen, 2015). Swedish tuition for immigrants has been made more flexible and municipalities should use this flexibility to better adapt teaching to the initial education and skill level of the individual migrants, which is very heterogeneous. More resources are set aside to improve recognition of foreign qualifications, notably with several fast-track schemes for occupations with a labour shortage, and the government intends to broaden newly arrived migrants’ access to trainee and vocational introduction employment. Likewise, newly arrived migrant children need close and adapted follow-up from their schools, as their level of schooling varies, and those who arrive at the late stages of compulsory school perform relatively poorly (Ministry of Finance, 2016b; OECD, 2016a). It is too early to quantify the effects of many of these recent reforms, but a major reform in 2010, placing responsibility of integration with the PES improved migrants’ employment and earnings significantly (Andersson Joona et al., 2016).

Incentives to hire the low-skilled

In addition to raising skills, thresholds to employment need to be overcome. Declining school results and high humanitarian and family reunion immigration increase the supply of low-skilled labour, while wages in sectors that typically employ the low-skilled are relatively high, dampening job creation in these sectors (OECD Economic Survey of Sweden, 2015). Minimum wages are set sector-wise in collective bargaining, and are below market wages in most sectors. Low-skill service sector jobs, such as retail trade and hotels and

restaurants are notable exceptions. Workers and employers in these sectors are less likely than average to belong to unions, but the wage floor in non-organised segments generally seems to be close to the level set by collective agreements. Low-skilled jobs account for only about 5% of total employment (OECD, 2016a). In industries where the minimum wage is binding, workers with low skills and a weaker labour market position are squeezed out if the minimum wage increases (Forslund et al., 2014; Eliasson and Skans, 2014).

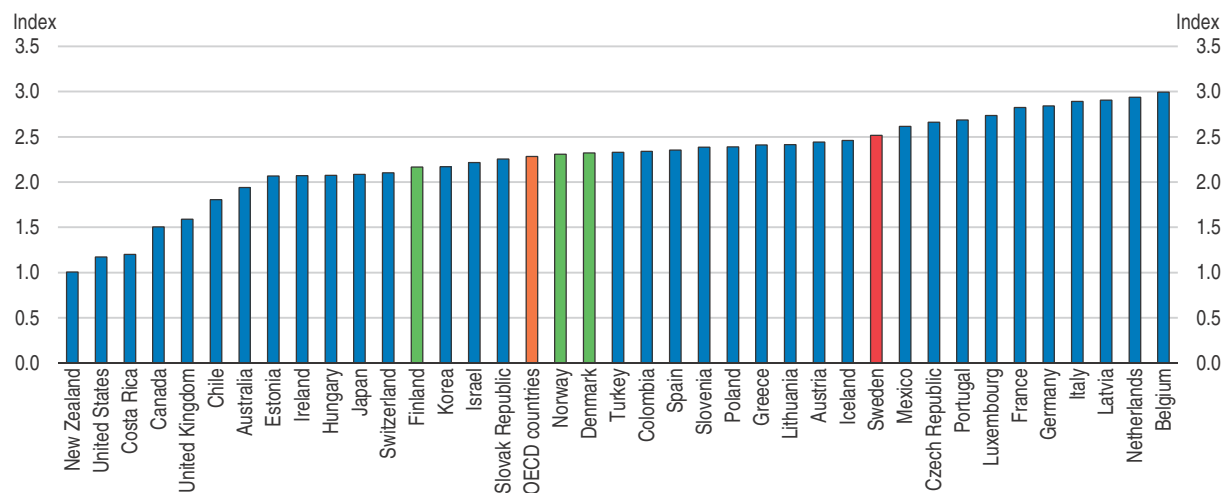
Much has already been done to cut the wage bill by means of tax policies and wage subsidies. The income tax basic allowance and the earned income tax credit incentivise work for low-wage earners. Wage subsidies are available in multiple forms and shapes, and can be an efficient tool to raise the employment prospects of immigrants, when gradually phased out. But the take-up of such subsidies is low among employers, due in part to limited awareness and in part to the administrative burden associated with multiple programmes that may fit migrants at different stages of the integration process. The Public Employment Service is increasingly marketing the different wage subsidies as a package of measures, enabling a gradual phasing out of the wage subsidy as the employability of migrants increase over time. However, to increase the scale and effectiveness of these measures, they will need to be harmonised and streamlined in order to increase oversight and reduce the administrative burden they impose both on employers and Public Employment Service caseworkers (OECD, 2016a).

Tax credits and wage subsidies come with a fiscal cost, which limits the possibilities to extend them. Lowering entry-level wages in combination with higher rewards to work experience should be considered by the bargaining parties in the sectors concerned, as it would lower entry thresholds, while preserving life-time incomes. The link between minimum wages and inequality is complex. The net effect depends on the wage effect for those employed, the impact of entry thresholds on employment and incomes over the life cycle (Labour Market Economic Council, 2016).

Employment protection

Employment protection legislation (EPL) for regular contracts in Sweden is fairly strict despite a generous social safety net, but collective agreements may allow some flexibility. The legislation includes heavy notification procedures in case of dismissal, stringent regulation of the order of layoffs in case of redundancy, a relatively broad definition of unfair dismissals and sizeable compensation following such dismissals. When cases go to court, the procedures are long. By contrast, employers can use temporary contracts with few constraints. This adds flexibility for Swedish employers, but can disadvantage vulnerable groups such as the low-skilled and immigrants. Reducing the stringency of employment protection on regular contracts would lower thresholds. Individual income losses for some groups following a higher rate of job separations would be partly offset by the unemployment insurance and Sweden's well-developed activation policies (Figure 1.15; OECD *Economic Survey of Sweden*, 2015).

Increasing flexibility for regular contracts can facilitate transitions from joblessness to employment in countries with well-designed activation policies, such as Sweden. A typical flexibility-enhancing reform, as measured by the average change in the OECD EPL indicator for permanent workers, increases average job-finding rates over the five years following reform by an estimated 10 percentage points if the Public Employment Service is well-funded (30% higher spending than the OECD average per unemployed worker or more). However, more flexibility also likely increases transitions from employment to joblessness.

Figure 1.15. **Employment protection is relatively strict**¹

1. Index scale of 0-6 from least to most restrictive.

Source: OECD, Employment Protection database.

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This effect is smaller in magnitude, about 2 percentage points, but is observed fairly early following a reform. Transitions from joblessness to employment take more time to materialise, and groups with weaker attachment to the labour market, such as young people and women, benefit more than average. The short-term negative effects of EPL reform are lower and more short-lived if the reform is undertaken in an expanding economy, and also if the share of employees on fixed-term contracts is high (Cournède et al., 2016; OECD, 2016b). Positive and negative effects of EPL reforms are likely to be lower in Sweden, since many sectors have already increased flexibility by collective agreement.

Residential and school segregation

Intergenerational social mobility is generally high in Sweden, but comparing how parents and offspring are placed in the earnings distribution as adults requires very long time series (Bjorklund et al., 2009). Evidently, such estimates only capture mobility with a substantial lag, and among families that have resided in Sweden for several decades. On many indicators, children of immigrants, notably those who are native-born, fare better in Sweden than in other European OECD countries, even though immigrant adults face challenges. However, the imperfect labour market integration of their parents together with residential and school segregation still reduces opportunities for migrant children compared to natives (OECD, 2016a).

12% of immigrants and native-born with two immigrant parents live in 38 increasingly overcrowded suburbs, built as part of The Million Programme, a large-scale programme to respond to housing shortages in the 1960s and 1970s. On average, three quarters of the inhabitants in these 38 suburbs have a foreign background. Natives and the more successful migrants have increasingly moved elsewhere, which has increased the concentration of low-income migrants. The employment rate is 22 percentage points below the national average, the shares of unemployed, inactive and social support recipients are also all between double and triple the national average. Education levels and health outcomes are low compared to the national average (Edling, 2015). Higher crime

rates amongst minorities are partly explained by segregation. The effect is highest among children with low-educated parents, and weak labour market attachment is a partial explanation of the differences with natives (Grönquist et al., 2015).

Publicly funded education is one of the few areas where policy can act to level the playing field and create equal opportunities for children with different family backgrounds. School choice reforms in the early 1990s moved Sweden from a system with virtually no choice and no private alternatives, to a voucher-based system where funding follows the pupil, with choice between public and private, but publicly funded, so called “independent” schools (*OECD Economic Survey of Sweden*, 2015). As of today, about 12% of 16-year old pupils attend an independent school. Results from PISA 2015 indicate that the impact of socioeconomic background on learning has increased. Higher variation between schools is affected both by the pupils’ own backgrounds, including migrant background and parental education, and by the average socio-economic mix in the school (SNAE, 2016). Variation between schools seems to be driven mainly by residential segregation. School choice also contributed to increased school segregation, but to a relatively limited extent (Böhlmark et al., 2015; Holmlund et al., 2016). Additional funding to schools with disadvantaged students is generally subject to municipal discretion, and not sufficient to compensate for the student mix or to attract the best teachers (*OECD Economic Survey of Sweden*, 2015). However, the government has implemented measures to strengthen early interventions for struggling pupils and educate more special-needs teachers, and more resources have been channelled to schools with low learning outcomes (Ministry of Finance, 2016b).

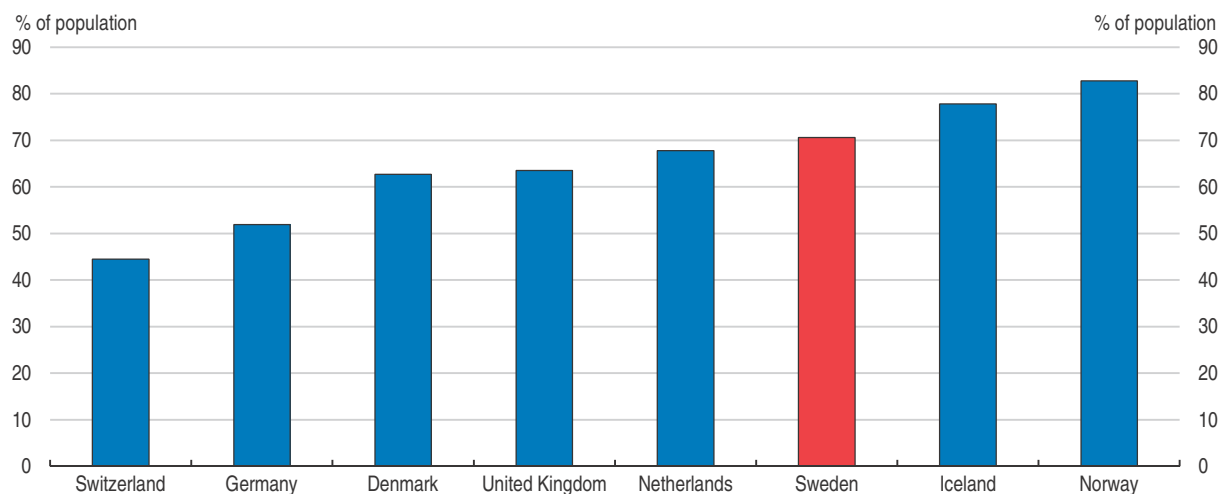
Municipalities are responsible for important aspects of migrant integration, notably language training, adult education, social assistance and compulsory school. The approach to and quality of these services therefore vary considerably across the country (OECD, 2016a). Some Swedish municipalities, such as Södertälje, a city of almost 100 000 persons south-west of Stockholm, already have considerable experience with migration. Almost 40% of the population is today foreign-born, after annual immigration of between 1.5% and 2% every year since 2006. This led initially to declining school results, strained finances, overcrowding and increased residential segregation. Skills were identified as a main challenge, and systematic efforts to improve school management at the municipal and school level, active teacher and school leader recruitment strategies as well as actively steering new migrants towards schools with capacity to accept them, have borne results. The municipality has climbed substantially in national school rankings since 2009-10, and finances have improved due to efficiency gains and a tightening of social assistance to the national minimum standard. Challenges remain, but systematic efforts to draw on the experience of municipalities such as Södertälje, identify and disseminate best practices, hold the potential to improve integration (OECD, 2016a).

Rent control comes with a high social cost and no obvious benefits

Structural weaknesses in the housing market, besides creating vulnerabilities related to rising housing prices and household indebtedness, reduce mobility with adverse effects on employment, well-being, competitiveness and productivity growth. Limited opportunities for households to find affordable housing in areas where jobs are available hamper social mobility for individuals with low initial income and wealth, notably migrants. The current favourable tax treatment of owner-occupied housing reduces affordability by driving up housing prices and favours high-income households. It also leads to a high rate of home ownership (Figure 1.16). Increasing the property tax ceiling or

phasing out mortgage rate deductibility would be clearly redistributive and would increase the efficiency of the tax system (Fiscal Policy Council, 2016). Cumbersome land-use planning regulations and low competition in the construction sector hold back housing supply and contribute to rising housing costs. In March 2015, the government announced an ambitious plan supporting dwelling construction, which aims at ensuring that 250 000 dwellings are built over the period 2015-20. The plan provides subsidies for rental housing, which are targeted at demographic growth areas and are highest for small flats and student dwellings, for which the shortage is most acute. The subsidies are conditional on maximum rent requirements for 15 years (varying between areas) and stringent energy efficiency norms. The cost is estimated at SEK 6.7 bn (0.2% of GDP) per year and will be financed by cutting tax breaks for domestic building work, including home improvement. The government will work with municipalities to reduce completion-time for housing projects, through improving the efficiency of land-use planning and regulations. Incentives for municipalities to encourage construction will be enhanced, notably through increased state financing for related infrastructure. However, it will remain challenging to get enough housing built to respond to demand and accommodate the large flow of immigrants in a way that minimises spatial segregation (Adalet McGovan, 2013; OECD, 2016a). Unfortunately, a recent government initiative to gather cross-party agreement on broader housing market reforms ended in failure.

Like in most countries, individuals with low incomes and equity are mostly confined to the rental market, especially in cities. But the rental market in Sweden stands out internationally for strict and all-encompassing rental regulations, resulting in limited mobility, a significant welfare loss and a sizeable black market for rental dwellings in the main metropolitan areas (Enström Öst et al., 2014; Andersson and Söderberg, 2012; Lind, 2015; Housing Crisis Committee, 2014). While costs are significant, there are no obvious gains to society from the current system. The socio-economic gradient of overcrowding is

Figure 1.16. **Owner occupied housing**2015¹

1. 2014 for Switzerland.

