

Beyond the Crisis

How Sweden Can Succeed
in the New Global Economy



REGERINGSKANSLIET

Government Offices
of Sweden

BEYOND THE CRISIS

How Sweden Can Succeed in the New Global Economy

Final report of the Globalisation Council

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Preface

The Globalisation Council was appointed by the Government in December 2006 to examine the question of how Sweden can best assert itself in an era of continuing globalisation, and to make appropriate recommendations.

The report is entitled *Beyond the Crisis*. We have not considered it part of our brief to offer views on how the severe crisis now gripping economies around the world might be solved. We are aware, however, that the crisis has made our work more urgent. In part, it shows how rapidly a situation can change, which illustrates the importance of adaptability. Partly, too, the crisis may mean that market growth, once it returns, will be lower than we were accustomed to in the pre-crisis years. This in turn underlines the importance of measures that strengthen both Sweden's competitiveness and its ability to attract investments and skilled workers.

Our report constitutes an urgent appeal to the political system and to society as a whole to give issues concerning Sweden's competitiveness, adaptability and attractiveness greater priority. Sweden is fundamentally strong, but our own economic history shows that we are vulnerable, too. We are highly dependent on a handful of successful export companies. We must produce more companies that dare to grow. We must place greater emphasis on knowledge and expertise, since these are the most crucial production factors of all in the modern era. We must ensure that new knowledge and insights are translated more often into production in Sweden. We must have a labour market that combines security and flexibility more than at present. We must strengthen the structures that enable Sweden to hold its own even when under pressure and strain. We must make Sweden better known in faraway countries. We must ensure that in an age of transition, those who govern

have the best possible material on which to base their decisions.

If we fail to tackle the problems facing us, the next crisis may have an even greater impact than the present one. We must acknowledge the fact that competition in world markets is often extremely tough, as is competition in the investment and recruitment sectors.

Sweden has a good chance of holding its own, however, if we play our cards right.

Our mandate specifically concerned Sweden, but we are united in our belief that globalisation is basically good for the world as a whole. Only by joining forces can we meet the challenges that confront humanity. This applies not least to climate change. Originally, the term globalisation mainly referred to the widening of markets. We are now coming to realise that it represents very much more besides. Properly handled, it can reduce poverty and hunger and counteract hopelessness. It enables ideas about human rights and democracy, unfettered by borders, to spread and take root in places where they have hitherto been prohibited. It can help people around the world to come together and pool their resources in pursuit of sustainable development on the planet we all share.

An annex to this report describes the Council's working methods, activities and composition. An important part of the project consisted of some 30 expert reports commissioned by the Council. In addition, the Council secretariat headed by Professor Pontus Braunerhjelm supplied a background report, based to some extent on the expert reports.

As in the case of our initial report in the autumn of 2007, entitled Knowledge-Driven Growth, the five ministers in the Council wish to point out that while endorsing the main tenor of this final report they cannot for formal reasons commit themselves with regard to issues that will ultimately be a matter for the Government to decide. Four other members of the Council have added separate statements

of opinion, and these are included at the end of the report. In the case of other members, too, there may of course be individual aspects that they have not had time to familiarise themselves with and opinions that they do not fully share.

We hereby submit our final report to the Government.

Stockholm 25 May 2009

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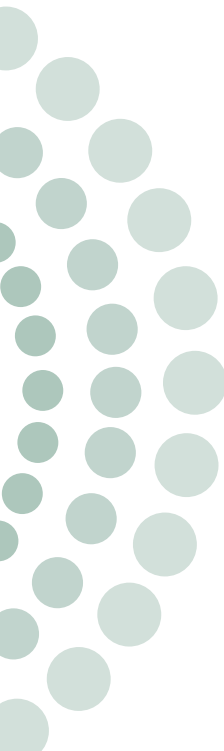
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1. Globalisation and Sweden



The term globalisation first appeared in the mid-1990s and quickly became popular in analyses of international developments, reflecting the insight that the world was undergoing a profound change. Crucially, national borders were declining in importance in many key respects. There were both political and technological reasons for this. Among the former were China's decision to pursue a market economy, the collapse of the Soviet Union, EU enlargement and the deepening of European integration, plus the fact that many countries had phased out their currency regulations. The technological causes included the emergence of the Internet, advances in mobile telephony and falling transport costs. With the lowering of obstacles to trade, investment, migration and information exchange, new opportunities arose, not least in the production sphere. In just a short space of time, prosperity in the world increased at an unprecedented pace. Almost 500 million people were lifted – or rather lifted themselves – above the UN poverty line between 1990 and 2005.

Globalisation has shifted the balance of power in the world. During the present century, the densely populated countries of Asia will take their rightful place in the international community, while the West, which has dominated the world for the past couple of centuries, will have to accept that it can no longer do so.

The steep rises in production, foreign investment and world trade that characterised the early years of the 21st century ended dramatically in the autumn of 2007 with the advent of the finance crisis in the US. The collapse of the global financial system and the ensuing recession has struck a powerful blow to the world economy. No-one knows for certain how deep or prolonged the crisis will be. This year, 2009, total world GDP is expected to decline, and the drop in world trade is expected to be the largest since the Second World War. The crisis threatens the core values of globalisation. Protectionist tendencies are now in evidence. The trade negotiations known as the Doha round have foundered. The International Monetary Fund, IMF, has shown that in the wake of the G20 meeting in Washington in November 2008 at which world leaders promised one another not to institute protectionist measures, 17 of them had nevertheless done so by the time the follow-up meeting was held in London six months later. The major powers are not least among those who

stretch the WTO regulations by means of hidden subsidies and the introduction of rules that in practice aim to shut out foreign competitors. A further development is that the finance crisis has reduced credit facilities, which severely affects poor countries in particular. Whole states are on the brink of ruin, and only giant emergency loans, primarily from the IMF, have kept them afloat for the time being. For a while before the crisis hit, it actually looked as though several of the Millennium Development Goals established by the UN could be achieved, including the halving by 2015 of the number of people living in absolute poverty. Today, few believe that this is still possible.

In many respects, globalisation is proceeding as before. Rather than slowing down, the power shift from West to East has accelerated as a result of the crisis. The crisis management process has shown us the new world order. The G8 group of countries has been judged incapable of dealing with the situation, and the G20 group – in which the ‘new’, rapidly growing economies have a seat and a voice – has come to the fore instead. IT use is on the increase and more and more people want to work or study abroad.

In other respects, however, globalisation has stagnated. The criteria that we have used here and which are normally used in defining the term globalisation – such as lower border barriers, increasing world trade and rising direct investments – are not being met at present. We are convinced, however, that the current situation does not represent a new long-term trend but rather a temporary interruption in the ongoing long-term trend. The present difficulties in the global economy, such as severe financial imbalances and lack of confidence, will be surmounted. The results achieved during the years when globalisation was at its peak should be argument enough. So many have so much to gain by a revival in the globalisation process that it would be a major surprise if the setbacks we are now experiencing were to last. The favourable effects of globalisation, however, should not conceal the fact that it also causes problems. One such problem is illustrated by the way in which the current crisis has developed. Finance markets in countries around the world have become so interconnected that a crisis in one country swiftly spreads to others. Our analysis, however, suggests that more rather than less globalisation is needed – namely in the form of more international cooperation between governments and institutions – in order to avert similar situations in the future. It is also worth noting that China has hitherto been more resistant to the crisis than many observers had

supposed. The country has used its extensive state finances and its capital surplus to stimulate domestic demand and undertake major investments, and this has largely compensated it for the loss of export markets. The country has thereby – or so it seems at present – managed to maintain growth rates that while lower than before nevertheless look impressive by international standards. India and Brazil, too, have coped reasonably well with the crisis so far. These countries have thus slowed down the global decline to some extent.

The increased emissions into the atmosphere of climate-changing gases can also be seen as a globalisation-related problem. Rapid rises in production have led to larger emissions of carbon dioxide, as have increases in transportation. Such linkages, however, are not self-evident. Sweden, for instance, has shown that it is possible to boost production while at the same time reducing carbon emissions. A third negative factor, confirmed by current research and described in one of the expert reports to the Council, is that globalisation may add to national distribution problems. According to this research, while the total number of jobs in a country apparently does not decrease, globalisation may impede greater wage spread. There is a risk that such a development might cause citizens to be less tolerant of whatever measures are required to ensure that the country stands strong globally.

The economic crisis has meant that the assumptions on which the Council based its work have altered. One difficulty is that some of the statistical data in the expert reports provided to the Council are now outdated. Also, there is considerable uncertainty about the future. All serious future observers now approach their task with a considerable degree of humility. Increasingly, what until just the other day seemed to be undeniable truths, firmly rooted in both experience and theory, suddenly look like abandoned ideological bastions. In the Council, too, we have had to qualify our analyses and proposals by noting that all observers are currently sailing in uncharted waters.

However, the new situation could also be seen as an opportunity to break deadlocks and reach agreement beyond the confines of established behaviour. Old divisions and labels become less relevant and useful as construction models.

In the Council's view, it is in fact possible to draw certain conclusions despite the uncertainty of the situation.

One is that what globalisation is basically about – greater cross-border cooperation – is something positive, and is indeed essential

if we are to confront the formidable challenges facing us around the world and adapt to new conditions. It is becoming increasingly clear that some of the threats are shared by all. War, pandemics and finance crises begin somewhere on the planet but affect us all in the end. Ultimately, globalisation is the realisation that problems are best solved through joint action.

Another conclusion is that it is a good idea to proceed from the assumption that the pressure for change will remain strong and that nations like Sweden would do best to pursue, as far as possible, policies that can be adapted to different scenarios. The future may very well be as bright as claimed in one of the expert reports to the Council entitled *On the Road to Samarkand*, which adopts both a 25-year and a 50-year perspective. In the computer-based simulation model that the authors have used, the globalisation process continues and Sweden successfully adjusts to a more knowledge-intensive form of production. The report foresees people in Sweden leading richer lives in many respects. But there are of course other, darker scenarios in which economic and social pressures may be substantial. Decision-makers would do well to consider these, too, partly so as to try to avoid them and partly so that they are not totally unprepared should the worst come to the worst. Later, in Chapter 7, we look at some of the crisis scenarios that are currently a focus of attention in international futures studies.

Adaptability will be a key factor in a world under strong pressure to change. Strengthening Sweden's ability to institute change is a basic theme of this report.

Another term of crucial importance in the report, and in virtually all reports on globalisation, is knowledge. There is a close link between a country's living standard and the level of knowledge content in its production. When other countries take over mass production, our role in the economy will be to produce goods and services with more unique qualities. When used as a keyword, 'knowledge' must be defined very broadly. When the burgeoning middle class in China, for instance, demands Western products, high quality and functionality are naturally what it is prepared to pay for, but it is also seeking things like design, marketing and attention to safety. Sweden benefits financially, too, when Swedish artists sell records abroad or when Swedish authors are read in other countries. When we say that knowledge content is crucial, we are also referring to things like creativity, the ability to think systematically, entrepreneurship and cultural activity.

Our report is based on an assessment of economic developments in the medium term that as we understand it reflects the mainstream of current analysis. In this scenario, the present recession will touch bottom fairly soon, after which the global economy will begin growing anew. The long-term effects of the crisis, however, are likely to be lasting and to inhibit growth.

We have not considered it part of our brief to offer views on how the present acute crisis is to be managed. We have no assessment of the short-term situation, i.e. exactly when the economic upturn will come. In the medium term, we are optimistic, albeit with certain reservations. Our optimism is based on factors such as the following:

- The downturn has created a pent-up demand in the consumption and investment spheres.
- The world has seen only the beginning of the information revolution.
- Hundreds of millions of people in countries such as Brazil, India and China who are currently engaged in local agricultural production are prepared to begin working in industry or in the service sector that is developing around industry. The systems (in the shape of entrepreneurship, venture capital, infrastructure projects and knowledge provision etc) facilitating such a shift are in place.
- Exciting breakthroughs in industries such as biomedicine and nanotechnology will drive investments.
- There is still considerable scope for liberalising world trade, for instance through the successful resumption of the collapsed Doha round of talks.
- The switch from fossil-based energy supply will necessitate major investments, as will the adaptation of our communities to those climate changes that can no longer be avoided.

When we state our belief that market growth will nevertheless be slower than during the years immediately preceding the crisis, we are taking the following factors into account:

- The dramatic increase in government borrowing seen in many countries may force up interest rates. Significant inflation risks could be generated. These factors will restrain demand. The United States' role as an 'engine' of economic growth in the world will probably be weakened as a result.

- Part of the upswing recorded prior to the crisis has turned out to be part of the bubble that triggered it. The pre-crisis situation, when ‘capital chased risk’, gave rise to some unsound behaviour. The backlash will lead to greater caution, which will result in lower but hopefully more sustainable growth.

Sweden's current situation, then, is a good deal worse than in 2007 when the Council began its work. At that time, economic progress was remarkably good in our country. We were moving up in the OECD's welfare index, employment was rising rapidly, and financial wealth in the public sector was on the increase. Our exports were well suited to globalisation. China's expanding industry needed our iron ore, the growing volume of mobile phone traffic around the world boosted demand for our base stations, and major infrastructure projects created a need for heavy vehicles.

Today, both unemployment and government borrowing are on the increase. Our emphasis on exports – which stood us in good stead when the economy was booming – is now a problem. Exports account for about half of Sweden's GDP, which makes us one of the most export-dependent countries in the world. For centuries, this has been the basis of our growing prosperity and has made us one of the richest countries in the world community. Many other countries envy us our economic backbone of large and successful global companies and our many export triumphs. The task facing us is to ensure that we preserve this basis by every means possible while at the same time encouraging significant expansion of the service sector. The main reason for also focusing on the service sector is that all the signs suggest it is here that most new jobs will be created. A further reason is that developing this sector would to some extent reduce our vulnerability at times of global economic recession.

The task of the Council has been to analyse Sweden's competitive situation in the present era of globalisation and to encourage broader public debate of the issues. Our response to the political system comprises an urgent call to action. Sweden is more vulnerable than we would like to believe. Mismanaging our competitive strength could be disastrous. In Sweden of all countries, this should be fresh in our minds. Our inability to tackle a number of structural problems in the 1970s and 1980s – wage formation, inflation and the budget deficit, to name but a few – led to the crisis of the 1990s. At that time, too, uninhibited credit expansion was part of the problem. Sweden experienced a rude awakening – some 400 000

job losses, severe cuts in welfare programmes and a dramatic rise in the national debt.

It is worth emphasising that globalisation is one of the reasons why things went so well from the mid-1990s up until the present crisis. The very substantial growth in markets around the world favoured export countries like Sweden. But markets were growing in the 1980s as well. The big difference is that Sweden had learnt its lesson. As a nation, we did a lot of things right between the early 1990s and the arrival of the current crisis. Compared with the 1970s and 1980s, growth was roughly twice as fast from the early 1990s onwards, once that crisis had been overcome and the krona had been allowed to float. Different governments share the credit for this. In some cases, the opposing political blocs agreed on what steps needed to be taken. This was true, for instance, of EU membership, the tax reform, the national pension reform, the finance policy framework and the basic elements of the budget restructuring programme.

But it would be naive to imagine that our successes in the years between 1993 and 2007 will automatically be repeated simply because demand in global markets begins rising once again. The competitive situation may well be tougher. Today, we are treading the turbulent waters of crisis, but sooner or later we will be on dry land once again. What the landscape looks like on the other side, however, we cannot really tell. It may be considerably more barren than the one we left behind us. So the question of how we sharpen our competitiveness and strengthen our adaptability must once more be given top priority.

The Globalisation Council has identified ten problem areas that have provided the basis for our discussions and recommendations. These are:

1. *The power of globalisation has been underestimated by the world's political leaders. Due to the lack of international cooperation between states, the drawbacks of globalisation, including those revealed by the crisis, have not been properly dealt with. The climate threat is a further example of a global problem that so far has not generated an adequate political response.*
2. *Sweden's vulnerability has not been taken seriously enough. That which has benefited us during upturns can damage us severely during downturns. If just a few of the major companies that account for the bulk of our exports were to disappear, much of the base on which our prosperity rests would be eroded.*

3. *While there is cause for optimism about the world's ability to recover from the acute crisis we are now witnessing, there is reason to suspect that the adverse effects will remain with us for several years. High interest rates as a result of the powerful increase in government borrowing seen in many countries may hold back consumption. Growth in world trade, once it returns, will probably be slower than during the immediate pre-crisis years.*
4. *Sweden has too few entrepreneurs and small businesses prepared to grow and develop. To build up companies, we need business-people. Expansion in the service sector in particular has been inadequate, which means service exports have not increased at the desired rate. Our considerable surplus in the current account balance is not only a strength but could also be a warning sign: why is so much capital that Sweden could use being exported?*
5. *Our union, the EU, is not promoting free trade in goods and services strongly enough – the collapse of the latest trade talks, the Doha round, must be partially attributed to the EU. The union's agricultural subsidies are an obstacle that is jeopardising further liberalisation of world trade – one of the most important engines of growth.*
6. *Sweden has not invested enough in knowledge acquisition. School results are deteriorating and government-financed research has lost ground. The prospect of a shortage of engineers is looming due to declining interest in technological education in recent years. The concept of lifelong learning is still a vision rather than a reality. There has been too little opportunity for skilled labour to migrate to Sweden. Knowledge content in exports has not risen as fast as in several comparable countries.*
7. *The share of the population in gainful employment is declining in relation to the share being supported. From a global competition perspective, it would be a considerable advantage if this ratio could be improved by ensuring that more people are in work.*
8. *The integration of immigrants is not proceeding satisfactorily.*
9. *Ownership, managerial functions and other strategic entities in business companies are tending to flow abroad to an extent that is not matched by the inflow.*

10. Sweden is too little known in important countries, particularly in Asia.

The members of the Globalisation Council come from different spheres of Swedish society and in many respects embrace differing values and opinions. But we also share certain basic values. We are convinced that a world in which poverty, injustice and lack of freedom can be driven back and in which climate change can be stabilised will require greater cooperation across borders. A more open world like this represents Sweden's best chance of building up a welfare society of benefit to all who live here.

Good globalisation makes for solutions. Increased trade exchange and enterprise drive back poverty. Greater access to information brings pressure to bear on oppressors. Greater international cooperation builds peace and mobilises many forces for good in the fight against climate change and other common problems. Increased investment in knowledge can conquer dangerous diseases that are currently plaguing millions. Given proper ground rules, the solutions can reach growing numbers of people.

We are proposing globalisation reforms – growth reforms – worth approximately SEK 40 billion, calculated statically. The section on the economic aspects, Chapter 4, includes a list of the reform proposals and their estimated costs. It also presents our views on how the proposals relate to the scope for reform, what we foresee in terms of implementation time and financing requirements, and which financing alternatives should be primarily considered.

The initial chapter you are now reading is followed by a background chapter that aims to shed more light on the processes currently under way in the world. This in turn is followed by six chapters setting out our recommendations. In summary, the chapters contain the following proposals:

- 1. Continue investing heavily in research and innovation. Sweden should aim to become 'The Knowledge Nation' and 'The Land of Innovation'. It should market itself as the country with the Nobel Prize and world-beating research initiatives and as a country with the ability to translate scientific findings into profitable production.*
- 2. Negotiate a cross-bloc agreement on a globalisation-oriented tax reform. Such a reform should include:*

- *Abolition of the temporary austerity tax and a significant reduction in labour tax. This can be achieved by substantially raising the threshold at which state tax becomes payable, so that fewer than at present need to pay it.*
 - *A number of tax cuts and measures aimed at encouraging entrepreneurs and enterprise, such as revised '3:12 rules', lower capital income tax, deductible donations to research, and also a tax rebate for research-intensive small businesses and a venture capital deduction.*
 - *A reformed 'expert tax' scheme along Danish lines.*
 - *New tax rules governing employee options.*
 - *Wealth tax should not be reintroduced. If the tax cuts cannot be financed within the reform scope created by growth, tax bases that are less exposed to fiscal competition should be used to finance them.*
3. *Develop a Swedish head office strategy:*
- *An explicit policy objective should be to make Sweden a country to which internationally active business companies can profitably locate their head offices. A strategy should be formulated to this end. The aim must be firstly to prevent the further flight of important managerial functions from Sweden and secondly to induce head offices abroad to move here*
 - *Several proposals in this report would help such a strategy to succeed: better expert tax rules, lower tax on employee options and so forth.*
 - *Help Arlanda and Landvetter to develop into efficient and attractive major airports, with as many direct flights to important destinations as possible.*
 - *The current tendency to favour foreign ownership over Swedish ownership should cease.*
4. *Invest in education and training:*
- *Raise the standard of university education and expand the higher education system*
 - *Encourage more students to study abroad.*
 - *Make English compulsory from Year 1.*
 - *Boost interest in scientific and technological subjects both through the development of teaching practices and through objective information.*
 - *Give higher education institutions greater autonomy so that they may become hubs in business clusters and clusters of other actors.*

- *Establish individual skills development accounts to facilitate life-long learning.*
- 5. *Help safeguard free trade and a global finance system:*
 - *Dare to criticise the EU's role in trade policy – its agricultural subsidies are protectionism.*
 - *Minimise the environmental impact of transportation – by air, road and sea – as a policy priority.*
 - *Establish a 'global finance inspectorate' – new international financial regulations, more financial muscle for the IMF, and a warning system for when dangerous financial imbalances develop.*
 - *Initiate international studies to improve understanding and handling of the financial swings that now appear to affect the global economy more than changes in the business cycle.*
- 6. *Boost service exports*
 - *Welcome private actors in the health care services, the social services and the education system – they are needed to stimulate service exports.*
 - *Encourage creativity and culture so that we get further examples of the 'Swedish music miracle'. Both educational and cultural policy are important in this context.*
 - *Take steps to ensure that the 'Swedish IT miracle' lives on. Future growth will to a great extent be net-based, which means Sweden must be at the forefront of computer use, broadband access and high network capacity.*
- 7. *Uphold the basic values of the Swedish model*
 - *Low levels of corruption, fair play and gender equality are all values that reinforce Swedish competitiveness – but attitudes such as those reflecting the 'tall poppy syndrome' should be discarded once and for all.*
- 8. *'Flexicurity' in employment policy*
 - *The Swedish model based on agreements rather than legislation should be defended.*
 - *Labour law may be retained if agreements ensure sufficient flexibility and give small businesses special options. Security for displaced wage-earners needs to be improved in many cases.*

9. *Safeguard stability in economic policy.*
 - *High employment and sustainable growth are at the root of prosperity.*
 - *State finances that are sustainable in the long-term and a low rate of inflation are both key aspects in policy efforts to promote competitiveness. Central government must give greater priority to the global competition dimension in formulating its policies on taxes and public expenditure.*
10. *Invest in quality-enhancing systems in the public sector, e.g. competition and customer choice systems.*
 - *Better schools, better care and greater safety on the streets are all part of 'attraction policy' and in the long run are the only goals that can justify a heavier tax burden than that of other countries.*
11. *Use climate adaptation to Sweden's advantage*
 - *Invest in research and pilot plants for renewable, climate-neutral energy.*
 - *Make Sweden a pioneer in developing sustainable transport systems – build up a comprehensive network of charging points for electric cars and continue investing in the development of renewable fuels.*
 - *Sweden should be a more active partner in research on coming generations of nuclear power.*
12. *Although most future jobs will be in the service sector we should seek to remain an industrial country in the years ahead.*
 - *Ensure access to reasonably priced electricity produced without carbon emissions and with high security of supply. Make clear that nuclear power will continue to be an important part of the Swedish power production mix in the foreseeable future, and invest more in renewable energy.*
 - *Develop the infrastructure that is most crucial to industry.*
13. *Maintain a high profile in foreign policy*
 - *Of the earth's people, 99.8 per cent live in countries other than Sweden, which means our destiny is largely decided by others. A world characterised by democracy, peace, human rights, environmental consideration and growth is in our interest. We should therefore pursue an active foreign policy promoting these values, and provide a high level of foreign aid.*

- *The EU gives Sweden a powerful and unrivalled opportunity to wield a greater influence in the world.*

14. Develop the work-first principle:

- *A cross-bloc social insurance reform.*
- *Encourage earlier entry into the labour market – give priority to earlier completion of higher education and shorter summer holidays.*
- *Raise the actual retirement age via a series of measures – including, after a reasonable transition period, the raising of the minimum age for claiming pension entitlement from 61 to 62.*

15. Invest more effort in making Sweden visible and known in the world, and increase opportunities for building bridges and engaging in dialogue.

