Chapter 7

Sweden

Macro dimension

Impact of the economic crisis on Sweden

The decline in international demand hit Sweden's export-oriented economy particularly hard. Swedish GDP decreased by 0.5% in the second half of 2008 and by 4.7% in 2009 before recovering in 2010. Swedish GDP was expected to grow by 2.6% in 2010, but with fiscal policy in neighbouring countries tightening, it is expected to slow down to 1.6% in 2011 (Economist Intelligence Unit, 2010). Unlike the Swedish banking crisis of the 1990's, which had its origin in the collapse of domestic real estate prices, the recent crisis was mainly caused by increased exposure to international markets (Öberg, 2009). Swedish banks had accumulated substantial buffers during the profitable years preceding the crisis and thus weathered the financial turmoil relatively well compared to other countries. Nevertheless, they still experienced several funding problems and required liquidity assistance by the Swedish Government.

In absolute numbers, the most affected regions in Sweden are those exposed to international markets, with a large element of manufacturing industry and services, mainly Västra Götaland, Stockholm and Skåne. Nonetheless, the economic base in these regions is more diversified and they are more likely to bounce back quicker once the overall level of demand recovers. In proportional terms, the impact of the crisis is larger in undiversified regions with thin markets and high dependence on few sectors. In particular, the proportionate impact has been larger in the regions adjacent to metro regions and in more sparsely populated regions in the south which have thinner markets and less diversified economies (OECD, 2010). This relationship is reflected in the regional labour markets. While the largest unemployment increases in absolute terms have occurred in the metro regions, the proportionate effect has been larger in the adjacent regions and other regions dependent on the export industry.

Although Sweden entered the crisis with a fiscal surplus and strong financial results and with greater room to manoeuvre than many OECD member countries, the budget situation has deteriorated as a result of the crisis. In the short term, local governments are the most directly affected, with a combined decrease in tax revenues (in fixed prices) and an increase in the number of recipients of social benefits (owing to the increase in unemployment) (OECD, 2010).

Stimulus measures

To stabilise financial markets, the Swedish Government expanded deposit guarantees and provided banks with liquidity assistance in the form of loans.[1] In total this lending amounted to over SEK 450 billion (Öberg, 2009). The Swedish Government has also launched several measures to stimulate the real economy amounting to SEK 83 billion or 2.7% of GDP. Around SEK 48 billion were foreseen for 2009 and a further SEK 35 billion for 2010.

Investments account for around 5% of these stimulus measures and include funding for research and development in the automobile sector (SEK 23 billion) as well as funding for infrastructure investments (roads and railway, SEK 1 billion) and vocational education.[2] Tax cuts, labour market measures and support for the automobile sector account for the largest part of the stimulus plan (see Annex 7.A1). One of the biggest beneficiaries of the stimulus plan is the Swedish automobile sector. Apart from the above-mentioned investments in research and development it also received rescue loans amounting to SEK 5 billion as well as credit guarantees in the amount of SEK 20 billion for the development of green technology. The stimulus plan also includes a total of SEK 7 billion in the form of a general purpose grant for Swedish municipalities whose budgets were severely strained by the financial crisis.

Sweden has adopted several measures to attenuate the impact of the crisis for sub-national governments. The government presented these proposals in the 2009 Spring Fiscal Policy Bill[3] and the 2010 Budget Bill.[4] Support is expected to enable local authorities to secure the provision of fundamental welfare services when their financial situation is deteriorating as well as prevent pro-cyclical local policy which could deepen the general economic downturn (OECD, 2010). For 2011 and 2012, the government proposes to allocate an additional government grant to local authorities of SEK 5 billion each year compared to the level of central government grants in 2009.

Budget deficits

Following five years of surpluses, Swedish public finances worsened in 2009 as a result of falling revenues and the stimulus measures in response to the crisis. The fiscal deficit reached 0.9% of GDP in 2009 and was expected to rise to 2.1% of GDP in 2010. The consolidated gross debt is estimated to reach 47% of GDP at the end of 2012. Even though this is an increase, it compares favourably to the fiscal situation in most other OECD member countries and remains under the reference value of 60%, an EU requirement (Swedish Ministry of Finance, 2009).