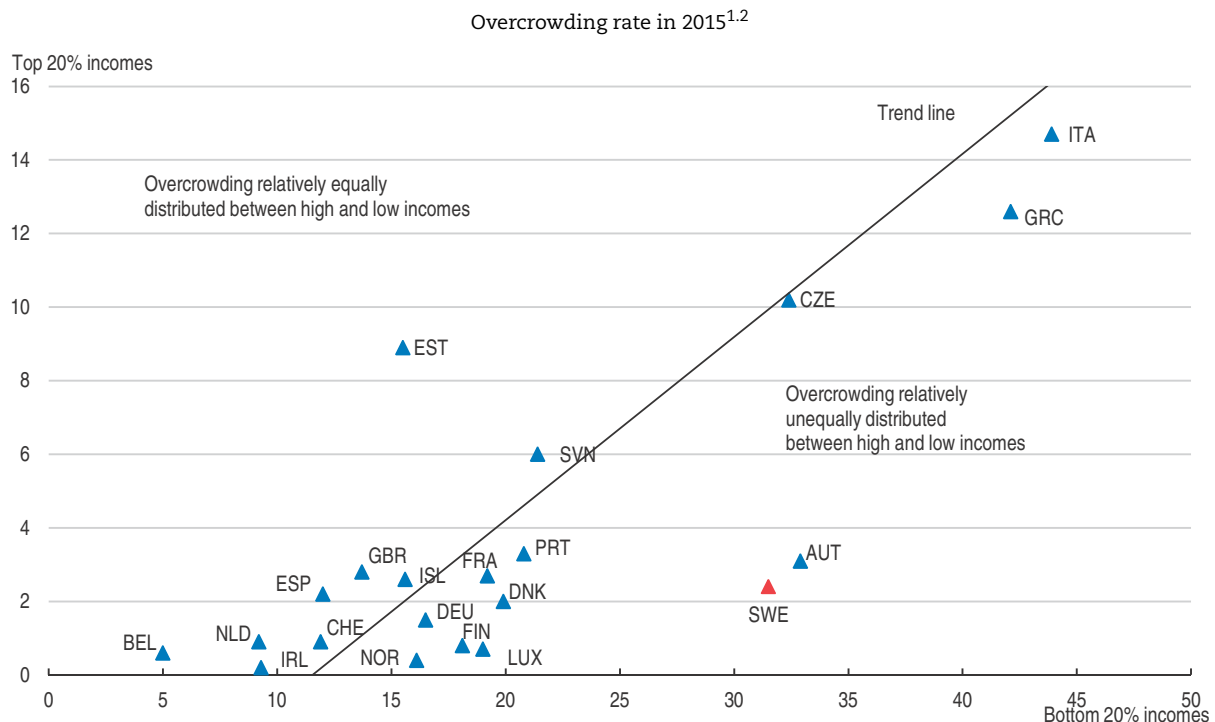
Source: Eurostat, living conditions and social protection database.

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among the highest in the OECD (Figure 1.17). However, significant private gains occur to those existing tenants who possess valuable leases with low rent, and this group is well-organised in tenant unions.

Rent control, like in many other OECD countries, was introduced as an emergency measure during the Second World War. Even though the system has been amended over time, it remains relatively rigid and holds rents below market values in the most desirable locations, leading to a shortage of housing, notably in the Stockholm area. The same rules apply to rental dwellings owned by private landlords and municipal housing corporations. The rent level is set in collective rent negotiations between property owners and the Swedish Union of Tenants and enforced by rental tribunals. Rents are set according to the quality, standard and service of the apartment, and in practice rents vary mainly according to the age of the building, not its location. The main allocation mechanism is a waiting list (Enström Öst et al., 2014). More than 500 000 persons, or 5.2% of the Swedish population, were registered in the Stockholm region waiting list at the end of 2015, and the average waiting time was 8.2 years (Figure 1.18). Waiting lists in other Swedish cities are shorter, since rents are somewhat better aligned with market values.

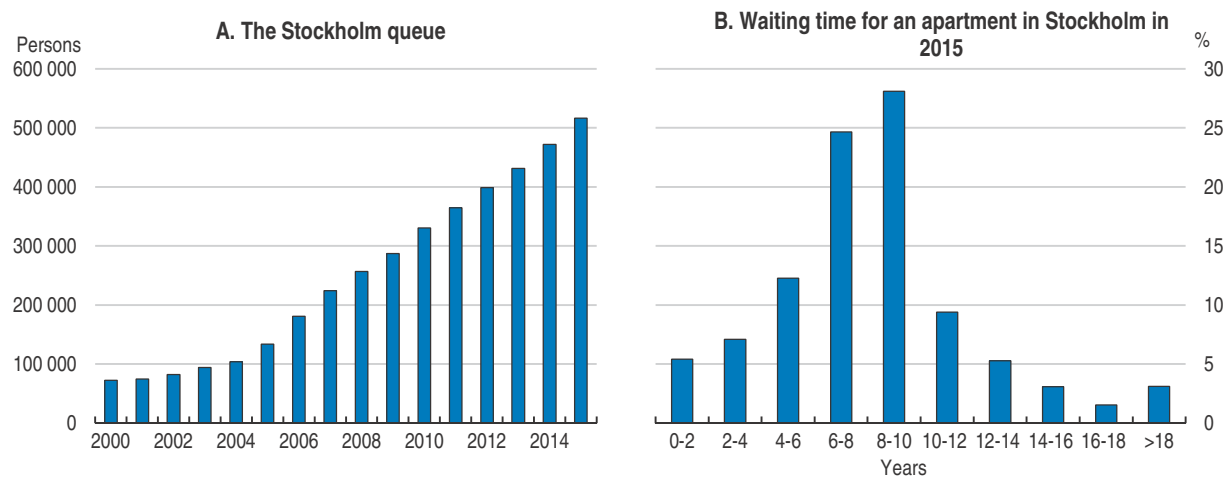
Figure 1.17. **Overcrowded housing is fairly common in the bottom 20% of the income distribution**



1. The overcrowding rate is defined as the percentage of the population living in an overcrowded housing unit. A person is considered as living in an overcrowded housing unit if the household does not have at its disposal a minimum number of rooms equal to: one room for the household; one room per couple in the household; one room for each single person aged 18 or more; one room per pair of single people of the same gender between 12 and 17 years of age; one room for each single person between 12 and 17 years of age and not included in the previous category; one room per pair of children under 12 years of age.
2. 2014 for Ireland and Switzerland.

Source: Eurostat, Income and Living Conditions database.

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Figure 1.18. **Rental regulations lead to long queues**

Source: Stockholm Housing Agency.

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Even though the policy objectives behind Swedish rental regulations are not clearly stated and have evolved over time, they include providing affordable and high-quality housing, limiting spatial segregation and protecting tenants from abuse by landlords, such as sudden rent hikes or evictions.

It is questionable whether current regulations increase the affordability of rental housing in general. Rental regulations reduce incentives to construct rental property and increase incentives to convert properties from rental to tenant-owned (where a tenant-owner association owns a property, in which every member has its own apartment). They also result in sub-optimal use of the current housing stock, through lock-in effects and incentives to over-consume under-priced housing services. The total effect on average Swedish rents is uncertain, but there is no clear evidence that rent controls lead to lower rents across OECD countries (Andrews et al., 2011). Andersson and Söderberg (2012) estimate that deregulation could result in welfare gains of SEK 20bn (0.5% of Swedish GDP) from a better use of the existing housing stock in inner Stockholm alone.

Rent controls may also contribute to gentrification and segregation (Lind, 2015). Following significant renovation, the rent can be set at the level of a newly built apartment of similar standard, which is close to a counterfactual market rent. Normal maintenance is widely defined and does not give the right to raise rents. Hence there are strong incentives to upgrade apartments in attractive locations to high standards and raise the rent correspondingly, while incentives for maintenance are low, which may affect the quality of a large part of the housing stock.

Segregation is higher in the rental sector than in the tenant-owned sector on most measures. Inhabitants of rent-controlled apartments in attractive locations in Stockholm are less likely to have a foreign background and more likely to have higher education, they have fewer children and they are on average older than in the tenant-owned segment of the housing market. However, the income differential between inhabitants of attractive and less attractive locations is lower in the rental market than in the tenant-owned sector, reflecting fairly similar rent levels across locations (Enström Öst et al., 2014).

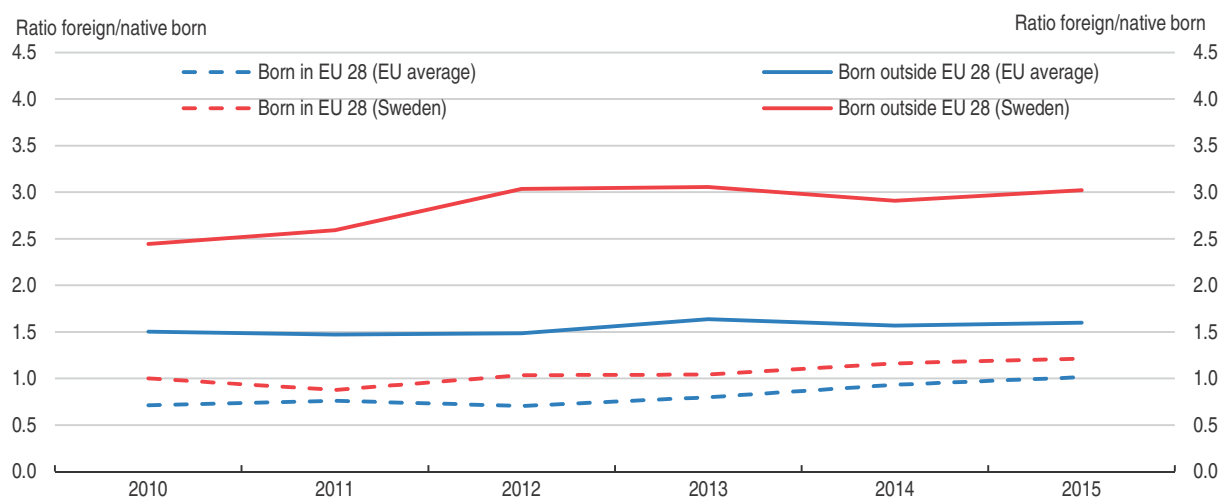
The lack of rental housing has pushed some tenants towards the black market, where they are vulnerable to abuse. Foregoing a tenant right in an attractive location at a price significantly below market has a sizeable cost. This reduces mobility, but also feeds the black market, which consists of illegal trade in leases, unauthorised subletting with illegal additional rent charges and pure fraud. A lack of data makes it difficult to estimate the size of the black market precisely, but the illegal trade in leases alone was estimated at SEK 1.2bn in the Stockholm region in 2006 (Housing Crisis Committee, 2014).

Newly arrived migrants are particularly vulnerable, since in addition to limited equity, income and relevant networks, they are unfamiliar with regulatory procedures. They are more likely to end up in poorly maintained housing in less attractive locations, to pay excessive rents and to live in overcrowded accommodation (Figure 1.19).

Some predictability of rents and protection of the right of tenure increases the effectiveness of the rental market, but it is necessary to bring rents in line with supply and demand. A transition to a market-based system should be gradual, with a cap on annual rent increases to ease the transition for those who rent an apartment in the current system. Rents in new contracts should be determined by the market. Some regulation of rents while a tenant occupies an apartment is beneficial, for example by limiting annual rent adjustments to increases in an agreed index. Mechanisms should be designed to ensure that rents do not drift too far from market level to ensure profitability for the owner and avoid lock-in effects. Access to housing for low-income households could be facilitated by some prioritisation in the allocation of municipal housing. Allocation rules could be designed to limit spatial segregation, for example by taking into account the existing social mix in specific locations.

Figure 1.19. **Non-EU migrants are likely to live in overcrowded housing**

Overcrowding rate of migrants compared to natives¹



1. The overcrowding rate is defined as the percentage of the population living in an overcrowded housing unit. A person is considered as living in an overcrowded housing unit if the household does not have at its disposal a minimum number of rooms equal to: one room for the household; one room per couple in the household; one room for each single person aged 18 or more; one room per pair of single people of the same gender between 12 and 17 years of age; one room for each single person between 12 and 17 years of age and not included in the previous category; one room per pair of children under 12 years of age.

Source: Eurostat, Income and Living Conditions database.

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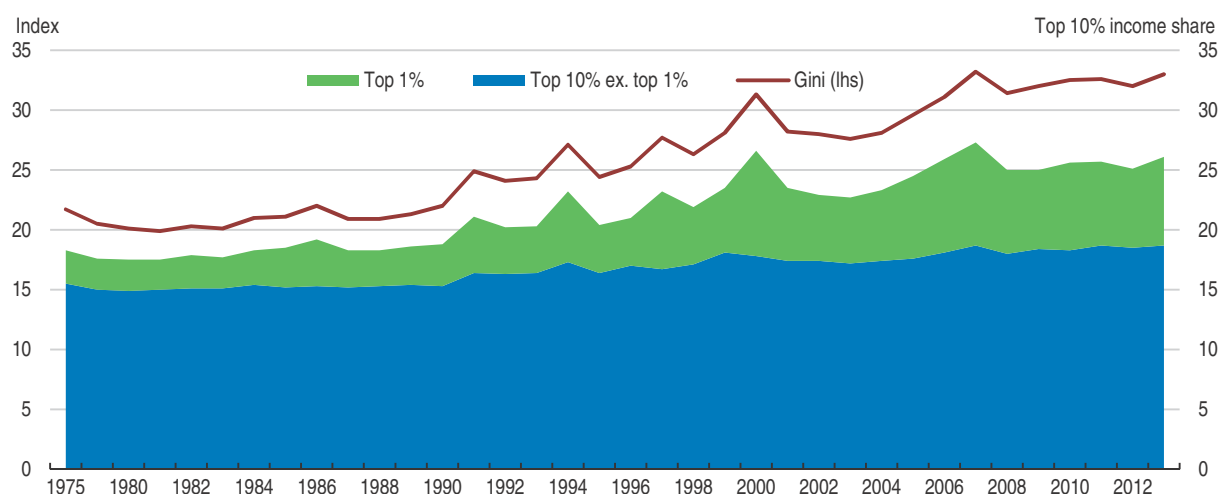
Top incomes, wealth and equal opportunity

A substantial part of the increase in inequality over the past decades is driven by rising top incomes. The rising income share of the top 10% was to a large extent driven by the income share of the top 1%, which more than doubled from 1975 to 2013 from 2.8% in 1975 to 7.4% in 2013 after taxes and transfers (Figure 1.20). Until 2006, top incomes rose mainly as a result of realised capital gains, boosted by asset prices. These capital gains are concentrated among individuals with already high incomes (Roine and Waldenström, 2012 and 2015). Dividends have grown fast following a 2006 tax reform that increased both the scope and incentives for income shifting. In addition to affecting income inequality, wealth also matters for intergenerational income mobility. But the wealth distribution is poorly tracked in Sweden, as the collection of wealth data was abandoned in 2007.