- *Be highly restrictive about further closures of embassies and important consulates. Rather, the aim should be to ensure that the Swedish flag flies in more countries and in more important locations.*
- *Support export promotion more.*

16. Organise the country's government for the 21st century:

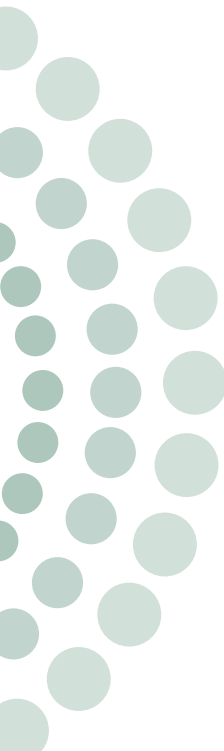
- *Build up a stronger policy analysis function at the Prime Minister's Office.*
- *Give the political opposition, too, better access to assessments of Sweden's position in the world and to in-depth analyses, for instance by appointing a parliamentary futures committee.*

2. Sweden's prospects and opportunities: strengths and weaknesses

2.1 Introduction

Sweden is one of the richest countries in the world. Researchers in economic history have sought to explain why this is the case. Such studies are interesting in that, however the world may change, they tend to provide an insight into the basic factors that influence a country's economic development. Sweden's prosperity is partly due to luck and to chance. We have mineral-rich ores in our bedrock and we have waterfalls that can be harnessed for electrical power. Other explanations have to do with our culture and fundamental values, such as attitude to work, degree of trust, and openness to change. A third set of explanations relate to conditions in public life, such as political decisions and the function of civil society, including the role played by trade unions.

To a great extent, Sweden's economic history is about international cooperation, regulations that facilitate the building of companies, and inventiveness and ingenuity. During the Middle Ages, the German merchants of the Hanseatic League were influential in developing both mining and the system of government in Sweden. The Swedish Great Power era developed out of the extensive export of iron and copper. During the mid-17th century, the copper mine at Falun was responsible for two thirds of the world's copper production. In the 18th century, Sweden dominated the world market for iron and steel. Both the 18th and 19th centuries saw the emergence of several Swedish industries – often based on ingenious patents – that achieved considerable success worldwide. Sweden's remarkable century-long growth from 1870 onwards was preceded by many important institutional changes. These included the introduction of public elementary schools in 1842, the abolition of the guild system in 1846, the adoption of a companies act in 1848, the introduction both of free immigration and emigration and freedom of movement in the country in 1860, the introduction of full freedom of trade in



1864, and the implementation of a free trade reform in 1865. In addition, a number of changes were introduced that strengthened the position of women in society. These institutional changes were part of an international process that developed in the second half of the 19th century. Sweden came to be a pioneer in certain respects, due in no small part to the active efforts of finance minister Johan August Gripenstedt. The reform process was distinguished by a growing trend towards internationalisation – or globalisation – resulting in higher trade volumes, more cross-border investments and greater travel between countries. Another important element was the accelerating growth in technology that characterised this period – the ‘second’ industrial revolution – and the business companies that emerged as a result. The fact that Sweden remained outside the Second World War meant that it was able to boost both production and welfare levels very substantially in the 1950s and 1960s.

A closer study of Sweden’s economic history reveals not only highly successful periods but also times of profound difficulty and economic setbacks. Beginning in the early 1970s, the country underwent a twenty-year period of high inflation, recurrent devaluations and weak growth. In the OECD’s welfare index, Sweden fell from a leading position to one of the less rich countries of Western Europe. In retrospect, it is clear that a number of problems from that time were left unsolved. This serves as a reminder that failure to protect and promote competitiveness comes at a cost. Competitive advantages must be won over and over again.

In many ways, the years 1993–2007 were successful ones for Sweden. A period of reform had been launched a few years earlier, bringing a number of important political, economic and institutional changes (the tax reform, deregulation of the telecom sector, the introduction of independent schools, the phaseout of universal housing subsidies, the pensions reform, EU membership, the budget reform and others). Together with the improved cost situation resulting from the depreciation of the Swedish krona, these reforms led to a lasting upturn in the economy. It is easy to imagine that everything done in those days was good since the results were good. It is important, therefore, to try to identify what was less good but which was wholly or partly concealed by that which really was good, such as the healthy export climate and low inflationary pressure from outside.

In accordance with its terms of reference, the Globalisation Council has examined Sweden’s competitive strengths and weaknesses from an international perspective. It is sometimes important to

think twice when discussing plus and minus factors. That which is good strengthens us in our belief that we will succeed and should inspire the kinds of measures that enhance the plus factors. That which is bad should of course be remedied so that minus factors are eliminated where possible. It goes without saying that the same heading may be found on both lists – whether something is good or bad often depends on what it is being compared with.

2.2 Strengths

– Stable political systems and efficient institutions with effective, corruption-free public bodies

Effective regulations minimise the burden on companies and individuals and contribute to the effective distribution of resources in society. Nowadays, for instance, starting a business in Sweden is relatively easy and cheap. Also, Sweden is currently ranked as one of the least corrupt countries in the world – a leading position worth preserving.

– A society with few social tensions and a spirit of consensus.

Ensuring that everyone feels they have a part to play is vital in a society that requires its citizens to show flexibility and an ability to adapt to changing conditions. This is important if people in Sweden are to continue viewing globalisation in a favourable light and accepting necessary reforms. One reflection of this attitude is the 1997 Industrial Agreement and other cooperation agreements that have subsequently been negotiated by labour and management in Sweden and which have contributed to stability, growth and higher real wages.

– Language skills in the population are relatively good

Compared with some other countries, a reasonable command of English is fairly widespread among large sections of the population.

– Swedes are known as 'early adapters', i.e. they are favourably disposed to new technology and modernity, which means the nation rapidly assimilates the latest technological advances

Sweden is ranked among the leading nations in terms of household

access to the Internet and willingness to buy goods and services via the net. Although Internet use is growing more rapidly in other countries, this appears to be one of Sweden's strengths.

– Sweden offers a living environment with many good qualities, including closeness to nature

In an increasingly over-populated world suffering from environmental problems, this competitive advantage is likely to become increasingly important.

– The crime rate is low

In comparison with some of the countries that we usually compare ourselves with – and which are often view as possible alternative locations for companies in Sweden – we still have a slightly lower crime rate.

– A social insurance system that creates security and facilitates transitions of various kinds

In contrast to the American system, for instance, where social security tends to be linked to the company you work for, the Swedish system creates fewer lock-in effects and also spreads the risks, which makes for greater security.

– A smoothly working welfare system

High quality health care, school education, elderly care and pre-school facilities are all available at reasonable cost. In light of current gender roles, child care has done much to boost the activity rate for women.

– A relatively well-educated workforce

Public expenditure on education is extensive. Some countries are investing more and are more successful, but we are still well placed in relation to some of our competitors. In general, public attitudes to knowledge and education are favourable.

– Large stocks of raw materials

By European standards, Sweden looks to be in a good strategic position, in that we have the continent's largest reserves of certain vital raw materials, including iron ore and forest. These assets have long been used to underpin a successful export-oriented industrial sector.

– *A good supply of domestic electrical power*

As a result of substantial investments, firstly in hydroelectric power and then in nuclear power, Sweden currently possesses an efficient system for electricity supply, virtually carbon-free and available at a low marginal cost.

– *Practically the largest investor in the world in research and development*

Together, public and private investments in R&D amount to almost four per cent of Sweden's GDP, which in the OECD's statistics is second only to Israel. This year, public investments will account for one per cent of GDP, which relatively few other countries can equal.

– *A large proportion of successful multinational corporations*

Many countries around the world envy us our many well-known corporations and brands, such as Electrolux, Ericsson, H&M, IKEA, Sandvik, Scania, Securitas, SKF and Volvo. When noting by way of contrast the relatively smaller number of small and medium-sized enterprises in Sweden, it must be remembered that the presence of strong global companies is of great importance in creating dynamic, internationally competitive production environments, or clusters. There, multinationals integrate with academia and small, entrepreneurial companies. Today, Sweden has a number of strong clusters that we be careful to preserve.

– *Swedish leadership and company organisation are competitive advantages*

Even in a more globalised world, where rapid decisions are essential, Swedish management ought to be able to hold its own. The demands that the future is likely to make on company organisation and leadership correspond well to the qualities that characterise Sweden management: short decision-making chains, flat organisations and considerably flexibility.

– *Greater labour mobility than many other European countries*

Compared with the situation in a number of other European countries, the Swedish labour market would seem to be relatively dynamic. This is essential if a smooth structural change is to be achieved at a low financial and social cost. Also, research shows that high labour mobility goes hand in hand with high productivity.

– The Swedish labour market model is one of our strengths

The Swedish model, whereby the social partners are largely free to regulate terms and conditions themselves, has proved a success. The number of days lost to industrial action is low compared with most other countries of our type. The system involving collective agreements tends to simplify matters for both employers and wage-earners.

– A high employment rate among women and a fairly high rate among older workers

As competition from the outside world grows tougher, Sweden needs a labour market that exploits all the talent and skills available in society. Also, people must be able to work, and must be given the chance to work, if Sweden is to sustain its traditionally high levels of welfare.

2.3 Weaknesses

In the previous chapter, we listed ten problems that have cropped up repeatedly in our discussions on Sweden's situation in the present era of globalisation. They are described in closer detail below, and supplemented.

– Sweden has too few entrepreneurs – and too few medium-sized enterprises

Statistics show that Sweden has fewer entrepreneurs than comparable countries. Also, a relatively large proportion of entrepreneurs active today are nearing retirement without there being anyone to take over. A number of different explanations for this low proportion of entrepreneurs are put forward. One is that Sweden instead has many large companies, while another is that the agricultural sector – which is traditionally entrepreneur-driven – is limited in this country. The small number of entrepreneurs nevertheless appears to be a structural problem for the future, partly because additional companies that have begun to take off and grow boost the employment rate, and partly because a business sector with many entrepreneurs can more easily withstand economic downturns. Research suggests that the lack of available venture capital, especially in the

early stages of new entrepreneurship, is a structural problem in our country.

– Sweden has too small a private service sector and too few service exports

High individual taxation, even of moderate incomes, which tends to generate tax wedges, has inhibited growth in the private service sector. Another factor is that health care, education and social services have mainly been provided by the country's municipalities. There are powerful reasons for seeking to change this situation. One is that a larger supply of services improves the quality of life for all who have access to them. Another is the above-mentioned employment argument – it is difficult to see another sector that realistically possesses the same potential for job growth. The Council has not had reason to examine the ideological question of whether welfare service provision should be public or private, but we have discussed one aspect of the problem. It is when service production is managed privately that export prospects are best. The low share of private entrepreneurship in this sector would appear to explain why service exports are lower in Sweden than in many comparable countries.

– The relationship between the working and the supported populations is developing in such a way that it will create upward pressure on the tax ratio in future years.

The question of how welfare will be financed in the future is affected by many factors, such as medical breakthroughs and opportunities for making the provision of certain welfare services more efficient. A crucial aspect is the size of the working population. If its share can be significantly increased, this will have a highly favourable effect on the socioeconomic factors. At present, the situation is problematic in a number of respects. Young people are entering the labour market late, and many people quit it early. And despite distinct improvements in recent years, Sweden is still fairly high on the list in terms of absence from working life, for instance due to sick-listing.

– Investments in infrastructure such as roads, railways, aviation and broadband are being neglected

Although for a number of years the level of Swedish investments in infrastructure has matched the OECD average, the signs are that this is insufficient. Since infrastructural investments are usually projects of lengthy duration, and are also durable in terms of lifespan,

previous delays in such investment may still be reflected in today's situation. Also, Sweden is a large country geographically and thus should invest greater resources in infrastructure than other countries. One area that we would like to spotlight as being particularly weak is our air links with the outside world, and especially the situation at Arlanda and Landvetter airports. Sweden needs a major airport of a more modern type that makes day trips to the Stockholm area a feasible proposition for the business community. Regarding access to broadband, Sweden is doing well but should be doing even better, given the importance of electronic communication for future growth. We must ensure that households in the more sparsely populated areas of the country have the same opportunities, and we must strengthen the broadband infrastructure so that transmission capacity and speed match growing demands in this field.

– Uncertainty over electricity supply

A secure supply of electricity at reasonable prices has long been one of Sweden's competitive advantages. But particularly the debate on whether nuclear power should have a role in the power system of the future is causing problems. This uncertainty is having an adverse effect, especially on basic industry, which has a long investment horizon.

– Extensive dependency on oil in the transport sector

From both an environmental and a security viewpoint, the fact that both national and international transport systems are so dependent on oil looks problematic. Except for rail transport, which accounts for a very limited share, almost all international trade is oil-based, and given Sweden's dependency on trade, this situation must be resolutely addressed.

– Inadequate results in Swedish schools

Results for Swedish compulsory school pupils are declining compared with those of other countries, e.g. in mathematics. Many pupils are leaving upper secondary prematurely or with inadequate grades. Interest in science and technology has been allowed to dwindle for several years. Teaching is not attractive as a profession – the number of applicants to teacher training is low.

– The quality of Swedish research is declining

During a phase that began in the mid-1990s, public investment in

research stagnated. At the same time, the quality of research has declined in many areas, judging by frequency of publication and quotation in respected scientific journals. The system for distributing resources between universities in the form of direct faculty allocations has not been productive of quality.

– Research findings are not being sufficiently commercialised

Comparisons between countries' research investments and the proportion of hi-tech goods in their exports suggest that Sweden is experiencing problems as regards translating scientific breakthroughs into jobs and growth. The problem is evident both in academia and on the business side.

– The tax system does not encourage self-improvement and entrepreneurship

Sweden's temporary austerity tax – together with the fact that contributions above the social insurance ceiling are not reflected in benefits – is creating high marginal effects for people who have managed to acquire higher salaries through long periods of study. This sends some very unfortunate messages. It also makes it harder for global companies in Sweden to recruit international expertise to their head offices and other strategic environments in Sweden. Some of the taxes imposed on companies and company owners are so high that in all probability they are a major factor in the relative lack of private enterprise in the country. The fact that Sweden is not matching the highly favourable tax terms on which research-intensive companies are allowed to operate in other countries has also become a problem.

– The integration of immigrants is not working properly

On average, it takes immigrants arriving in Sweden several years to gain a foothold in the labour market. This is unfortunate for a variety of reasons, but particularly because having a job means so much for the person's chances of becoming integrated in Swedish society as a whole. There is a significant risk that after such a long time the person will otherwise end up in a state of permanent exclusion.

– There is a clear trend towards fewer head offices in Sweden.

Research shows that the importance of clusters increases as transport and trading costs decline. In light of this, the fact that global multinationals and also some medium-sized enterprises are moving

their head office functions out of Sweden is a cause for concern. Head offices bring with them demand for a range of highly qualified business-related services of importance for both development and employment.

– There are too few opportunities for adults to access and finance studies

Working life of tomorrow will in all probability require many people to switch professions at least once during their careers. The systems for guaranteeing that this works smoothly during both booms and recessions are inadequately developed. We still have far to go before the vision of lifelong learning becomes a reality.

– Standards in higher education have been allowed to slip

For too long, the number of student places in higher education was given priority over the actual content of the training. If higher education is to become more competitive, it must maintain a high standard. Interest in a university-level education increases during recessions. Unless higher education institutions are given more resources as cohorts grow, there is a danger the downward trend will continue.

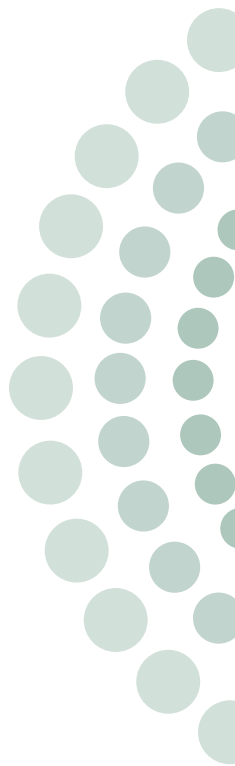
3. Sweden as a knowledge nation

3.1 Introduction

Sweden's ability to maintain and develop welfare standards is to a great extent dependent on how we deal with knowledge. Many discerning observers go so far as to claim that knowledge is the most important production factor of our time. As a result of globalisation, the production chain has often been split into a number of different stages located in different countries – construction in one country, design in another and manufacture in a third. A country's chances of maintaining high wage levels and a good standard of welfare depend on the extent to which the work undertaken there has a high knowledge content – on whether the country is high up on the value chain, to use a common expression. Knowledge in the broad sense is a key factor in a country's bid to stay high on the value chain or move up the chain. This is why research and education policy is absolutely crucial to a country wishing to hold its own in an era of globalisation.

Research findings confirm the importance of education for a balanced distribution of income in a country. A school system that has at least had the ambition to give all pupils the same standard of education regardless of their circumstances in life has contributed very significantly to the relatively even distribution of income in Sweden. In the future, this task will probably be even more important, since globalisation may weaken other instruments designed to close income gaps. If Sweden wishes to combine higher growth with a relatively balanced distribution of income, therefore, it is vital that the country's schools provide all pupils with extensive knowledge and many skills.

We should also be at the forefront when it comes to creating and exploiting new knowledge. International competition means that we must constantly ensure that the knowledge content in our products is high and we must be prepared to reappraise our working methods in the light of new knowledge so that we do not fall behind. A vigorous commitment to research and development, therefore, is absolutely essential. We cannot simply rely on knowledge



transfers from other countries – we cannot expect to be a part of the global knowledge exchange network unless we have something of our own to contribute, and we must have absorption skills that enable us to understand and use new findings and discoveries from other countries.

Research and the new knowledge it generates are of course important in their own right. But in the knowledge nation we would like Sweden to become, research is also of supreme importance in creating new knowledge and achieving results that promote growth. For this to happen, ideas and new research findings will need to be commercialised. Today, despite fairly extensive investment in research, Sweden is rather poor at developing new research findings that have a real market impact. In the Council's view, there is plenty of scope in Sweden for improving the link between research findings and commercial application. Also, standards in areas of activity primarily found in the public sector, such as care and education, need to be raised by systematically incorporating findings from the research community.

In the following three sections, we discuss various proposals on how Sweden might disseminate and produce information so that we, as a strong knowledge nation, are properly equipped to compete in the global arena.

3.2 A new knowledge promotion policy for children and young people

3.2.1 Earlier school starts

Research tells us that people find it easiest to learn at an early age. This means that preschools and compulsory schools are key instruments in helping individuals to cope well later in life. The educational role of preschools has been strengthened in recent years. At the same time, some parents choose other kinds of care for their children. Freedom of choice in this area has its positive aspects, but it means that children who receive alternative forms of care miss out on the educational dimension in preschool care that is crucial to

their development. This implies that the latter part of the preschool system should be made compulsory.

Educational reasons, therefore, suggest schooling should begin earlier. The Danish Globalisation Council proposed that the final preschool year, known as preschool class, be made compulsory. In Sweden, preschool class is the first step in public schooling, but it is not compulsory. Municipalities, however, are required to make such classes available. While most parents choose to let their children attend preschool class instead of spending another year at regular preschool, it would nevertheless be a welcome development if all children were to be provided with the educational preparation for compulsory school that preschool classes offer.

- *Make the preschool year for six-year-olds compulsory.*

3.2.2 Language skills at preschool level

It goes without saying that language skills are essential in a globalised world. As early as preschool level, the need for language training should be addressed. Today, 'language preschools' already exist, offering extra training in the Swedish language, especially in areas with a high concentration of immigrants. There are also bilingual preschools where Swedish is spoken but the principal language is English. More language preschools are needed, including ones that encourage the development of skills in other languages besides English. Such preschools should not be exclusively for children whose mother tongue is a foreign language. They should be open to all children where there is an adequate basis for tuition in this form.