Exit strategy

Public spending in Sweden is constrained by a surplus target and expenditure ceilings. The surplus target stipulates that general government revenue minus expenditure must not fall below 1% of GDP over a business cycle, which is evaluated based on a number of indicators, most notably average net lending and the structural balance. Government expenditure ceilings are determined three years in advance and must comply with the surplus target. In addition to the surplus target and expenditure ceilings which are directed at the central government, local governments in Sweden are required by law to have balanced budgets (Swedish Ministry of Enterprise, Energy and Communications, 2009).

Tax credits for construction work was a temporary measure (until the end of 2010). However, the tax credit was expected to turn into a permanent measure from 2011. State credit guarantees to the automobile sector were planned to be provided until the end of 2010. The rescue loans for the automobile sector is a temporary measure, but no decision is yet taken on when this measure will come to an end.

Design of the public investment scheme

Key Swedish public investment priorities

Investment measures, which account for approximately 5% of the stimulus plan, are being carried out in three main areas. Around SEK 23 billion are being invested in research and development within the automobile sector. Specific clusters have been targeted, especially the automobile industry in Västra Götaland region and Blekinge County. According to the National Accounts, investments in railroads amounted to SEK 18 billion and in roads SEK 11 billion in 2009. Investments in post-secondary vocational training total SEK 500 million.

Involvement of sub-national governments

Unlike investment measures in Canada, Germany and the United States, the Swedish measures did not require local governments to match central government funding, that is to contribute financially to the investment measures.[5] Given that the central government traditionally provided investment funding, it also played a dominant role in identifying investment priorities. Yet, the crisis revealed the need for appropriate co-ordination mechanisms at the regional scale to implement growth strategies. In this context the Swedish Government established regional co-ordinators.

Sweden started an experience with regional co-ordinators in early 2008 that was extended to all counties when the crisis hit Sweden in fall 2008. The aim has been to facilitate and strengthen the co-ordination of local, regional and national actors, policies and resources, at a scale that was considered by national policy makers crucial to deal with the crisis. The function of regional co-ordinator was carried out by the respective county governor and a regional political leader. Together they have been in charge of regularly reporting to the government about the economic developments in the county and identifying areas that require government support, as well as taking action within their means to handle the crisis regionally. While the functions of county governors and regional politicians were in place before, it is their collaboration in communicating with the central government which is novel. Due to the recovery from the crisis, the regional co-ordinators finished their duties during the autumn 2010. Their tasks are now carried out and developed within ordinary regional development work.

The work initiated by the regional co-ordinators has also shown that established regional partnerships and long-term strategies have been crucial to speed up decision making at a time of crisis. County administrative boards and regional co-ordination bodies also contributed indirectly to the selection of investment priorities in the context of the recent stimulus plan since they had been involved in the design of regional development programmes and regional growth programmes starting in the early 2000's which proved to be useful tools once the crisis hit. Although these programmes lack enforcement capacity (as they are not attached to any specific budget), they represented long-term strategies that authorities could fall back on in a situation of urgency.

Key governmental actors involved

The global crisis has also highlighted the need for better co-ordination on regional development issues at the national level. To facilitate communication between the regional co-ordinators and the central government agencies responsible for investment – most notably the Swedish Public Employment Service, the Swedish Agency for Economic and Regional Growth and the National Agency for Higher Vocational Education – an inter-ministerial group of state secretaries was set up. The group of state secretaries has received the regional co-ordinators' proposals and been in charge of facilitating the co-ordination within the responsible ministry.

Box 7.1. **Institutional framework and asymmetric regionalisation process in Sweden**

The Swedish Constitution only mentions two levels of governments: local and national. The County Council is directly elected by the citisens of the county.

County governors represent the national government at the local level: they head the County Administrative Board appointed by the central government. Its responsibilities include the implementation of national policies and to some extent the promotion of regional development.

