

How Competitive is the Social Market Economy?

May 19, 2011

Swedish Minister for Finance Anders Borg

Agenda

- Europe's different social models and their performance
- The Swedish case
- The challenges ahead

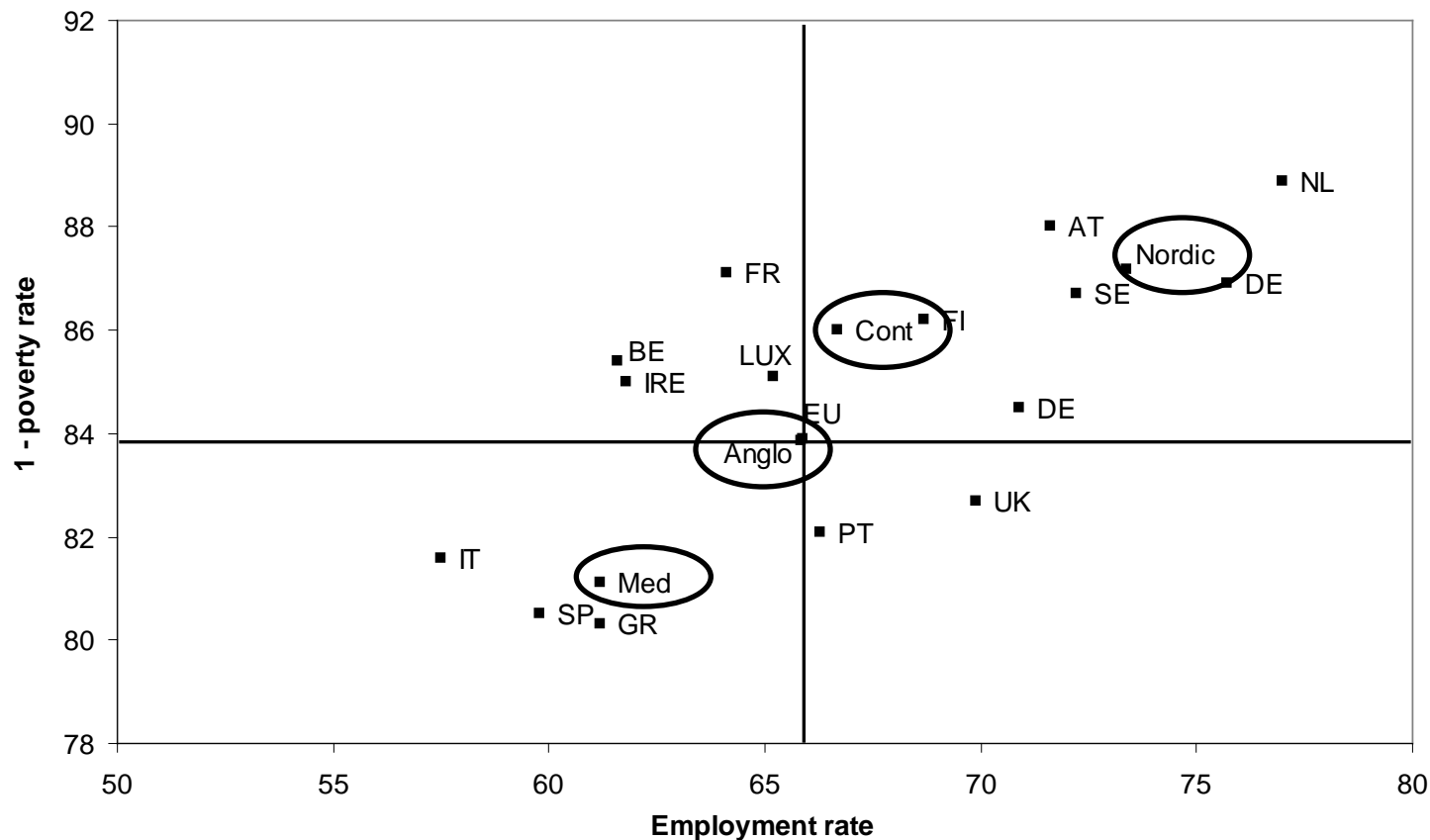
Europe's different models

- **Four distinct models (André Sapir's typology)**
 - Nordic: Sweden, Denmark, Finland, Netherlands
 - Rhineland/continental: Germany, France, Austria, Belgium, Luxembourg
 - Anglo-Saxon: Ireland, UK
 - Mediterranean/Southern European: Portugal, Greece, Italy, Spain

Sapir's study updated: Nordic model still performs best on equality and efficiency

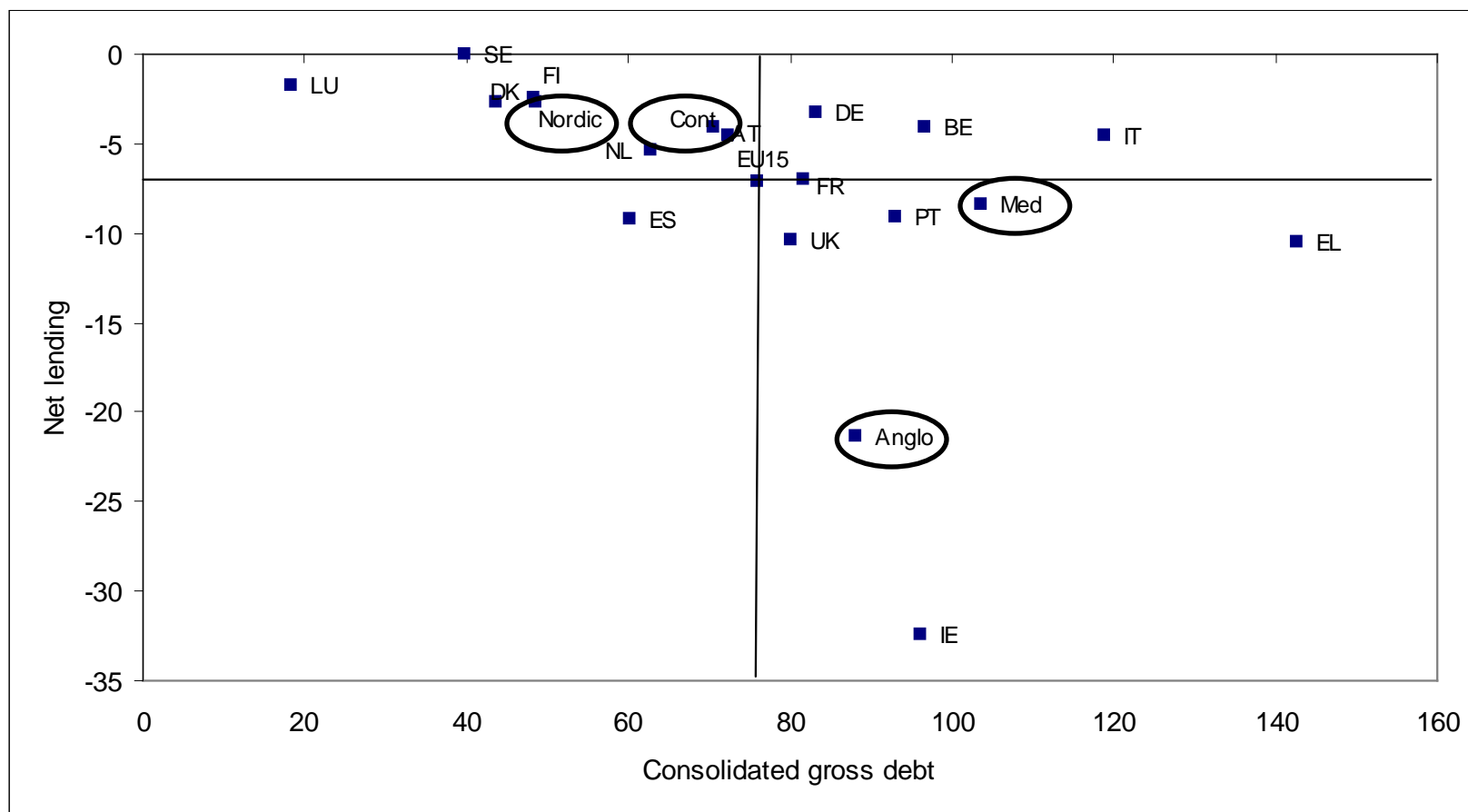
Employment rates and probability of escaping poverty in European Social Systems 2009, %.