- *Introduce targeted state grants to encourage municipalities to establish/expand language preschools.*

3.2.3 Intensify language learning in school

Pupils' interest in and command of foreign languages can be encouraged in a variety of ways. One is to bring forward the point at which studies in English and other important languages begin. Another is to facilitate exchanges with schools in other countries. This not only furthers pupils' language skills but also encourages their interest in and understanding of other countries' culture and religion. An early opportunity to spend a year studying abroad may provide a pupil with vital impetus and enduring language skills. An exchange year is costly, which is why it has usually been the preserve of families with good incomes. There is therefore good reason to make it easier for Swedish pupils to study abroad regardless of their parents' financial position.

It was a good idea to introduce a system with extra credits for the study of foreign languages at upper secondary level. However important English may be as the 'lingua franca' of our time, we must not forget that having many Swedes who also speak other foreign languages is a considerable advantage. The fact that there are more Germans studying Swedish today than Swedes studying German is an indication of the problem.

The school tuition provided in Sweden can be internationalised. This should involve a conscious effort to incorporate elements that bring the pupils into contact with other peoples and other cultures.

While Swedish and English language instruction must remain the top priority, it is important that many pupils also learn additional languages. The languages that immigrant pupils bring with them from their countries of origin and from their families should be turned to account. It is good that schools in Sweden have the resources to provide tuition in immigrant pupils' mother tongues.

- *Make English language tuition compulsory from Year 1.*
- *Encourage more pupils to study one or two additional languages at school.*
- *Make participation in an international project compulsory for all pupils during their time at school.*

3.2.4 Evaluate school performance more extensively and encourage diversity

Systems that promote quality are a key to better results. The first step in quality processes is evaluation. There has been a reluctance to evaluate in Swedish schools. The Council takes a favourable view of the efforts now being made to change that culture. Properly formulated and applied, evaluations – whether written assessments and grades or quality assessments of whole courses of schooling – encourage efforts to improve and seek better results.

The freedom of choice and educational diversity that independent schools represent has come to stay. The Council will return in the next chapter to one particular aspect of this issue, namely the potential for boosting service exports. Here we believe that the presence of independent schools in the education system facilitates comparisons and inspirational competition. The growing number of independent schools makes it important to ensure that both conditions and obligations are similar in kind so that all schools in the country compete on the same terms.

In a coming chapter we will be looking at the forces that enable Swedish society to cohere in an age of growing pluralism. School has been and is still one such force. In the Council's view, growth in diversity can be encouraged without jeopardising the role of schools as a cohesive element in society. This means, to take just one example, that independent schools are largely free to choose which educational methods they apply and to organise confessional segments outside lesson time, but that teaching during lessons must be kept non-confessional and all tuition must proceed from the basic values of Swedish society, i.e. democracy, gender equality and tolerance.

- *Permit independent schools but combat tendencies towards segregation.*
- *Ensure good teaching standards by means of better evaluation systems in schools.*

3.2.5 *The important role of teachers*

An efficient compulsory school system cannot be maintained without skilled and committed teachers. Today, teacher training has relatively low status – there are too few applicants and the standard of the training provided is being called into question. Gifted students tend to seek other educational paths with better future prospects and higher pay. This situation is unacceptable in an era of globalisation. If Sweden is to have a world-class school system, some of the best students in each cohort must choose the teaching profession. Schools must also become better at holding on to the best teachers, who nowadays tend to move on to other professions after a few years. One solution might be higher pay and a more selective admission procedure. Another might be to apply more differentiated pay-setting in the profession. A third alternative could be to broaden the recruitment base by opening up other paths to teaching.

One of the main questions is how to make teachers feel they are developing in their chosen profession and that their progress is properly acknowledged. Further training opportunities are important. Professional development may of course lead to other tasks, such as the post of headteacher or the directorship of an institution, or the possibility of undertaking research as part of one's job. But for the most skilful teachers, development should not necessarily mean that they leave the classroom or become less involved in teaching. With the aid of pay-setting, greater educational responsibility in the teaching team and other courses of action, it must surely be possible to persuade teachers of this calibre to find satisfaction in their work and remain in the profession. More lectureships should be established for teachers with research degrees. When discussing the attractiveness of teaching as a profession, it is impossible to ignore the working environment issues associated with the disciplinary situation in certain schools. Prospective teachers must be able to look forward to a professional life that is not disrupted by constant classroom disturbances and abuses.

Teacher training courses, too, must be improved. Deeper knowledge of the subjects being taught is required. A further issue is raised by Elisabet Nihlfors in one of the background reports to the Council. She contends that all school staff, whatever their profession, should acquire an understanding of intercultural education. It is regrettable that trainee teachers in Sweden study abroad to such a limited extent. Many more should be given the chance to do so for a full term.

- *Institute a number of measures to make the teaching profession more attractive, including further training opportunities, career services and revised pay scales.*
- *Encourage schools and municipalities to use pay-setting to a greater extent as a means of rewarding high-calibre teachers who are doing a good job.*
- *Ensure that there are smooth passages into teaching without setting aside the need for good teacher qualifications and suitability.*
- *Raise the level of subject-matter knowledge in teacher training.*
- *Increase further training opportunities for professional teachers.*
- *Encourage the inclusion of an exchange term with a foreign higher education institution in teacher training courses.*
- *Facilitate the validation of foreign teachers' qualifications and authorise them to teach in Sweden.*

3.2.6 Develop e-learning

Technological advances are constantly being made. One option now available to teachers is the application of what is termed e-learning. This can be an important tool, supplementing more traditional forms of tuition. There have been calls in the public debate for this technique to be used more widely in both compulsory and upper secondary education. One proposal is to build up large computerised systems of educational resources that are stored digitally. These resources can be designed and structured in such a way that they conform to the interests and abilities of individual pupils. The computerised systems could contain large quantities of educational resources in all subjects taught in all school years, and the content could be adapted to current syllabuses and learning/teaching objectives. Under the teacher's guidance, the pupil would be able to fetch texts, images, sound recordings, animations, films and technical study tools in the form of background data for exercises, work assignments and laboratory experiments etc.

- *Introduce more and better digital teaching aids in schools.*

3.3 A new knowledge promotion policy for adults

3.3.1 Enhance standards in higher education and expand the university system

Just over 20 per cent of the population in Sweden (aged 25–64) have studied for at least three years at university level. This proportion is neither exceptionally high nor exceptionally low but largely reflects the OECD average. A dozen countries have a higher proportion. Among younger age groups, Sweden is in a slightly better position. Among those aged 25–34, for instance, the proportion is 30 per cent, and only five countries (Norway, the US, the Netherlands, South Korea and Denmark) have higher figures. The Swedish share has increased, due in part to the fact that the number of student places was boosted significantly in the 1990s and early 2000s.

For a while, the previous government in Sweden had a quantitative target for the expansion of higher education, namely that 50 per cent of each cohort should enrol at a university-level institution. The present government has instead emphasised the importance of raising standards. The quantitative target has in fact declined in importance since there have not been enough applicants for the places available. In recent years, over 10 000 places in higher education have been vacant.

The Council wishes to strongly emphasise the importance of enough places being available at higher education institutions and of maintaining high standards in the training provided. Swedish higher education must provide high-quality training for the many. The Government's ambition to introduce a quality-based system for resource distribution is worthy of wholehearted support.

In the Council's assessment, the Swedish labour market – given our stated ambition to make Sweden's economy increasingly knowledge-based – will demand more university-trained personnel. The fact that it has been so difficult to fill the places available in higher education may be attributed to two specific problems that the Government has already identified and that the Council believes should be taken very seriously. One is a gender equality problem, i.e. that during the economic boom young men have decided against enrolling at university, while young women have begun using their better grades to enrol in courses previously dominated by men. The

proportion of men in Swedish higher education is now less than 40 per cent. The second problem is that science and technology are no longer attracting very many applicants. It is vital that we take both these problems seriously.

In the Globalisation Council's view, there is much to suggest that interest in higher education will increase among both women and men. In response to this heightened interest, the university system must be allocated greater resources, both in order to recuperate the lost years and to meet the growing influx of students.

The EU is currently discussing a quantitative target of 40 per cent for the proportion of a cohort that goes on to university. Sweden already exceeds that target. The Globalisation Council is of the opinion that standards in higher education must be improved, that the bridge between university training and working life must be strengthened, and that the number of student places should be increased. If university-level studies yield better results and the two problems described above are tackled systematically, demand for places is likely to grow. Sweden should aim to become a country with a high proportion of university-trained people in the workforce and an internationally competitive higher education system.

- *Educational standards should be improved and the Swedish higher education system should be expanded.*

3.3.2 Encourage earlier completion of studies – an economic advantage

The Globalisation Council has noted certain phenomena that contribute to the demographic problem of fewer people having to support increasing numbers in the future. One such phenomenon is that the age at which young people enter the labour market is higher in Sweden than in almost any other country. There are several reasons for this. Young Swedes begin university studies relatively late – their average age is 22.5. A number of university programmes have become longer in recent years. Students in Sweden tend to take a long time to complete their studies. Their late entry into the labour market impacts negatively on both the private and the public return on the educational investment.

A number of proposals have been put forward on how to counter this trend. One involves the introduction of a degree bonus, i.e. a sum payable to those who complete their studies in time. The problem is that such bonuses would also be payable to all those who already complete their studies in the appointed time, which means the costs would be relatively high in relation to the incentive effect. A recent report on student welfare in Sweden included a proposal for reducing the period during which study grants and loans are available to four years. Other proposals, presented by Thomas Lindh in his background report to the Council, concern the introduction of shorter holiday periods during the course of studies, and efforts to improve the standard of university-level training. However, shorter study periods would conflict with the adaptation of the Swedish system required by the Bologna process. An alternative, therefore, would be to make available more summer courses that comprise part of the students' study programme. A further possibility would be to ensure that all higher education institutions provide genuinely full-time studies. There is much to suggest that many students could cope with a substantially greater work burden than is required by many courses and programmes today. Given a faster pace of work, it should be possible to shorten study periods in many programmes considerably.

Reducing the drop-out rate in upper secondary education is another important task. Dropping out of upper secondary school or neglecting one's studies there and subsequently studying in the municipal adult education system has become far too common a practice. Municipal adult education was not intended as an extension of upper secondary education. The fact that both the present and the previous governments have taken steps to avert such abuse of the system is a welcome development.

- *Enhance opportunities for programme studies in the form of summer courses, or shorten the summer holiday.*
- *Consider writing down study debts for students who complete their studies before the appointed time.*

3.3.3 Make study choices easier

Another aspect concerning higher education is that prospective students must be able to choose the 'right' course of study, i.e. training that leads to a job in the labour market on completion of their studies. This of course is not something that can be guaranteed, since demand in many industries fluctuates considerably as a result of structural change. Nevertheless, matching between educational choices and labour market requirements can be improved. A recent appendix to the report of the Long-Term Planning Commission described vocational and careers guidance in Sweden as decidedly substandard. This applies not only to the efficiency dimension but also to the justice aspect, since young people from lower social groups usually have less knowledge and support from their home environments when making employment or study choices.

- *Seek to ensure that higher education institutions both provide objective information about what their students can expect on completion of their studies and regularly publish such information so that it is easily accessible to prospective students.*
- *Let the National Agency for Higher Education or a completely independent body manage one or more ranking systems for the quality of higher education around the country.*

3.3.4 Lifelong learning – skills development accounts

In a knowledge-based society, it is not only children and young people who require education and training. On the contrary, as citizens of contemporary society we need ongoing, lifelong learning. A country's ability to transform itself depends to a great extent on what opportunities are available for adults to acquire supplementary knowledge and skills.

In the Council's assessment, lack of opportunity for people to acquire new or supplementary skills after having spent a number of years in working life is one of the weak points in the Swedish educational system.

It is true that a wide range of educational opportunities are available to adults, including municipal adult education, higher education, vocational higher education, folk high schools and a variety of private training courses, to name but a few. Most of these programmes are free of charge, but a frequent problem is how students are to support themselves during their period of study. Internal staff training, where the cost is borne by the employer and the participants receive pay during their studies, is one sizeable sector. Another is employment training, i.e. the training provided to prepare unemployed persons for a new job. Here, central government pays both for the training and for the person's upkeep.

There are other problems as well. The disadvantage of internal training courses is that they do not make it easier for the individual to move into another occupation, for instance in connection with a restructuring process. The problem with employment training courses is that they are confined to the unemployed. Often, the problem with types of training other than employment training is how participants are to support themselves during the course.

Access to internal training varies significantly. Studies show that most manual workers affiliated to the Swedish Trade Union Confederation have not been offered any such training over the past twelve months. In today's labour market, where temporary jobs are rife, still more employees miss out on internal training since this is often reserved for 'regular' staff. Studies show that half the workforce cite inadequate training as the reason for not changing jobs. This is an aggravating factor for a labour market that will increasingly demand flexibility in the form both of new knowledge and expertise and labour mobility.

A solution to the problem that has been advanced on several occasions over the past decade is the introduction of a new feature in the Swedish study financing system: individual skills development accounts. The arguments in favour of such a system is that it would give the individual greater control over his or her own professional development and that flexibility in the labour market would be enhanced if people had the opportunity to adjust smoothly to new market conditions.

Such a system could be designed in a number of different ways, and we will return to this in the section on the employment market. Since the Council considers that the introduction of a good financing system for lifelong learning is a strategic education policy issue, we would like to make clear at this early stage our belief that the

public sector should assume partial responsibility for such a system, either in the form of tax deductions for savings or through the supplementing of private deposits (for instance from individuals or employers) by central government grants from tax revenue.

- *Central government should co-finance a system of individual skills development accounts or skills insurance, either through tax deductions/credits or through direct grants.*

3.4 A new knowledge promotion policy for the research and development sector

3.4.1 Increase research funding and improve conditions in this field

The Council has previously come out in favour of a vigorous drive in research and development and a target for civil research funding of at least one per cent of Sweden's GDP. The research bill for the years 2009–2012 reflects a considerably higher level of ambition in relation to the appropriations of the past decade, which declined in real terms. However, the Government's level of investment is lower than that proposed by the Council. By using the EU's definition of what kind of research funding should count towards the one per cent target, the Government has included military research, while the Council recommended that it be excluded.

It must be said, however, that the linkage to GDP naturally becomes more problematic when GDP declines, and that the Government was right in not announcing any cuts in research appropriations on the grounds of the GDP's downward trend. The Council would instead like to recommend the model we described as an alternative in our initial report, *Knowledge-Driven Growth*, involving an annual increase in public funding by a given percentage, for instance 15 per cent. For 2008 and 2009, the appropriations were increased by about 10 per cent per year, and a minimum requirement should be that this level of increase is maintained over the next few years.

Sweden is one of the two leading nations in the world in terms of R&D investment, if company investments are included. Only Israel invests more. Government efforts in this sphere are also among the most ambitious by international standards. Our desire to increase funding further is due to our firm conviction that R&D levels and growth levels will be closely linked in the years ahead. Also, almost three quarters of all Swedish R&D is undertaken by a handful of major companies and is sensitive to changes in their operations. Via partnerships, matching and professional development initiatives, a strong, growing public research sector can help persuade global companies to continue locating much of their R&D to Sweden.

Regarding the question of how research appropriations are to be distributed, we stand by the views we expressed in Knowledge-Driven Growth. Investments across the entire spectrum from basic research to applied research are needed. Curiosity-driven research needs more support, as do needs-driven and business-related research. Funding must be distributed on the basis of quality assessments. Structures that bring together the leading players are required. Appreciation of the fact that it is often in the borderland between disciplines and perspectives that innovations and breakthroughs develop, is essential – financing systems should also encourage and be capable of dealing with interdisciplinary projects.

Sweden has a number of strengths in the research sector that need safeguarding. Centuries-old church records are one of them. Our civil registration files, which are unique in the world, enable us to follow the development of hereditary diseases down through the generations. But we also have many other registers of value to research science, as well as sound legislation in support of stem cell research and ethical reviews of research projects. As a result of all this, Sweden has become a country to which clinical research and clinical trials are located. It is clear, however, that this vital area of medical research is currently losing ground. The Council considers that the Government should view this development with great concern, since it threatens much of the Swedish pharmaceutical industry in our country. There is reason, therefore, to take very seriously the proposals recently presented by Professor Olle Stendahl on clinical research. One task is to ensure that Sweden's university hospitals are governed and managed in such a way that care interests and research interests are treated equally.

- *Increase public funding for research by 10–15 per cent per year for the next few years.*

- *Improve conditions for clinical research and trials, for instance by strengthening the position of research at university hospitals.*
- *Encourage close cooperation between health care and the business sector with a view to developing new medical technology and determining what drives quality in care services.*

3.4.2. Tax deductions for donations to research

To supplement government appropriations for research, steps should be taken to make it easier for companies and private individuals to enhance research resources through donations. Costs for research affecting one's own company are of course deductible as a business cost, but today Sweden is one of the few countries in Europe that do not allow deductions for donations to science, i.e. the kind of scientific research that does not directly benefit the financier. One approach that has been successfully adopted by many other countries is to make research donations deductible. Such a course could be expected to attract private resources to institutions of higher education. Encouraging donations may also make Sweden more attractive to research companies that are considering locating their research centres to Sweden. A more diverse range of research funding is also expected to lead to a more multifaceted research with a dynamic mix of basic research and more applied research.

- *Introduce deductions for research donations.*

3.4.3 Favourable treatment for research-intensive companies, both fiscally and under research policy

There may also be reason to give research-intensive activities in the business sector further incentives. This is the case abroad, with different constructions in different countries. Relatively new small businesses in this field are a particular target for such measures. The fact

that their research costs can be deducted against corporate tax is of little value, since companies seldom make a profit at this stage. Companies in this kind of situation should be granted some other form of tax relief, such as lower employer's contributions. The cost of such a reform may vary considerably, depending on how it is structured. The Council has calculated that from a public finance viewpoint, the cost could be a few hundred million Swedish kronor.

Another way of favouring research-intensive companies is for central government to institute strategic research measures aimed at encouraging the establishment of clusters where the companies have a natural role to play. The extensive technological changes currently required in such areas as energy, transport and the environment can be furthered by the government procurement of cutting-edge technology, which would also benefit Swedish hi-tech companies.

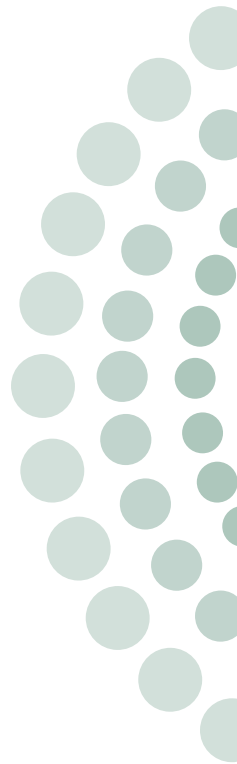
- *Introduce deductions for R&D activities against employer's contributions or the like, primarily for research-intensive small businesses.*

3.4.4 Give higher education institutions more independence

A brief survey of academic institutions around the world shows that there is a link between quality and freedom. Institutions that adapt rapidly to new circumstances, that offer the researchers they wish to recruit good terms and conditions, that enter into partnerships with universities in other countries, that launch joint projects with businesses and that freely accept donations achieve better results than others. There is a strong desire for greater freedom among Swedish institutions of higher education. A government inquiry recently proposed that the freedom of academic institutions be written into the Swedish Constitution, and that their status be changed from central government agencies to independent bodies.

The Council is in favour of giving Swedish higher education institutions greater autonomy. This must not, however, cause central government to feel less responsible for the financing of the academic sector. Rather, such a move should be an expression of confidence and acknowledgement of the fact that faster decision-making procedures and less bureaucracy lead to higher quality.

- *Give higher education institutions greater autonomy, for instance by making them legally and economically independent bodies.*



4. Economy, enterprise policy and taxes in a global perspective

4.1 Introduction

Proceeding from the problems we defined and discussed earlier, the present chapter deals with the framework conditions for enterprise in Sweden: how to bring more people into employment, how to assure social welfare financing in the short and long term, and what changes need to be made to the tax system if Sweden is to become more attractive in the global competition for trade and investment.

We propose here to present three, partially overlapping, sub-goals: the creation of more medium-sized enterprises, an expanded service sector and a higher level of domestic investment.

Progress towards these objectives is predicated on economic and budgetary stability. Low inflation and long-term sustainable public finances are macro-level goals which are also vital to enterprise and families' financial situation.

A major new tax reform is needed, if possible with support from both sides of the political aisle. In a report to the Globalisation Council, former finance minister Kjell-Olof Feldt advanced convincing arguments as to why such a reform is necessary. The simplicity and uniformity aimed at in the previous tax reforms have been steadily eroded and replaced with more or less extempore solutions, not infrequently in contravention of the reform's main principles. A further compelling argument is the fact that the forces of globalisation were not as evident around 1990 as they are now, twenty years later.

Assuming sufficient support within the political system for a major new tax reform, any change will naturally be preceded by exhaustive preparatory work and negotiations. The Council neither can nor wishes to anticipate the outcome of the process; it confines itself to putting forward proposals on a number of important components which should in its view form part of the reform.

Recent years have seen a substantial reduction in income tax through the in-work tax credit. The Council takes a favourable view of reduced tax on labour income, particularly in income brackets

where living on benefits could be the alternative. However, the in-work tax credit alone cannot strengthen Sweden's ability to compete in the global arena for the most productive and highly skilled workers. Other measures will also be needed, which of course raises the question of how such a tax policy can be reconciled with income distribution policy goals.

4.2 Distribution policy in an era of globalisation

The Council has already touched on the impact of globalisation on the prospects of a national income distribution policy. Competition for tax bases, i.e. the possibility that whatever generates tax revenues will be tempted to move abroad, is increasingly intense. This will inevitably set a limit on tax burden differentials between one country and another. Above all, it will affect the way countries that have chosen a welfare model requiring a relatively large tax burden levy their taxes. Different tax bases are variously sensitive to international competition.

In its first report, *Knowledge-Driven Growth*, the Council wrote that there is now less scope for a policy aimed at redistributing income from high- to low-income earners through high marginal taxation. We noted then that distribution policy should increasingly target areas such as education, and that life chances are provided and renewed through effective welfare systems.

That a national income distribution policy has become more problematic does not of course mean that such a policy cannot be pursued or that its aims should be abandoned at this stage. In a later chapter, we enlarge on the importance of Sweden holding up under the strains of globalisation and on the need for citizens to be ready for change when developments in the world at large make it necessary. This requires a sensible distribution policy.