Income mobility is generally quite high in Sweden, and more than half of individuals leave the bottom income decile within five years (Figure 1.21, Panel A). Intergenerational mobility is high compared to most OECD countries, but somewhat lower than in the other Nordics (Corak, 2016; Figure 1.21, Panel B). Social background and circumstances, such as parental earnings and IQ, explain only around a quarter of Gini inequality, while individual efforts (and luck) determine more than 70%. In the very top of the income distribution this is not the case. Fathers' relative incomes determine 90% of sons' incomes among the top 0.1%, largely because of capital income. Furthermore, mobility from the bottom 75% to the top 0.1% is close to non-existent (Björklund et al., 2012a and 2012b). The low income mobility at the top end of the distribution is likely the result of inherited wealth. Analyses like this demand very detailed micro-data and internationally comparable analyses do not exist.

The extent to which capital has become more concentrated in Sweden over time is uncertain. Official figures suggest that wealth concentration has only increased slightly after having bottomed out in the early 1980s, following a continuous decline from around 1910. However, capital controls were removed and financial assets surged in value

Figure 1.20. **Rising top incomes contributed strongly to widening inequality**¹



1. Household disposable income including realised capital gains.

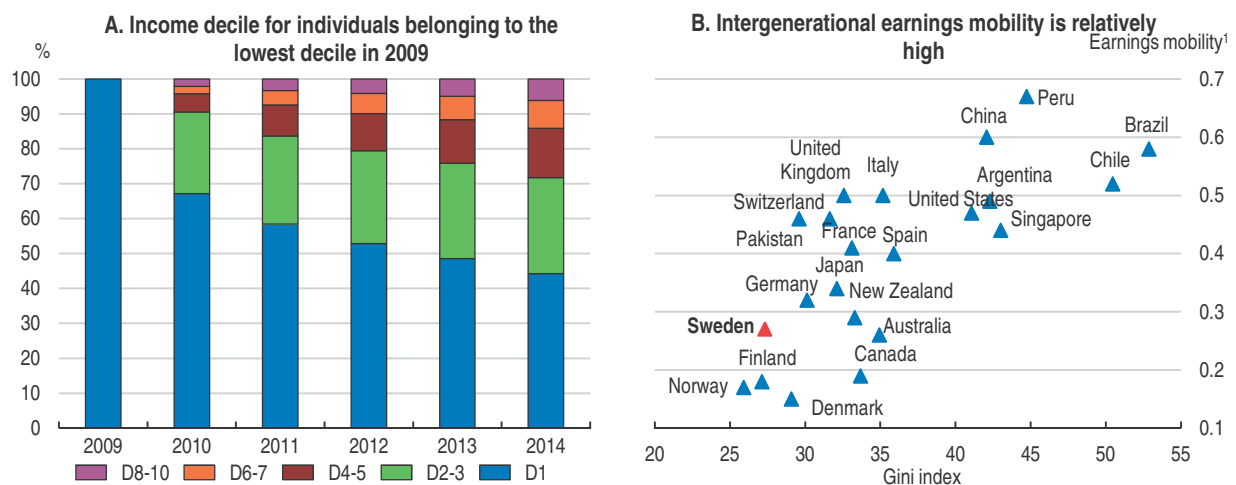
Source: Statistics Sweden.

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after 1985. Wealth and inheritance taxes were also high at the time. These developments gave strong incentives and better opportunity to reduce taxable wealth and inheritance or move wealth abroad. Wealth held as ownership in family firms creates a further discrepancy between official (taxable until 2006) private wealth and the real value of holdings. Adding also household wealth of Swedish citizens held abroad, as estimated based on financial account discrepancies, shows that the wealth share of the top 1% may plausibly have increased from 17% in 1975 to 40% in 2006, contrasting with the official estimate of 19% (Roine and Waldenstrom, 2009).

Given that capital gains and capital income have contributed to increasing income inequality in Sweden, the decision to discontinue the collection of wealth statistics when the wealth tax was abolished in 2007 is unfortunate. However, wealth data are currently available in various registries, such as property registries and registries of financial asset holdings. Such data can be used to produce detailed wealth statistics, as has recently been done in Denmark, but no institution has the mandate to do so in Sweden. Furthermore, legal obstacles, including privacy law and the strictness of interpretation of the law by the institutions concerned also come in the way of such an undertaking. Tracking the wealth distribution facilitates analyses of inequality, and also increases the transparency of the distribution of power and influence.

Figure 1.21. **Income mobility is high in general**



1. Father-to-son correlation of earnings relative to the income distribution.

Source: Ministry of Finance (2016a), Corak (2016).

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Recommendations to contain the rise in inequality

Main recommendations

- Review annually the distributional consequences of uprating social benefits, taking equity, fiscal costs and work incentives into consideration.
- Continue to simplify the procedures to help migrants get residence and work permits.
- Rationalise by merging and harmonising various wage subsidy schemes to better target the most vulnerable workers, ease the related administrative burden and increase take-up.
- Ease rental regulations to incentivise rental housing supply, mobility and better utilisation of the housing stock, while maintaining tenant protection against abuse.
- Reform the recurrent property tax to better align tax charges with property values. Phase out the deductibility of mortgage interest rate payments.

Further recommendations

- Consider some prioritisation of low-income households to municipal housing with allocation rules designed to limit spatial segregation.
- Build on successful experiences at the local level to enhance the efficiency of integration.
- Record wealth data for analytical purposes.

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Chapter 2

Fighting gender inequality

Sweden ranks among the best OECD countries in terms of gender equality. Women have a high employment rate, outperform men in education and are well represented in government and parliament. Nevertheless, without further policy measures, achieving parity is still a distant prospect in several areas. Wage differences between genders persist; women are under-represented on private company boards, in senior management positions, in many well-paid and influential professions and among entrepreneurs. Hence, there is scope to make further progress on gender equality. The share of the parental leave reserved for each parent should be increased further, as inequality in leave-taking and long parental leaves harm women's career prospects. Fighting stereotypes in education is necessary to improve women's access to professions where they are under-represented. Government programmes need to promote women's entrepreneurship further. Special attention should also be paid to the integration of foreign-born women, whose employment rate is much lower than for their male counterparts.

Gender inequality in Sweden is low by OECD standards, largely thanks to policies which have been promoting equality for decades, including childcare and parental leave policies, individual taxation and mainstreaming gender issues. Sweden, along with the other Nordic countries, is among the best performers in international gender equality rankings (Box 2.1). Nevertheless, gender equality in economic participation has not been achieved yet, implying a sub-optimal use of a highly qualified workforce that holds back potential growth. Recruitment and promotion practices, occupational choices and a gender pay gap, albeit a shrinking one, contribute to income and wealth inequality. They also reduce well-being, both for women and men, in particular by affecting the balance between work, family commitments and personal life. The government has recently extended the share of parental leave reserved for each parent. Fighting stereotypes early in education is also needed to reach a better gender balance in occupations associated with high social status and pay, where women are often under-represented. Further promoting female entrepreneurship, which is growing fast from a relatively low level, would contribute to both gender equality and economic dynamism. Gender policy should also pay attention to weak men's outcomes in some areas, including under-representation in some traditionally female-dominated professions where job opportunities are growing (e.g. education, social services) and under-achievement in education.

Reducing gender inequality lifts economic performance and well-being

In addition to ethical arguments for lowering gender inequality there is also ample evidence that lower gender inequality is associated with stronger economic performance and lower income and wealth inequality. Fairer opportunities tend to raise the participation of women in the labour market, and hence to increase labour supply, but also to improve the matching between women's skills and jobs, which lifts productivity. Higher labour participation tends to reduce income inequality, reflecting large income differences between people in- and out of work. Greater diversity in the workplace is also bound to favour innovation, through enhanced information and analysis capabilities.

Enhancing labour participation and opportunities increases potential output

Countries where gender inequality is low tend to enjoy higher incomes and higher standards of living. Gender equality, as measured by the World Economic Forum's Global Gender Gap index, is positively correlated with the level of GDP per capita across OECD countries (Figure 2.1). Gonzales et al. (2015) find a negative relationship between the United Nations Gender Inequality Index and both GDP per capita and GDP growth in a sample covering advanced, emerging and low-income countries. A positive relationship between the European Institute for Gender Equality index and GDP per capita is also found across EU-28 countries (European Institute for Gender Equality, 2015).

Causality between higher gender equality and higher incomes runs in both directions (Duflo, 2012). High incomes and standards of living entail more opportunities for women, including better access to health and education, which is key to empowering women.

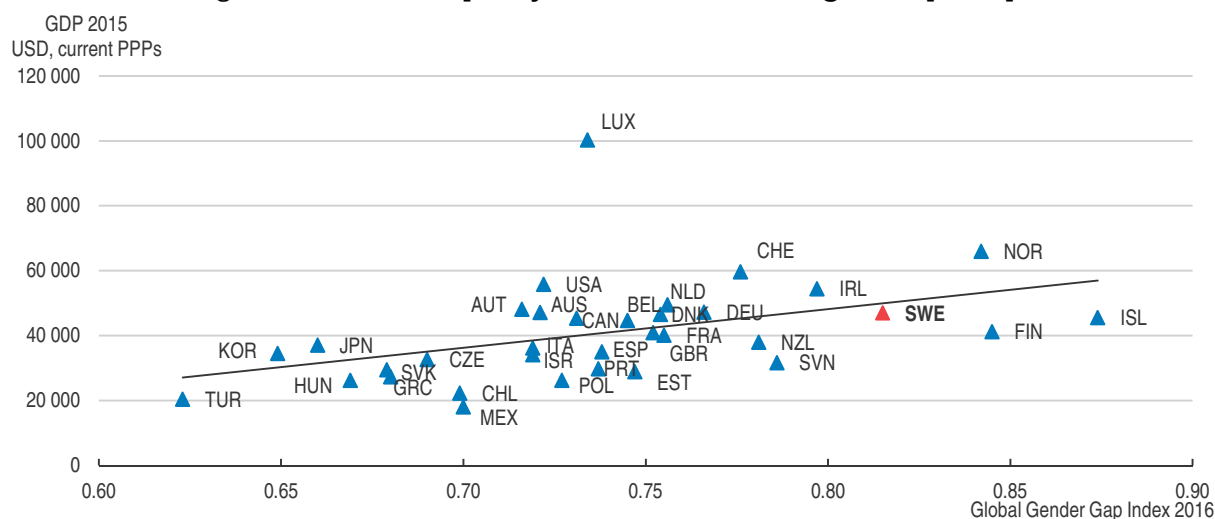
Box 2.1. Sweden is a leader in gender equality

Sweden is among the top performers in the main international gender equality rankings. It comes first in the Gender Equality Index 2015 from the European Institute for Gender Equality, a composite index based on 2012 gender gaps and levels of achievement in the key policy areas relevant to gender equality (European Institute for Gender Equality, 2015). The gap to the average of the other EU-28 members has remained roughly constant since the 2005 introduction of the index. Sweden's score indicates that about three-fourths of the way towards a gender-equal and cohesive society has been covered, compared to about half for the EU-28 average and less than 40% for the lowest performing OECD country that is a member of the EU (Italy). Looking at sub-indices, Sweden tops the ranking for work (participation and quality), comes second to Denmark for knowledge (attainment, segregation and lifelong learning), second to Finland for power (political and economic), third behind Luxembourg and the Netherlands for money (level and distribution of income and risk of poverty), third behind Denmark and the Netherlands for time (time spent in care and social activities) and seventh in health (status and access to care). A weak spot is the low gender equality index score for employment of foreign-born relative to natives, although this has to be seen in the light of the strong employment rate of Swedish women.

Sweden ranks fourth in the 2016 World Economic Forum's Global Gender Gap index for the seventh consecutive year, behind Iceland, Norway and Finland (World Economic Forum, 2016). The overall performance is driven by high scores in economic participation and opportunity, where Sweden ranks fourth and political empowerment, where it ranks fifth, despite being the only Nordic country which has had no female head of government in the past 50 years.

Sweden ranks sixth on the 2015 United Nations Development Programme (UNDP) gender equality indicator, which covers empowerment, labour market and reproductive health, scoring high in all categories (United Nations Development Programme, 2015).

Figure 2.1. Gender equality is associated with high GDP per capita



Source: World Economic Forum and OECD Productivity database.

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Higher levels of economic development are also generally associated with more economic and political rights and opportunities for individuals and especially for women. Gender equality contributes to higher economic well-being primarily through reducing gaps in education, health, and labour participation and through better career opportunities for women.

Gaps in education and health are considerable obstacles to economic growth particularly in low-income countries (Gonzales et al., 2015). In OECD countries, there is also evidence that the reduction in the gender gap in education has had a positive and significant impact on GDP per capita growth over the period 1960-2008 (Thévenon and Salvi Del Pero, 2015). Success in reducing these gaps over time has led to the near-elimination of education and health gaps in most advanced economies. In Sweden, educational attainment is higher for women than for men (Salvi del Pero and Bytchkova, 2013). Upper secondary graduation rates for women and men were respectively 73% and 65% in 2014 and more than half of women aged 25-34 have a tertiary degree, compared to only about 40% of men in the same age group (OECD, 2016a). However, women are under-represented among engineering and computing graduates. As in other advanced economies, the impact of gender inequality on economic growth is mainly related to gaps in labour participation and weaker career opportunities for women.