Sweden's decentralisation in recent years has been a largely bottom-up process, as the government has not imposed a single model on the counties. Since the late 1990's, Sweden has developed different decentralisation options in different counties, i.e. decentralisation has been pursued in an asymmetric manner.

In the late 1990's, the Swedish Government approved two pilot regions in the newly formed counties of Västra Götaland (including the city of Göteborg) and Skåne (including the city of Malmo). In these counties, directly elected regional county councils took over part of the responsibilities of the county administrative boards (including strategic planning and regional development).

In the early 2000's, municipalities were given the option to form regional co-ordination bodies that would share the task of developing regional growth policies with the county administrative boards. These regional co-ordination bodies are indirectly elected.

In early 2008, immediately before the outbreak of the global financial crisis, the Swedish Government appointed regional co-ordinators in Norrbotten and Gävleborg to help harmonise regional growth policies. When the crisis hit Sweden in the fall of 2008, the government extended the position of regional co-ordinator to all counties in Sweden to help tackle the increased co-ordination demands. The regional co-ordinators regularly report to the government about the situation in the county, identified and implemented actions and identified needs of governmental interventions.

Source: OECD (2010), *OECD Territorial Reviews: Sweden 2010*, OECD Publishing, Paris, doi: 10.1787/9789264081888-en.

Public private co-operation

There have been no special schemes to promote public-private partnerships in the context of the recent investment measures. Even so, the dialogue between public and private actors, although not always formalised, is probably more systematic in Sweden than in most other OECD member countries (OECD, 2010). Among Sweden's strengths is a high level of trust in public authorities, a characteristic which facilitates public-private co-operation. It plays a key role in the successful implementation of innovation programmes such as the VINNVÄXT programme, which is based on a "triple helix" model of collaboration by public and private actors and universities. They also play a major role in building social capital (interaction among actors). For example, although northern regions may be disadvantaged because of low agglomeration economies and long distances to markets, they have strong social capital; public and private actors co-operate relatively easily because they know – and trust – each other.

Transparency

Information on the coverage and design of the stimulus packages is available on the website of the government *www.sweden.gov.se/sb/d/11500*. Sweden considers transparency as a key element of the successful implementation of its recovery strategy, and it is also a lesson that it drew from the crises of the early 1990's. On the transparency dimension, Sweden has strengths which are linked to its national policy-making "culture", as Sweden ranks among the highest in the world in terms of trust in government, transparency and consensus building. Sweden ranks second out of 133 countries on the transparency index in the 2009-10 *Global Competitiveness Report*. It is also in second place for the overall quality of its public institutions (OECD, 2010).

Implementation of the public investment scheme

The inter-ministerial group of state secretaries and the regional co-ordinators have played important roles in the **implementation** of investment measures. The Swedish transport administration has also been particularly involved.

As of 1 January 2010, between 25% and 50% of planned investment for roads and railways had been implemented (no data is available for other areas than roads and railways). There is no specific sunset clause in the use of additional national investment funding in Sweden. The investment measures were mainly small, bordering to maintenance measures. This meant that the measures chosen did not require a long time for preparation and could be implemented with short notice.

Table 7.1. Implementation of investment projects of the national investment package launched during the crisis

Planned timeframe	Planned implementation of investment (% of total investment package(s)					
Investment to take place by the end of:	Less than 10%	10-25%	25-50%	50-75%	More than 75%	No approximation possible
2009			x			
2010			x			
2011		x				

Source: Answers to OECD (2010), "OECD Questionnaire Response, Making the Most of Public Investment Recovery Strategies, Multi-Level Governance Lessons from the Crisis", OECD, Paris.

Main obstacles and co-ordination challenges across levels of government – lessons learned?

Obstacles and co-ordination gaps

Policy gap

Sweden's multi-level governance system is sometimes compared to an "hourglass"[6] in which the central government and the municipal level hold the majority of powers, while the intermediary regional level is relatively weak. The regional level is represented by the county councils whose main responsibility lays within the health care sector but whose involvement in the development of regional growth strategies is limited. For example, investments in regional development only accounted for 6.6% of the county councils' net expenditures in 2009 (Statistics Sweden, 2009). The central government, on the other hand, is responsible for almost half of public investment compared to less than 30% in most other OECD member countries (DEXIA, 2008).