Source: Eurostat



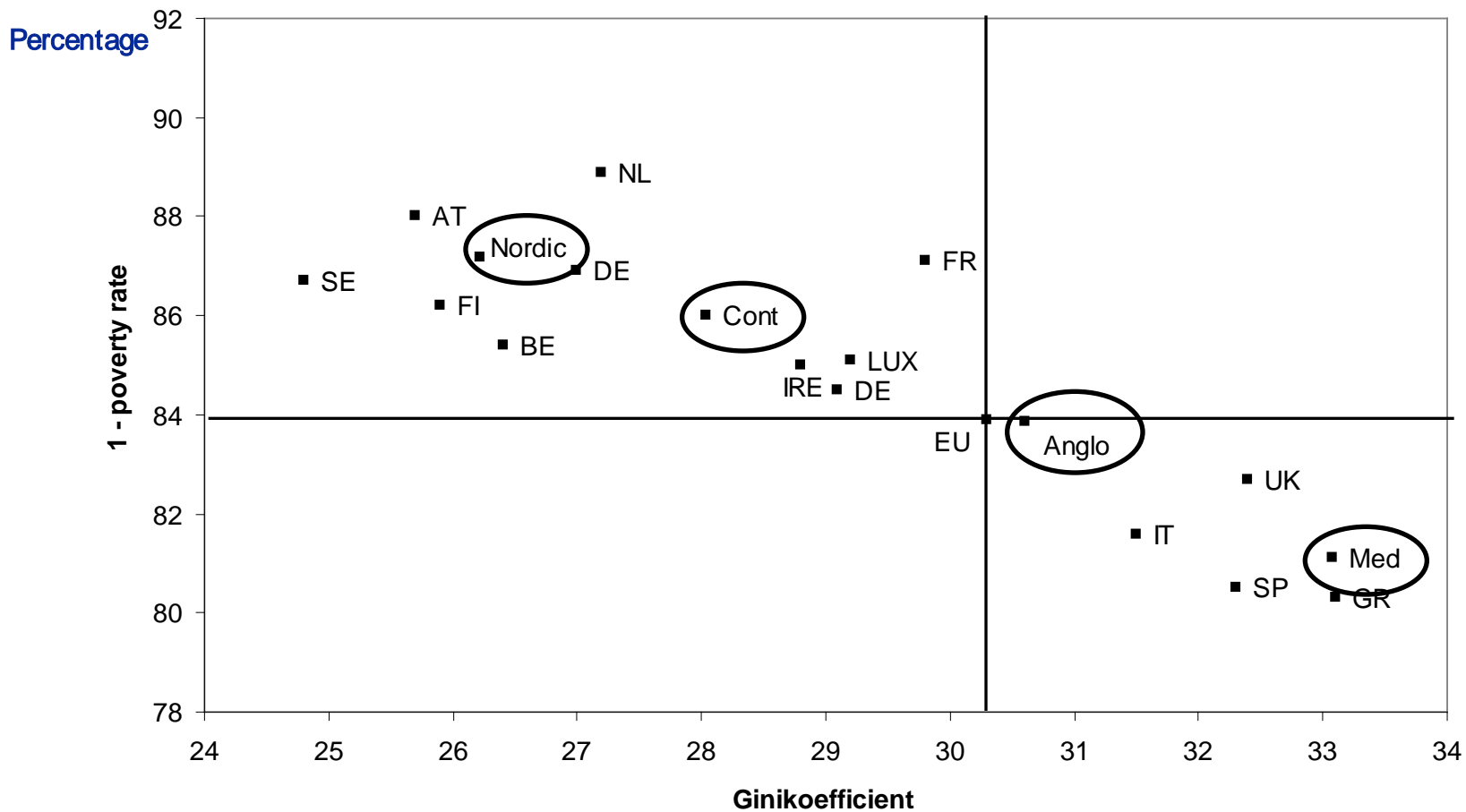
Strongest public finances in Nordic model

Net lending and gross debt 2010, % of GDP. Source: Eurostat



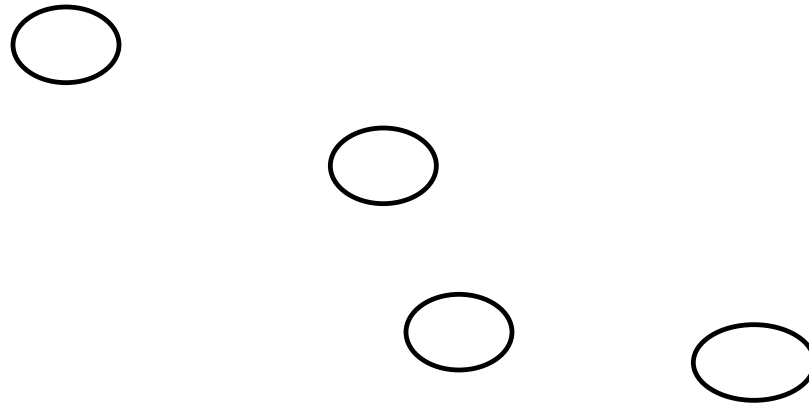
Smallest income inequalities in Nordic model