Sweden has the third highest female employment rate in the OECD, behind Iceland and Switzerland (Figure 2.2, Panel A). The gender gap in employment rates is the second lowest behind Finland (Figure 2.2, Panel B). In interaction with societal values, policies have played a major role in promoting the integration of women in the labour market. The rapid expansion of the public sector in the 1960s and 1970s also increased women's employment opportunities. Beside general policies like universal access to education and health care, which were put in place early in Sweden and tend to benefit women disproportionately in the early stages of implementation, specific policies have provided incentives and support for women to enter the labour market. The taxation of second earners is highly relevant when considering the incentives of women to seek employment, as second earners tend to be women, with 62% of couples with dependent children having female second earners in 2011 (Rastrigina and Verashchagina, 2015). Sweden has relatively low taxation of second earners due to income taxation at the individual rather than at the household level since 1971 (Gunnarsson, 2016). Individual taxation results in second earners facing one of the lowest income tax burdens amongst OECD countries, which provides a powerful incentive for women to seek employment (Figure 2.3, Panel A). Similarly, social security legislation is based on individual insurance.

Access to affordable childcare also favours female employment. Sweden is among the few EU countries that meet both targets on formal childcare provision set at the 2002 European Council in Barcelona: ensuring suitable childcare provision for at least 33% of children under three years of age and for at least 90% of children between three and the mandatory school age (European Institute for Gender Equality, 2015). The net cost of childcare is among the lowest in the OECD (Figure 2.3, Panel B).

Increased female labour force participation would lift Swedish growth. Simulations based on OECD long-term growth scenarios suggest that halving the gender gap in participation by 2030 would raise the level of Swedish GDP by 2.3%. Fully closing the gap would raise GDP by 4.6% (OECD, 2012). These potential gains are substantial, though smaller than in many other OECD countries, notably in Southern and Eastern Europe and

Figure 2.2. **Swedish women's employment rate is high**

Source: OECD Labour Force Statistics.

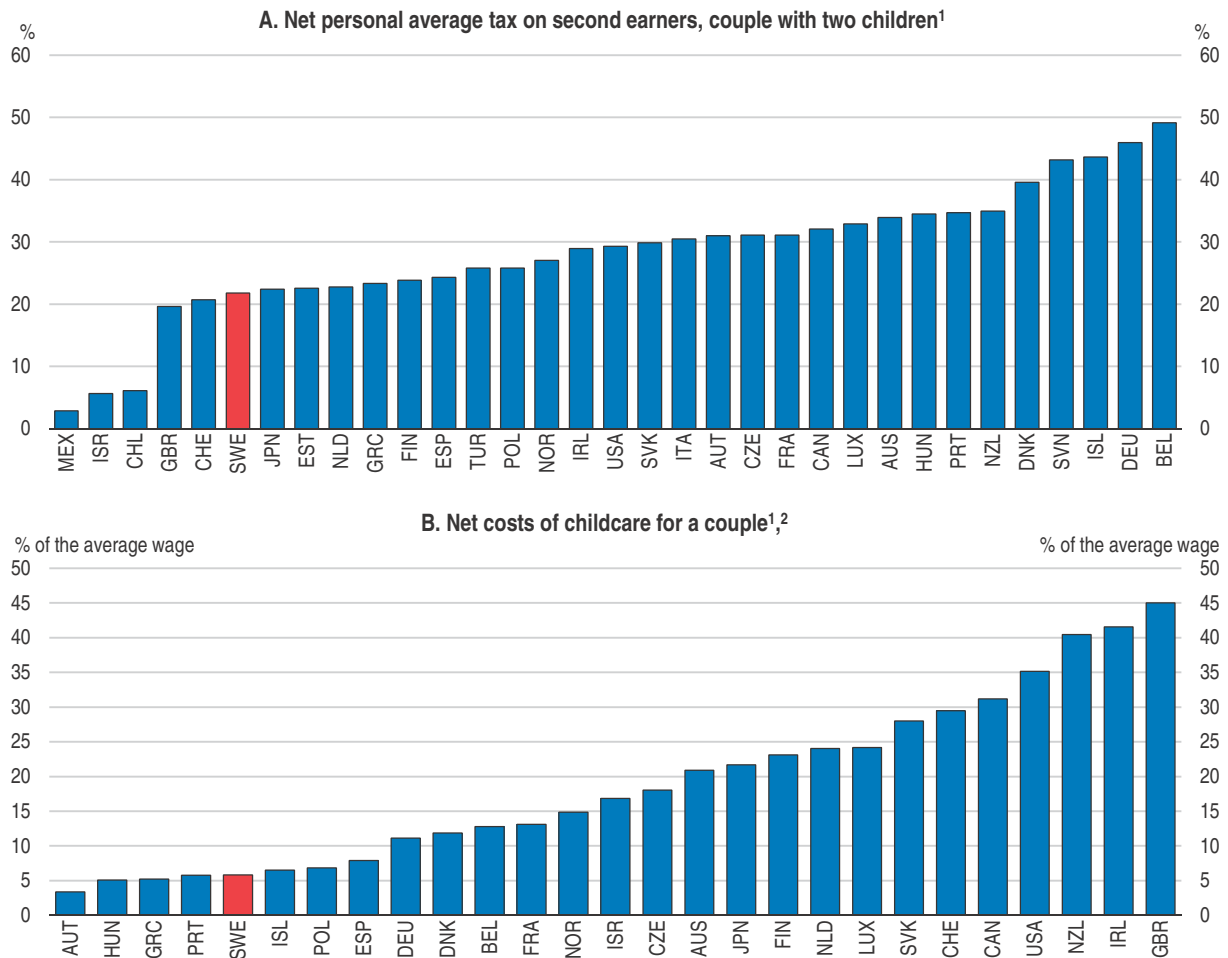
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Latin America, where gender participation gaps are much wider. Progress can also be made in limiting the high share of Swedish women who work part-time involuntarily, who currently account for 11% of total female employment (see below). While closing the gender participation gap would increase the labour force by 3.4% in 2030, convergence in full-time equivalent terms would lift labour input by close to 10%.

A particular challenge for Sweden, given the large inflows of migrants, will be to encourage labour participation and employment opportunities of foreign-born women. Sweden has the widest gap in employment rates between native and foreign-born individuals among OECD countries (Figure 2.4). This is largely explained by the composition of immigration to Sweden, which includes a large share of refugees and family-reunion immigrants with relatively low skills, while low-skilled jobs account for only about 5% of total employment. Furthermore, the gap in employment between natives and foreign-born is much larger for women (18 percentage points) than for men (11 percentage points). Women aged 20-64 with below-secondary education and born in Asia or Africa had an employment rate as low as 33% in 2015, even though their participation rate was above 50% (Swedish Fiscal Policy Council, 2016).

Figure 2.3. **Taxes on second earners and childcare costs are low**

2012



1. The first earner earns 100% of the average wage and the second 67%.

2. For children aged 2 and 3. In a number of countries, available fee information relates to a particular region or municipality: Austria (Vienna), Belgium (Wallonia), Canada (Ontario), Finland (Helsinki), Germany (Hamburg), Iceland (Reykjavík), Japan (Tokyo), Poland (Warsaw), Switzerland (Zürich), United Kingdom (England) and the United States (Michigan).

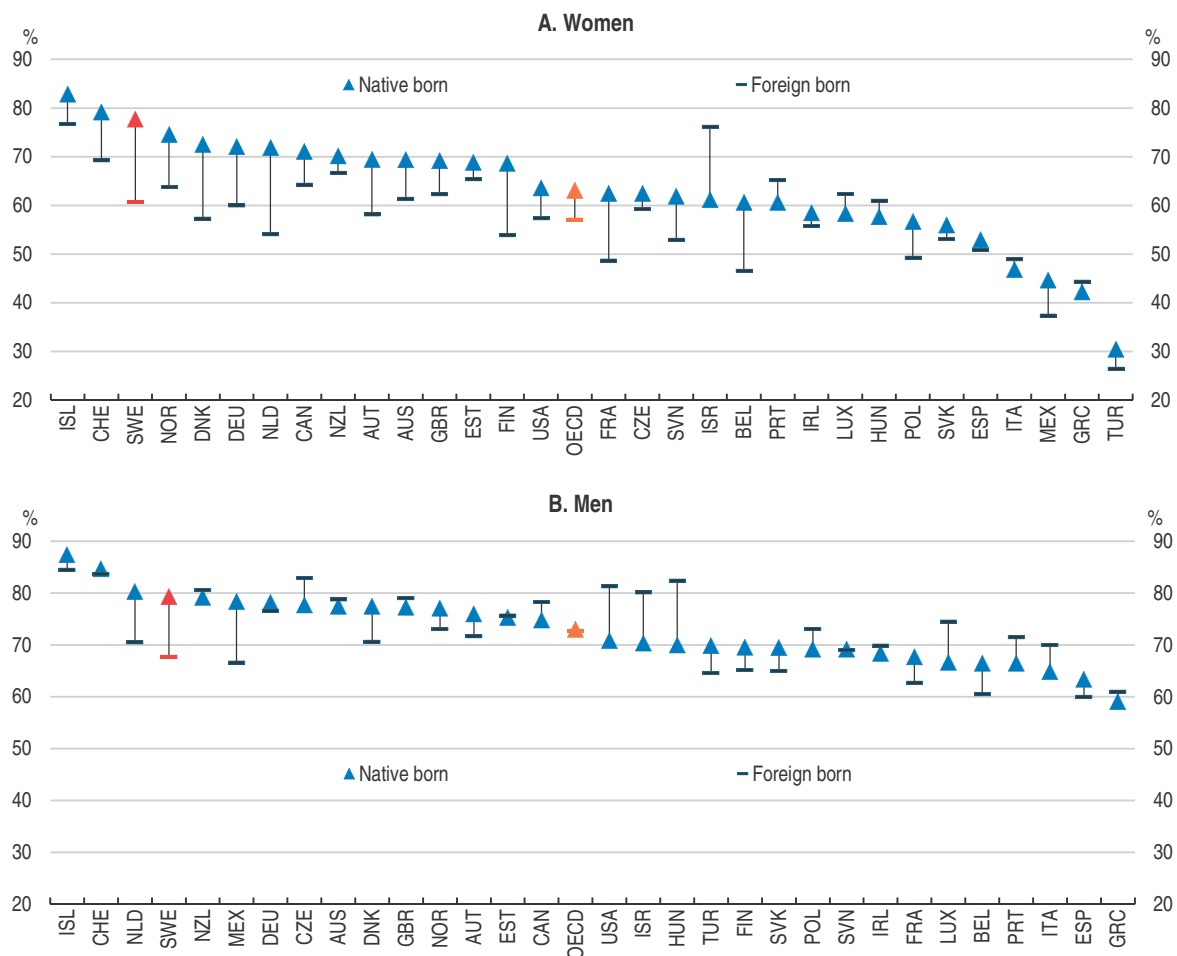
Source: OECD Taxing Wages 2016, OECD Tax-Benefit Models.

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In addition, migrant women tend to drop out of the labour force following the completion of the government-mandated integration programme. The two-year introduction programme provides a wide range of targeted activities aimed at preparing new humanitarian migrants and their families to enter the labour market. One year after completing the programme, nearly one in five women is neither employed, nor in training or education (NEET), or even registered with the public employment service. The NEET rate is particularly high, at nearly 27%, for women who arrived after the age of 15. It compares with a rate of about 16% for their male counterparts and a rate of around 11% for native-born women with two native-born parents.

This calls for better follow-up and support to help foreign-born women to further integrate and remain in the labour market. Measures recently taken by the government to support the integration of migrants, such as reforming Swedish Tuition for Immigrants (SFI), enhancing validation of qualifications and further investments in adult and

Figure 2.4. **The foreign-born female employment rate is low compared to natives**¹
2015



1. OECD averages exclude Chile, Japan, Korea, and Latvia.
Source: OECD Migration Statistics.

StatLink <http://dx.doi.org/10.1787/888933446140>

vocational education, will help both men and women. However, additional measures targeted at female labour market participation are warranted given the greater difficulties they face in entering and remaining in the workforce. In July 2016, the government announced a new programme to tackle segregation, including a requirement for the public employment service to focus on measures to increase employment among foreign-born women (Swedish Government, 2016a). Policies should continue to reach out to foreign-born women in a systematic way when the Introduction programme ends, to prevent them from drifting away from the labour market. Evidence from Australia, Denmark and Norway suggests that mentoring schemes and programmes targeted at women with a refugee background can play an important role in supporting foreign-born women's access to jobs, as well as bringing additional benefits to society. In particular, diversifying the workforce in sectors like health and education can make it more responsive to the needs of families from various backgrounds, which in turn helps the integration of immigrants. This is all the more relevant as Sweden is facing labour shortages in these areas, which properly trained immigrants could help reduce (OECD, 2016b).

The magnitude of the impact of higher female employment on output depends on the productivity of the newly employed. These individuals may have lower education, less skills and experience, may have been out of work for a long time and may work in low-productivity sectors. Their inclusion in the labour market could therefore put downward pressure or even subtract from aggregate productivity growth, especially in the short term. Although such a trade-off is indeed evident across OECD countries the negative impact is relatively weak. Boulhol and Turner (2009) find that across OECD countries a 1% gain in employment is associated with a decrease of 0.24% in labour productivity. McGuckin and van Ark (2005) find that a 1% increase in employment lowers labour productivity by 0.3% in a sample covering the OECD and a few additional European countries. Moreover, the impact of participation on productivity is relatively short-lived, disappearing in less than five years. While increased female participation has been associated with lower productivity growth in the past, this is linked to specific age and cohort effects and is likely to fade away over time. This is especially true in Sweden, where women have higher levels of education attainment than men.