The Council has no definitive view on the future development of the total tax burden, but confines itself here to two remarks. First, it is vital that a tax burden which is higher than elsewhere in the world must be combined with intensive efforts to improve the quality of the public sector so that taxpayers in Sweden can clearly see they are getting value for their tax money. Second, the insight that the tax burden is closely connected to the number of people in work is an

important one. Both perspectives will be further developed later in this chapter.

Most of the tax reforms we recommend below have a negative income distribution effect when subjected to a traditional, static analysis: initially and when considered in isolation, they tend to widen income disparities. Our response to this is the following:

1. Our proposals in the tax reforms we recommend can be combined with other tax changes and benefit increases, with a different profile. If applied judiciously, these need not detract from the incentive effect we would like to see achieved. This approach was successfully adopted in the great tax reform of almost 20 years ago. That reform included a sharp reduction in marginal tax rates, which benefited higher income earners but which was partially offset by restricting tax deductibility. An equivalent measure in the present case might be to increase the tax take on housing in the upper cost bracket.

We support the existence of a basic allowance and a special tax allowance for people in work, which provides more in percentage terms to low-income earners. This in itself constitutes a progressive element in the tax system. Although there are objections in principle to these two elements as well – for example, under the basic allowance, two people doing the same work at the same hourly rate may be taxed at very different rates if one of them only works for part of the year – the work-first principle suggest that low tax in the lowest income brackets is advisable.

Parties in both blocs have been instrumental in tax reforms – the immediate effects of which have been negative from a distribution policy standpoint – on the grounds that these would promote greater economic dynamism and enhance competitiveness. For example, the former Social Democratic government abolished inheritance and gift tax, while the present government has rescinded wealth tax. We take the view that the tax reforms we recommend can be implemented as part of a policy with a clear income distribution approach. Precisely targeted measures can be taken to primarily benefit people on low incomes and/or with large dependency burdens. Examples include increasing child allowances, stepping up maintenance support and raising the guarantee pension. Thus we envisage a balanced reform which, while making it more worthwhile to work, will also preserve elements conducive to a reasonable outcome in terms of income distribution.

2. An important object of our proposals is to safeguard welfare funding. Kjell-Olof Feldt pointed out to the Council that all local government politicians know that an income distribution policy can be pursued on the basis of a single tax rate. Distribution policy is also profoundly affected by budgetary expenditure. Securing welfare funding, not least for high-quality education for all, is crucial to equality in all its forms. We would also point out that combating unemployment is another equality policy cornerstone.

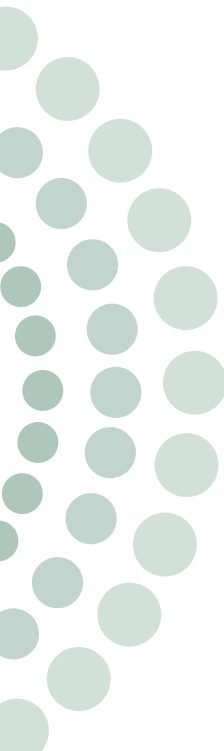
3. Our proposals should be seen in the light of the tax reforms that have been implemented in recent years, the largest of which in volume terms has been the in-work tax credit. Although the income distribution effects have varied widely, this credit/deduction has prioritised income distribution over competitiveness.

4.3 A globalised tax system

A declared aim of the tax reform is to 'globalise' the Swedish tax system, that is adapt it more closely to the challenges of the globalisation era. In our view, certain measures, such as abolition of the temporary austerity tax and reform of the '3:12 rules' are more critical than others. However, implementation will naturally depend on the political and economic situation, which is why our proposals are intended to be taken as a whole.

The reforms outlined below, intended for implementation in the next parliamentary term, will involve tax reductions in the order of SEK 28 billion.

- Abolition of the temporary austerity tax.
- Higher tax thresholds to substantially reduce the percentage of people paying state income tax.
- Reduced capital gains tax.
- Reformed '3:12 rules'.
- Simplified rules on expert tax.
- Amended rules on employee options.
- Deductibility for research donations.
- Deductions for venture capital investments.



The main object of further lowering income tax is to strengthen Sweden's ability to compete for the most highly skilled workers, mobilise venture capital for new enterprise creation and promote development of the service sector by reducing tax wedges. A target of the previous, nearly twenty-year-old, tax reform was that no more than 15 per cent of income earners would pay state tax. The Council considers that such a target is essential. In our view, the target should also apply to the proportion of the working population in full-time employment. Although the tax threshold was raised this year, the proportion of people in full-time employment paying state tax is now around 30 per cent. In the Council's view, the new tax reform should set a maximum target of 10 per cent for full-time employees liable for state tax. This would cost SEK 21 billion, calculated statically.

The Council considers that given a sound, judicious policy, Sweden can realistically expect to boost employment. The big potential in terms of jobs lies in the service sector. One of the reasons for prioritising tax cuts on labour income is the need to reduce so-called tax wedges. Individual taxation of people who perform work in the service sector has a strong effect on prices.

This formed part of our previous contention that knowledge-intensive production is the key to success for Sweden. Clearly it is not primarily household-related services that we are targeting with our tax proposals, but rather relatively skilled and knowledge-intensive parts of the service sector, such as health services, qualified training, culture, the adventure industry, design, and consultancy services etc. After weighing up a number of alternative approaches, we decided in favour of relatively large reductions in state income tax. An alternative put forward by Kjell-Olof Feldt in his report to the Council was a significant reduction in employer's social insurance contributions by discontinuation of the payroll tax paid by companies and one-man businesses. A further alternative we considered was a reduction in VAT in the service sector, taking advantage of the EU window opened up by the economic crisis. There are cogent arguments for each of these alternatives. However, we have decided in favour of a limited reduction in state income tax. The reason for our choice is that it enhances Sweden's ability to compete for the most attractive labour force, reduces tax wedges associated with labour-intensive production and increases access to venture capital.

In light of our assessment that investment levels in Sweden are too low, steps must be taken to make it more profitable to invest here.

Admittedly, the investment climate is not just a function of the tax situation. In our view, however, the need to attract investment argues for a substantial reduction in a number of taxes that continue to encumber enterprises and entrepreneurs. This applies *inter alia* to capital gains tax. On this point, the Council advocates the solution proposed by Kjell-Olof Feldt in his expert report, namely a five-percentage-point reduction. The budgetary cost of such a measure would be limited owing to a corresponding reduction in the value of itemised deductions.

Another measure would be the introduction of a deduction for venture capital. An inquiry report published in the spring of 2009 contains a proposal inspired by the example of a scheme successfully introduced in the UK involving tax credits for investment in unlisted companies. In the Council's view, this proposal should be adopted. Acceptance of lower wages in exchange for options in a company's future profits could be decisive in the development of growth companies in Sweden. The practice followed by the tax authorities is to treat personal options as income and disregard the associated risk element. When Skype co-founder Niklas Zennström visited the Council, he cited taxation of personal options as the main reason why his company was unable to operate in Sweden. The Council proposes that the regulations be changed so that personal options are no longer taxed as income from earnings.

A related problem concerns the '3:12 rules'. These specify what proportion of an entrepreneur's income is to be taxed as profit as opposed to earnings. Many entrepreneurs regard it as unreasonable to be liable for income tax on profits when they take profits out of the company. This sends a psychological signal that the Riksdag and the government do not understand the nature of entrepreneurship and that legislation is informed by an employee – as opposed to a management – perspective. The Council considers that the desire to promote entrepreneurship and encourage investment and risk-taking are grounds for reforming these rules. The Council Secretariat proposes in its report that these complex regulations be replaced by a 'proportionality rule'. Other proposals have also been put forward. The Council proposes that the system be changed for the reasons stated but has no opinion on which particular solution should be chosen.

The Council includes among its members and invited guests a number of people actively involved in the management of international enterprises. They have unanimously testified to the im-

portance of creating conditions conducive to the recruitment of top-level foreign expertise to Sweden. Our proposals to abolish the temporary austerity tax and raise the tax threshold are a step towards a solution to the problem. In addition to these changes, the expert tax system should be improved. Denmark has introduced a form of expert tax which works more smoothly than the Swedish variant. The tax reduction there applies in principle to all newly recruited foreign employees with incomes above a fixed limit, thereby significantly cutting processing times, often a crucial factor in recruitment situations. In a written communication to the government, the Swedish Agency for Innovation Systems (VINNOVA) has made a convincing case for the feasibility of adopting the Danish system in Sweden. The Council concurs with VINNOVA's view. A speedier system would hopefully solve one of the problems that have come to our notice, namely that foreign personnel who undergo long periods of training in Sweden cannot benefit from the lower tax rate.

A soundly structured, well-functioning private venture capital market is crucial to the establishment of new businesses and to the expansion of existing enterprises. In this respect, the abolition of inheritance, gift and wealth taxes constitutes a very positive development. These taxes should not be reintroduced. We believe that reducing state income tax will also help families build up savings that can be used as real venture capital for entrepreneurial projects such as start-ups launched by a family member or relation. Swedish ownership should not be placed at a disadvantage vis à vis foreign ownership.

In the following section, we return to the issues of cost, financing and economic effects.

- *Implement a new cross-bloc tax reform.*
- *Abolish the temporary austerity tax.*
- *Further reduce taxation of labour by lowering state income tax (by raising the tax threshold) so as to substantially reduce the percentage of people paying state tax.*
- *Reform the expert tax along Danish lines.*
- *Reduce capital gains tax by five percentage points.*

- *Amend the tax regime for employee options so that companies can retain key personnel at reasonable cost.*
- *Introduce a deduction on venture capital investment.*
- *Reform the '3:12 rules'.*

4.4. Effects of the Council's reform proposals on government finances and the economy

The most important aspect of this report is its basic outlook. Sweden is vulnerable and there are compelling grounds for enacting reforms that will better equip us to meet the pressures for change that have followed in the wake of globalisation. A number of proposals are set out here to illustrate the kind of reforms we believe are needed. It may well be that Sweden will need to do more than this, or that alternative measures capable of achieving the same effect might in some cases be applied. However, our task, unlike that of a government committee of inquiry, which is required to undertake detailed, in-depth analyses, is to provide an overview at a critical juncture.

Our aim is to propose reforms that will strengthen Sweden's competitiveness in the present era of globalisation while standing a realistic chance of being implemented during the next parliamentary term. If the pressure for change proves even stronger than we anticipate, it may be necessary to do more. At the same time, the tax system must be capable of performing its basic role, namely to finance public welfare and investment in a stable manner.

Several of the proposals we are putting forward have significant potential in terms of improving government finances. One example is the proposal to lower the labour market entry age by one year and raise the effective retirement age by one year. The budgetary effect of such a measure is estimated at approximately SEK 20 billion. The effect on the economy would be even greater.

The financial framework for our globalisation-related reform proposals is set at SEK 40 billion. We regard these reforms as growth-enhancing and are fully confident that they will pay for themselves. To avoid taking unnecessary risks with the government's finances,

however, we cite the statically calculated budgetary effect, and it is our considered view that they can be financed through the budget, krona for krona.

Tax reductions account for some SEK 28 billion of the stated financial framework. This figure covers a number of income distribution policy measures. Other items include SEK 9 billion to cover investment in research and education/training, and SEK 3 billion for infrastructure, export support measures, increased expenditure by the Foreign Service, and certain gender equality initiatives etc. We have proceeded on the assumption that the measures will be implemented progressively during the next parliamentary term and made permanent thereafter. The SEK 2.5 billion extension of the framework for infrastructural investment approved by the Government and Riksdag opens the way for a SEK 25 billion investment programme spread over the next ten years. This will mean an increase of just over ten per cent over the current investment programme.

According to the National Institute of Economic Research, estimated growth will create room for reform in excess of the statically calculated cost of our proposals. Should government finances worsen leaving no room for reform this will need to be created through reprioritisation. It follows from our general contention – that pressure from the outside world will be significant in the years ahead and that it will affect the most mobile tax bases in particular – that we are in favour of utilising the tax bases least affected by outside competition. These would for example include real estate and food. Recovering a portion of the tax base lost in the reform of real estate tax in 2007 could, in addition to contributing to the government's financing requirements, provide part of the solution to the income distribution problem. Also worth considering is an increase in the carbon dioxide tax. This tax base tends to be more mobile, however, and such a move should be approached with caution. Nevertheless, we assume that competitor countries will also need to raise the CO₂ tax rate to meet the emission targets to which they are already, or hopefully soon will be, committed.

4.5 Reduce the regulatory burden and shorten processing times

According to figures released by the Swedish Agency for Economic and Regional Growth (Nutek), the total cost of regulatory management is approximately SEK 100 billion. There is considerable room for improvement here. Licensing and consent procedures can be simplified and processing times shortened. Assessments of otherwise similar cases vary considerably from region to region and from one municipality to another, and appeals processes can take a very long time. This creates uncertainty, hinders entrepreneurship and discourages risk-taking.

However, it must not be supposed that regulatory simplification is problem-free. Every rule has its reasons and many are the result of committed, determined efforts in response to public opinion, or media campaigns. Examples include regulations governing fire safety, hygiene in restaurant kitchens, gender equality, environmental protection, animal protection, child safety, traffic safety, and efforts to combat tax fraud etc. The problem is that the combined effect of these and other regulations is unmanageable. The total regulatory framework leaves little room for common sense. A concerted effort to simplify the existing body of regulations is therefore vital, if for no other reason than to provide a counterweight to the constant pressure to introduce new regulations.

Moreover, EU legislation creates a significant regulatory burden of its own. Until recently, the simplification perspective did not figure prominently in the EU decision-making process. This is now about to change with the advent of the Better Regulation initiative, a commendable development.

Finding a balance between environmental concerns and corporate interests is a particular problem. A large proportion of complaints coming from the business community concern the Environmental Code. A frequently heard viewpoint is that while it is reasonable to examine company's operations, and that a balanced consideration of the various interests involved could lead to a refusal, it is hard to understand why the process has to be so lengthy. Processing times lasting several years in environmental assessment cases are not uncommon. The Council, which has singled out the living environment and nature conservation values as two of Sweden's competitive advantages, does not of course advocate a less ambitious environmen-

tal policy. On the other hand, we think that the necessary decisions should be made more quickly. It should be possible to find ways for all interested parties to have their say – and also find ways of preserving legal security for any who may be adversely affected – while at the same time ensuring that the decision-making process is speeded up. In some cases it may be a matter of restricting the right of appeal. This has become such a serious problem for Swedish entrepreneurs that the Council feels called upon to express its view on the issue.

There is also an international dimension to the issue in the form of standards of various kinds. We are not just referring to standardisation work in the EU; there is also a tendency among bigger countries to use their market dominance to set their own standards and thereby benefit domestic manufacturers. This is a new form of protectionism that could seriously impede global competition and be especially troubling to businesses with small domestic markets. Thus regulation is needed to ensure effective competition, but used in the wrong way, for the wrong purposes, it can also cripple competition.

A person looking to start up a business is usually confronted with a series of issues and problems. Examples include venture capital issues, operating licences and legal matters, in addition to a whole range of issues related to the company's specific operation. Nowadays there are numerous authorities and bodies prepared to help with these problems but their sheer number can itself be a problem, as picking the right body is not always easy. As far as possible, a concerted endeavour should be made to offer prospective entrepreneurs a coordinated 'entry' to the world of enterprise. Thus far, efforts in this direction have stopped short at assembling government and local actors on the same web portal.

- *Make the work of the Regulatory Council permanent to ensure that pressure for simplification is continually reflected in the legislative process.*
- *Integrate all licensing for start-ups, including at regional and local level, on a single eBusiness portal.*
- *Help small businesses wanting to employ staff on a temporary basis by introducing simpler procedures for routine reporting to the Swedish Tax Agency, and making simplified forms for submission to the agency available on the eBusiness portal.*

- *Ensure speedier and simpler processing of business-related matters at government agencies, county administrative boards, and municipal and county councils. Ensure speedier processing of appeals by courts and agencies.*
- *Intensify efforts to introduce an EU Patent.*

4.6 Strengthen competition

– set the service sector free!

Competition is essential from a welfare perspective; it drives innovation, lowers prices and makes for a greater choice of products for the consumer. Competition in the Swedish economy has improved over the last 10–15 years, partly due to the deregulation policies implemented in the early 1990s, but also as a result of growing trade volumes and stiffer import competition.

However, competition is still inadequate in far too many areas, partly owing to the dominance of a handful of major companies in certain markets where import competition is weak, and partly because goods and services are produced in the public sector to a greater extent than in other countries. The most serious deficiencies with regard to competition in the private sector appear to be concentrated in the construction and food sectors. These lead to inefficiencies, monopoly-like market conditions and few opportunities for the workforce to choose among employers. In a market with only one, or a few, dominant employers, some talented people will choose other occupations with better career prospects.

A particular problem in this connection has to do with the services which, in Sweden, are provided by the public sector, such as healthcare, education and social services – an area long protected by regulation or more or less statutory monopoly. Although most of these monopolies have been broken up, in practice there are many localities where all business activities are still operated by a single employer. In Sweden, the debate over private versus public operation of welfare services has been ideologically charged. The Globalisation Council is primarily concerned with two aspects in this connection. Firstly, does the mode of operation promote the best possible

quality and efficiency, so that the outcome justifies the tax burden it entails? Secondly, what mode of operation ensures that the major investments in knowledge made by Sweden in these areas can be better exploited as service exports?

The Council assumes that whichever ideological direction is favoured in the private-public debate, it is essential that the operation be run efficiently and that it maintain the highest possible standards of quality. Without taking up a position in the ideological debate, the Council considers that the alternatives which have been unfettered in sectors such as healthcare and education have yielded favourable results. It is mainly due to the interest in promoting service exports that the Council recommends that there be scope for private entrepreneurship in all major municipal service areas. In reality, it is unreasonable to expect local government departments to devote themselves to service exports on a large scale. There are a number of arguments against this; one is the unfair competition that arises if operations in the importing country are open to competition and the Swedish actor is tax financed.

The growing prevalence of social insurance throughout the EU gives Swedish clinics new opportunities to develop centres of excellence – for example, in cardiac care – capable of attracting patients from other countries as well. Swedish healthcare has the potential to offer Europe the equivalent of the specialised care available from the Cleveland Clinic in the US, which has become world-famous for providing healthcare of the highest quality to patients from many countries. However, as Professor Gunnar Eliasson discusses in an expert report to the Council, this will require us to widen our field of view and acknowledge the ongoing development of a high-technology, not exclusively national, healthcare market.

The present report makes it clear in another context that the Council is in favour of a policy aimed at countering injustices and income disparities in society. Thus it should be emphasised that what we have said here about alternative modes of operation should not imply that we are calling tax-financed welfare services into question. Safeguarding the equal right of all citizens to good quality welfare services is an important element in Sweden's equality policy.

The service sector is becoming an increasingly important factor for overall employment. We are also spending an increasingly large proportion of our income on services. The prospects for growth in the service sector will therefore be decisive for Sweden's future development. In many ways, the prospects are good. The quality

of public services is generally good and many parts of the private service sector have not only displayed considerable vitality but have also been successful in the export market. Three of Sweden's biggest companies, IKEA, H&M and Securitas, have made their mark as service enterprises. Ten years ago, the Swedish 'IT wonder' was the subject of considerable international attention, and the Swedish 'musical miracle' has long been talked about.

These examples provide an indication of how broad the measures that will determine Sweden's prospects will need to be. Sweden's municipal music schools are considered to have played a significant role in Sweden's success in the music industry. In the service sector, success is promoted by a sound cultural policy, good schools and adequate infrastructure, particularly for network services. It has been pointed out that in older societies culture was, for most people, something to be enjoyed, or consumed, in one's free time. In a service society, however, where a key skill is the ability to handle information, culture becomes an increasingly integrated part of working life.

It should also be noted that our traditional export industries have developed advanced services as a complement to their product offerings. One might say that industry, too, is now living in a service society. Anyone buying an advanced industrial product nowadays – a robot, a lorry or an airplane, for example – normally also buys a service package that includes maintenance, training and product development. The area usually referred to under the heading of 'industry-related services' will also be of crucial significance to Sweden's future.

- *Adopt tougher measures to prevent the establishment of cartels and other anti-competitive elements in the business sector.*
- *Pursue policies designed to enable private enterprise alternatives to compete on equal terms in the school, healthcare and social care sectors, particularly with a view to laying the groundwork for an expanded Swedish service export industry. Maintain solidarity-based financing of important welfare services.*

4.7 Develop a Swedish 'head office strategy'

In a globalised world, it is not uncommon for a business with operations in many countries to decide to move its head office to a new country. However, the trend in Sweden in this respect has been rather one-sided, a development which has given cause for concern. While important managerial positions have been moved abroad, corresponding relocation in Sweden is considerably less common. Head offices, where business operations are developed and overall strategic decisions are made on business localisation and resources, mean a great deal to their host countries. However, Sweden appears to be on the way to becoming a 'subsidiary company country'.

In our view, this development could have serious repercussions and Sweden should make every effort to halt the trend. Of course, we do not believe that this state of affairs is naturally ordained. There are countries in Europe, such as the UK, Switzerland and the Netherlands that have managed to retain many head offices as well as attract new ones. The bar for Sweden's 'head office strategy' should be set high; Sweden must aim to become a country that also attracts managerial positions within companies operating in many countries.

The Council would like to think that the present report will be seen as a 'head office strategy' in embryo. However, it also recommends that a special analysis be conducted of the factors shaping important decisions regarding localisation taken by multinational enterprises, and that a strategy be formulated on the basis of the findings. It is likely that a number of the recommendations we have put forward in this report will reappear elsewhere. These include more effective expert tax, no unfair treatment of Swedish holdings, and improved infrastructure, in particular better flight connections from Arlanda and Landvetter airports. The necessary decisions should be based on the 'head office strategy'.

- *Develop a Swedish 'head office strategy' and ensure that the ambition to reverse the outward flow of key managerial functions within enterprises is underpinned by measures in a range of policy areas.*

4.8 Safeguard Swedish industry

The fact that the Council emphasises the importance of an expanding service sector should not be interpreted as a lack of faith on our part in the future of Swedish industry. On the contrary, it is essential in our view that Sweden continue to have a vigorous industrial sector in order to generate export income opportunities, maintain a wide diversity of professional activities, and spread the risk during economic downturns. We believe that it is possible to retain a robust Swedish industry sector despite stiff competition from low-wage countries.