Income distribution measures: Gini-coefficient and 1-poverty rate. Source: Eurostat



Labour market performance

Unemployment and employment in 2010, %. Source: Eurostat

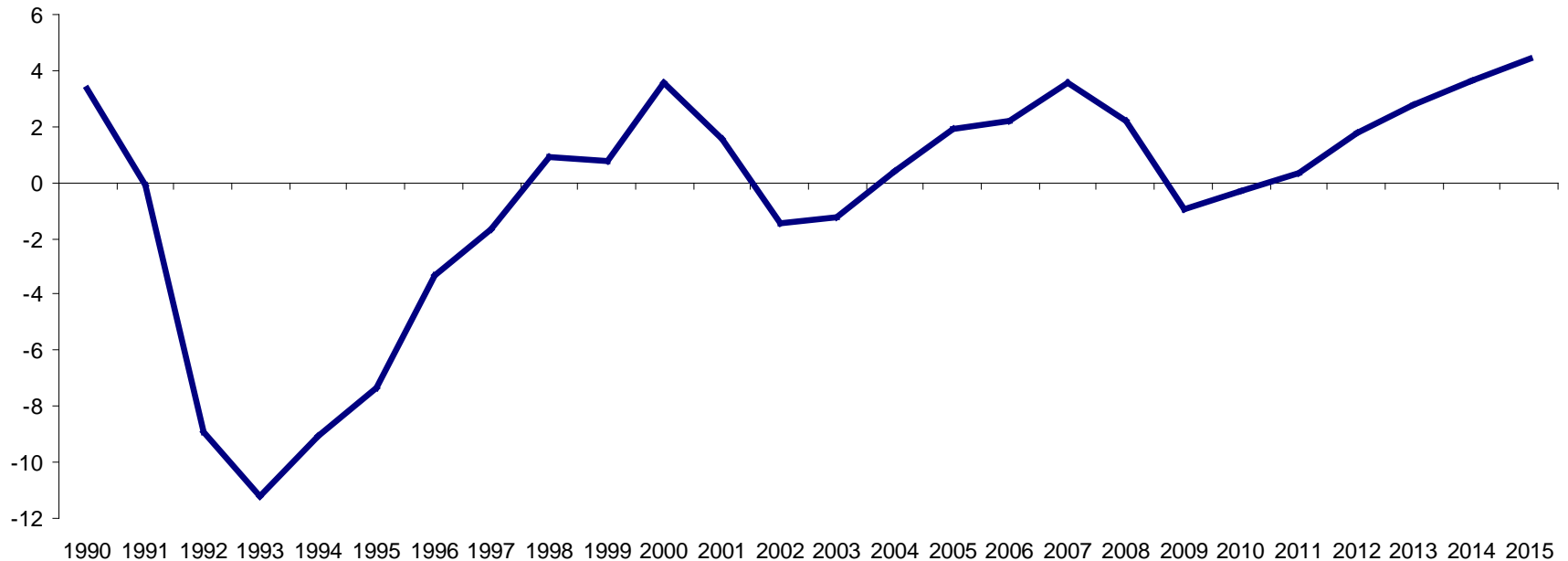


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A strong fiscal performance since the deep recession of the early 1990s