The impact of workers previously employed part-time and foreign-born women could drag productivity down through the direct effect associated with the factors listed above and also through increased skill mismatch, which has been associated with lower productivity across OECD countries (Adalet McGowan and Andrews, 2015a). While the incidence of skill mismatch in Sweden is among the lowest in the OECD, specific groups may face a higher risk. On average in OECD countries, women are less likely to experience skill mismatch than men. However, the probability of mismatch is higher for immigrants and part-time workers, although there is no evidence of an impact of the latter on matching in Sweden (Adalet McGowan and Andrews, 2015b). Policy-related factors may have opposite effects on matching in Sweden. On the one hand, product market regulations are relatively lean and participation in lifelong learning is high, which should facilitate matching. On the other hand, employment protection legislation is high for permanent contracts and flexibility in entry level wages is limited (2015 *OECD Economic Survey of Sweden*). The structural shortage of housing in the big cities and the very strict rental market regulations are obstacles to residential mobility and are likely to reduce the efficiency of labour allocation (Adalet McGowan, 2013).

Gender diversity boosts corporate performance

There is growing evidence that firms with greater gender diversity tend to be more innovative and profitable. Catalyst (2011) shows that Fortune 500 companies with at least three women board directors significantly outperform companies with only male board directors. The female inclusive boards outperformed in terms of return on sales (+84%), return on invested capital (+60%) and return on equity (+46%). Curtis et al. (2012) find that the relative share price performance of firms with at least one woman on their board is 26% higher for large-cap companies and 17% for smaller and mid-cap enterprises. Shares in companies with women on their board started to outperform others after the 2008 global financial crisis, suggesting that gender diversity on boards is associated with reduced volatility in stock returns possibly reflecting the tendency for female directors to be more risk averse than male directors (Croson and Gneezy, 2009; OECD, 2015a). Similarly, gender diversity is found to have a positive impact on the quality of credit and the profitability of Italian banks, which may be linked to women's higher risk aversion and greater attention to monitoring activities (Del Prete and Stefani, 2015). Hunt et al. (2015) find in a sample of

366 companies from Canada, Latin America, the United Kingdom and the United States, that firms in the top quartile for gender equality were 15% more likely to have financial returns above their national industry median than those in the lower quartile. Noland et al. (2016) find in an analysis of 21 980 companies from 91 countries, that the presence of women in corporate leadership may improve firm performance through returns from non-discrimination and increased skill diversity. The effect is sizeable: an increase in female leaders from zero to 30% is associated with a 15% increase in the net revenue margin.

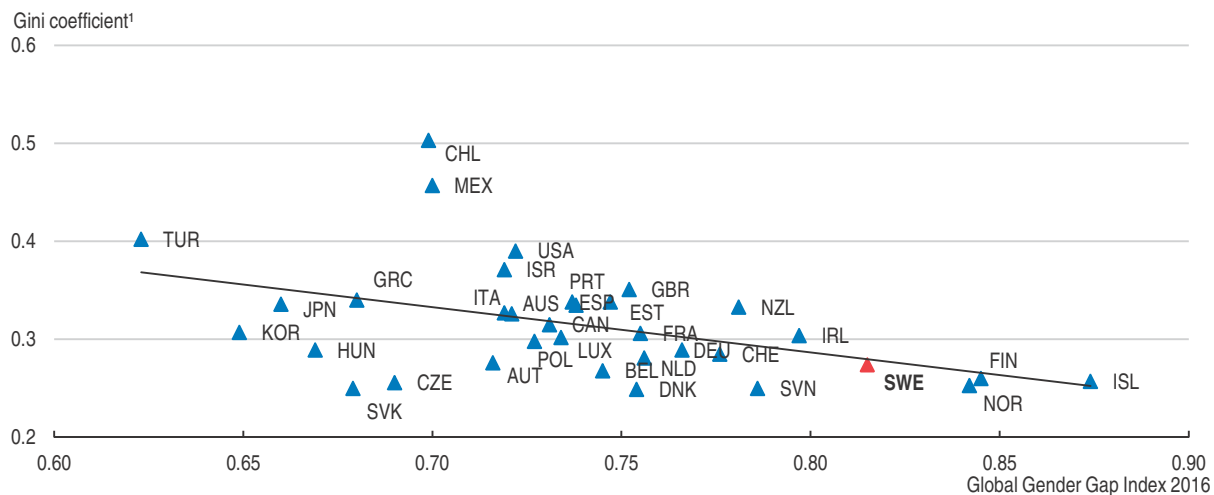
There is evidence that greater diversity, in terms of gender but also other dimensions such as ethnicity or culture, can enhance firm performance. In a fast-moving business environment, more diverse groups are likely to be better at rapidly finding responses to problems and at spotting new opportunities. Woolley et al. (2010) find that collective intelligence, defined as the general ability to perform a wide variety of tasks, increases with the proportion of women in a group. Homogenous groups may suffer from narrow-mindedness, groupthink – the tendency to agree with a group’s consensus without critical thinking – and over-confidence, whereas diversity fosters creativity and innovation through enhanced information processing and complex thinking (Galinsky et al., 2015). In addition to improved group decision-making, gender diversity offers access to a larger pool of talent, a wider span of management skills, a better understanding of customer preferences, and improved corporate governance (Curtis et al., 2012). The correlation between gender diversity and economic performance does not necessarily imply that causality only runs from diversity to economic growth. For example, well-performing firms may be more likely to encourage gender diversity or better managed firms with good corporate governance could lead to higher performance and more diversity.

More gender equality is associated with lower income inequality

Across OECD countries, gender equality is negatively correlated with the Gini coefficient on disposable income (Figure 2.5). Similar to the relationship between gender equality and GDP, this correlation is observed in samples extending to non-OECD countries. Gender equality may reduce income inequality through several channels. The difference in labour participation is the main gender-related contributor to income inequality in advanced economies, while the gender pay gap has a direct, albeit smaller, effect on income inequality. Gender gaps in access to education and health, differences in political empowerment and unequal economic opportunities, which are important sources of income inequality in low-income and emerging economies, play a minor role in advanced economies (Gonzales et al., 2015).

A better work-life balance raises well-being

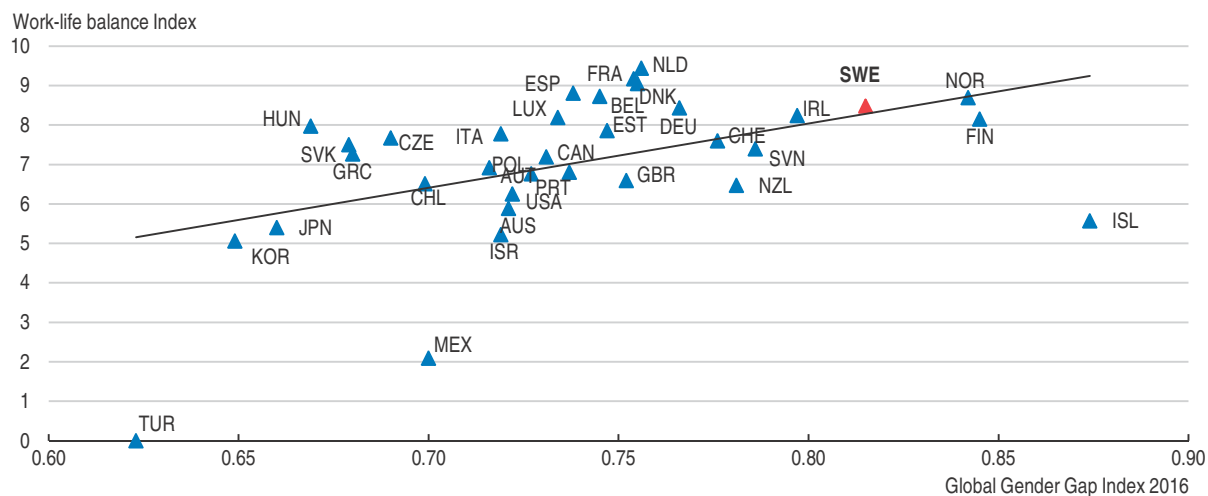
In addition to its contribution to economic performance, gender equality improves well-being, for both women and men. Allowing men and women to successfully combine work and family commitments is a major contributor to increased subjective well-being. The work-life balance component of the OECD’s Better Life Index, covering both women and men, is strongly correlated with the WEF Global gender gap index across OECD countries (Figure 2.6). In Sweden, women fare better than men in five of the eight dimensions of the OECD’s well-being index, which compares favourably to the OECD average (Box 2.2).

Figure 2.5. **Gender equality is associated with low income inequality**

1. Gini coefficient on disposable income, latest data available.

Source: World Economic Forum, OECD Income Distribution database.

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Figure 2.6. **Gender equality favours work-life balance**

Source: World Economic Forum and OECD Better Life Index 2016.

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Box 2.2. Gender inequality in well-being

In Sweden, as in other Nordic countries, women appear to be slightly more satisfied than men with their lives. Furthermore, Sweden is one of the few OECD countries where women report a higher positive affect balance (a measure that captures the extent to which positive feelings exceed negative ones at a specific point in time), which certainly matters in how they evaluate their lives as a whole (OECD, 2013). The most prominent gender differences in Swedish well-being include:

- Women have higher civic engagement than men, but weaker social networks.
- Despite having a longer life expectancy, women tend to report worse health conditions than men. The health gender gap is wider in Sweden than in the OECD and other Nordic countries (Figure 2.7). In 2012, Swedish women were 40% more likely to report limitations in daily activities due to health problems than men (OECD, 2013).
- Women have a lower suicide rate than men (7.2 for 100 000 against 15.8 for 100 000 for men), although it is one of the highest rates among women across OECD countries.
- With respect to safety, gender equality is far from being achieved: women and men differ in their exposure to crime (men are more likely to be homicide victims, while women are the primary victims of domestic and intimate partner violence), and women are more fearful of crime. Sweden shows a wide gender gap in safety, contrary to other Nordic countries. Accordingly, one of the Swedish government's gender policy priorities is to stop men's violence against women.
- Similarly to many other OECD countries, where girls have consistently outperformed boys in school, Swedish girls outperform boys on educational attainment, skills and number of years in education.

Well-being dimensions and their components

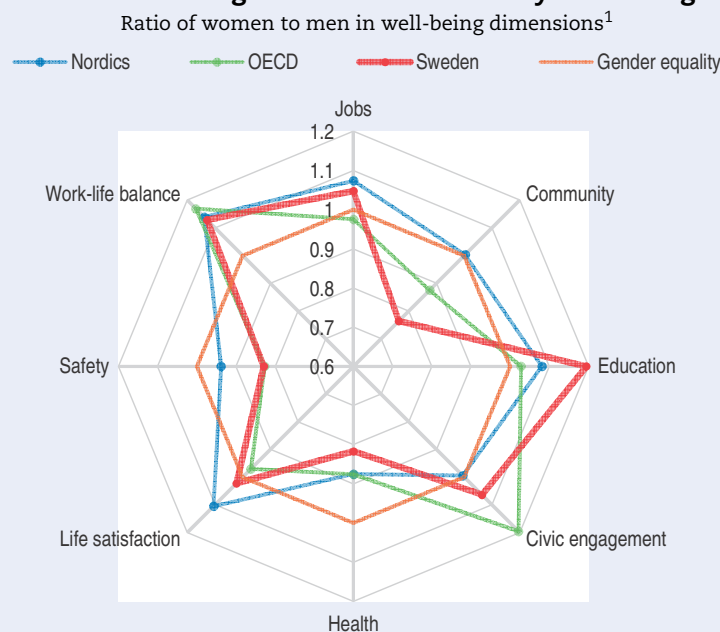
Job	Labour market insecurity
	Employment rate
	Long-term unemployment rate
	Personal earnings
Community	Quality of support network
Education	Educational attainment
	Student skills
	Years in education
Civic engagement	Stakeholder engagement for developing regulations
	Voter turnout
Health	Life expectancy
Life satisfaction	Self-reported health
	Life satisfaction
Safety	Feeling safe walking alone at night
	Homicide rate
Work-life balance	Employees working very long hours
	Time devoted to leisure and personal care

Despite the outperformance of females in many dimensions of subjective well-being, inequalities persist when it comes to jobs and earnings. Women have a slight advantage as regards jobs in Sweden and the other Nordics, which stems from lower labour market insecurity and a lower long-term unemployment rate. As fewer women than men work very long hours and a substantial fraction of women work part-time, women tend to have a better work-life balance. But women are still paid less than men and encounter more difficulties to access managerial positions. Women are also exposed to higher poverty risk after retirement. Due to lower pension contributions over the course of their lives, as well as to longer lives, the incidence of poverty among retired women is much higher than among retired men. In 2015, nearly 24% of women aged 65 or over were at risk of poverty compared to less than 12% of men, using a threshold of 60% of median equivalised income after social transfers (Eurostat, EU-SILC). Recent government measures to reduce

Box 2.2. **Gender inequality in well-being** (cont.)

differences in taxation between earned and pension income will benefit women disproportionately and contribute to closing this gap (Swedish Government, 2016b). A parliamentary group on pensions is also investigating ways to improve gender equality among pensioners, through a review of basic protection for over 65 year-olds and easing transfers of premium pension rights (the funded part of public earnings-related pensions) between spouses and registered partners.

Figure 2.7. **Women score higher than men on many well-being dimensions**



1. Each gender-specific well-being dimension has been calculated separately for men and women. Dimensions are measured by indicators from the OECD Better-Life Index, which are normalised to range between 0 and 1 and averaged within each dimension. The chart displays the ratio of women to men scores for each dimension. A value of 1 indicates gender equality; a value greater than 1 indicates that the well-being indicator is higher for women and conversely.

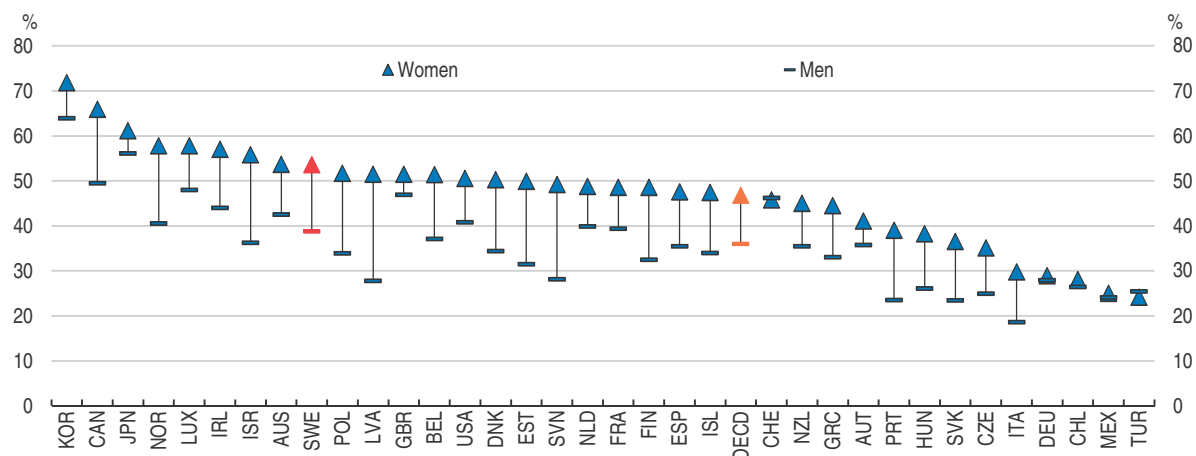
Source: OECD Better-Life Index 2016.