A centralised framework for public investment has both advantages and drawbacks. It may allow for more efficient decision making, but it can also limit the degree to which local governments are able to match investment priorities with local needs (OECD, 2010). The Swedish Government realised the need for engaging elected regional authorities to better tailor investments to the local context and began to selectively devolve policy competencies to the regional level in the 1990's[7] (see Box 7.1). The crisis has further highlighted the need to better involve the regional level in the development of growth policies.

Administrative gap

The implementation of the stimulus plan also drew attention to administrative gaps resulting from a mismatch of administrative borders and functional regions. Like in most OECD member countries, administrative borders in Sweden do not necessarily correspond to the **functional** nature of the region, which is the logical basis for regional economic development. This mismatch is especially apparent in the south of Sweden where the small size of the counties made a more integrated regional growth policy difficult. Short of designing new administrative boundaries, which may turn out to counteract long-term growth strategies, strong inter-regional co-ordination can help exploit the advantages of functional regions, such as good transport connections, high levels of social capital, strong social cohesion and good communication infrastructure (OECD, 2010).

Fiscal gap

Like many OECD member countries, the fiscal situation of local governments in Sweden has raised challenges for the recovery strategy. Local tax revenues in Sweden are particularly sensitive to economic downturns since they stem from a single source – a flat tax on residents' income (OECD, 2010). As a consequence of the pro-cyclical nature of local tax revenue, the fiscal situation of local authorities deteriorated in the wake of the financial crisis, and due to the lagged effect of the crisis, the effect on sub-national finances in 2010 and 2011 could be significant, especially for counties. This has been especially problematic since local authorities account for 25% of employment in Sweden. The government thus had to intervene with temporary grants to prevent over 9 000 people from losing their jobs and to enable local authorities to provide fundamental welfare services.

Swedish local governments have a limited margin of manoeuvre to deal with the crisis as the Local Government Act states that municipalities and county councils must have balanced budgets. Sub-national governments (counties and municipalities) have limited fiscal options for dealing with the crisis: either balance their budgets by reducing expenses (cutting jobs and investments) or increasing revenues (raising taxes), or they try to implement counter-cyclical policies thereby exposing themselves to a higher debt burden. The room for significant increases in tax rates seems limited, given the already high rates of taxation in Sweden. This makes it all the more important for municipalities and county councils to intensify their efforts to improve efficiency, rationalise their services, but also to better exploit local assets to enhance regional growth. The crisis also raises questions for Swedish local finances, such as the need for sunset clauses for temporary grants or the need to revise the balanced budget rule. In the 2010 Budget Bill the government announced that the issue of increased stability for local government revenue over the business cycle will be examined (OECD, 2010).

Lessons learned

The crisis highlighted the need to have well-developed co-operation mechanisms across levels of government to best target and implement public investment. In Sweden, the collaboration across the national government, regions and municipalities is reported to have been "high". The regional co-ordinators which were established across all Swedish counties to help design and implement the recent stimulus measures proved to be of value.

A second lesson that crystallised as a result of the recent crisis experience is the need for increased horizontal co-operation at the central level. Horizontal co-operation is crucial in developing territorial growth strategies which are increasingly seen as necessary complements to sectoral approaches. The newly established inter-ministerial group of state secretaries forged such horizontal co-operation and also served as a contact point for regional co-ordinators. The inter-ministerial group of state secretaries at the national level proved to be very efficient with quick and smooth decision making across different ministries.

A general lesson that the Swedish Government raised is that clear national and regional leadership are crucial in crisis management. In that sense, the clarification of responsibilities of actors involved in the crisis management, such as the inter-ministerial group of state secretaries as well as the regional co-ordinators, was essential. With well-functioning partnerships and a continuous dialogue, the responsibilities of different actors are made clearer and co-ordination becomes easier.