Swedish net lending, % of GDP



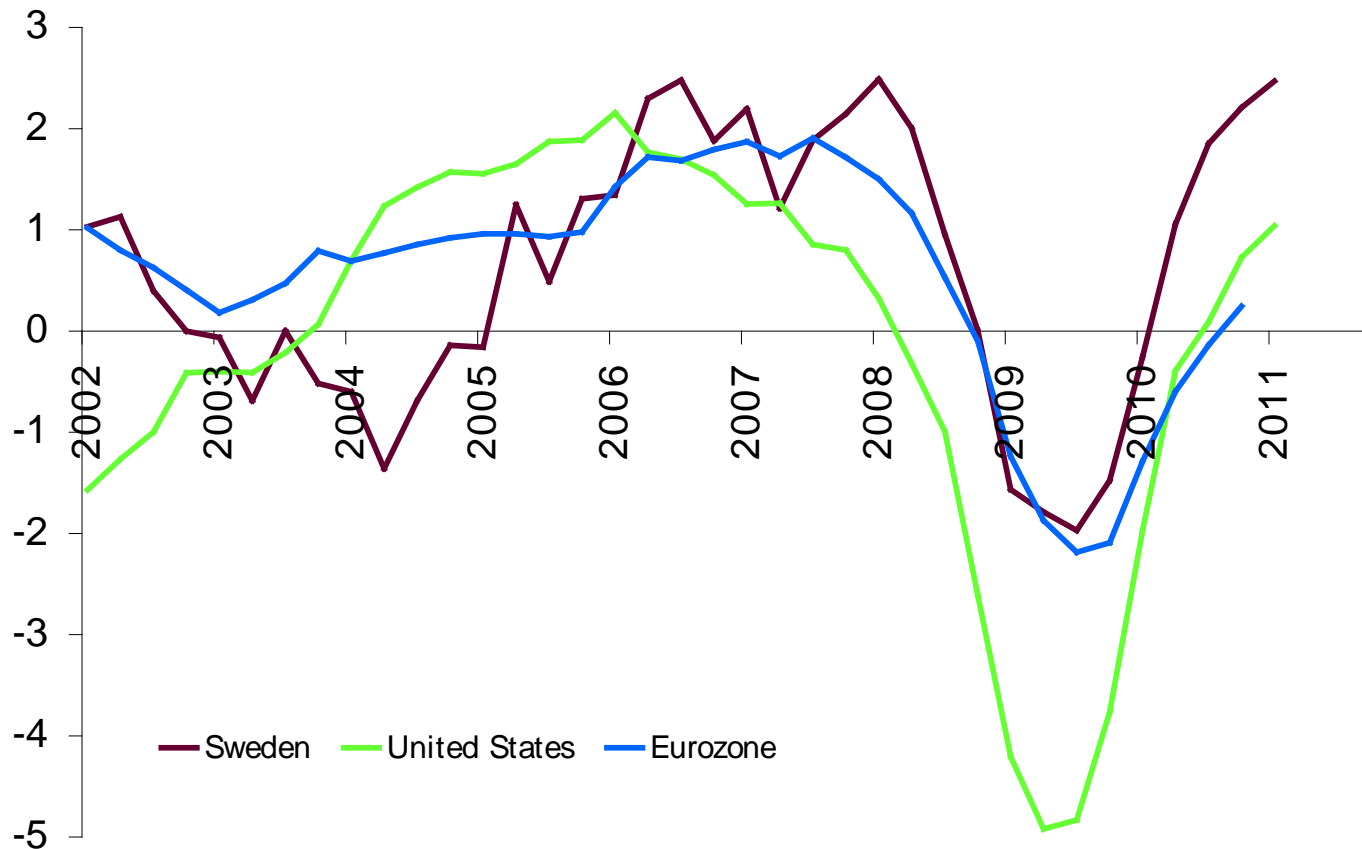
Strong growth

Real GDP-growth. Sources: Eurostat, Bureau of Economic Analysis.

Swedish employment increasing more

Percentage change compared with same quarter of previous year.

Sources: Statistics Sweden, U. S. Bureau of Labor Statistics, Eurostat.



The success of the Swedish model 2.0

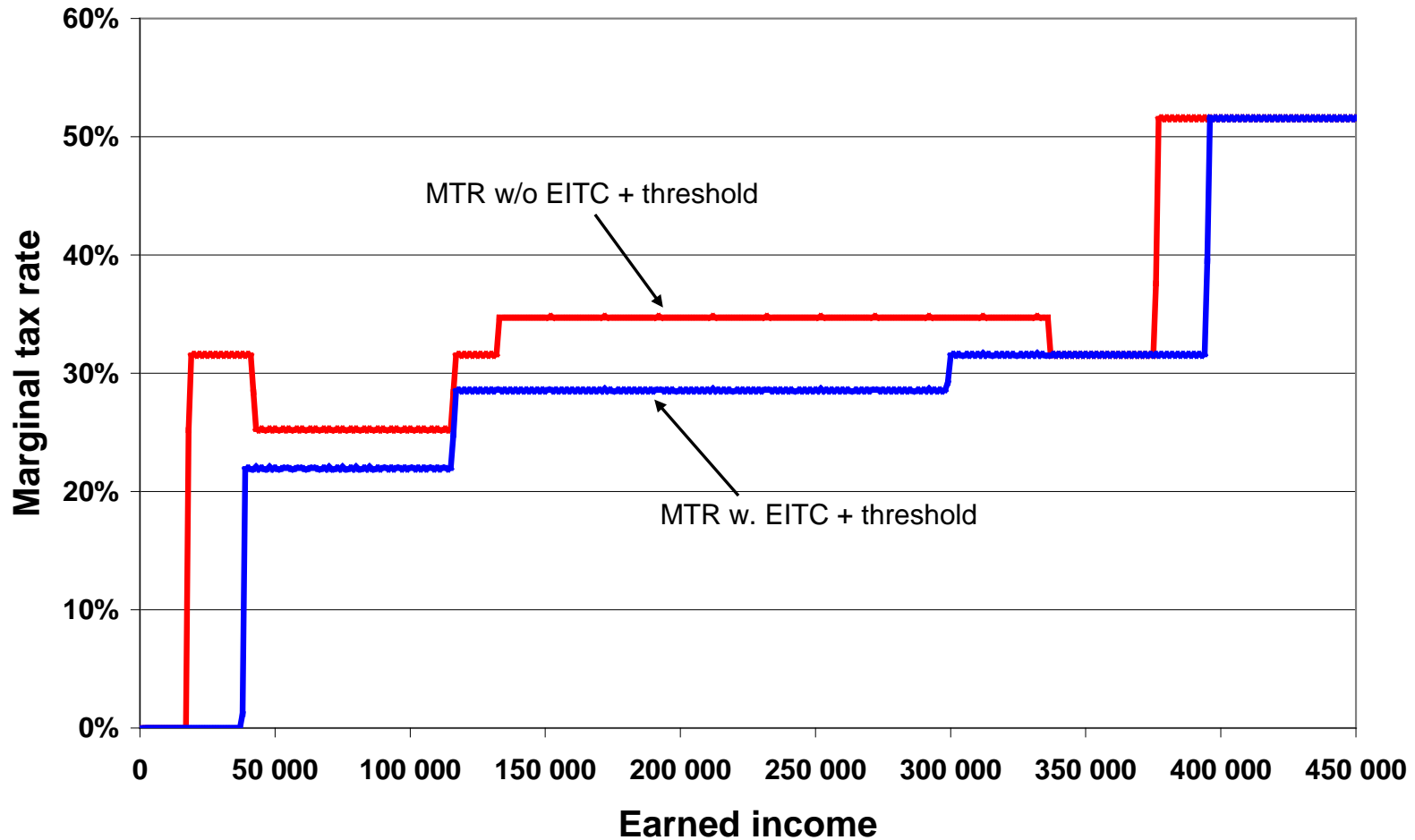
- **Commitment to sound public finances**
 - Fiscal policy framework, surplus going into down-turn
- **Making work pay again**
 - Earned-Income Tax Credits, reformed benefits-systems
- **Pro-growth structural reforms**
 - De-regulation, state-owned companies sold, competition introduced in health care and education
 - Reforms to the pension system, abolished wealth and inheritance taxes
- **Education and helping weaker groups' employment prospects**
 - Improving educational outcomes, ALMP, vocational training, cutting employer fees for weaker groups

Actions to get more people into work

Further structural measures in the labour market to increase employment and limit long-term unemployment