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The economic potential of women is not fully harnessed

The female employment rate in Sweden is one of the highest in the OECD. However, many women work part-time, with many wanting to work more hours. Women also take on a disproportionate share of unpaid work. Furthermore, women are under-represented on private company boards, in senior management positions, in many well-paid and influential professions and among entrepreneurs. This situation endures despite the fact that Swedish women are highly skilled with more than half of women aged 25-34 holding a tertiary degree, compared to about 40% of men (Figure 2.8). Hence, there is potential to better harness the economic potential offered by women.

In order to promote gender equality, Parliament has decided on an overall objective stating that women and men are to have the same power to shape society and their own lives. Accordingly, the government has set out four intermediate objectives in its gender equality policy, three of which have a direct impact on the economic contribution of women: equal division of power and influence; economic equality; and equal distribution of unpaid housework and provision of care. The fourth objective is stopping men's violence

Figure 2.8. **Girls outperform boys in education**Percentage of 25-34 year-olds with tertiary education, by gender, 2014 or latest year available¹

1. Unweighted average for the OECD.

Source: OECD Education at a Glance 2016.

StatLink  <http://dx.doi.org/10.1787/888933446189>

against women (MHSA, 2015). Furthermore, the Government has recently established a gender equality agency, to reduce fragmentation and enhance implementation effectiveness of gender equality policies. The annual government budget contains a supplement with data and analyses on gender inequality which is a valuable tool for monitoring policy action and Sweden is among the OECD frontrunners in terms of gender budgeting (Quinn, 2016). However, the document could present data more consistently over time, which would allow a better monitoring of trends. Disaggregated gender data and analyses could be expanded in a number of key areas, including the impact of gender norms on economic choices, differences in employment and wages between natives and foreign-born, learning choices and returns to education, the glass ceiling, and financial and housing wealth. Additionally, more effort should be put into translating gender policy goals into intermediate targets on measurable outcomes, against which the impact of policies can be assessed (Swedish Fiscal Policy Council, 2016).

Many women work part-time

Female employment is high, with around one woman in five working part-time, a level well below the OECD average (Figure 2.9, Panel A). However, around 60% of women working part-time would like to work longer hours (Panel B). This is partly related to the over-representation of women in the service sector, both private and public, where part-time jobs are most prevalent. In addition, the unequal sharing of unpaid work between men and women is likely to play a role in women's voluntary part-time work. Part-time work generally carries a penalty in terms of pay, job security, training and promotion, although it varies across OECD countries. A penalty is found in most of these dimensions in Sweden, although it is relatively small by OECD standards (OECD, 2010). In terms of wages, the evidence is mixed. Bardasi and Gornic (2008) find that Sweden alone in a sample of six OECD countries displays no part-time wage penalty. The authors relate this result to the fact that working part-time is fairly common among Swedish females with young children, notably because parents of children below the age of eight are entitled to a 25% reduction in their working time (with a proportional pay reduction). In the other countries of their

Figure 2.9. **Many women work part time, often involuntarily**

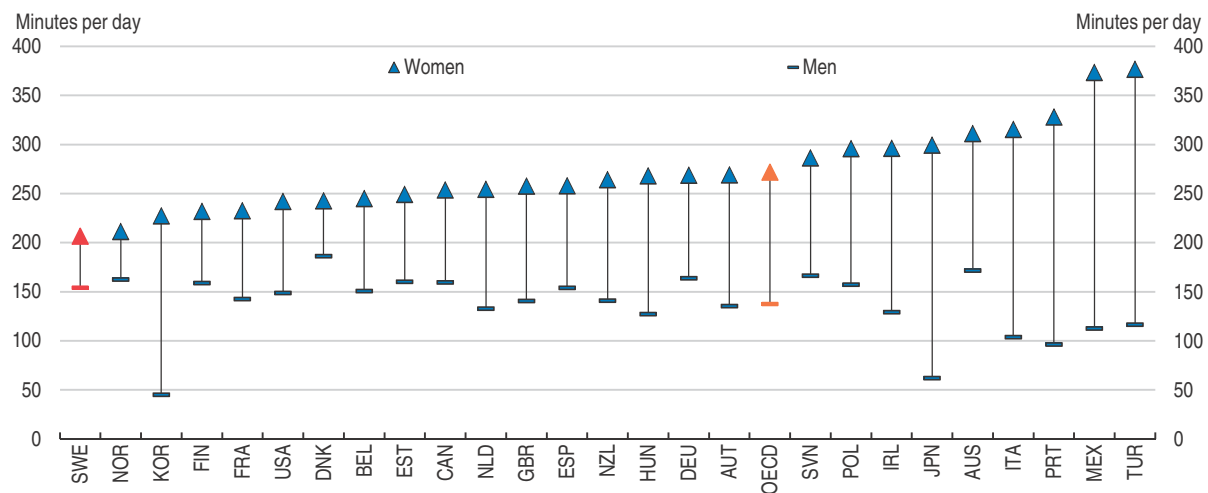
Source: OECD Labour Force Statistics.

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sample, part-time work is most prevalent in low-skilled and low-paid jobs, which partly explains the wage penalty. Wahlberg (2008), using quantile regressions, finds evidence of a part-time wage penalty in Sweden, which increases with the level of income and rises particularly sharply beyond the third quartile. At the median wage, the part-time penalty is less than 10% for women and slightly over 15% for men. In the highest decile, the penalty is close to 20% for women and 30% for men.

Women take on a larger share of unpaid work

While Sweden is one of the best performers amongst the OECD, in relation to total time spent in unpaid work, and the gender gap is one of the smallest, women still spend more time in unpaid work than men (Figure 2.10). Sweden's relatively favourable result in this area is partly related to policies which favour female involvement in paid work and provide extensive public services, in particular child- and elderly-care. Moving further in that direction, the government has announced in its 2016 Spring fiscal policy bill that staffing in these services during unsocial working hours will be increased to enhance women's ability to work.

Figure 2.10. **Women spend more time than men in unpaid work¹**

1. OECD Estimates based on Time Use Surveys, mostly from 2005 to 2010.

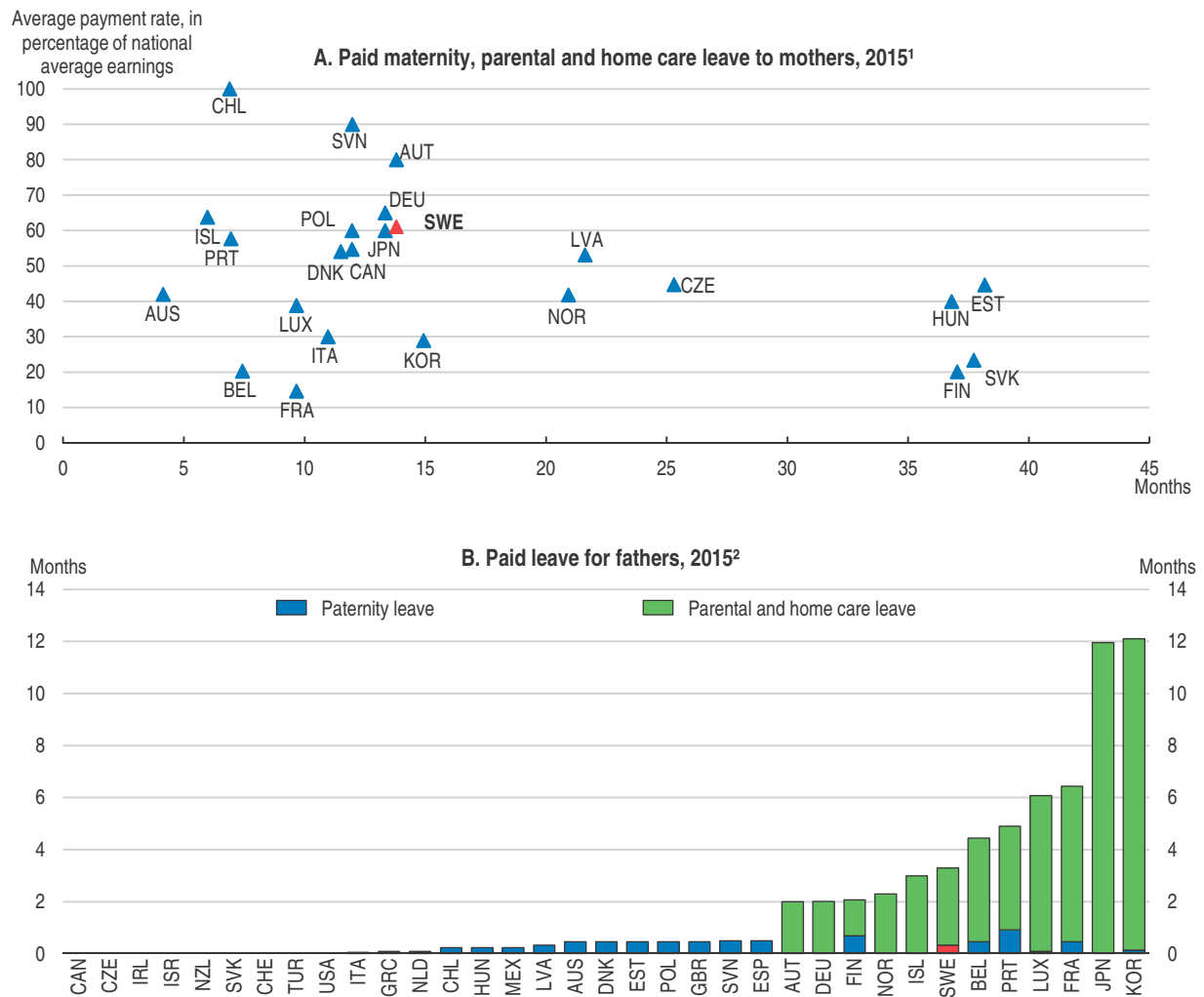
Source: OECD Gender Portal 2015.

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Long parental leaves affect women's careers

Sweden has among the most generous parental leave entitlements in the OECD, with a combination of relatively long duration and high replacement rate (Figure 2.11, Panel A). They cover job protection and income replacement. The current system, introduced in 1974, is credited with increasing female labour market participation, promoting male involvement in childcare, supporting fertility and enhancing children's well-being (Ferrarini and Duvander, 2010). The length of the leave, during which most parents receive 80% of previous earnings up to a relatively high cap, was progressively extended from six months initially to 16 months currently. A portion of the leave can be shared between parents, with the remainder reserved for mothers and fathers separately. This reserved part was introduced to encourage fathers to take parental leave. It was initially one month when it was introduced in 1995, extended to two months in 2002, and the current government raised it to three months in 2016, which is among the highest durations in the OECD (Panel B). In addition, countries with longer paid leave reserved for fathers have much lower replacement rates than Sweden (Adema et al., 2015). At the same time as the share reserved for each parent was extended, the gender equality bonus, a tax credit to parents sharing the leave equally introduced in 2008, was abolished, as it had proven ineffective (Duvander and Johansson, 2012). The municipal childcare allowance, introduced in 2008, was abolished in 2016. It provided extra childcare benefits to parents of one- and two-year olds who did not attend publicly subsidised day-care services, but had a low take up rate and was not available in all municipalities.

Even though the majority of parental leave time is gender neutral and the share of parental leave used by men has increased steadily since the reserved quota for each parent was introduced two decades ago, 75% of parental leave is still taken by women. A more equal split of parental leave time would bring benefits in many areas. Parental leave schemes tend to push up female employment by providing an incentive to work before having children in order to accumulate rights to benefits, and by facilitating the return to work by offering job protection. However, long leave times have a detrimental impact on

Figure 2.11. **Parental leave is fairly generous**

1. Countries with no paid home care leave are not shown.

2. 2016 for Sweden.

Source: OECD Family database.

StatLink  <http://dx.doi.org/10.1787/888933445891>

careers (Evertsson and Duvander, 2011; Thévenon and Solaz, 2013). Long periods out of work may erode human capital, through foregone experience, depreciation of skills during the leave and lower investment in careers, while possibly signalling weaker work commitment. Employers may also discriminate against childbearing-age women because of their higher probability of leave (Johansson, 2010). Hence, a more equal split of parental leave between parents would improve women's career prospects. Moreover, fathers taking parental leave tend to be more involved in childcare beyond the leave period. Better sharing of parental leave can lead to better long-term sharing of childcare and unpaid work, which in turn can enhance women's career prospects. However, evaluations of the effects on fathers' involvement in child-care and household work following the introduction of reserved shares in parental leave in Sweden are mixed. Ekberg et al. (2013) find no effect of the reform on the leave taken for care of sick children, which is correlated with household work. In contrast, Duvander and Johansson (2013) find a small but significant effect on the

leave taken for care of sick children following the introduction of the first reserved month of parental leave. Finally, fathers' involvement in childcare improves children's cognitive development and well-being (Huerta et al., 2013).

Policies should encourage parents to split parental leave more equally by continuing to increase the share reserved for each parent. Although the free transfer of a large part of the parental leave between parents has advantages in terms of flexibility and accommodating individual preferences or constraints, it may lead to a sub-optimal allocation of leave between parents when choices are influenced by cultural attitudes. Research shows that in developed countries, there is an implicit bias – both from men and women – towards associating men with career and women with family (Duflo, 2012). Reflecting this bias, Swedish men tend to face a stronger penalty in terms of pay and career for taking long parental leaves than women do (Albrecht et al., 2015). This suggests that a long parental leave could be perceived more as a lack of commitment to the job when taken by a man, given prevailing social norms. Biased perceptions justify imposing, at least temporarily, limits on choices, such as a reserved share of parental leave for each parent. The government could progressively raise this share further. Iceland has the most egalitarian parental leave system in the OECD, with a third of the parental leave reserved for each parent and a third which can be shared between parents. However, the overall parental leave (9 months) is shorter than in Sweden.