Labour costs in the 'new' countries in the global economy are a compelling argument in favour of splitting up the production chain. There are, however, forces working in the opposite direction. If we are successful in retaining the more knowledge-intensive segments of the value chain – the head offices discussed above, and components such as research, design and marketing are a few examples – the need to maintain proximity between these functions and manufacturing will sometimes outweigh the lower wage costs in other countries.

Primary industries need electricity at reasonable prices. With its mix of hydroelectric power, nuclear power and – to a limited extent – renewable forms of energy, Sweden has the potential to ensure that industries are supplied with electricity at an acceptable cost. However, the Council would like to go a step further with regard to energy policy. We believe that carbon-free electricity generation has the potential to become a major Swedish export industry. There are countries – which thanks to present-day technologies are now well within reach of Swedish electricity exports – that feel they have become too energy dependent on Russia, or whose electricity supply is very largely based on fossil fuels. It would be good both for Sweden and those countries if we were able to sell electricity to them.

It should be mentioned in this connection that Swedish companies have been extremely successful as regards energy efficiency. This not only reduces the need for energy production, it has also opened up new export opportunities. There is a very great need in many parts of the world to make energy use more efficient. The issue is also a major concern in the EU. Although Sweden has made considerable progress here from which it can benefit internationally, a great deal naturally remains to be done in this area, even in our case.

Maintaining a vigorous Swedish industry sector will call for government measures, an issue we address in part in other contexts

in the present report. Essential requirements include availability of appropriately skilled labour, secure access to energy at competitive prices, an advanced research base, speedy licensing procedures and good infrastructure.

- *Make it clear that nuclear power will be part of Sweden's energy supply for the foreseeable future.*
- *Develop carbon-free electricity production into a Swedish export industry.*
- *Develop renewable, fossil-neutral forms of energy.*
- *Continue to focus on energy efficiency and ensure that Swedish expertise in this sphere is made use of and exported to a greater extent than at present.*

4.9 Expand infrastructure

Although Swedish investment in infrastructure has kept pace with the OECD average for a number of years, there are strong indications that this is insufficient. The US economist Michael Porter, regarded as one of the world's foremost experts at analysing countries' competitiveness, stated in an appearance before the Council that the comparative head-start in terms of infrastructure formerly enjoyed by Sweden no longer exists. When the Council sought to assess these matters, it found that the available statistical data on central and local government investment in infrastructure was surprisingly sparse. If the Government and Riksdag are to have a better basis for decision-making in this sphere, statistics on public investment will need to be improved, a point also made by the Fiscal Policy Council.

Although Sweden is a large country in terms of area, it has a relatively small population. This presumably means that Sweden's infrastructural investment rate should be somewhat above the OECD average. The 'advantage' – the fact that relatively few people use the roads and railway networks – does not outweigh the 'disadvantage' of long geographical distances.

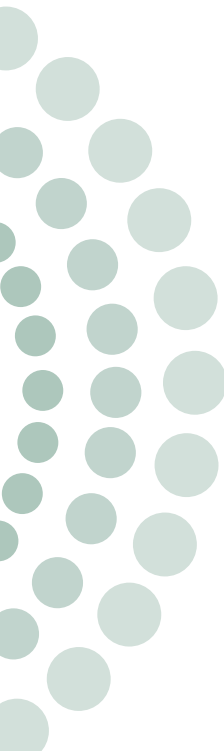
Inadequate background data apart, our overall assessment is that Sweden's competitiveness would benefit from modernisation of the physical infrastructure. Recommendations regarding the choice of specific projects for implementation are however beyond the Council's remit. The relevant decisions should be made on the basis of exhaustive economic analyses to ensure that the most profitable projects are given priority.

There is no lack of ideas and approaches on ways to improve the country's physical infrastructure. The Council has discussed the seemingly remarkable fact that in the 21st century, the roads in the triangle formed by the metropolitan areas of Malmö/Copenhagen-Stockholm-Göteborg-Oslo are still not up to motorway standard. We have also noted that there are grounds for extending the Botnia railway line north to the Norrbotnia line. The construction of a high-speed railway network in Sweden has also been discussed. All these projects represent exciting new opportunities. Although the Council notes that it cannot take up a position on the issue, it assumes that the projects will be the subject of continued analysis.

Major investment in railway infrastructure projects is now taking place. More important than many of our own projects is the Danish-German decision to build a bridge over Fehmarn Bælt. This scheme, along with the Öresund Bridge, the Malmö City Tunnel, and the tunnel under Hallandsåsen, will considerably improve overnight rail access to the continent from the greater part of Sweden. This warrants further investment in Sweden. The recently approved increase in track capacity through Stockholm is an important measure. The Botnia railway line is nearing completion.

Infrastructure also implies access to electronic communication. Here, too, the public sector has a part to play although the precise nature of that role remains to be determined. Clearly the government has a role to play in allotting frequencies and imposing certain traffic regulations etc, but there is no established model for burden sharing between government and the market with respect to network deployment, for example. In our view, the market, namely private enterprise and consumer choice, should be given the greater scope. Technology neutrality should be a core principle of regulatory policy.

The Council's proposed perspective on this issue is intended to influence views concerning the degree of government involvement. Digital information processing and the Internet together constitute the most revolutionary invention of our time. A not insignificant portion of economic growth is attributable to this new techno-



logy. Virtually all the indications suggest that this development will continue for a long time to come. A number of recent studies have shown that investment in digital infrastructure is highly profitable in economic terms. Studies have also pointed to the favourable environmental impact of broadband, which helps reduce energy consumption and greenhouse gas emissions. The fact that Sweden is among the world's leading IT countries is probably partly attributable to the tax subsidies on home computers that existed in Sweden for a number of years. Today, Sweden is one of the world's leading countries in terms of computer games design, now a multi-billion dollar industry. In the Council's view public policy should aim at making Sweden the most widely connected and advanced country in the world when it comes to electronic communication.

Sweden is well placed as regards broadband access. However, considering the importance of electronic communication to future growth prospects we should have progressed even further. It is partly a matter of ensuring that all households, including those in sparsely populated areas of the country, have the same broadband access, and of strengthening the infrastructure so that capacity and transmission speed can meet growing requirements. In the US, President Barack Obama's economic stimulus package included a substantial commitment in this area, and the Council recommends that the Government and Riksdag carefully consider whether a similar investment should not be made here as well. Another area we would like to highlight as especially important concerns our air links to the rest of the world, and, in particular, the situation at Arlanda airport. Sweden needs a major, modern, well-functioning airport capable of accommodating daily business flights between Stockholm and considerably more destinations than at present. Of course it is basically a question of traffic volume, but there is a significant risk of being caught up in a negative spiral, with low service frequencies and diminishing volumes reinforcing one another. The Government and Riksdag should make every effort to halt the spiral and above all contribute to making Arlanda airport as attractive as possible. Airplane timetables, time slots, passenger transport services to and from the airport, baggage handling and shopping opportunities etc are all factors in an airport's attractiveness. The government's handling of the state-owned airline SAS is another important factor for the future of Sweden's larger airports. Like many other international airports, Arlanda should be given a recognisable, high profile name. Sweden should make use of its most widely known 'brand name',

the Nobel Prize, and rename Arlanda the Alfred Nobel Airport. The name is 'owned' by the Nobel Foundation, which has traditionally been highly reluctant to let it be used in contexts unrelated to the prize itself. However, an exception in this case would be a commendable concession.

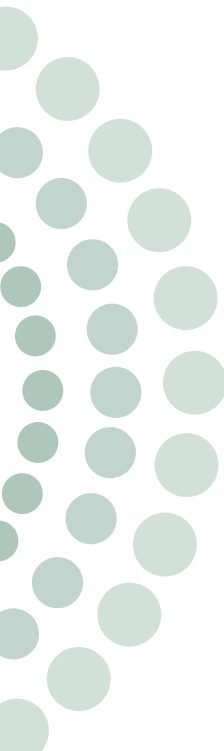
- *Invest more heavily in projects aimed at extending and improving Sweden's road and rail network.*
- *The digital infrastructure is also a crucial factor for growth. To boost capacity, increased public – as well as private – investment is warranted.*

4.10 Safeguard free trade

Sweden's prosperity has been based on its ability to sell its products and services around the world. Closed borders or high tariff barriers would inexorably damage its prosperity and welfare systems. Protectionist tendencies in the world are a major concern, not least from a national, Swedish viewpoint.

The trade policies of EU member states are being harmonised. As a member country, Sweden has always advocated a more free trade-oriented EU trade policy. Sweden and other like-minded members have been successful in some instances. On other occasions, a considerably more restrictive group of nations, frequently led by France, has prevailed.

The Council is deeply concerned that our Union is not a more forthright voice for free trade in the international arena. The big stumbling block is the Common Agricultural Policy. The Union's determination to safeguard the continued right to pay out extensive agricultural subsidies has been a complicating factor in global free trade negotiations, particularly during the latest Doha round of trade talks under the World Trade Organization (WTO). Although subsidies have been reduced somewhat in recent years, they are still extensive enough to constitute a *de facto* trade barrier. The issue takes on a special moral dimension as the competitors who are pushed out are in many cases poor farmers in developing countries.



The direction in which the WTO regulatory framework develops is one of the most decisive factors for Sweden's future prosperity. Pessimistic observers believe that the current failure of the Doha round marks the end of an era of lowering tariffs and elimination of trade barriers. Sweden's motives for countering this development are both selfish and altruistic. It is true that we stand to lose from such a development. But the biggest losers are the world's poor. In light of the fundamental values on which the Union rests, the EU should have done more to promote free trade and functioning market economies. Currently there are signs from various quarters, including the Obama administration in the US, of a growing desire to resume the Doha round and reach a new global free trade agreement. It is absolutely essential that the EU contribute to this development in every possible way.

Having said that, we would also point out that the EU constitutes a unique opportunity for Sweden to influence events and decisions in the world around us. Sweden has a long track record of active involvement in environmental issues in the EU, and the Union is currently the world's leading force for better environmental policies – which is not saying a great deal given the unfortunate absence of any real competition in this area. We share the often expressed view that the EU should lead the way in framing and implementing ambitious environmental policies. At the same time we must never forget that the environmental impact of such policies can never really be tangible until we succeed in persuading others to follow suit. REACH, the European Community Regulation on chemicals and their safe use, serves as an example. That the regulation tightens controls on the production of chemicals in Europe is an excellent development. However, if the result is that production is instead moved to other countries lacking equivalent regulations and with poorer controls, the effect can be wholly negative. This underscores the importance of efforts by the EU to promote good environmental policies in every possible context in other parts of the world.

In this connection, the Council would like to touch on a further factor which is already proving a major problem, and could become an even greater one for increased world trade in the future, namely the impact of transport on the climate. Although greenhouse gas emissions from heavy goods vehicles, ships and airplanes are admittedly not the single biggest emission sources, they are important enough to create a problem. It is important in this connection to remind people that in cases where the alternative to trade is domestic production, climate is not always the winner. A clear example is

fruit, which from a climate standpoint is normally better cultivated where growing conditions are favourable and then transported to market, than ripened in heated greenhouses closer to the point of sale.

It seems essential to give priority to measures that minimise both transport's dependence on oil and its greenhouse gas emissions. There are a number of promising projects and ideas that could significantly reduce emissions. Among those closer at hand, mention may be made of more efficient logistical systems, energy-efficient hybrid electric vehicles and increased use of renewable fuels. However, a great deal more research is required in other areas and more pilot projects need to be conducted before these new technologies can be introduced on a large scale.

- *Dare to criticise the EU's role: agricultural subsidies amount to protectionism.*
- *Prioritise efforts to minimise air, sea and road transport's dependence on oil and environmental impact.*

4.11 Reform the global financial system

An important element of free trade is trade in capital goods. Although the current financial crisis has provided examples of – to say the least – unfortunate features of the international capital market, the fact remains that the world is dependent for its continued economic development on the ability of businesses, governments and individuals to borrow and lend to one another. Unseen behind the colossal volume of daily transactions are the pension savers looking forward to a secure old age, companies waiting to be paid for goods or services delivered, investors who have staked large sums on foreign projects and, not least, governments that need to borrow to cover their budget deficits. The fact that what in its present form is a relatively young international capital market has attracted business deals of a highly speculative nature is perhaps not so surprising, all things considered. Nevertheless, it is regrettable in view of the devastating consequences. One of several insalubrious features of the capital market are tax havens – countries or parts of countries who-

se prosperity is based on facilitating illegal tax evasion and money laundering.

It is strongly in Sweden's interests that the international capital market begin functioning once more and that it does so under an improved regulatory framework. It is clear that governments have lagged behind the far more rapid integration of financial markets. There is a lack of effective control and regulation of the international capital market. A number of governments have now recognised this and are attempting to remedy the situation, inter alia through the G20. Some have in fact progressed to the point where the regulatory reforms on the table have been referred to as "the creation of Bretton Woods II". If this is indeed the case, there is still a long way to go. Nevertheless, the approaches adopted, which include strengthening the IMF's lending capacity, combating tax havens, and the introduction of early warning systems etc, are commendable.

There is a need for broad-based, international analytical efforts to understand and deal with financial fluctuations, which would appear to be affecting the global economy more severely than traditional business cycles. The truth is that our understanding of what actually happened when the present crisis broke is still limited. The Financial Stability Forum, which was established some years ago, could have an important role to play in the analytical process. A deeper insight into the workings of capital markets is crucial to our future.

- *A new international financial regulatory framework: a 'global financial supervisory authority', more teeth for the IMF, an early warning system to alert governments and the business community to the build-up of risky financial imbalances.*

4.12 Use climate change adaptation to Sweden's advantage

Transforming the global energy system will entail huge investment. Major resources are being ploughed into research on renewable and fossil-free forms of energy. All the signs are that if emission reductions of the order currently being discussed are to succeed, this will not come about as the result of a single Grand Solution but through

the cumulative effect of many smaller solutions all pulling in the same direction.

The climate issue has not been a primary concern of the Council as it is the subject of a concurrent inquiry by a government-appointed commission on sustainability. Nevertheless, climate has of course played a continual part in our deliberations. We maintained in a special report that Sweden should pioneer development of electric vehicles, primarily chargeable electric hybrids.

We consider that Sweden has the potential to sell environmental technology to a greater extent than in the past. Sweden has a good reputation in the environmental and climate spheres. We are investing heavily in research into new forms of energy and Swedish companies have already achieved international success in a number of environmental technology niches. Given forward-looking policies and continued investment in research, support for innovation and pilot facilities, and a good climate policy of its own, the industry has every prospect of continued growth in our country. Information and communication technologies also have an important role to play in enhancing energy efficiency in our society.

Although numerous examples could be mentioned, we would single out the export of knowledge and technology for sustainable transport, waste management and ecocycle solutions. The world's major cities are growing ever larger. There is talk of 'megacities' with tens of millions of inhabitants. There is a strong interest in Swedish solutions in these environments, with regard both to waste disposal and to water supply.

- *Invest in renewable energy research and pilot facilities.*
- *Turn Sweden into a pioneer country in the sphere of sustainable transport systems. Build a comprehensive network of charging stations for electric cars and continue to invest in the development of renewable fuels.*

5. Greater adaptability via a more flexible labour market

5.1 Introduction

An adaptable labour market is a key factor in boosting productivity. If the market functions well, resources can be fully exploited without this causing inflation to rise. The more people in work, the lower the country's tax rates need to be. If tax rates can be kept down – while welfare levels and sufficient scope for major investments in research and education are both maintained – this has a generally favourable effect on competitiveness.

When the degree of flexibility in countries' labour markets is assessed, Sweden tends to find itself somewhere in the middle of the European list. On the positive side, total employment – not least as a result of the high activity rate among Swedish women – exceeds that of many other countries. Also, the number of older employees who carry on longer in working life is higher, while the number of days lost to industrial disputes has remained below the European average for many years.

While the labour market in Sweden works better than that of other countries in certain respects, we cannot overlook the fact that problems do exist. Foremost among them is the fact that too large a share of the population are not established in the labour market. The 'real' unemployment rate is significantly higher than the registered rate, and includes people who have been deregistered by their employment office and people with disability pensions who are still able to work to some extent. Lasting unemployment leads to a strong sense of exclusion in society.

One aim of course is to ensure that as many people as possible feel secure in their jobs. But in the employment sphere, the term 'job security' needs to be qualified. In our present age, scarcely a single job can be guaranteed. Security is not primarily to be found in legal provisions but in our adaptability: the ability of companies to respond to crises, the ability of staff to deal with new conditions, the ability of individuals to find a new job, the ability of the employment market to generate new jobs when old ones vanish, and so

forth. In addition, of course, rules are required that guarantee non-discrimination, objectivity and union influence when dismissals become inevitable.

Thus it is a matter of simultaneously trying to reconcile the greatest possible security with the greatest possible adaptability. These goals do not necessarily conflict. A person who feels basically secure is often more willing to accept change than a person who is basically insecure. In the Council's view, much needs to be done to make the labour market work better, for employers and employees alike, and to improve the workings of the political system. All concerned have a responsibility in this respect.

- The public sector must guarantee welfare policies that are capable of providing basic security during periods of restructuring. A broad range of training courses gives the individual new chances in life. Efficient employment services match job vacancies against available labour.
- Employers need to do more to adapt workplaces to the labour actually available, not just to the labour they hope will apply for the job vacancy.
- Trade unions need to contribute to the achievement of modern agreements and flexible implementation. Individuals must assume responsibility for their own professional development, they must have real opportunities to gain new knowledge, and they must be active job seekers should they lose their employment.

5.2 Retain the Swedish labour market model – make needed changes to labour law in agreements

Under the Swedish labour market model, the social partners (employers and unions) regulate numerous relations themselves instead of this being left to the country's legislature. The model is a time-honoured one. Collective agreements had already been around for some sixty years when a law was passed regulating such practices in 1928. Step by step, the social partners themselves formulated a set

of regulations governing the labour market: the right of association, work management rules, the right to undertake sympathy action, safety work in connection with industrial disputes, and so forth. The major conflicts of the last century were dealt with by the partners themselves – the state only provided mediation on request.

What perhaps distinguished the Nordic countries – especially Sweden – more than anything else was the fact that collective relations developed within the framework of civil society, beyond the immediate reach of central government and thus largely free from state interference.

As a result of a general agreement reached in 1938, the non-involvement of government became a formal guiding principle for one and all. By that time, Sweden already had the world's strongest labour market organisations. As early as 1930, collective agreements covered 80 per cent of the country's industrial workers.

Beginning in the 1970s, however, the Swedish model gradually changed. Government legislation increased, high nominal pay rises were negotiated and an inflationary economy developed. That trend was not halted until the mid-1990s. A subsequent decision by the partners to negotiate a new general agreement reflected a desire on both sides to avoid government interference. Unfortunately, these talks broke down in the spring of 2009 without a new agreement being reached.

Today, the Swedish labour market model is under challenge in a number of ways. Since it is unusual in Europe, questions are asked from time to time whether it can be maintained in the long run, given the legal system under which the EU operates. It should also be noted that the trend in Sweden towards an increasingly knowledge-based economy makes it more difficult to determine individual wages in national collective agreements, which has hitherto been their principal task. When a larger share of the wage is determined by individual qualities, and the productivity of the individual varies more and more, it becomes increasingly difficult to arrive at collective industry-wide agreements in which pay awards apply to all. Sweden today has a growing number of entrepreneur-based companies and small businesses, while the large companies that used to dominate their particular industry during the golden age of the Swedish model are no longer as dominant. The model has, however, been adapted as the labour market has developed. Negotiations have been decentralised and individual wage settlements have been reached within the collective agreement framework.

The implications of globalisation for the labour market have been discussed around the world. One view frequently put forward, not least by trade unions in other countries, is that competition from low-wage countries will lead to fewer jobs and lower pay in our part of the world. The Council has commissioned several expert reports on these issues, and the research findings described in them do not confirm these fears. Rather, they indicate that globalisation can generate production increases and higher employment in our region. This would not only mean lost jobs being replaced but also additional jobs being created. As mentioned previously, the findings do show, however, that the pressure on wage and income spread will increase. They also indicate that pressure for change will impact not only on the low-skilled but also on occupations in many sectors exposed to international competition. This includes sectors where tasks are so standardised that they can be fairly easily performed in other countries and environments, such as certain kinds of information processing in the IT sector.

A great deal of research has been carried out into the effects both of Swedish employment policy and of our labour law provisions. The problem with this research is that it offers little guidance as to how security of employment might be reformed. One conclusion that seems incontrovertible, however, is that it is young people and immigrants who find it hardest to gain a foothold in the labour market. The situation in this respect appears to be more troublesome in Sweden than in comparable countries.

Associate Professor Per Skedinger has provided a report commissioned by the Council on the Swedish labour market model, viewed partially from the viewpoint of marginalised groups. He concludes that the Swedish model works well but that changes will be needed if certain marginalised groups are to enter the labour market.

One course of action that has been discussed involves easing the situation for young people and immigrants by exempting them from the rules governing security of employment for a year or two. During this period, the rules prohibiting dismissal without just cause, for instance, could be eased, while other rules concerning the period of notice could be left intact. Probably, however, such a course would be impossible since it would conflict with the anti-discrimination laws.

Other ways of lowering the labour market threshold for these groups must therefore be sought. The social partners have a considerable responsibility in this respect, in that they can incorporate

into their collective agreements the option of establishing starting salaries that strike a balance between the individual's need of a reasonable level of support and his or her productivity and experience. Such rules are hardly discriminatory but could facilitate labour market entry and reduce exclusion as a result.

We have also come to realise that labour mobility has a more important role than we had previously thought. In their report, *Globalisation, Labour Mobility and Productivity*, Martin Anderson and Per Tuhlin show that mobility has a favourable effect on regional productivity. Based on this insight, it appears more important than ever to consider and encourage labour mobility when formulating policies for the era of globalisation.

Employers for their part claim that the right to take industrial action is being over-exploited in the case of sympathy action and that their chances of holding on to key employees when downsizing staff are too limited, despite the 'two-person' exemption rule and despite the fact that the rules concerning who goes first can be set aside if the union consents to such a move. The labour partners argue that worker security is inadequate when employers give notice of dismissal. In addition, there is a need to facilitate labour market entry for newcomers, and the changes required by Community law must also be addressed.