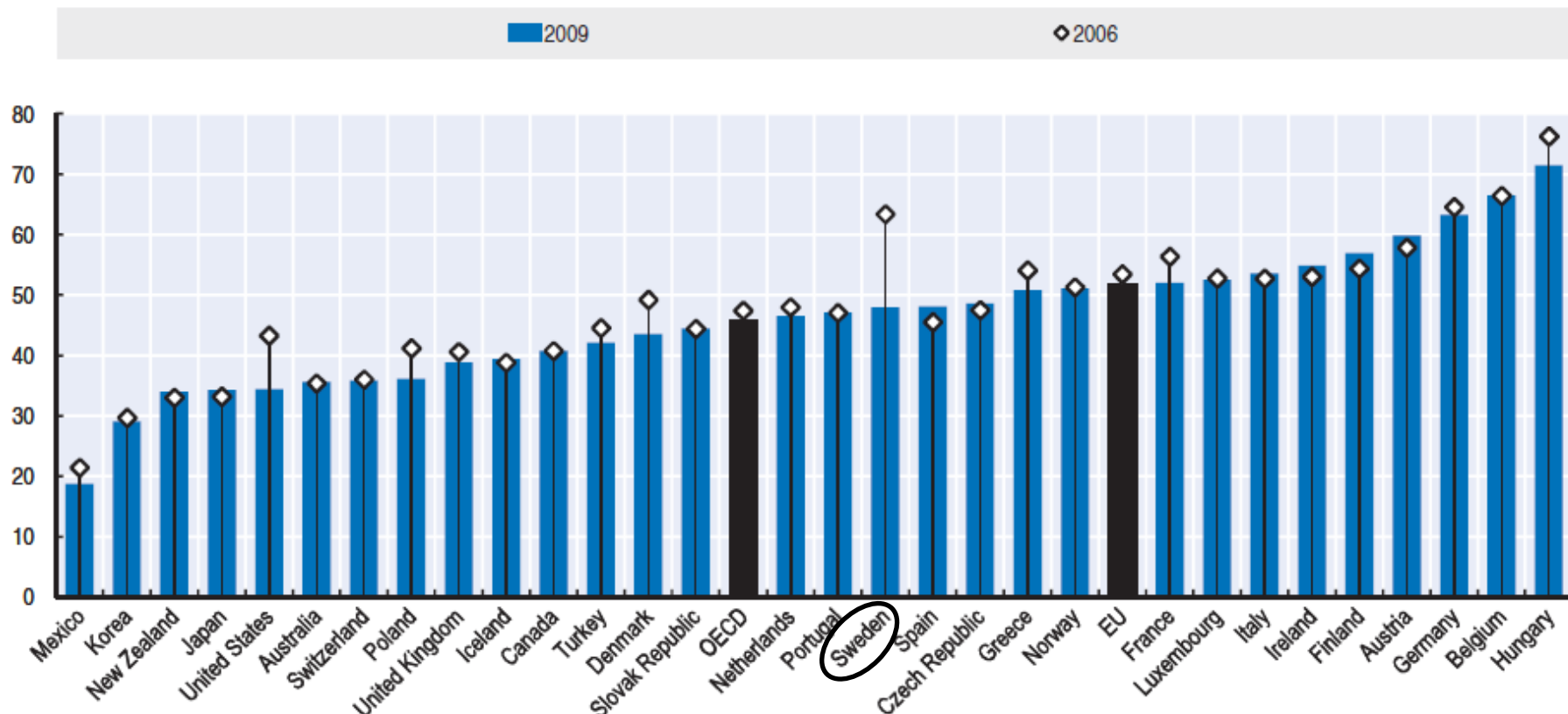
- **Increased labour supply**
 - Work-first principle
 - Tax cuts on labour income
- **Well-functioning educational system**
 - Apprenticeships
 - Reformed upper secondary school
 - Measures to increase teacher quality
- **Better functioning labour market**
 - More efficient Public Employment Service
 - Active labour market policies
- **Increase demand for weaker groups**
 - Minor adjustments in employment protection
 - Lower VAT in the service sector

Reduced marginal and average tax rates in Sweden



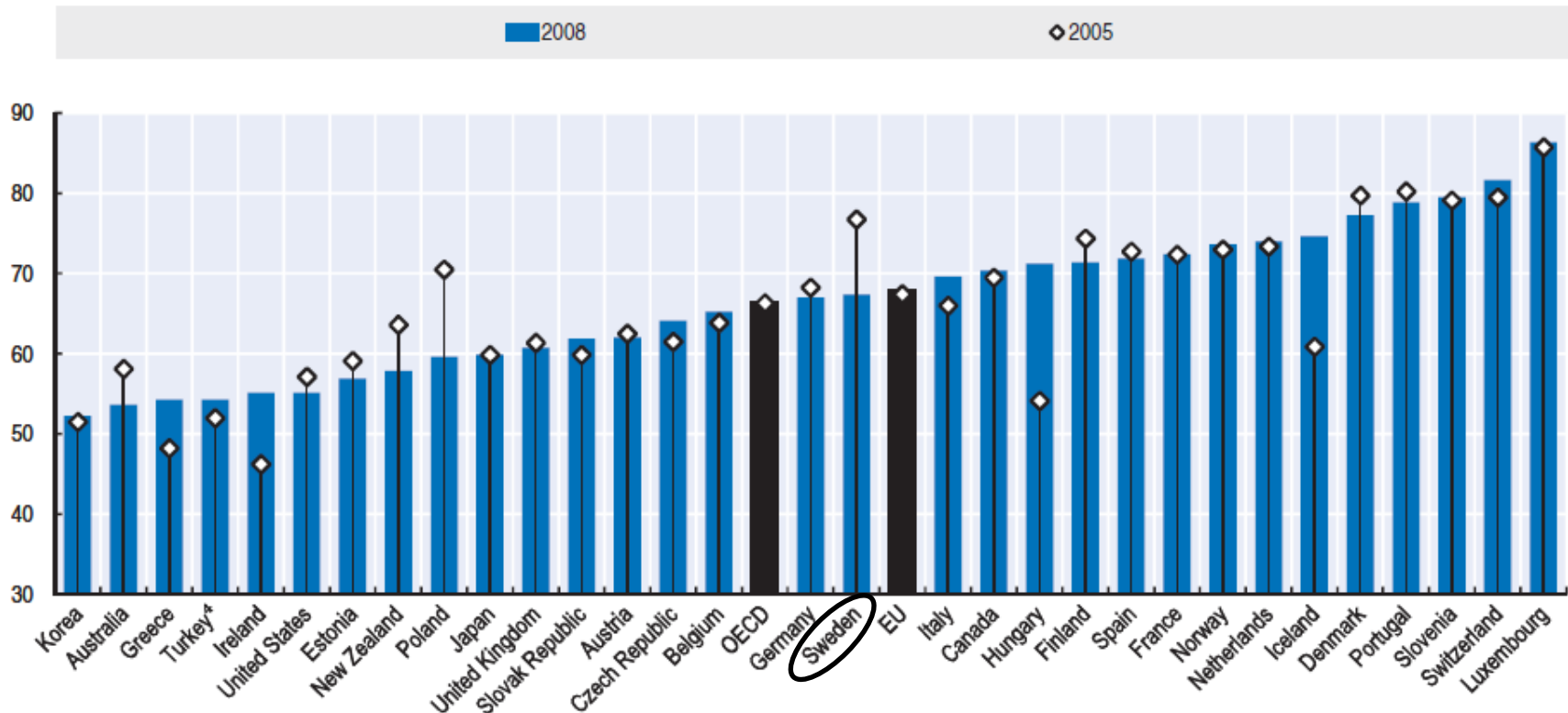
Reduced marginal tax wedge on labour

Marginal tax wedge on labour, as percentage of total labour compensation, at 100% of average worker earnings, single person without children. OECD Going for Growth 2011.