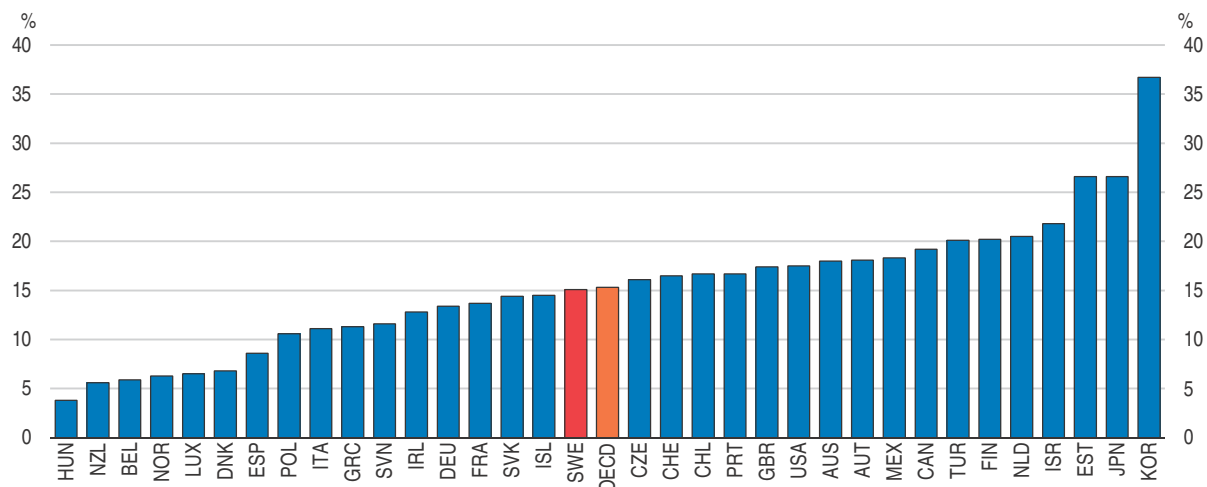
Full rights to the parental leave minimum benefit are available for children up to the age of seven. They are seldom used by natives when children are over the age of three, but provide an incentive for female immigrants with children to stay at home, which exacerbates language learning disadvantages for their children, who do not participate in early childhood education and care (Swedish Government, 2016c).

The gender pay gap persists, even though it is shrinking

The Swedish gender pay gap is close to the OECD average (Figure 2.12). A large part of the gap results from differences in age, education, occupation, sector of employment and hours worked. Adjusting for these differences puts the gap, based on 2015 data, at 4.6% (Swedish National Mediation Office, 2016). An alternative estimate from the Swedish National Mediation Office, which is based on regression analysis rather than the standard composition adjustment, shows a slightly smaller gender pay gap of 4.2%. The adjusted gender pay gap is smaller in the public sector than in the private sector and is nearly closed in municipal governments. The large unadjusted wage gap in Swedish counties reflects the counties' responsibilities for health care, where men are over-represented among doctors, and women are over-represented among nurses. When adjusted for this factor, the wage gap in counties is relatively small. In the private sector, the adjusted wage gap is more than twice as large for white collars as for blue collars (Table 2.1).

The unadjusted gender wage gap has been reduced by 3.8 percentage points between 2005 and 2015, while the adjusted gap has fallen by 2.2 percentage points. The narrowing of the wage gap in recent years can be decomposed into two effects: a reduction in gender segregation across occupations, accounting for between 60% and 70% of the reduction in the gender gap, and faster wage increases for women than for men, explaining the remaining 30 to 40% (Swedish National Mediation Office, 2015). Despite the decrease in the gender wage gap, two observations point to persisting gender inequality. First, wages tend to be lower in professions with a high proportion of women than in male-dominated occupations. This may result from lower productivity in some female-dominated sectors,

Figure 2.12. **The gender wage gap is close to the OECD average**
2014 or latest year available



1. The gender wage gap is defined as the difference between male and female median wages divided by the male median wages.

Source: OECD Employment database.

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Table 2.1. **Gender wage gaps across sectors**

Per cent, 2015

	Unadjusted	Adjusted ¹
Total Economy	12.5	4.6
Private sector	11.9	5.7
Blue collar	10.3	3.1
White collar	18.3	7.7
Public sector	12.0	2.1
Municipalities	4.6	0.4
Countries	22.4	3.9
State	7.3	4.2

1. Adjusted for differences in age, education, occupations, economic sectors and hours worked.

Source: Swedish National Mediation Office (Medlingsinstitutet) (2016).

notably in services, than in male-dominated sectors. Hence, improving productivity in low-pay sectors would allow reducing the gender wage gap. Higher pay may also attract more men to these sectors, which would reduce job segregation. The role of low pay in that respect may be underestimated. For example, while the under-representation of men in pre-primary school teaching is generally attributed to the traditional association between caring and women, in a survey Norwegian men mentioned poor pay rather than fear of association with a caring role as a reason for not being attracted to the profession. Evidence from European countries and the United States suggests that lower wages in female-dominated professions could also result from undervaluation of the work done by women (Bettio and Verashchagina, 2009; Levanon et al., 2009). A recent study on Swedish young economics graduates suggests that women may also have lower wage expectations than men, which could negatively affect their ability to negotiate higher wages (Swedish National Mediation Office, 2016). However, a study from the Swedish Confederation of Professional Associations finds that women who have had individual wage negotiations

have on average significantly higher wages than those who have not, while no such difference is found for men (Granqvist and Regnér, 2011). The gender wage gap tends to increase with the wage level. It is particularly high in the top percentiles of the distribution, pointing to the persistence of a glass ceiling for women (Albrecht et al., 2015).

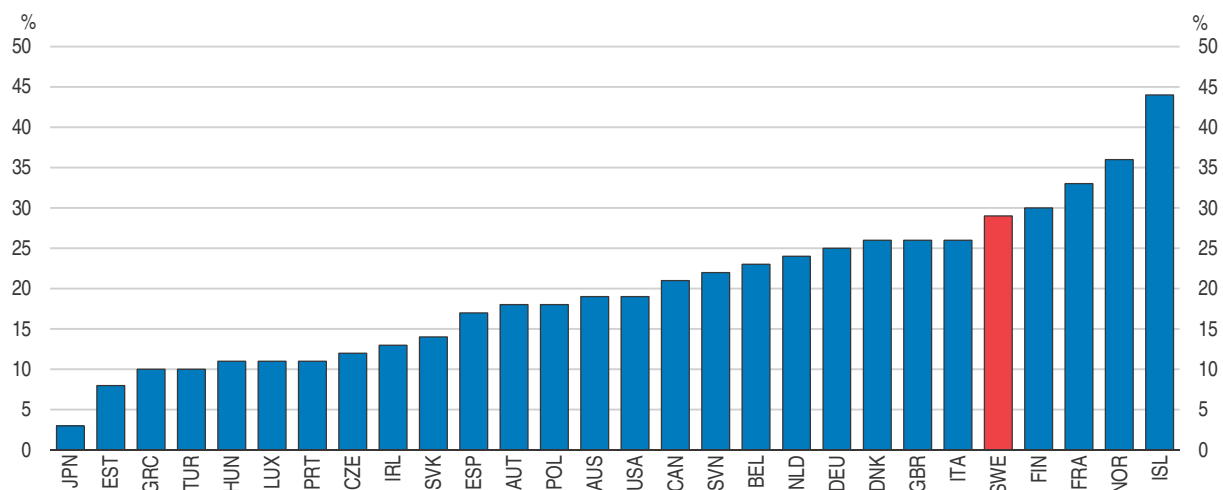
Despite success in political representation, the glass ceiling remains in many other areas

Sweden has almost reached gender parity in political representation. Half of the government's ministers and 45% of Members of Parliament (MPs) are women. This achievement is the result of a long process to enhance the role of women in politics. In 1971, women accounted for only 14% of MPs. From 1972 onwards, political parties progressively introduced voluntary quotas or targets for the share of women on candidates' lists and the number of women elected to the Swedish Parliament started rising steadily, their share exceeding 40% for the first time in the 1998 election. Other Nordic countries have also achieved comparable levels of female representation in parliament; Norway and Iceland also have voluntary party quotas, but this is not the case in Denmark and Finland (Freidenvall and Dahlerup, 2013).

Gender equality in the business sector has improved far less rapidly than in the political sphere. The fairly low share of women among top managers and company board members suggests that there is a glass ceiling for women. The women's share of board members of the largest listed companies is below one third, even though it is one of the highest among OECD countries (Figure 2.13). The government intended to submit legislation to Parliament requiring that at least 40% of listed company board members be women in 2017. In case of non-compliance, firms could have been fined up to five million krona (about USD 600 000). But the project was abandoned, as it appeared that it was unlikely to gather the necessary support in Parliament. The legislation echoes similar legislation introduced in Norway in 2003 (Box 2.3). Despite the economic and societal benefits of improved gender equality, quotas have some drawbacks. Ideally, firms should

Figure 2.13. Less than one third of company board members are women

Women's share of seats on boards of the largest publicly listed companies



Source: OECD Employment database.

StatLink <http://dx.doi.org/10.1787/888933445882>

Box 2.3. Gender quotas on company boards in Norway

In December 2003, the Norwegian Parliament amended the Company Act, adding a legal requirement for at least 40% representation of each gender on company boards, making Norway the first OECD country to implement quota legislation beyond the public sector. The legislation applies to all publicly-owned companies (state-owned, municipal, inter-municipal) and to public limited companies, which were granted a two-year adjustment period. Despite a sharp increase, the proportion of women on public limited company boards only reached 18% in 2005. Therefore, sanctions were introduced, which could entail the forced dissolution of a company which failed to comply. By 2008, the quota was reached (Teigen, 2015).

The quota law was the subject of an intense public debate, and met strong opposition from key players in the Norwegian business sector. The main arguments against the law were that it would lead to the replacement of skilled and experienced men by less skilled and experienced women, and that it would hinder the owners' democratic right to recruit the best candidates (Storvik and Teigen, 2010). Several databases have been developed in order to facilitate the identification of skilled women to fill board positions, often along with specific programmes to upskill women on board and management topics.

The quotas have achieved their direct goal, as the share of women has increased from almost nothing to about 40% on the boards of companies subject to the regulation. However, the full economic consequences of the law are still unclear. Concerns about difficulties to find skilled women have been proven wrong. The average qualification of women appointed to the boards of public limited companies improved after the reform, and the gap in qualification between men and women narrowed (Bertrand et al., 2014). There is little evidence, however, that this has led the largest private limited companies, which are not bound by the quota, to recruit more women on their boards. Furthermore, having more women on the boards has not led to an increase in the share of women in senior management positions, with 90% of companies' senior management teams being male-dominated (defined as more than 60% of men) and 92% of CEOs being men (Halrynjo et al., 2015).

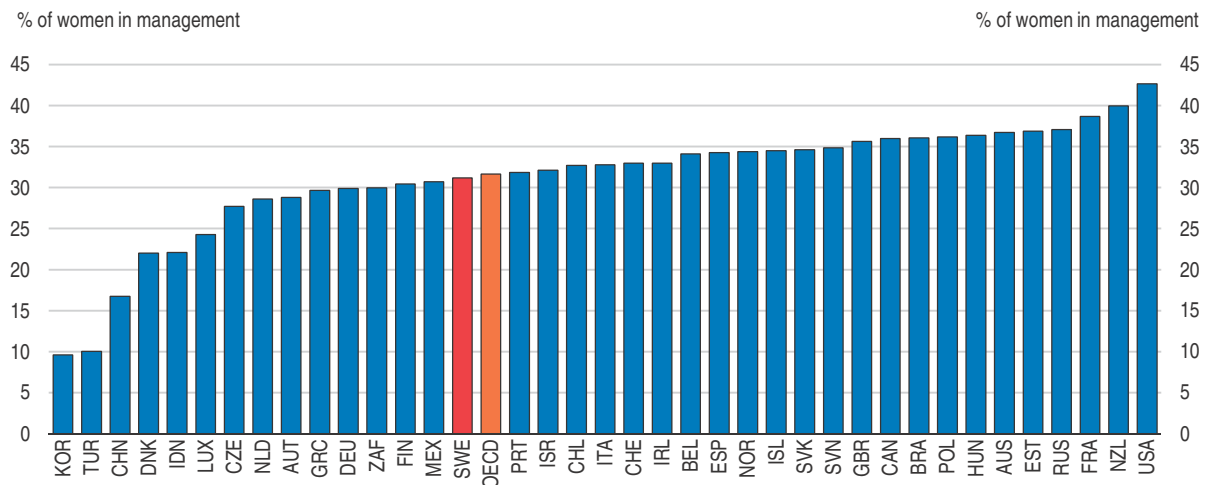
The quota law has attracted considerable international interest, and countries like Belgium, France, Germany, Iceland, Italy and Spain have started to implement similar regulations to move towards more gender equality on company boards, though sanctions in case of non-compliance appear to be less severe than in Norway (Teigen, 2015).

be allowed to select freely the best candidates for a position solely on the basis of their competencies. It is sometimes argued that targets are better than mandatory quotas, as they incentivise firms to move towards gender equality, while providing the necessary flexibility to avoid sub-optimal decisions in terms of human resource management (OECD, 2016c). Quotas on company boards may also mask ongoing power imbalances between genders, as women continue to be under-represented in executive positions. Nevertheless, the persistence of cultural influences and implicit perception bias in candidates' selection provides support for the imposition of gender quotas, at least temporarily (Duflo, 2012).