In the Council's view, it would be highly desirable if these issues were to be resolved without delay by means of an agreement between the partners. Avoiding government intervention is an important aspect of the partners' responsibility and basically essential to the defence of the foundations on which the Swedish model and labour law rest. However, the Council feels that some of the issues discussed in the general agreement negotiations are of considerable importance, and strongly urges the social partners to at least settle the most pressing issues. Some of the changes are particularly important to small businesses. Exactly which solution is most appropriate is not for the Council to say, but a basic principle should be that skill and competence – assessed by means of criteria agreed on by the partners – carry greater weight when decisions are to be made on which employees are kept on when the workforce is downsized. Improving conditions for those employees given notice would appear to be a reasonable course, particularly as part of a larger agreement.

- *In the EU, Sweden should defend its right to operate a model that enables many of the issues affecting the labour market to be settled by means of agreements between the social partners instead of by legislative means – the Swedish model has shown itself to be better at combining industrial peace and security with adaptability.*
- *Within the framework of the Swedish model, changes should be introduced that both reinforce worker security at times of change and make it easier for employers to implement changes.*

5.3 Enhance security and adaptability by means of social insurance reforms centring on the work-first principle

The need for universal welfare policies is increasing in the era of globalisation. If changes in the outside world are causing pay gaps to widen in our country, this lends weight to the argument that fundamental parts of our welfare system should be financed in solidarity.

But both in the public debate and in people's minds, what is often referred to as the 'security system' needs to become a 'security and adjustment' system. In many cases, security lies in the ability to adjust to new conditions.

Everyone risks suffering a disorder of one kind or another, and some are at greater risk than others. No-one chooses their parents or their genes. We are born with different resources and this means we differ in the extent to which we are at risk – from illness, invalidity, occupational injury or unemployment. The health insurance scheme is based on solidarity and constructed in such a way that the difference in risk levels between individuals does not stigmatise weak groups in society. This is achieved by ensuring, as the scheme does, that those who run less risk of falling ill pay the same fee and receive the same benefit as those who run a much greater risk. Making participation in the scheme compulsory is crucial to the achievement of this kind of risk spreading.

The Council has discussed the Swedish social insurance system with both Swedish and foreign experts. One expert view is that the details can sometimes be as important as the principles in deter-

mining whether a particular system model works in practice. Compensating someone who loses the capacity to work is a reasonable principle, but how well the system works in practice depends on how incapacity is assessed, how high the level of compensation is in relation to pay, what responsibility the individuals themselves should have for recovering their capacity to work, and so forth. The Council's conclusion is that the Swedish welfare model basically works well and represents a competitive advantage in a globalised world, but that it contains vital elements in need of adjustment. The government inquiry into social insurance reform that has long been discussed should now be appointed.

Unemployment insurance enhances worker security in that people given notice can count on a transition period during which at least the bulk of their income is guaranteed. The present economic crisis has served as a reminder that when most of the workforce belong to an unemployment fund, this acts as an automatic 'stabiliser' that takes effect during recessions. Unemployment funds thus become a part of economic policy, which is not the case in a country such as the US, for instance, where much of the workforce lacks security of any kind when given notice. In such a perspective, the fact that even in Sweden quite a few people do not belong to an unemployment fund must be considered a problem. The members of the Globalisation Council include those who advocate a public unemployment fund, i.e. where membership is compulsory, and those who want the present model to be retained but with better terms and conditions. The Council has not been able to agree on how the unemployment insurance scheme should be further improved, but has concluded that better protection in connection with unemployment is definitely one of the issues that need analysing in any new social insurance inquiry.

Confidence in the welfare system could be reinforced if, as the result of a reform across political blocs, the system were to be made as independent, contribution-financed, stable and predictable as the national pension scheme. The 'work-first' principle must be given priority – which means that the system must be designed in such a way that it ensures people who have lost their work capacity of a good level of support while at the same time encouraging people able to work to find a job and contribute to their own upkeep. The system's character of an insurance scheme should be emphasised. The fact that many people lack affiliation to an unemployment fund is a problem that must be solved. Some form of general skills insurance

or tax-favoured savings scheme incorporating individual skills development accounts should be introduced to supplement the security and adjustment system described in closer detail below.

In a committee report, former government minister Anna Hedborg has laid a solid foundation for the kind of reform that needs implementing. She explains in detail why the constituent parts recommended by the Council are appropriate, including the insurance element, autonomy and the importance of the work-first principle.

- *Undertake a broad-based social insurance reform along the lines of the pension agreement.*

5.4 The joint agreements on security and adjustment systems work well and should be extended more broadly across the labour market

Adjustment agreements are a well tried method for adapting to new conditions where the responsibility lies with the partners. Such agreements, which began to emerge as early as the 1970s, aim to help workers dismissed due to work shortages to find new jobs by means of adjustment measures and financial support. In that the agreements and activities associated with dismissals are jointly financed by the partners, they represent an important supplement to the public employment services and unemployment insurance.

These agreements show how flexibility and security can be combined so as to serve the needs of both companies and individuals in the labour market. About two million employees – which represents about half the Swedish workforce – are covered by adjustment agreements, and thousands of job changes are financed every year.

The adjustment process works well. In 2007, the Public Employment Services found more than 820 000 jobs, which corresponds to every second job switch during an economic boom year. This means that more than 1.5 million jobs changed hands in 2007, which is a very high figure. A desirable goal is more joint effort to promote adjustment, with adjustment agreements continuing to play an important part.

- *The social partners, including municipal employers, should negotiate accords under which a greater share of the labour force would be covered by adjustment agreements.*

5.5 In parallel to – and in support of – security and adjustments agreements, universal skills insurance should be introduced

In the chapter entitled *Sweden as a knowledge nation*, we discussed the possibility of introducing individual skills development accounts as part of the process of implementing lifelong learning. We would like to return to this question in the present context as well. Since working life tends to be variable, individuals must be equipped with the tools they need to remain flexible and to constantly enhance their skills as job requirements change. An individual skills development account places considerable responsibility on employees but also gives them the opportunity to advance in their profession and to develop to the benefit of society as a whole.

In the UK, a skills development system has been established along similar lines, involving Individual Learning Accounts, ILA. It is based on the idea that the individual knows best what he or she needs in the way of skills and that the financing of such an account is a joint responsibility. By the end of the year 2000, half a million people in the UK had opened ILAs. The system is based on extensive government subsidies covering course fees, literature and materials essential to such learning.

In the Netherlands, a similar system has been in place since 2001. Employees are given subsidised training opportunities via agreements between employees, employers and educational institutions. Employers' contributions to such agreements are tax deductible.

Also since 2001, a third step in an educational reform programme in Finland provides funding to adult employees for fulltime vocational training studies. This support is designed to compensate employees for loss of income in connection with further training.

But Sweden, too, has experience of similar practices in this field.

As of 2005, the Employer Association of Swedish Banking Institutions, BOA, and the Financial Sector Union of Sweden, have had an

agreement whereby training can be provided during working hours if both sides find such a procedure justified following discussions with the person concerned.

In the graphic design sector, the Foundation for Graphic Vocational Training acts as the national coordinator for information on training and professional development issues in the industry. The foundation comprises the partners operating in this employment sector. Its assets consist of the contributions paid in by the founders to finance its activities. These contributions in turn come from money set aside from production under a special agreement. Each year, the foundation distributes funding to various projects and activities that fulfil its stated aims, including scholarships and educational grants.

Skills development savings encourage the launching of more and better training courses that suit individuals already active in working life.

We would like to see everyone in working life being able to take part in the skills development savings scheme. Few will be able to finance lengthy studies with the aid of their savings accounts, but the money could finance short courses or finance a part of a longer course. The idea is for account holders to use these funds to purchase a course, should they wish, or to support themselves during the training period.

Such a scheme can be designed in different ways. One model could involve central government not only subsidising the savings but also making state-sponsored study programmes available to more people. A skills development savings scheme also encourages mobility in the labour market.

Employers can benefit from cooperating with one another, in that more employees are then able to develop in their professions. This does not make employers less responsible for staff training – they still have to ensure that their employees receive the training they need to perform their tasks.

Another important reason for introducing a skills development savings scheme is that it would help women to progress in the labour market. Statistics show that although they are as keen as men to do so, women find it more difficult to pursue careers. This suggests that men have a greater chance than women of developing in their professions. Thus there is a risk that women miss out on career opportunities, partly because of discrimination and partly because they are more likely than men to stay home to look after children.

Individual skills development savings might be a way of compensating for this, not least in the public sector, where women dominate and where pay unfortunately tends to be lower and career openings fewer.

A system is needed that provides constant upgrading of skills and expertise to meet the rapidly changing requirements of modern working life. In a world undergoing extensive transformation, it would make people more secure if they had access to a savings account for skills development that they disposed of themselves.

Skills accounts can be designed in different ways:

- The individual himself/herself saves money and employers are encouraged to contribute financially by means of government subsidies.
 - The partners themselves agree on how allocations are to be made to the individual.
 - Deposits and/or withdrawals are tax-subsidised.
 - Savings are made deductible under the rules currently in force for private pension savings, or individuals are given the right to prematurely claim a maximum of their annual entitlement from their future pension savings account.
 - Individuals decide for themselves what kind of training the money is to be used for, and such training is not necessarily connected with their current employers' industry or specific needs.
- *Some form of skills insurance or tax-favoured savings in individual skills development accounts should be introduced.*

5.6 Invest in lifelong learning in other ways as well

Major efforts should be made to ensure that people who need training in order to cope with new tasks in working life are able to obtain it. As long as this concerns tasks at the person's present workplace, the employer is responsible for providing staff training. But if it involves a new career choice, it is the public sector that is mainly responsible for making a broad range of high-quality educational alternatives available and for contributing to the upkeep of the person concerned so that such training is feasible in practice.

The proposals concerning a skills development account or skills insurance outlined above make it easier for individuals to realise their dream of an education and a professional career.

Throughout their professional lives, people should have the opportunity to obtain an upper secondary school certificate that gives them basic or specific eligibility for higher education.

As we have stated previously, higher education must have the resources to provide a range of further training activities with both long and short courses and programmes at both basic and advanced level. It must be given incentives both to train those already practising their professions and to adapt such courses so that participation is practically feasible.

Access to places in municipal adult education for people who need such training in order to progress in their working lives or to make new career choices must be guaranteed. Excluding the kind of abuse of the system described in Chapter 3, we take the view that the existence of municipal adult education of a high standard is extremely important. People who did not complete their compulsory or upper secondary school education in younger years must have the right to do so later in life. The municipal vocational adult education and vocational higher education programmes recently launched are also important in this respect.

- *Guarantee the right to upper secondary school skills and eligibility for higher education via studies in the municipal adult education system.*
- *Ensure that places in the municipal adult education programme are available to all who require them.*

5.7 Systematic policies for reducing exclusion should be pursued

Sweden needs many new jobs at all the pay levels described in collective agreements. In the case of people deemed by their employers to be less productive, special measures are needed. Employment offices must be active in this connection. The arsenal of measures that has

emerged over the years – with different names and in different forms but basically involving labour market training, practical training and subsidised employment – has served a useful purpose and still does.

Special training courses for people already active in their professions are required at all levels, from compulsory school to university, adapted to the study needs of the individual.

Much has already been done in this respect. What are known as ‘new start’ jobs have been introduced for people outside the labour market. For people who have just received residence permits, ‘step-in jobs’ have been created. In addition, a job and development guarantee has been introduced that enables – and obliges – those who have long been outside the labour market to work.

One major problem is that the integration of immigrants is not working as it should. Here, too, certain steps have been taken to solve the problem. Swedish for Immigrants (SFI) has been given a facelift, with clearer rules and enhanced teacher skills. A new Discrimination Act has been passed. Together with the new Equality Ombudsman, whose task is to ensure compliance with it, the new law will hopefully become a powerful instrument in combating discrimination in the labour market. Hitherto, though, no radical improvement in the situation has been observed. Instead, the current economic crisis has made matters worse.

An important part of the effort to combat segregation is the in-work tax credit scheme introduced in 2007, which has enabled people living on public contributions, on benefits or on very low pay to boost their income through work.

In its initial report in 2008, the Fiscal Policy Council evaluated the part of the scheme introduced up to then. Keeping taxes down for the lowest income groups had facilitated the achievement of job policy goals in that individuals then found it more profitable to take the jobs available. A special tax credit for all who work should therefore be retained.

- *Retain some form of in-work tax credit.*

5.8 Broadening labour immigration to Sweden is a welcome development

The decision to broaden the common labour market both in the Nordic area and in the EU by giving people from non-European countries greater opportunity to come to Sweden as immigrants is a welcome development. This improves the situation in the employment market by helping to eliminate bottlenecks due to labour shortages. The effects of the model selected must be monitored to ensure that immigrant staff are not exposed to wage dumping or other detrimental terms or conditions. The Council finds it regrettable that implementation of the new opportunities for labour immigration caused political strife, since agreement on the policy objective itself seemed widespread. The objective is for foreign citizens required in the Swedish employment market by employers paying properly negotiated wages to be able to come to this country and to receive work and residence permits here.

To make labour immigration a practical possibility in the case of the most highly skilled labour, too, the 'expert tax' arrangement should be revised, as we have previously urged, in line with the proposals presented to the Government in a communication from the Swedish Agency for Innovation Systems, VINNOVA.

- *Retain the broader scope of labour immigration – ensure that abuses in the form of wage dumping and poor work environments are combated*

5.9 Persuade people to carry on longer in working life

The proportion of people in the 58–65 age group gainfully employed in Sweden is higher than in many other countries. Nonetheless, there is reason to invest considerable effort in finding ways of raising this level still higher. We should bear in mind that the countries we compare ourselves with often have a very different situation as regards women in the labour market. Also, several of them have very generous premature retirement schemes, due to concern for war invalids. But the most important reason for wishing to increase the

working population in Sweden is the demographic situation. Average life expectancy is on the rise, and the health situation for people in the age group concerned is steadily improving.

When the national pension scheme was introduced in 1913, the retirement age in Sweden was 67 and average life expectancy 58. Today, average life expectancy is 80–90, and on average people tend to retire around the age of 60. It goes without saying that this places a greater strain on the country's economy. It is true that the actual age of retirement is now rising, having previously been around 58. The new pension scheme has doubtlessly contributed to this development. But the question being asked in various quarters – for instance in the most recent long-term surveys of the country's situation – still remains: how are a declining number of gainfully employed going to support a growing number of very old citizens?

Counting from 2005, the proportion of people of working age will decline from just 59 per cent of the population to 54 per cent in 2030. The Long-Term Survey has calculated that it will not be possible to increase public activity at the same pace as demographic change up to 2020 without raising taxes unless the work patterns in sections of the population also change. After 20 years, demographic pressure increases further when the large 1940s generation has become so old that it requires elderly care and extensive medical care. We have already observed that the adverse dependency ratio will lead to an upward trend in the tax quota.

We have also considered the duty of employers to adapt their workplaces in terms of work organisation and work distribution. A 23-year-old and a 63-year-old may be equally good, but at different things. The recommendations we have made concerning efficient lifelong learning can doubtless have an impact here. In parallel with such adaptation measures, regulatory changes can also be considered. One possible solution is to raise the threshold at which pension entitlement can be claimed from the national pension scheme from 61 to 62 years of age. This change should be matched by an agreement between the social partners to consider extending the right to carry on working from the present 67 years of age to 68 or above.

The way in which agreement-based social insurance benefits are constructed should also be reviewed in this perspective. Both the previous government and the present one have given notice that an inquiry will be appointed to make appropriate recommendations. We, too, are of the opinion that such an inquiry is needed, and, as previously mentioned, we hope it will lead to a cross-bloc agreement

on a major reform of the social insurance system. One of the tasks of the inquiry should be to analyse the interface between public social insurance benefits and the agreement-based pension schemes.

- *Pursue broad-based efforts to encourage and enable people to carry on longer in working life.*
- *Increase, with a reasonable time margin, the age limits in the national pension system so that the average actual retirement age is higher.*

5.10 Increase gender equality

Combating discriminatory treatment due to a person's sex is a human rights issue. For the purposes of this report, however, it is viewed primarily as a mean of improving the labour market's functionality. If a person's skills are not exploited because of his/her sex, this is a waste of resources that reduces Swedish competitiveness. Efforts to achieve equality of the sexes, therefore, should be intensified. This is also desirable from a globalisation viewpoint.

The right to earn one's living and develop in one's profession, and the presence of efficient preschool and child care services at times when parents are at work, are the most important areas in which policy decisions are required to ensure a good gender balance in working life. In addition, the social partners have a responsibility to strive for equal pay and working conditions as a matter of urgency.

The Council wishes to primarily emphasise two ways of enhancing gender equality. In the present context, this mainly involves strengthening the position of women in the labour market. One way is to expand the service sector and thereby combat – or rather offset – the traditional gender roles that give women greater responsibility than men for the home and family. The other way is to encourage more women to advance in working life with the aid of good in-service training and further training courses.

The first approach could be encouraged by subsidising household-related services to a greater extent. The second could be encouraged by providing short, effective courses in the educational system that are specially designed to meet some of the main gender equality

problems in the labour market. These would aim to open up new opportunities for the many women who have chosen a profession with limited career opportunities and flat wage growth. Men in such situations would of course be welcome, too. Such training could include courses in management and entrepreneurship (e.g. for a nurse wishing to establish a nursing home), courses for people wishing to specialise in their particular occupation (e.g. a cashpoint assistant wishing to assume responsibility for a part of the store), or in-service training targeting a better-paid job in the same sector (e.g. a waitress wishing to become a head waiter).

- *Increase subsidies for household-related services.*
- *Encourage more women to progress in their careers by means of customised training courses.*

6. Adaptability through national unity

6.1 Sweden's consensus culture is a strength

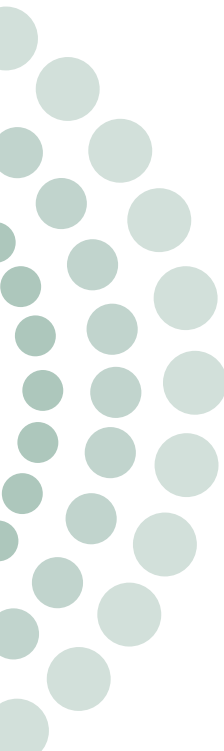
Sweden last fought a war in 1814. We have now been at peace for 195 years. Hardly any other country in the world has enjoyed such an extensive period of peace during this time. In the same way as war leave its mark on a people and how they view their own nation, the same is probably true of peace.

In a book published some years ago, historian Eva Österberg detected a Swedish tradition dating back to the 16th century of using peaceful methods rather than violent ones at times of social transition. She argued that the Swedish consensus model usually associated with the 20th century has deep historical roots. It is based on broad popular participation – by international standards – in parliamentary assemblies, parish meetings and Thing sessions.

She wrote: "The ideology that informed the dialogue between government and people alternated constantly between hierarchy and mutuality, the issuing of orders and settlement by negotiation. The peasantry sat at their places in district courthouses and parish chambers, as obstinate and resolute as union leaders at the negotiating table. For centuries, bloody uprisings, wildcat strikes and coups d'état have not been the Swedish way of doing things. (...) Swedish political culture has been less spectacular than the violent dramas of the French Revolution. A culture of negotiation rather than action. To those who relish grandiose visions, this may seem slightly boring. But it has saved lives."

What may be viewed from without as a slow-moving, formalistic trait of Swedish society has often involved building institutions for peaceful social change. Sweden has been markedly successful in coping with major transitions in the past. This is important now that globalisation has made adaptability an essential condition of growth.

The low level of industrial strife that has distinguished Swedish public life down through the years is partly due to our geographical position. The Baltic Sea has provided a natural border and a buffer shielding Sweden from large-scale military attack. We have always had plenty of territory in relation to our population.



Given our long tradition of peace, it is perhaps only natural that most Swedes appear to take a fairly relaxed view of the Swedish nation. National day celebrations tend to be muted.

To problematise this, it could be said that the absence of a strong national identity means a loss of incentive in comparison with some other countries. Swedes do not take part in the kind of 'nation-building' process found in Israel, for instance, or in countries newly liberated. A Chinese student asked why he or she is studying so hard may well reply "Because I want to help my country develop" – a type of response that is almost inconceivable among Swedish students.

Most Swedes apparently do not consider their own nation particularly important. Paradoxically, this may be one of Sweden's trump cards in the era of globalisation! A culture of peace and consensus may be a recipe for success in a world distinguished by sharp antagonisms.

Naturally, a culture of consensus has a downside. Failure to make conflicts clear or openly fight for a cause can sometimes be costly. But at times of restructuring and transformation, the ability to come together tends to be an advantage.

Sweden has long taken a favourable view of free trade and economic transition. This outlook runs through virtually all political parties, business organisations and trade unions.

One of the reasons for viewing free trade in such a favourable light is that the Swedish domestic market has been too limited to accommodate an advanced industry. The Swedish mining industry has focused specifically on exports ever since the Middle Ages. During the 19th century, a number of 'genius businesses' (matches, dynamite, separators, telephones etc) were launched that quickly celebrated triumphs in the world market.

On the domestic industrial front, however, a distinctly protectionist mood prevailed in the late 19th century and early 20th century, and there were cartelisation tendencies in many industries. The Swedish Cooperative Union and Wholesale Society did much to enhance competition at this time.

During the post-war period, the Swedish business sector consistently supported internationalisation and the attendant demands for restructuring that this involved. At least as important was the fact that the Swedish trade union movement adopted the same basic outlook.

In the mid-1930s, union organisations in Sweden began actively and systematically promoting restructuring processes in industry.

They also demanded co-determination. Gradually, the restructuring issue led to a consensus between employers and unions whereby the two sides agreed to take joint responsibility for this development. This in turn led to the 'spirit of Saltsjöbaden' and thus to fewer political disputes over industrial matters.

6.2 Equality – a policy of distribution perceived to be fair

The degree of equality that is desirable in a society is a highly controversial question in both ideological and economic terms. Most agree that financial reward is essential if a market economy is to work properly, which means that financial differences develop between people. If these differences are perceived to be unjustified and unjust, social tensions develop.