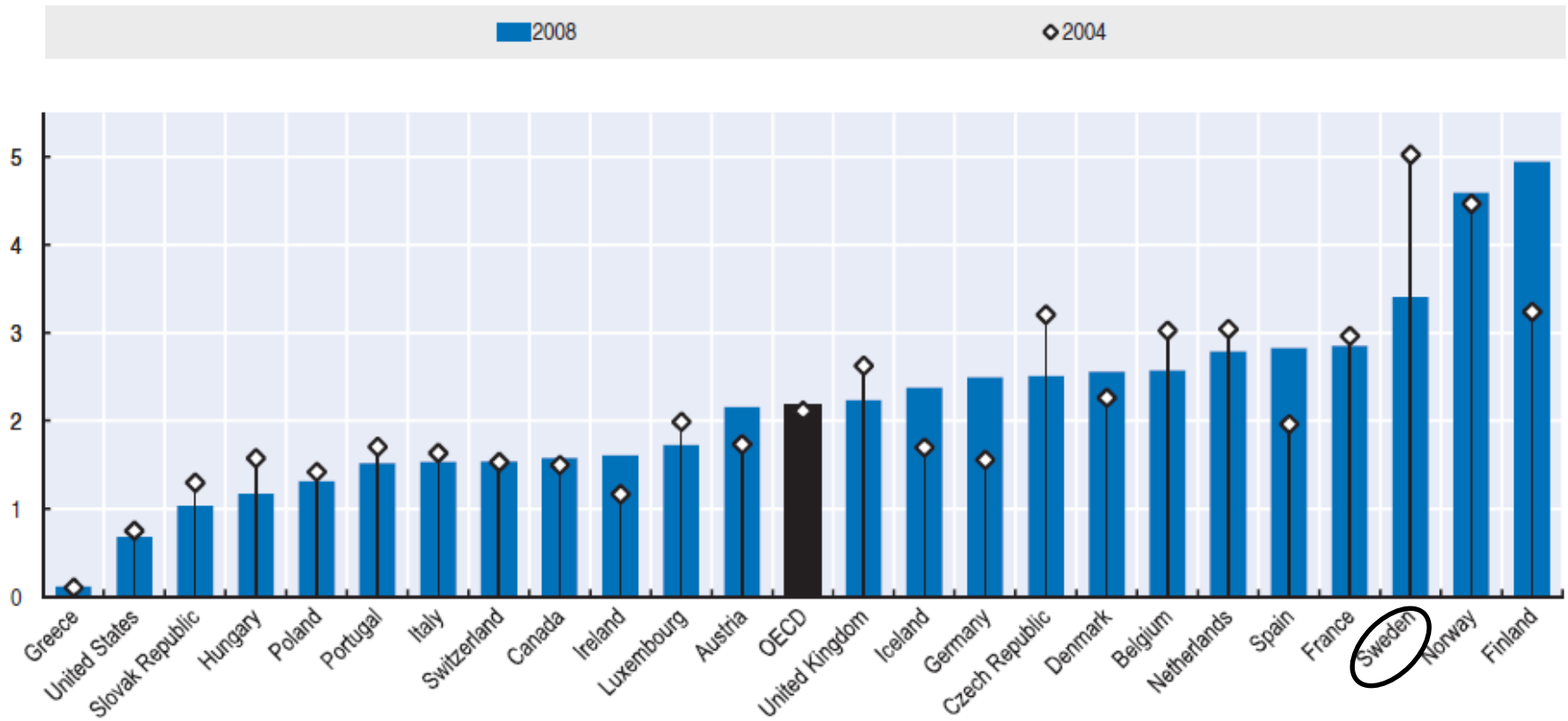
Swedish reforms to unemployment benefits

Net income replacement rates for unemployment (first year), % of earnings.
OECD Going for Growth, 2011.



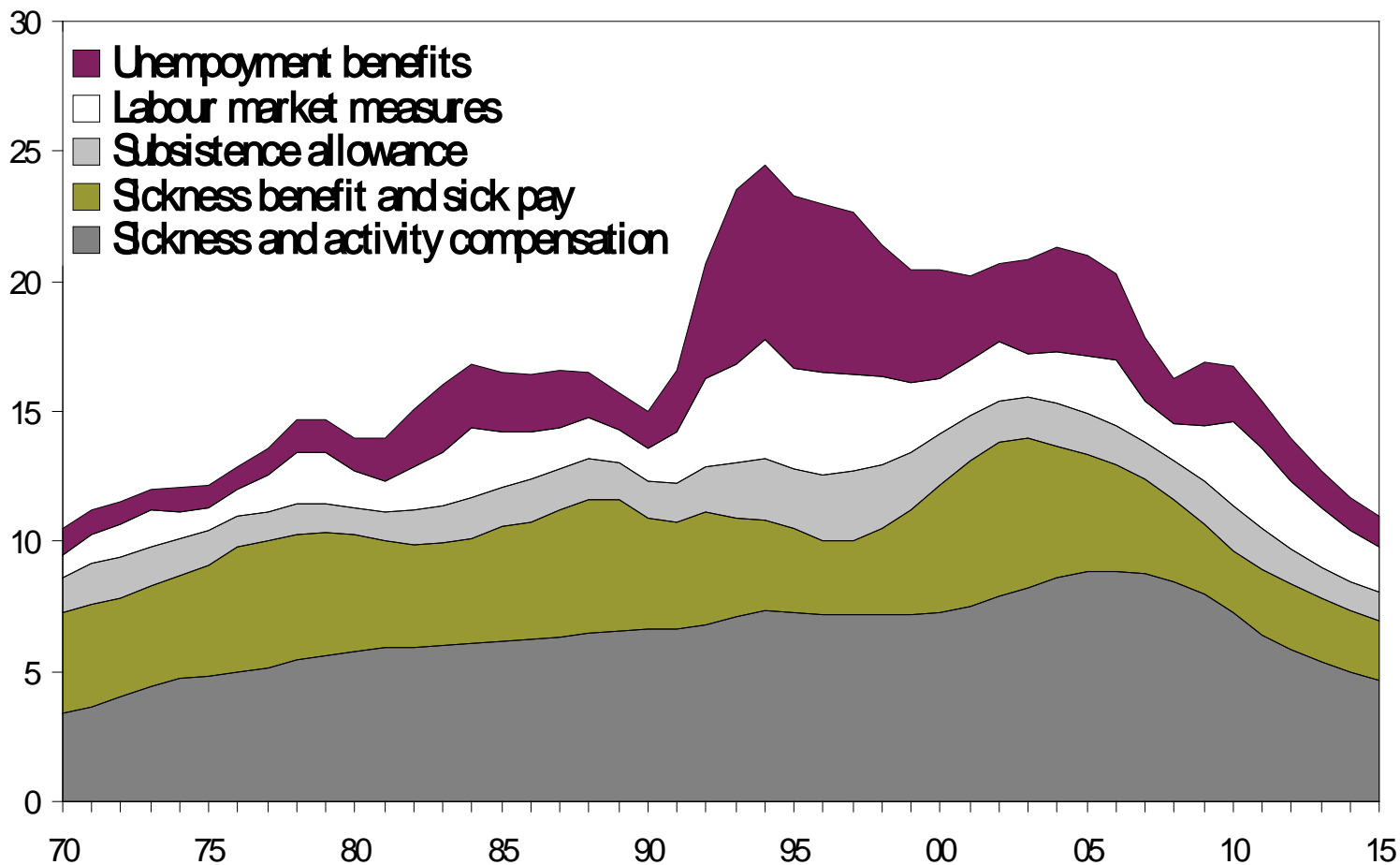
Swedish reforms to disability and sick benefits have paid off