The existence of previous regional development programmes and regional growth programmes also proved to be highly useful in the context of the crisis. At a time of urgency, it has proven useful to rely on pre-existing regional strategies that have identified investment priorities for regions in a multi-year perspective and in a cross-sectoral perspective. These priorities need to be complemented with the ability to be flexible and adjustable to new challenges. A challenge for the future is in fact to give a greater role to regional development programmes with stronger enforcement tools, standardised timelines, and to clarify the financial framework in which they are operating (OECD, 2010).

The lessons that Sweden was able to draw from the crisis of the early 1990's have also proven critical, notably in terms of showing no hesitation from the government's action, fiscal prudence and responsibility, protecting taxpayers' interest and enhancing transparency on the problems being tackled and the measures adopted. The Swedish Government proved to be agile in the context of the recent crisis like it did in the 1990's. Following the banking crisis of the early 1990's, Sweden carried out a series of reforms (pensions, reforms in the health and education sectors, reorganisation of agencies) to improve the sustainability of the welfare state model and the efficiency of public services.

Notes

1. The Carnegie Investment Bank AB also received liquidity assistance from the Swedish Government. Because its funding problems persisted, the Swedish financial supervisory authority *Finansinspektionen* initially revoked Carnegie's licence to conduct banking activities. Eventually the Swedish National Debt Office took control over Carnegie.
2. Percentage is calculated based on information provided by the Swedish Ministry if Enterprise, Energy and Communications, see Annex 8.A1.
3. In the 2009 Spring Fiscal Policy Bill, the government proposed to give a temporary grant of SEK 7 billion to local authorities (municipalities and county councils) in 2009. These funds were intended to be delivered in December 2009 and used in 2010. The government expected the temporary cyclical support of SEK 7 billion in 2009 to prevent over 9 000 local public employees from losing their jobs (SALAR, 2009).
4. In the 2010 Budget Bill, the government proposed a temporary increase in central government grants to local governments of SEK 10 billion for 2010 in order to moderate the fall in local employment and mitigate the effects of the economic crisis.
5. However, if additional support is provided after 2010, it is expected that municipalities will contribute with matching arrangements.
6. McCallion (2007), the Swedish Constitution only mentions two levels of governments: local and national. However, since the 1862 reform, counties have had an elected council which is independent from the national government.
7. For further information please see OECD (2010).

Annex 7.A1

Table 7.A1.1. Swedish stimulus measures in response to the crisis (billions SEK)

	2009	2010	2011	Total
Questionnaire	48	35		83
Infrastructure investments	0.4	0.4	0.2	1
Tax credits for construction works				3.6
Research for automobile industry				3
State credit guarantees to automobile sector for development of green technology				20
Rescue loans for the automobile sector				5
Unemployment insurance				10
Swedish Public Employment				0.3
Work placement scheme and practical skills development				2.4
Coaching				1.1
Education and Training				0.5
Support to local authorities				7
				53.9

Source: Memorandum of the Ministry of Enterprise, Energy and Communications.

Bibliography

Economist Intelligence Unit (2010), *Country Report Sweden*, Economist Intelligence Unit, June.

OECD (2010), *OECD Territorial Reviews: Sweden 2010*, OECD Publishing, Paris, doi: 10.1787/9789264081888-en.

Öberg, Svante (2009), "Sweden and the Financial Crisis", Swedish Central Bank, Stockholm, *www.riksbank.com/templates/Page.aspx?id=30276.*

Swedish Ministry of Enterprise, Energy and Communications (2009), "Government Action in Response to the Financial Turmoil and Economic Downturn", 14 September.

From:

Making the Most of Public Investment in a Tight Fiscal Environment

Multi-level Governance Lessons from the Crisis

Access the complete publication at:

https://doi.org/10.1787/9789264114470-en

Please cite this chapter as:

OECD (2011), “Sweden”, in *Making the Most of Public Investment in a Tight Fiscal Environment: Multi-level Governance Lessons from the Crisis*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264114470-11-en

OECD