Naturally, the Council has no wish to achieve any kind of consensus on what may be the right policy balance between levelling measures and incentives in the short or long term. But we are agreed in our assessment that Swedish society must rest on a solid foundation of values and principles that regards all people as being of equal worth.

Without suggesting that it is specifically a Swedish model, there is in our part of the world a strong ambition to even out differences in people's situations in life caused by differing circumstances and conditions. This is expressed in action on behalf of people with disabilities, in the universal availability of high-quality, needs-led care on the same terms for all, in the fact that the social service is required to assist particularly vulnerable people in society, and in the requirement that schools must maintain high standards and be open to all. In our initial report, we stated that we regard the drive for equality in our country, with its relatively low class barriers and its ambition to include all citizens, as one of Sweden's strengths. The pursuit of gender equality and a highly developed preschool system has resulted in a high rate of activity among women, which has meant that we have made better use of the population's skills pool as a whole than many other countries.

But when the Nordic search for equality is expressed in terms of author Aksel Sandemose's Jante law (cf 'tall poppy syndrome'), it is

taking things too far. We need talented, entrepreneurial people and they should not have to feel they are regarded with envy or disfavour for being ambitious.

A number of the background reports commissioned by the Council have addressed the fact that globalisation may in future cause people to lose their employment and whole areas to encounter very serious problems. In his report on labour market consequences, Lars Calmfors states that the most likely scenario is that the total number of jobs will not decline as a result of globalisation but that pay gaps will widen.

Structural change always comes at a price in the short term. Physical capital declines in value and often has to be replaced by other investments. People are required to seek another job, with all the sacrifices this frequently entails in the form of retraining, a new housing location and perhaps also a period of unemployment.

If people are to accept and successfully adapt to these requirements, measures will be needed across a broad political spectrum:

- School activities for young people that provide a broad range of basic skills and equip pupils with the means to cope with changes in working life in the years ahead.
- Access to higher education for more people.
- Good opportunities for acquiring further qualifications or training for a new occupational area later in life.
- Universal social insurance and other security systems that offer financial protection during periods of restructuring. These systems must follow the individual and not be linked to a specific job. They must take into account the fact that a growing number of people both now and in the future will do their work in forms other than regular, open-ended employment.
- If Sweden is to hold its own in the face of increased tax competition, all citizens must feel they are being given value for their tax money. A high service level through the effective use of revenue, systems emphasising freedom of choice, and a clearer link between social insurance contributions and benefit are all important in this connection.

- A labour market policy that encourages mobility and does not create lock-in effects.

6.3 A strong civil society is needed to supplement the public sector

Sweden has long been a country in which many people take part in organised voluntary activities. Several of the 'old' popular movements in Sweden are experiencing difficulties at present, but we believe that a society borne up by a strong citizen commitment to ideas and to the local community enjoys an advantage.

The Swedish popular movements' contribution to the democratisation process lay not only in that they helped develop democracy as an organisational form. They also provided the 'citizenship schooling' that served as a basis for many of the political activists who would subsequently push through political democracy and staff its institutions.

This kind of civic commitment is important in an era of globalisation. Community spirit and personal responsibility are vital elements in a public-minded culture of solidarity, which in turn ensures approval and support for changes in society. The popular movements also contribute significantly to the quality of Swedish democracy in that they teach many officials and representatives to consider intricate public issues, deal with goal conflicts and develop compromises objectively and on the basis of the facts. In a media society rife with over-simplifications, personality cults, misrepresentations and artificially constructed antagonisms, the education in community life provided by the popular movements is an invaluable asset to Swedish democracy.

6.4 Immigration yields development potential – vital that integration works

Immigration to Sweden has always been with us. In fact, immigrants have contributed to Sweden's economic development in all parts of the country and in most industries. During the Middle Ages, merchants from the German Hanseatic League played an important part in developing Sweden. In the 17th century, Dutch and Walloon immigrants made significant contributions. In the 18th century, many British entrepreneurs arrived, and in the 19th century Sweden was given valuable impetus by the arrival of immigrants from many different countries.

Prior to the Second World War, immigrants were relatively few (with the exception of returning Swedes, especially from the US). During the first 15 years of the post-war period, however, an average of 25 000 people a year came to Sweden. During the 1960s, this number increased further, and in 1970 amounted to almost 80 000. In 1972, non-Nordic labour immigration ceased almost completely. In the 1970s, large groups of refugees began to find their way to Sweden, as a result of which annual intakes of immigrants were often larger than prior to 1972. During the period 1945–70, the average immigration rate was over 30 000 a year. The corresponding figure in the 1970s and 1980s was over 40 000, in the 1990s over 50 000 and in the years 2000–2006 over 60 000.

Now for the first time, Sweden became home for many non-European immigrants. The number of foreign-born people increased between 1970 and 2006 from 538 000 to 1 175 000, or from 7 to 13 per cent of the population. The number of people born outside Europe increased from 29 000 to 441 000 (2005).

The new Swedes represent an important addition to the Swedish economy in many different ways. There are at least three reasons why so many successful businesses in all parts of Sweden have been started or developed by immigrants over the years:

- Immigrants may have acquired special skills not yet available in Sweden.
- Immigrants may have an international network of contacts that can be of value, for instance, when doing business abroad.
- Generally speaking, people who leave their countries of origin tend to show greater initiative and be more prepared to take

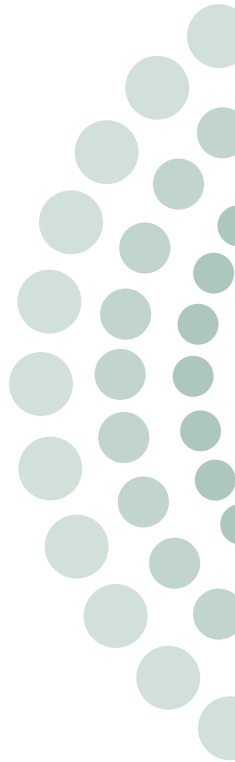
risks than those who stay in their place of birth throughout their lives.

These three factors are clearly relevant today. In a number of immigrant groups, the proportion of entrepreneurs is higher than among Swedes without a foreign background. Now that Sweden is opening up to labour immigration, it must do so in a way that makes it easier for newcomers to enter Swedish society.

However, we cannot escape the fact that hitherto, Swedish integration policy has largely failed to exploit the development potential inherent in the new Swedes. Instead, it has left large groups marginalised. This represents a major loss to the Swedish economy in the shape of lower production levels and greater dependency on public support. Indirectly, exclusion represents a risk in the form of increased social tensions. This in turn can strengthen the forces in society that are opposed to international openness and would prefer to see Sweden try to shut itself off from the vexatious adjustment demands that globalisation imposes.

But we also note that Sweden is having problems with discrimination. Systematic efforts are needed not only to promote respect for all people's equal worth and all people's right to work but in all other areas of society as well.

Sweden needs an integration policy that frees the development potential inherent in the new Swedes. In a globalised world, it is unacceptable that those Swedes who have the most experience of other countries have the fewest opportunities for development.



7. Globalisation, the nation-state and the role of foreign policy

7.1 Introduction

At the beginning of this report, we noted that globalisation reduces the importance of borders between nations. We have also noted that the current finance crisis shows up the limitations of the nation-state. When markets are integrated, a need for political integration also develops. In face of some of the threats now confronting humanity, it is not unreasonable to wish for both broad and deep international cooperation, preferably democratic in form as far as possible. The European Union is a unique project, partly supranational and partly intergovernmental, and in the current world situation it appears extremely important and relevant.

More than 99.8 per cent of the global population live in other countries. Our destiny, therefore, is largely determined by others. Our instinct for survival tells us we should do whatever we can to influence other countries and promote peace, democracy, human rights, poverty alleviation, minimal impact on the environment, and sustainable growth. This strongly suggests that Sweden should do its utmost to build bridges to other countries and people, and that we should first and foremost exploit the fantastic opportunities afforded by membership of the European Union.

Some have concluded that globalisation reduces the importance of foreign policy since it makes nation-states less important. We would like to warn against this line of reasoning. It exaggerates the weakened role of nation-states. However important supranationality may be in certain areas, and however many cooperation projects are launched, the concept of the nation-state remains firmly in place around the world. Globalisation reduces the nation-state's chances of controlling matters such as financial and economic development, particularly in a small, open economy such as the Swedish one. It is precisely for this reason that many other countries are now prioritising their foreign policy, their foreign representation, their export promotion, their campaigns to attract investments and tour-

ists, their recruitment efforts targeting researchers and students, and their general information activities in the world.

This is how the situation is in practice, and it would be most regrettable if Sweden of all countries were to choose another path.

In 2008, Sweden topped the list of the world's development aid donors. But we are not doing much to equip our aid with a Swedish flag. Sweden has a good foreign policy reputation in many parts of the world, due to our peaceful traditions. In countries where Sweden is known, we are also quite popular. But in many countries that are now of growing importance in the world, Sweden is a largely unknown and undefined concept.

7.2 Pursue an active foreign policy

In the Council's opinion, based on the premises we have had to consider, Sweden should continue to pursue an active policy and where possible intensify its efforts in this sphere. There is broad political agreement on the main features of this policy. We would like to lay particular stress on Sweden's policy for global development, in which aid and free trade are important components, our peace promotion efforts, and the fact that Sweden stands for human freedoms and rights. Even before it has begun, the EU presidency in the latter half of 2009 has given Sweden a leading role in the push for an international climate agreement, which is highly encouraging.

Sweden ought to be at the core of EU cooperation. From this viewpoint, the fact that we are not part of the euro zone is a problem. Since this issue has been settled for the time being by the national referendum held on the subject, the Council has not discussed it closely. If we are serious about wanting to belong to the European core, our leading politicians must display a greater commitment to Europe, and all our representatives must possess considerable skill and aptitude.

It is also good that Sweden is pressing for further enlargement of the EU and is seeking to improve the Union's decision-making system via the Lisbon Treaty. Enlargement of the EU to encompass additional member states is the best way to promote peace, stability and development in Europe. Sweden must also seek to strengthen the EU's role as a global actor. We should support the development

of the Union's civil and military capacity for solving crises and contributing to peace and state-building.

In the above, we have argued that Sweden needs to maintain a higher profile in certain areas. One such step involves trying to persuade the EU to revise its trade policy, which, to put it plainly, means first having to change its agricultural policy. Also, to the best of our ability, we should press for a global set of regulations and global institutions adapted to present-day conditions in finance markets. Sweden is not one of the leading actors in this connection, but in the international arena this is not always an essential precondition – cooperation with other nations and a manifest ambition to pursue issues of importance to Sweden may be at least as relevant. Together with the Nordic-Baltic countries, for instance, Sweden successfully pursued the issue of transparency in the IMF.

Swedish foreign policy traditionally includes unequivocal support for the UN. For various reasons, the UN's prestige in the world has declined. The organisation is often ineffective or incapable of any action. Regimes that oppress their citizens are being allowed to play a deplorably important role. Such shortcomings are, of course, an inevitable result of the world body's composition. Nevertheless, the UN remains the only organisation in the world capable of speaking on behalf of world humanity with any degree of legitimacy. Every effort should be made, therefore, to find ways of making the organisation more efficient while at the same time acknowledging the shift in power that has occurred around the globe since the Second World War.

From time to time, it is important to discuss what risks we run of encountering serious crises. The purpose of such discussions is, firstly, to minimise the risk of such crises occurring, and, secondly, to be well prepared should a crisis nevertheless develop.

As part of our work in the Council, we have also read a number of studies focusing on risk scenarios. They stand in glaring contrast to what we like to believe is the main scenario, i.e. the continued development of peace, prosperity and security. But things may take a different turn. Below are some of the risk scenarios presented:

- International tensions may increase and give rise to a new arms race. While the number of weapons in the world has declined, the risk of them being used has increased.
- A terrorist group could acquire and use nuclear weapons.

- Environmental disasters on the scale of the tsunami may occur, for instance as a result of climate change.
- A pandemic with much more severe consequences than the SARS epidemic of a few years ago could paralyse both travel and the exchange of goods for a considerable length of time.

Risk research shows that it is when two or three difficulties occur at the same time that the strain can become unbearable. Both the terrorist acts in the US on 11 September 2001 and the SARS epidemic had global economic repercussions, although in retrospect their impact on economies seems to have been limited. Global security systems should be robust enough to withstand the simultaneous occurrence of two or three serious crises.

- *Undertake a broad evaluation of the way Sweden operates in the EU.*

7.3 Reinforce Sweden's image abroad

Our image – the way in which we are perceived by the outside world – is an important competitive tool. It greatly influences our ability to attract tourists, investments and talented people. As mobility and integration increases, Sweden's power of attraction becomes increasingly important. Sweden's image abroad must be strengthened. On the whole, the Swedish brand – insofar as one exists – is regarded favourably elsewhere in the world. Detrimental aspects have entered the picture from time to time, but at present there are few derogatory portrayals of our country requiring counter-action. The problem is that much of the world's population has no image of Sweden whatsoever.

What image do we wish to propagate? In the name of democracy and diversity, a government incumbent should avoid stamping its own ideological mark on Sweden's image. Tax-financed information about Sweden should enjoy broad support. Given that one of the distinguishing features of Sweden's image is that it is a stable, consensus-oriented nation, assembling an image of our country and of Swedish values that most Swedes can acknowledge and endorse

should not be too difficult. A very substantial majority would doubtless support a description of Sweden as a modern, well developed, environmentally friendly, tolerant and fairly gender-equal society which holds that all citizens must have a share of the welfare cake. Also, people in general are proud that Sweden is regarded as a 'Land of Innovation', i.e. a country with a strong tradition of innovation and invention, technological development and entrepreneurship – in the latter case in the social sphere, too. Majorities shift and change, and all Swedes spending time abroad tend to be 'Sweden ambassadors' at one time or another. In light of this, credibility is best served if the message is of a kind that everyone can endorse.

It is common knowledge that market investments made when times are bad are those that pay the greatest dividends when demand is restored. The same applies to the marketing of countries.

- *Strive for a consensus-oriented image of Sweden in tax-financed information programmes.*

7.4 Strengthen cooperation with Swedish enterprise in making Sweden better known abroad

A country's reputation often rubs off on its business companies, and vice versa. Several Swedish companies with operations built on Swedish leadership and logistic expertise have been strikingly successful abroad. H&M, IKEA, Clas Ohlson, Volvo, Saab, Securitas and Electrolux are examples in point. At present, Sweden's public sector and Swedish multinationals are not cooperating to any great extent in seeking to help the Swedish business sector fully exploit a positive image of Sweden. As a parallel to the Council for the Promotion of Sweden (NSU), a consultative body should be established bringing together promotion agencies/organisations and Swedish companies. In addition, the public mandate in the trade promotion sphere should be clarified and reinforced.

- *Cooperation between the Swedish public sector and Swedish private enterprise should be strengthened.*

7.5 Reform the Swedish Foreign Service

In today's ever-changing world, Sweden's representatives abroad need to be quicker on their feet. It is no longer possible to fit public activities into a predetermined mould. Instead, Sweden's Foreign Service must be so sensitive to external variations that it modifies its behaviour of its own accord as the world changes. Today's Foreign Service must be able to see both the trees and the woods – it must have both a feel for details and the ability to see the whole picture. Knowledge is the path and understanding is the goal. Improvement in this area calls both for work reorganisation and increased resources.

Sweden invests 0.06 per cent of its GDP in the Foreign Service, which is remarkably little (although this is partly due to the fact that representation in the largest countries receiving Swedish aid is financed out of the foreign aid appropriation). This applies both in comparison with countries such as Italy, 0.11 per cent, France, 0.15 per cent, and Poland, 0.09 per cent, and in comparison with our Nordic neighbours, where both Finland and Norway, for instance, invest 0.2 per cent of their GDP in their foreign services.

There is of course no intrinsic value in having an expensive foreign service, and there must be scope for setting new priorities and instituting changes in Sweden's representation abroad, but there is much to suggest that Sweden would gain by increasing its diplomatic presence in the world to some extent. Good foreign policy relations are built on confidence and trust, which are often created by establishing a presence and maintaining it over time. By cooperating with the European External Action Service (EEAS), due to be created when the Lisbon Treaty enters into force, Sweden will be able to develop its capacity further.

- *Government and parliament should draw up a long-term, sustainable plan for boosting capacity and effectiveness in Sweden's foreign representation.*
- *Sweden should be very restrictive about terminating its representation in other countries – rather, we should consider establishing a presence in more countries and important regions.*
- *Savings opportunities should be exploited – both Nordic and European cooperation may be appropriate, as well as closer integration between the various bodies representing Sweden abroad.*

7.6 Deeper and better coordination of Sweden's public undertakings abroad

An increasingly important task is to make Sweden's public undertakings abroad more effective. The promotion of foreign trade and the closely-related promotion of foreign investments in Sweden, for instance, are handled by a number of different agencies whose work and expertise sometimes overlap. Inadequate cooperation risks making Swedish efforts in this field less effective. When the mix of projects and programmes is determined by the distribution of resources between Swedish agencies rather than by needs on the ground, there is a clear risk of suboptimisation. In addition, we risk forfeiting benefits generated by synergy. In a small country like Sweden, with relatively flat organisations and short decision-making chains, there is considerable potential for cooperation, and failure to reap the benefits of closer harmonisation is, relatively speaking, more costly. The task of central government in promoting foreign trade needs to be defined more clearly in relation to commissions from the business sector undertaken as paid assignments. The Council for the Promotion of Sweden should be given a stronger coordinating role.

- *Take steps to improve coordination both of public promotion efforts undertaken by different agencies abroad and of efforts to market Sweden as a tourist, education and investment nation.*

7.7 Promote trade in markets of interest to Sweden

Our future welfare levels will increasingly be determined by our trade relations. By tradition, Sweden's direct trade promotion efforts have focused principally on exports, but in recent years they have rapidly come to target both new ventures abroad and component imports, and thus trade in both directions. Today, many typical export companies import many of their input goods and thus act as import companies. Trade promotion efforts, therefore, should focus on both exports and imports, and the Swedish Trade Council should be instructed to establish an import promotion section in its operation.

Once the crisis is over, countries with available input capital (primarily China and the Gulf States) and labour that can be rapidly deployed in the production of services and goods will have a major advantage. In all likelihood, their economies will grow rapidly. Sweden should take immediate steps to acquire more knowledge about these countries and to establish better ties with them.

- *One of the most important trade promotion tasks should be to ensure the long-term build-up of skills and expertise in markets of particular interest to Sweden.*

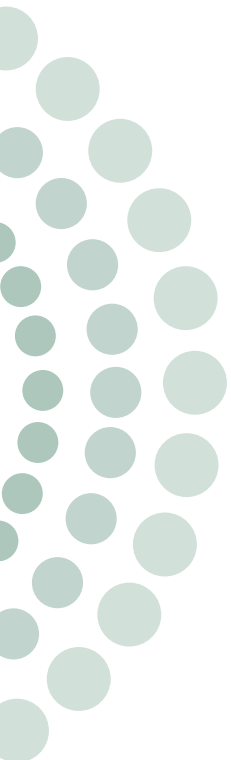
7.8 Establish lasting relations through foreign aid

Sweden has a very extensive development aid programme in comparison with almost all other countries. Sweden represents democracy and an open society, and this stands us in good stead in the eyes of aid recipients. Also, development cooperation is an excellent instrument for establishing long-term relations. Considered in this light, there is nothing wrong with regarding aid policy as an investment in future trade exchange and in the development of other commercial and non-commercial ties. Maintaining contact even after Swedish aid has been phased out is at least as important. Otherwise, there is a risk that the ties established during the development cooperation period will be abruptly severed once the country is no longer an aid recipient.

Educational cooperation should be given greater prominence in Swedish development aid. An active scholarship programme targeting gifted young people in the Third World and giving them the option to study in Sweden is of value both to their native countries and to Sweden itself, and is also an unrivalled way of establishing lasting ties. Several other countries have a more extensive scholarship programme than Sweden. Should Sweden introduce fees for students from the EEA zone, this would make a more ambitious scholarship programme essential.

- *Use development aid to send a message of freedom and democracy, freedom of expression and gender equality.*

- *For a transitional period, development aid could be used as a means of maintaining long-term ties with countries that are no longer aid recipients.*
- *Increase the educational share of development aid by expanding the scholarship programme.*



8. Best possible means of support

8.1 Supporting decisions in the era of attraction policy

The background to this chapter is the growing demand for up-to-date information about the external policy environment that increasingly complex developments in the world place on political leaders. The Council has discussed the role of politics in the new landscape created by the globalised economy. Since in our view most people have hitherto underestimated the power of globalisation, we consider that in the case of a small, open country like Sweden it is fair to say that the role of politics has undergone something of a paradigm shift. If we were to describe Swedish history with a few, brief strokes of the pen, politics in the last century mainly involved distributing the welfare that rapid industrial growth generated. In those days, economy policy largely involved parrying fluctuations in the economy. That was followed by a period in which growth declined and inflation and the budget deficit both grew. This gave rise to normative policies, and one of the main tasks of government was to create and maintain a stable macroeconomic environment with low inflation and a budgetary balance. Both these tasks are still with us. But in the Council's view, there is a third, equally important government role that must be brought to the fore in the era of globalisation. It is developing in an age and in an environment when virtually everyone and everything can freely leave the country. In this situation, there is a growing need for an attraction policy, i.e. for measures that make Sweden as attractive as possible for dynamic, innovative forces prepared to operate here and develop in Swedish environments.

In the current competitive environment, it is more important than ever to know and understand what is happening in other parts of the world. This means that those who make the kinds of decisions that largely determine how Sweden fares must be able to count on well-informed support. Naturally, we have no idea what Fredrik Reinfeldt and Mona Sahlin read, or how they otherwise obtain their information about the contemporary environment, but via research, the memoirs of previous leaders and generally accessible informa-

tion, the picture emerges of a decision-making structure that in our view needs discussing.

The current organisational setup at the Swedish Government Offices has evolved gradually but has basically remained unchanged for over a century. The changes seen in recent years have involved the employment of considerably more staff to deal with media and EU issues. The latest major change was the introduction of a crisis management department, partly in response to the way the tsunami disaster was handled at government level.