Number of weeks lost due to sick leave. OECD Going for Growth 2011.



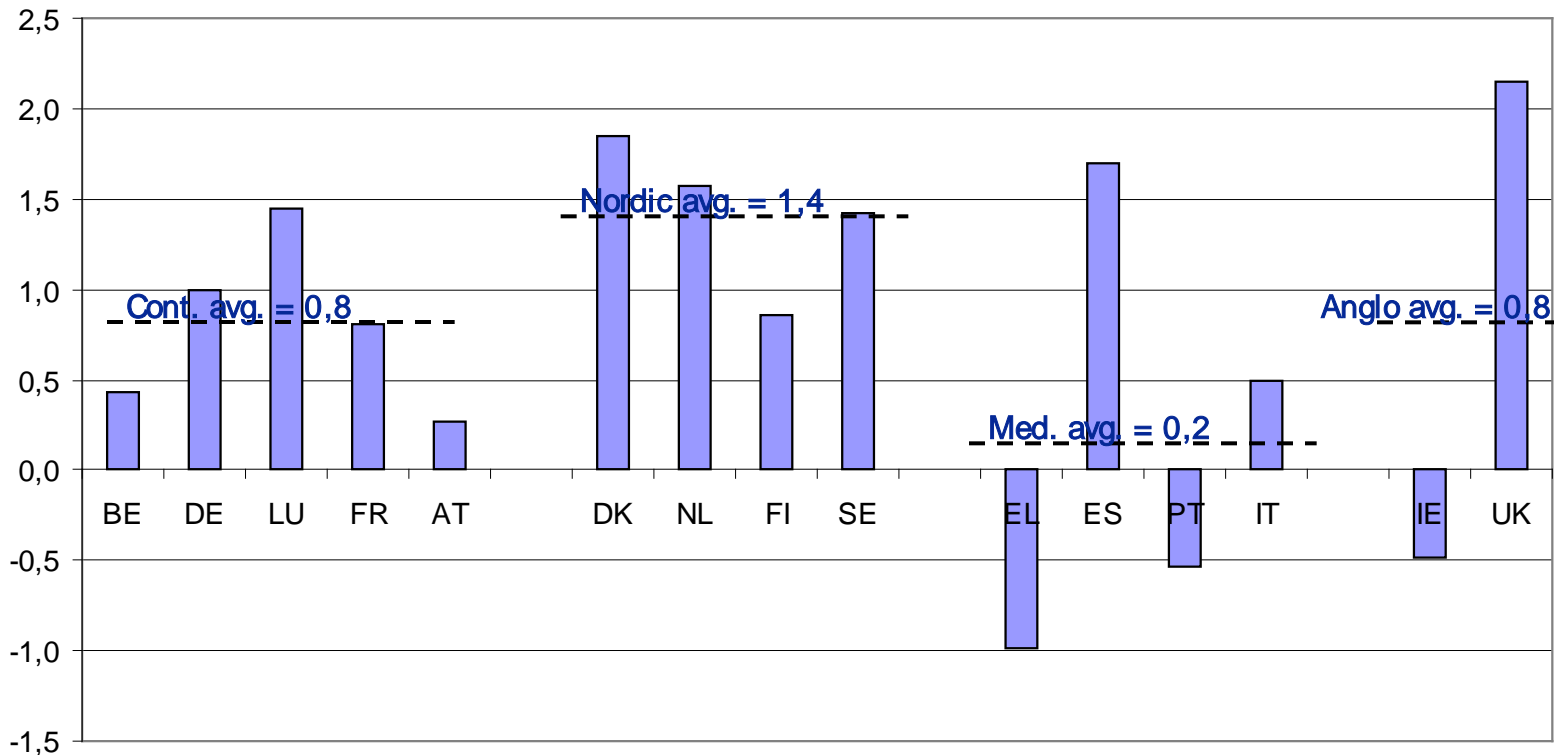
Fewer people outside the labour market

Share of the population 20-64 years in various benefit schemes, 1970-2015 (forecast 2011-2015).



Strong fiscal policy frameworks in the Nordic model

Standardised fiscal rules index, 2008. Source: EU Commission.