Women are also under-represented in senior management, even though with a women's share of about 30%, Sweden is close to the OECD average (Figure 2.14) and the percentage of managers and professionals among female secondary earners is the second highest in the EU, reflecting Swedish women's high level of education (Rastrigina and Verashchagina, 2015). The under-representation of women in senior management warrants special attention not only from an equity point of view, but also given evidence that female executives can have more of an impact on firm performance than female board members (Noland et al., 2016). Achieving parity in management positions, especially at the most senior levels, may be more challenging and take more time than for company board

Figure 2.14. **Women are under-represented in management**¹

Latest year available



1. Covers Category 1 of the International Standard Classification of Occupations (ISCO), which includes legislators, senior officials and managers.

Source: OECD Employment database; ILO, Key Indicators of Labour Market (KILM) database.

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members, as many managers are promoted internally and maintaining a balance between internal and external promotions is often necessary to preserve experience and staff motivation.

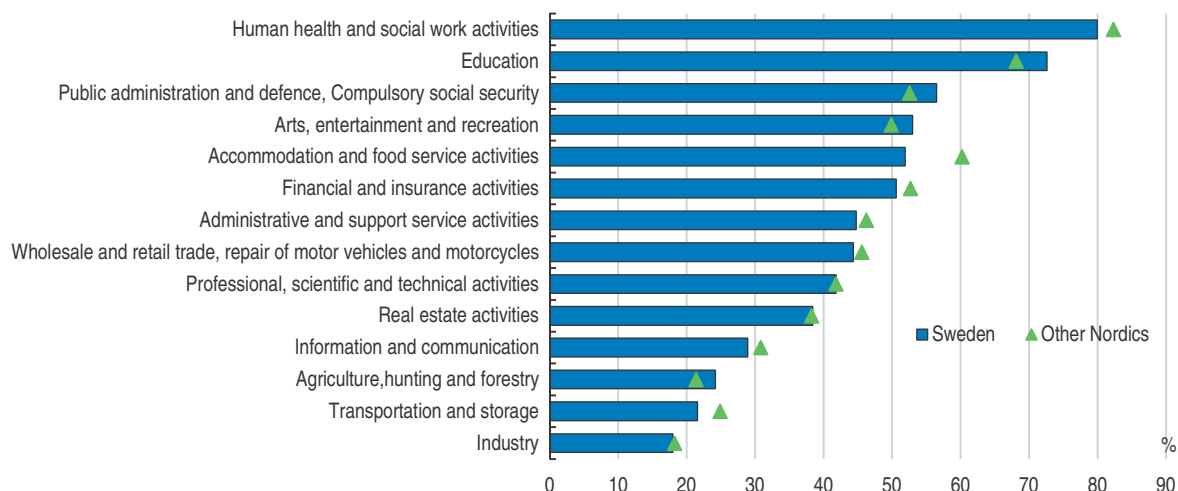
Segregation and stereotypes in education and the labour market need to be fought

Women are under-represented in many well-paid and influential professions. Women account for less than 30% of information and communication employees and only slightly over 40% of professional, scientific and technical workers. Conversely, they account for 80% of health and social workers and more than 70% of education employees. While this distribution is highly skewed according to gender, it is relatively similar to that of other Nordic countries (Figure 2.15).

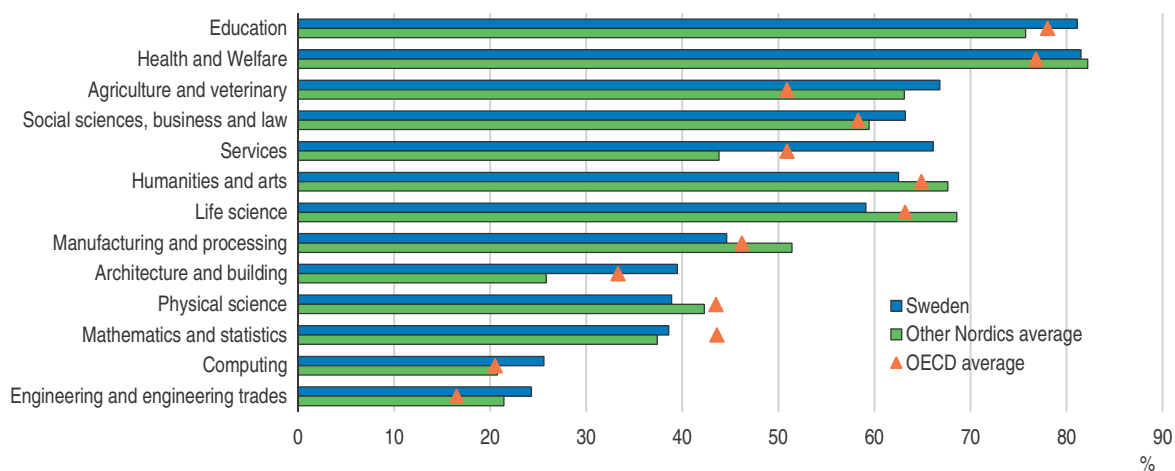
The distribution of genders across professions matches education choices. Women account for only about a quarter of engineering and computing graduates, but for more than 80% of education and health and welfare graduates (Figure 2.16). Education choices are determined by preferences but are also influenced by social norms. The internalisation of social norms is partly unconscious, but may also reflect perceived hurdles in accessing a profession. For example, girls may hesitate to study engineering if they think that they are at a disadvantage for entry and progression in science and technology-related professions. This obstacle can be overcome by closer cooperation between schools and trade associations, civil society groups and the business community (OECD, 2015b). As companies increasingly realise the benefits of gender diversity, opportunities for such cooperation increase. Sweden, like several other European countries, has developed vocational training programmes specifically designed to lower employment segregation. Such programmes generally target females, but attention should also be paid to enhancing

Figure 2.15. **Gender segregation across occupations is high**

Share of women by main activities, 2015



Source: OECD Labour Force Statistics.

StatLink <http://dx.doi.org/10.1787/888933445908>Figure 2.16. **Education choices vary widely across genders**Share of women graduating by field of education, 2014¹

1. Level of education: total tertiary education (ISCED2011 levels 5 to 8). 2013 for the OECD average and for the fields below life science.

Source: OECD Education at a Glance.

StatLink <http://dx.doi.org/10.1787/888933445913>

opportunities for boys to enter traditionally female-dominated professions (Bettio and Verashchagina, 2009).

As promoting gender equality among adults has often had limited effects, the focus is increasingly on combatting gender stereotypes in schools and pre-schools. Sweden, like other Nordic countries, Germany and the Netherlands, has taken initiatives to address gender stereotypes from an early age through educational programmes aimed at freeing children from gender roles to widen their choices (ILO, 2016). Since 1998, Swedish legislation states that all schools must counteract gender stereotypes. This starts in pre-

schools where “girls and boys (...) should have the same opportunities to develop and explore their abilities and interests without having limitations imposed by stereotyped gender roles” (Swedish National Agency for Education, 2010). Gender pedagogy projects have been implemented in many Swedish pre-schools. They are often based on “compensatory pedagogy”, where children are encouraged to develop their traditionally weakest skills, for example verbal communication and care for boys and autonomy and assertiveness for girls. Gender equality projects seem to have had some positive effects and to have raised awareness about gender equality and stereotypes (Bayne, 2009).

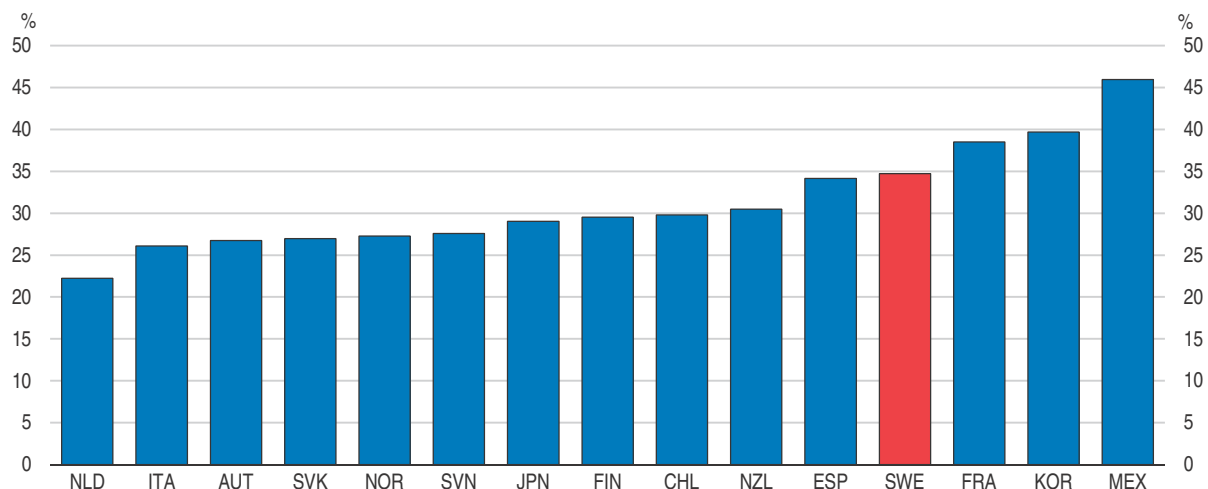
Female entrepreneurship should be promoted further

The share of women among entrepreneurs is fairly small in most OECD countries, as women tend to be more risk-averse and face more obstacles to start or grow a business than men. However, over a third of sole proprietor enterprises are owned by women, which is one of the highest shares among OECD countries for which data are available, with only France, Korea and Mexico having a higher share of women owners (Figure 2.17). Furthermore, women entrepreneurship is growing fast in Sweden. Between 2006 and 2012, the number of businesses owned by women increased by 34%, accounting for an increase of 62% in net sales, compared to 19% and 17% for male-owned businesses. This contrasts with little evidence of progress in women entrepreneurship in most OECD countries over the past decade (Piacentini, 2013). Nevertheless, if current trends prevailed, parity in entrepreneurship would be reached only around 2050 (Swedish Agency for Economic and Regional Growth, 2015a).

Enterprises run by different genders in Sweden mainly differ according to their sector of activity. Nine out of ten female-owned enterprises are in services, compared to only seven out of ten for men. Manufacturing and construction are still mostly dominated by male owners. Female-run businesses make up the majority of companies in arts, entertainment and recreation; health and social services; and other personal services (e.g. spas, haircare and laundry). Many companies run by women are also found in

Figure 2.17. **Only a third of sole-proprietor enterprises are owned by women**

Latest year available



Source: OECD Entrepreneurship database.

StatLink  <http://dx.doi.org/10.1787/888933445929>

professional, scientific and technical activities, as well as wholesale and retail trade. Female-owned companies differ from male-owned companies across other dimensions as well. In particular, women's companies are often smaller, less internationalised and cooperate less with other companies. Women entrepreneurs are on average younger and have a higher level of education than their male counterparts, like in other OECD countries (Piacentini, 2013). Nearly eight out of ten women wish to grow their business, a somewhat higher proportion than for men. The main obstacle to growth, both for men and women, is a lack of personal time. Difficulty to obtain loans is a constraint for less than 10% of women's businesses, a slightly smaller proportion than for men (Swedish Agency for Economic and Regional Growth, 2012).

Recognising that women were facing specific obstacles to creating and growing a business, the government mandated the Swedish Agency for Economic and Regional Growth to design and implement a programme to promote female entrepreneurship over 2007-14. Business development programmes, which included advisory services, coaching, mentoring, networking and training, were developed and entrepreneurship projects were set up at universities and other higher-education institutions. Efforts were made to spread Golden Rules of Leadership, stressing the importance of mentoring, networking and role models. Ambassadors for female entrepreneurship were appointed and shared their entrepreneurial experience in various fora and the introduction of female entrepreneur awards served to create role models. Many women were involved in the activities of the programme and satisfaction was high (Swedish Agency for Economic and Regional Growth, 2015a).

The next step was to develop a national strategy for business promotion on equal terms for the period 2015-20 (Swedish Agency for Economic and Regional Growth, 2015b). "On equal terms" does not only refer to gender, but also to age and ethnic background, as young and foreign-born people tend to face similar disadvantages as women. Business promotion has traditionally focussed on sectors like industry and manufacturing, where women are under-represented. Expanding business support and financing in the service sector will rebalance benefits towards women, as well as strengthen growth, competitiveness and innovation across the economy. Leadership – especially awareness and communication about equality and diversity – and governance – in particular setting targets for allocating funding and monitoring progress in equality – have a key role to play in achieving the goal of creating a level playing field for entrepreneurs. Developing further data disaggregated by gender, age and foreign background and their analysis will be essential to evaluate the strategy.

Recommendations on fighting gender inequality

Key recommendations

- Encourage parents to split parental leave more equally by continuing to increase the share reserved for each parent.
- Enhance active labour market policy for foreign-born women when the Introduction programme ends, to prevent them from drifting away from the labour market.

Further recommendations

- Expand data coverage and analysis in the government budget annex on gender equality. Consider developing intermediate targets related to the broad gender equality objectives, to facilitate the monitoring and evaluation of policies.
- Continue to develop methods to fight stereotypes in education. Address gender-specific weaknesses in education, whether faced by girls or boys.
- Further promote female entrepreneurship through business promotion programmes creating a level playing field irrespective of gender, age or ethnic background. Develop data and analytical tools to evaluate these programmes.

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Sweden's economy has fared well in recent years thanks to strong macroeconomic, fiscal and financial fundamentals, as well as a competitive and diversified business sector. Output has been lifted by an expanding labour force, investment and lately a pick-up in productivity. Unemployment is receding, although it remains high for vulnerable groups, notably the foreign-born. While income inequality is relatively low, it has risen more rapidly than in any other OECD country since the 1990s. Capital gains boosted top incomes, while benefits increased more slowly than wages. High labour market entry thresholds, spatial segregation, and bottlenecks in migrant settlement reduce opportunities and social mobility. Sweden is one of the world's most gender-equal countries, even though foreign-born women are lagging behind. Women have a high employment rate, outperform men in education and are well represented in government and parliament. However, gender wage differences persist, while women are under-represented on private company boards, in senior management positions, in many well-paid and influential professions and among entrepreneurs. This Economic Survey of Sweden assesses the country's recent macroeconomic performance and prospects, and offers recommendations to foster more inclusive growth. In particular, reforms to housing, wage subsidies and migrant settlement and integration would raise the incomes and opportunities of the disadvantaged. So would a more systematic approach to benefits uprating. Better shared parental leaves would raise gender equality further. Fostering women entrepreneurship and promoting entry of women in senior management is also crucial.

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