Each government must of course ensure that it is kept informed about what it needs to know in order to make the right decisions. The amount of information reaching key decision-makers may be either excessive or insufficient. We believe it is important to begin discussing whether the organisation currently built up around Sweden's state leadership fully reflects what is needed in terms of information about the external environment.

We are well aware of how much the country's top political leaders have already achieved. They have won internal party elections and they have won general elections. This alone proves that they have access to large quantities of reliable information. We are also aware that there are only 24 hours in a day, for all of us. This, in fact, is the point we are trying to make. In our view, structural changes are needed at government and parliamentary level to ensure that our politicians – in the time available to them – have access to reliable information on important developments in the world, developments that are by no means always reflected in the Swedish media.

Most heads of government are briefed daily by their countries' intelligence services about current events around the world. But does the Prime Minister get a monthly review of important developments in the research field? Is the Prime Minister regularly brought up to date by experts on underlying trends in the world that affect competitive conditions, the actions of major companies and underlying security policy currents? In other words: Are our top politicians devoting enough time to absorbing information about long-term problems?

Our feeling – supported by different kinds of information available to us – is that some of these important issues, which are often of a more long-term nature, systematically fall outside the daily government agenda.

Strengthening crisis management capability was a good idea. The expanded policy intelligence function we propose is related to

crisis management, but focuses more on preventing crises than on managing them once they have developed.

We realise that top politicians have to spend a great deal of time dealing with acute issues and crises, and planning the next election campaign etc. But it is precisely to fit the long-term issues into a realistic schedule that the structural question needs discussing.

Was former prime minister Tage Erlander using his time well by chairing the National Research Committee he set up? If not, by what other means are his successors getting access to the same information? Was the Danish prime minister of the day wise to chair his country's Globalisation Council? If this is not thought to be the case in Sweden, how does his Swedish counterpart obtain the same information? Was the Finnish prime minister using his time well by chairing his government's Research and Innovation Council? If this is not thought to be the case in Sweden, how does his Swedish counterpart obtain information about what is happening in important industries such as telecom and pharmaceuticals, and about what strategic initiatives are under way in competing countries?

Hitherto, we have focused on the Prime Minister's role in the decision-making process and on the construction of the Prime Minister's Office. The other major coordinating force in a government is the Ministry of Finance. In the Council's view, the analyses, priorities and actions of the Finance Ministry, too, must be informed by an awareness that attraction policy is becoming increasingly important for the Swedish economy and for growth.

8.2 The Globalisation Council – and then?

For the past two years or so, the Globalisation Council has sought to advise the Government in a complex, ever-changing world. The Council has had an unusual composition, incorporating both government ministers and others, and this has given rise to questions about its constitutional position. The model was partly copied from Denmark, where however the corresponding body was headed by the country's prime minister. In the interim reports provided by the Swedish Globalisation Council, the ministers chose different approaches – in the first, they dissociated themselves by means of a separate statement of opinion from the detailed proposals and

the sums specified, but gave their backing to the three subsequent reports. The outside world has asked whether, in view of the presence of several ministers, the Council's recommendations reflect government policy. The same question was asked in connection with the findings of the Oil Commission, which was headed by the prime minister of the day, Göran Persson.

The fact that governments in Sweden and many other countries have sometimes tested unconventional working methods illustrates the difficulty of arriving at the best possible decisions in a structure that tends towards strong territorial rivalries. All governments throughout the world have ministries. When issues affect more than one ministry, there is consultation. In day-to-day business, this usually results in a reasonable balance being struck between detailed insight and general overview. But when more profound changes in society are to be achieved, territorial divisions can sometimes be an insurmountable obstacle. Decisions may be optimal for each separate structure but when no-one has the strength to effect decisions across structural lines, they are 'suboptimised', i.e. they are insufficient from the perspective of the whole.

The problem is a complicated one, and political scientists all over the world have tried to find ways round it. The Council commissioned an expert report on the subject from Professor Tommy Möller and Magnus Erlandsson (PhD). It concerns democratic core values. On the one hand, voters have the right to expect that the leaders they choose have the best instruments at their disposal for the task of governing the country. On the other, they also have the right to expect that the leaders carry out in practice what they promised to do prior to the election, when they may have lacked access to the supporting information available to those actually in government office. Another problem is the ministers' work situation. Ministers tend to be over-burdened with the drafting of government business, cabinet meetings, parliamentary group meetings, parliamentary question time, travel, workplace visits, contact with agencies and the media and so on and so forth. Matters that those around them insist must be dealt with take priority over long-term matters that ought to be dealt with.

The above-mentioned report presents proposals aimed at reinforcing the structures that promote long-term thinking. One of the proposals is for a Futures Committee to be established in the Riksdag, as in the case of Finland. The Council supports this proposal. A Riksdag that is pro-active in tackling the kinds of future issues of

importance to Sweden that the Council has concerned itself with would help ensure that governments, too, attach sufficient weight to such matters.

In our opinion, the political system in the modern world not only needs better support for its decision-making than has previously been available but also needs to develop more work forms that cut across territorial lines. In an era of globalisation, government offices must think strategically and take initiatives. Anyone who has worked in or around a political environment knows that it is common practice for people or groups to seek acceptance for 'their own' issues or solutions, and that this frequently leads to a compromise whereby everyone gets something. In many cases, this system works well. But sometimes it has to supply decisions that results in a few getting plenty and others being bypassed. The system must also be able to deal with the fact that in certain cases important issues fall more or less permanently 'between two stools'. An example in point already noted in the above, and where those actively involved perceive a problem, is that of clinical research. Three ministries are directly affected – the Ministry of Health and Social Affairs is responsible for the clinics, the Ministry of Education for the research itself, and the Ministry of Industry, Employment and Communications for the innovation environment that will exploit the results. In such cases, 'ministerial committees' appointed by the Prime Minister might be a solution. This approach has worked well in both Finland and Denmark.

In our view, the Prime Minister – and the party leaders in coalition governments – needs to be briefed more regularly on developments in the outside world as regards both the competitive situation and research findings of particular interest. But since as a general rule politicians are required to put into practice what they promised while in opposition, other parliamentary parties, too, must be given a better chance of developing well-founded positions in their motions and platforms.

- *Develop a better policy analysis function and policy intelligence operation at the Prime Minister's Office.*
- *Give the parliamentary party leaders access to the same kind of information.*
- *Establish a Futures Committee in the Riksdag.*

Annex 1

The work of the Globalisation Council

The Globalisation Council has had twin goals: to produce political recommendations designed to strengthen Sweden's competitive power and attractiveness, and to provide an arena for dialogue with a view to broadening the public discourse and deepening awareness of the effects of globalisation.

The Council worked for almost two and a half years. During this period, it produced a number of reports of its own and also commissioned many expert reports. Among the publications that have received most attention is our first interim report, Knowledge-Driven Growth (*Kunskapsdriven tillväxt*, Ds 2007:38). It was presented at the time of the Government's Research Bill and focused primarily on scientific research. One of its proposals was that central government funding of civil R&D should be increased to one per cent of GDP by the year 2012. The report also offers a preliminary account of what the Council considers to be Sweden's strengths and weaknesses. In a report entitled Make Sweden a Pioneer in Electric Car Production (*Gör Sverige till ett elbilens pionjärland*, Ds 2008:43), it calls for substantial investment in electric cars, an area in which Sweden has every chance of holding its own in the face of international competition. The Council has also concluded that there is a considerable risk Sweden will experience a shortage of engineers in the future, and in its third report, Measures for Enhancing Interest in Engineering (*Insatser för att öka intresset för ingenjörsvrket*, Ds 2008:10), it launched the idea of a special campaign to boost interest in engineering as a profession. Shortly thereafter, the Government appointed a Technology Delegation. Its aim is to make children and young people more interested in mathematics, science, technology, and information and communication technology (ICT). The Council has also published a report on Sweden in the World (*Sverige i världen*, Ds 2008:82). There, it notes that Sweden is virtually unknown in China and India – countries that appear likely to dominate the world economy over the next few decades. Consequently, it urges action to improve Sweden's image. The report also contains

proposals on how the workings of the Ministry for Foreign Affairs might be reformed so as to be more in tune with the times.

As part of the Council's work, 36 background reports have been commissioned, primarily from researchers but also from government agencies and other actors with a close understanding of globalisation, what drives it and what effects it is having or may have. The purpose of these expert reports has been to provide data for the Council's final reports. Besides the 36 background reports, eleven working papers and six agency reports were commissioned. Three external research coordinators – Tomas Andersson, President of Jönköping University, Håkan Gergils, Ecofin, and Professor Fredrik Sjöholm of Örebro University – have worked with the secretariat in assembling nine reference groups of experts who have followed the development of the various publications. In addition, the Council has had access to an advisory board whose task has been to examine background reports for quality, to present ideas and suggestions as to how the Council might best proceed in its work, and to broaden its network of contacts.

An important part of the effort to widen the debate on the globalisation issue has been a series of conferences targeting a broad audience. Conferences have been organised from Malmö in the south to Haparanda in the north, attended by both Swedish and international experts, as well as by ministers and others. In addition, the Globalisation Council has cooperated with a number of relevant actors around the country, including the Danish embassy, the Fourth Metropolitan Region, Färgfabriken, Global Challenge, the Stockholm School of Economics (IFL Executive Education), the municipalities of Jönköping, Kalmar and Karlstad, Karlstad University, the Västerbotten County Administrative Board, the Council for the Stockholm-Mälars Region, Umeå University, and the Swedish Inventors' Collegiate.

Finally, besides this final report and the secretariat's summarizing of the background reports, the Council's work has resulted in the following:

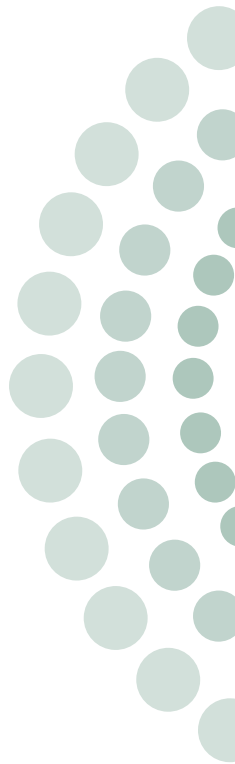
- 4 Council reports
- 21 Council meetings
- 33 background reports
- 5 agency reports
- 12 working papers

- 9 reference groups
- 25 conferences
 - 9 Globalisation dialogues
 - 13 Globalisation lunches
 - 6 Globalisation duels
- 2 seminars in Almedalen
- 1 essay competition

The Globalisation Council has comprised the following members:

Lars Leijonborg	Council Chair, Minister of Higher Education and Research
Kristina Alsér	County Governor, Kronoberg, former CEO, Mercatus Engineering AB
Hans Bergström	Associate Professor of Political Science, journalist, former Editor-in-Chief, Dagens Nyheter
Carl Bildt	Minister for Foreign Affairs, former Prime Minister
Urban Bäckström	Director General, Confederation of Swedish Enterprises, former Governor of the Riksbank
Lars Calmfors	Professor of International Economics, Chair, Swedish Fiscal Policy Council
Per Carstedt	Chair, BioAlcohol Fuel Foundation, former CEO, Sekab
Dilsa Demirbag-Sten	Journalist and author
Anna Ekström	Chair, Swedish Confederation of Professional Associations (SACO), former state secretary, Ministry of Industry, Employment and Communications
Sven Otto Littorin	Minister for Employment, former Party Secretary, Moderate Party
Wanja Lundby-Wedin	Chair, Swedish Trade Union Confederation (LO), European Trade Union College (ETUC)
Karin Markides	President, Chalmers Institute of Technology, Professor of Analytical Chemistry

Elisabeth Nilsson	CEO, Jernkontoret, mining engineer
Aina Nilsson Ström	Design Manager, AB Volvo
Sture Nordh	Chair, Confederation of Professional Employees, former state secretary, Ministry of Employment
Mats Odell	Minister for Local Government and Financial Markets, Second Deputy Chair, Christian Democratic Party
Maud Olofsson	Minister for Enterprise and Energy, Deputy Prime Minister, Chair, Centre Party
Carl-Henric Svanberg	CEO, Ericsson, engineer
Lena Treschow Torell	President, Royal Swedish Academy of Engineering Sciences, Professor of Physics
Harriet Wallberg-Henriksson	President, Karolinska Institutet, Professor of Physiology
Marcus Wallenberg	CEO, Skandinaviska Enskilda Banken, CEO, International Chamber of Commerce
Olle Wästberg	Director General, Swedish Institute, former Consul General, New York



Annex 2

Special statements of opinion

Urban Bäckström

The undersigned endorses the main tenor of the report. Thus I agree with the report's conclusion that questions concerning how Sweden is to improve competitiveness and strengthen adaptability must once again be given the highest priority. There may of course be some aspects with which I am not in full agreement.

In this statement, however, I would like to address two conclusions that I do not share or which I do not consider to be sufficiently far-reaching to improve competitiveness and strengthen adaptability.

1. Section 4.3, *A globalised tax system*, discusses the need to reduce state income tax. The principal reason for this is to improve Sweden's chances of competing for the most highly skilled labour, to mobilise venture capital for new enterprise, to encourage the development of the service sector by reducing tax wedges, and to boost employment by offering better incentives.

The method proposed – raising the threshold successively – is in my view too slow, not least in light of the current global trend towards rapidly declining marginal taxes on work. Seven EU countries, for instance, have already introduced a system of proportional income taxation. A more ambitious target than the one proposed by the Globalisation Council should therefore be set. State tax should be gradually eliminated altogether. Besides having the favourable effects that I have outlined above, such a move would eliminate the need for the special rules of various kinds either already present in the tax system or now proposed by the Globalisation Council. I am thinking, for instance, of the '3:12 rules', of expert tax and of new rules for employee options etc.

2. In Section 5.2, *Retain the Swedish labour market model – make needed changes to labour law in agreements*, agreement-based solu-

tions are recommended in preference to legislative solutions in the labour law sphere. This is basically a correct approach and should serve as a starting point for the changes required.

At the end of the section, both the order of selection for the termination of employment and the rules governing industrial action are discussed. The partners are urged to settle these issues in their agreements. Today, this approach looks unrealistic. The fundamental differences that emerged during the general agreement negotiations over the extent to which the partners were prepared to make changes in the rules governing order of selection and industrial action – and over the need for such change – suggest that this way of tackling the problems will be unproductive for a long time to come. The report should clearly state this, and conclude that accordingly it is now up to the legislature to take the necessary steps.

Lars Calmfors

I support the main tenor of the report. I would like to point out, however, that it covers so much ground and contains so many detailed proposals that it has often been impossible to prepare the latter to the desired extent. The work of the Globalisation Council thus differs considerably from that of a regular government inquiry, where the consequences of proposals tend to be analysed more closely. One reason for this is that the work of the secretariat and of the Council itself has at times been pursued along different tracks, which means that some of the Council's positions have not been based on solid analysis on the part of the secretariat. The fact that I endorse the main tenor of the report does not mean, therefore, that it has been possible to adopt a position on all the detailed proposals. This is not to say, however, that very valuable analytical material has not been produced in the course of the Council's work. The following are two examples of insufficient supporting data:

1. The report contains a number of proposals concerning for instance lower capital income tax, venture capital deductions for unlisted companies, new '3:12 rules' and increased deductions for household-related services. It is difficult to take a position

on these proposals without having access to more extensive supporting data. The same applies to some extent to the proposals concerning the abolition of the temporary austerity tax and the lowering of state tax, but here we know from other research that substantial gains in efficiency can be achieved, although at the cost of a less even distribution of income. In my view, therefore, these changes in the tax system can reasonably be made in the long term.

2. The proposal to introduce skills development savings accounts should have been based on more extensive analysis. One reason is the current academic debate on the risk of over-education. There is a danger that skills accounts might reinforce such a tendency. To offset this risk, it seems advisable to design a skills savings scheme in such a way that private individuals can choose to either use these savings for educational purposes or to use them to supplement their pensions. There is clearly a need for further analysis in this area.

Sture Nordh

The Confederation of Professional Employees (TCO) proposed early on that a Globalisation Council be set up to provide a forum where a consensus could be sought on the challenges facing Sweden as a result of increased economic integration at global level.

We could see how increasing globalisation was bringing growing competitive pressure to bear on jobs and welfare. The TCO pointed out that cohesive policies were needed to enhance security in the working population during the restructuring process, which would strengthen corporate flexibility and facilitate a smoother transformation of both the labour market and the economy. From our viewpoint, the Globalisation Council has been an excellent forum for achieving consensus on these challenges. It has broadened our store of knowledge in general and presented a number of important analyses.

I support the majority of the proposals and positions outlined in the final report, and would like to emphasise the following in particular:

- The Council unanimously believes that Sweden's ability to adapt will determine how competitive we are in future.
- We come out in favour of introducing skills development accounts or insurance as a priority move to enable the adult working population to develop professionally and acquire further training.
- The Council stresses the need both for further steps to promote research and for improvements in higher education, in terms of both quality and quantity. More people must have access to university training.
- In the fiscal policy sphere, the Council priority is a long-term, cross-bloc agreement involving changes in income tax, the aim being to better reward fulltime work and training.

There are also some unclear points in the report, and parts that I am critical of and which I cannot endorse:

- In reference to labour law and the system of social partners in the labour market, there are sections of text and proposals that show the Council is completely on the wrong track. This applies for instance to the argument that the Security of Employment Act must be changed, but also to the fact that the position taken by the Council in its report implies that the partners' responsibility for developing and renewing the regulations on terms and conditions in the labour market should be subject to appeal. I believe unequivocally that the partners are fully capable of agreeing themselves – in their collective agreements – on how a reasonable balance between flexibility and the employees' need of security can be combined with growth and labour market renewal. What policymakers can do to promote such a development is to stay away from this sphere and make clear that it will not be exposed to any legislative changes. The report is mistaken in disputing the capability and legitimacy of the partner system.
- The Council states that our future competitiveness will depend on our ability to adapt and that unemployment insurance is an important aspect in this connection. But the Globalisation Council fails to clearly advocate raising the unemployment ben-

efit ceiling as a way of ensuring that employees enjoy good security of income during the jobless periods that the transition will inevitably lead to from time to time for an increasing number of people. A high standard of unemployment insurance is the best means of persuading more people to insure themselves voluntarily.

- In the fiscal sphere, urgently needed reforms must be combined with the tax system's basic task, i.e. to provide stable financing for such things as public sector activities, good terms and conditions for skilled employees, robust social insurance, and, not least, the kinds of measures that will now be needed to combat the economic crisis. These must take precedence over the reorganisation of taxes. The economic crisis may otherwise have serious consequences, not least the possibility of a weakened labour supply in the post-crisis period.

Wanja Lundby Wedin

I found work in the Globalisation Council a stimulating experience. In that it brought together so many different stakeholders in Swedish public life, it has probably helped to make us all more knowledgeable. In my case, anyway, it has proved valuable.

However, a problem for me is that the final report as drafted contains so much that is not in line with the positions of my organisation, the Swedish Trade Union Confederation (LO), and with the need to preserve the Swedish model. Although it includes excellent descriptions of things like infrastructure, pro-environment measures, lifelong learning and reformation of the finance system, there is too much that separates us.

Unfortunately, I have been unable to attend the most recent meetings, but the written views on the report that I submitted have been largely ignored. This applies to a number of issues, but allow me to mention some important areas where our differences of opinion are far too great.

- *The view taken of the labour market's structural problems and demand problems*

The impact of the global finance crisis necessitates reforms in the financial sector, but in order to deal with the crisis in the real economy, measures of a completely different kind will be required. A substantial drop in demand must be met by finance policy incentives introduced at an early stage, not by structural reforms.

– *Lower wages for the less productive, as an employment incentive*

The crisis is not a cost crisis and wage cuts are no way to boost employment, as the LO sees it. This proposal widens the gaps in society. To mention a couple of the alternatives, we can prevent unemployment from rising and stimulate labour demand by giving the municipal sector greater economic resources, and we can boost employment by means of a more substantial deduction to property owners for building repairs, maintenance and improvement.

– *The need of security of employment, including changes to the Employment Protection Act*

The passages about security of employment are defective and give a misleading picture of how the Employment Protection Act works. This applies for instance to the calls in the report for action that would seriously undermine the law. Also, it conflicts with the views expressed in the document that changes are best managed through agreements between the social partners. The LO believes in the partners' ability to address the need for flexibility and professional development themselves. The picture painted in the report may lead to the conclusion that agreements between the partners can be legitimately subjected to appeal if they happen to conflict with the policies currently pursued. The views expressed concerning the role of the agreement system in relation to that of the legislative body can only undermine the legitimacy of the partner system.

– *The shift towards giving the social partners greater responsibility for adjustment agreements (which would reduce central government responsibility in this respect)*

The partners can contribute to labour market policy by means of supplementary measures at an early stage, but we cannot take over responsibility for it, nor do we wish to. The report pays too little attention to central government's responsibility for ensuring that the work-first principle is efficiently pursued and that the requisite institutional conditions are established.

– *Individual skills development savings accounts*

The report contains some good passages on the importance of life-long learning and skills insurance, but the LO is firmly opposed to the idea of basing such learning on the individual's own ability to save money for his or her own professional development.

– *Taxes*

This section reflects a totally new view of the tax system's priorities and effects, not least in arguing that reduced income tax would boost employment.

– *Unchanged tax credit for those in work*

The LO has made clear its support for a system of just and equal taxation. We take the view that pay, income from insurance benefits, and pensions – which are a form of deferred pay – should be taxed equally. Thus the LO opposes the in-work tax credit scheme.

– *Unchanged rules for labour immigration*

The LO's basic position on labour immigration is that individuals need protecting against discrimination. The Globalisation Council has expressed its support for government policy in this respect. In our view, those who are in a weak position in the labour market thereby risk being exploited.

– *Unemployment insurance*

The Council states that our future competitiveness will depend on our ability to adapt and that unemployment insurance is an important aspect in this connection, yet it makes no proposals as to how the system might be improved. There are two things that are crucial to the proper working of the unemployment insurance system. One is to ensure that the great majority of wage-earners are insured, which means lowering contributions to unemployment funds so that more people can join them. The other is to raise the benefit ceiling so that the great majority of wage-earners can enjoy good income security in the event of unemployment.

These are my foremost objections. There are other, less obvious ones, where the issues are open to differing interpretations.



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