

SWEDEN

Despite recent gains in productivity and labour utilisation, an income gap with the United States remains. Employment rates are high, but average hours worked are low. Broad-ranging reforms have been undertaken in the past few years to address long-standing problems with benefit dependency and labour market exclusion, but particular weaknesses still remain in the areas below.

Priorities supported by indicators

Reduce marginal taxes on labour income

Average hours worked are among the lowest in the OECD. Three quarters of this gap reflect fewer weeks worked per year, and the remainder fewer hours worked per week. Short hours partly reflect the fact that social security contributions and income taxes combine to a marginal tax wedge above 60%, even for incomes modestly above average full-time earnings.

Actions taken: Effective in 2009, the marginal tax wedge was reduced as employer contributions were cut by one percentage point, the in-work tax credit was expanded and the threshold from where the state income tax is paid was moved up by 5% more than what standard indexation would imply.

Recommendations: Continue the 2009 reforms, giving priority to reducing the state income tax – either cutting the rate or moving up the threshold from where it is paid.

Reform sickness and disability benefit schemes

Sickness absence has come down markedly from the exceptional heights reached in 2002, but remains high compared with other countries. Inflows into disability benefit schemes have fallen for most age groups, but have risen sharply for youth.

Actions taken: Stronger administrative controls are in the process of being implemented. From July 2008 these measures were supplemented by stricter eligibility requirements for sickness benefits: receipt of sickness benefits can only continue after six months if the person is unable to do any work, and after one year, the gross replacement rate falls from 80% to 75%.

Recommendations: Careful monitoring is required to ensure that recent changes to administrative procedures and benefit rules are implemented as intended.

Reform employment protection legislation

Employment protection rules governing individual dismissal are very strict compared with other OECD countries, including the Nordic neighbours. This creates a dual labour market where much of the recent employment gains have been in the form of temporary contracts.

Actions taken: The rules for temporary contracts have been eased so that these can be used without particular reason and longer than previously. Meanwhile, no changes have been made to the rules governing permanent contracts.

Recommendations: Encourage regular employment by widening the definition of a fair dismissal and lengthening the trial period for regular contracts. This would enhance the employability of youth and immigrants as employers are reluctant to hire applicants whose capabilities are hard to assess.

Other key priorities

- **Education.** Learning outcomes for 15-year-olds are unsatisfactory and have tended to deteriorate in recent years. Increase the use of regular tests to monitor each child's progress and introduce accreditation to enhance teacher competence. Shift financial support for students' living costs away from grants towards loans, and introduce tuition fees to speed up labour market entry.
- **Housing policies.** The rigidity of the housing market makes for inordinate queuing and impedes labour mobility. The planned easing of rent regulations will substantially improve housing market flexibility, even if adjustment could be faster. Measures need to be taken to boost competition in the construction sector and to simplify the land planning process. The cut in housing taxation from 2007 should be reversed over the medium term.

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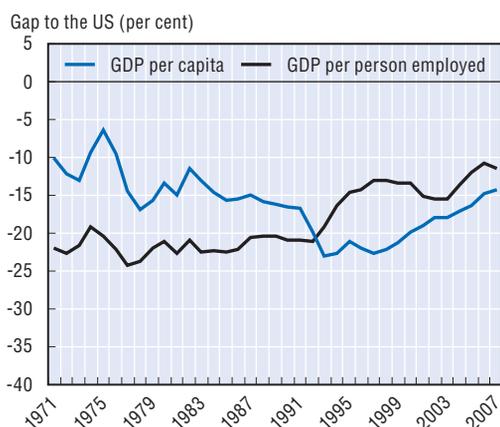
Structural indicators

Average annual trend growth rates, per cent

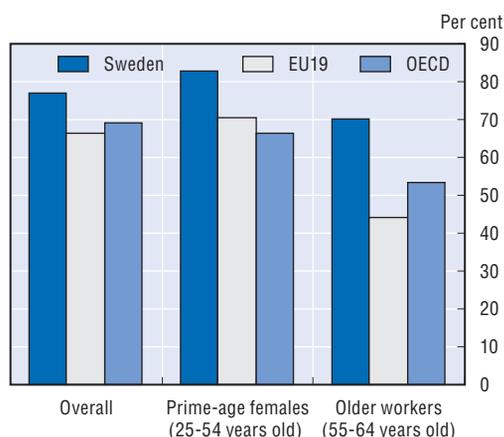
	1997-2007	1997-2002	2002-2007
GDP per capita	2.6	2.7	2.6
Labour utilisation	0.2	0.3	0.2
of which: Employment rate	0.2	0.2	0.2
Average hours	0.0	0.0	0.0
Labour productivity	2.4	2.4	2.4
of which: Capital intensity	0.9	1.1	0.8
Multifactor productivity	1.5	1.4	1.6

Source: Estimates based on OECD Economic Outlook, No. 84, Vol. 2008/2.

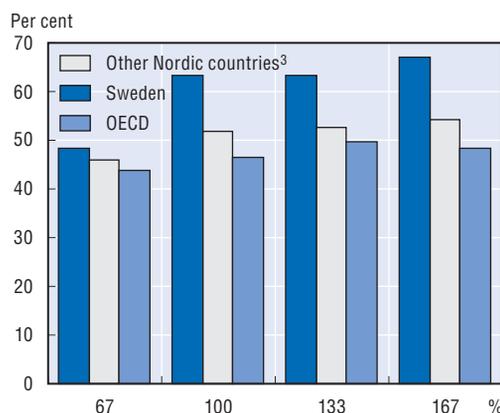
A. GDP per capita and productivity gaps are narrowing¹



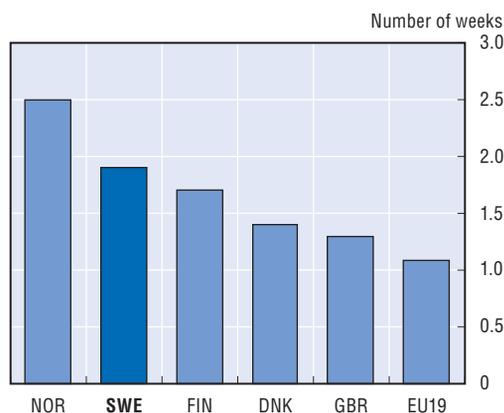
B. Employment rates are high, 2007



C. Marginal tax wedges are high, 2007²



D. The average number of weeks lost per employee due to sickness is still very high, 2007



1. Percentage gap with respect to US GDP per capita and per person employed (in constant 2000 PPPs).

2. Evaluated at 67%, 100%, 133% and 167% of average earnings.

3. Average of Denmark, Finland, Iceland and Norway.

Source: Chart A: OECD, National Accounts Database; Chart B: OECD, Labour Force Statistics Database; Chart C: OECD, Taxing Wages Database; Chart D: OECD (2004), OECD Employment Outlook and OECD estimates.

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