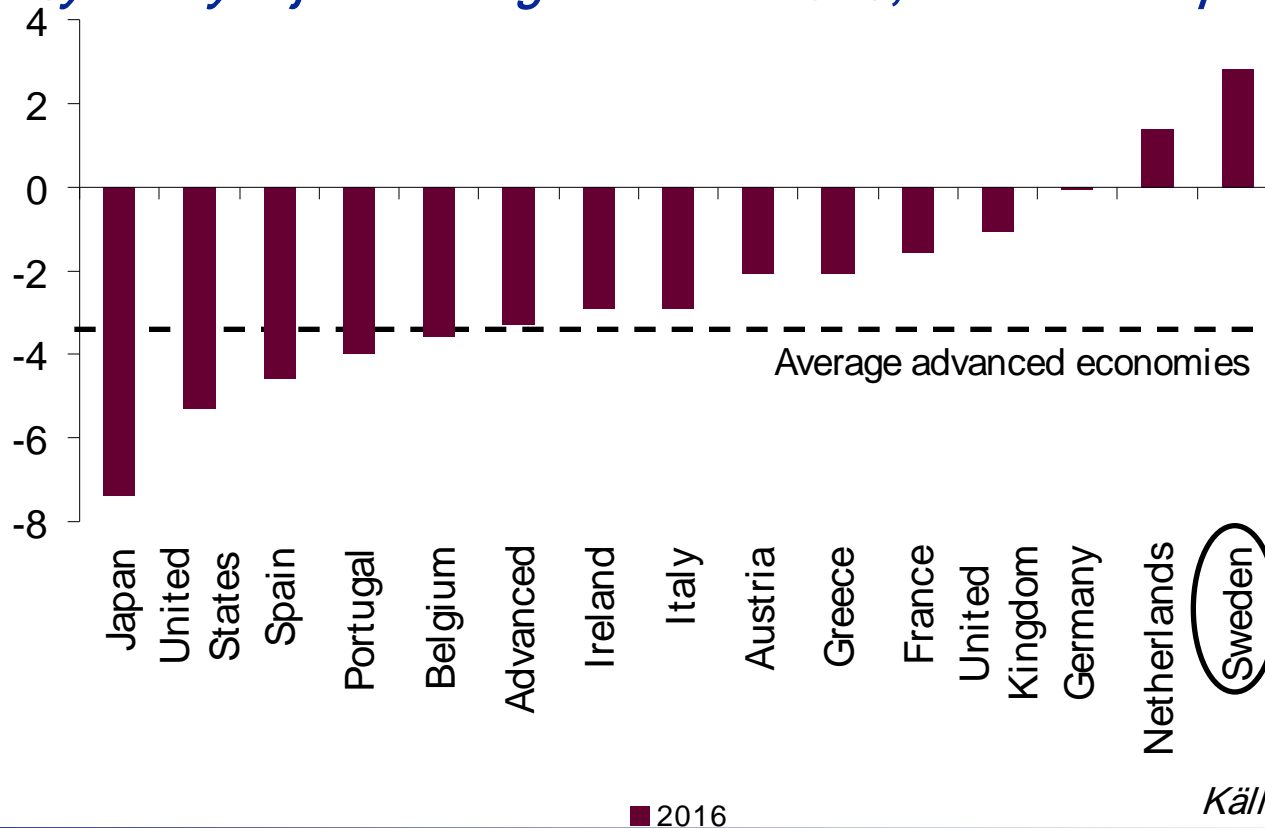


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Persistent and large deficits will complicate future expansionary fiscal policy

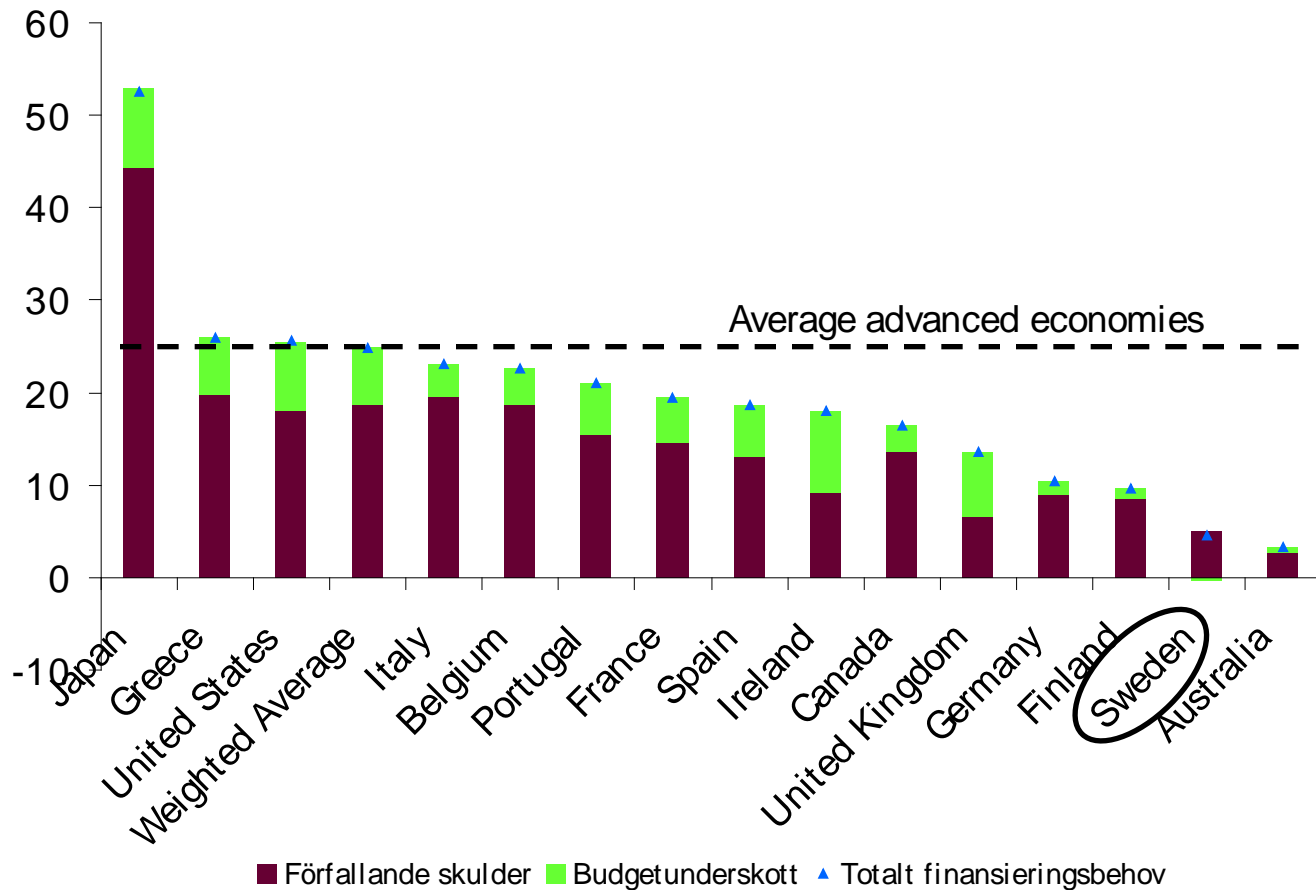
Cyclically adjusted budget balance 2016, as a share of potential GDP, %



Källa: IMF Fiscal Monitor, 2011

Large future financing needs

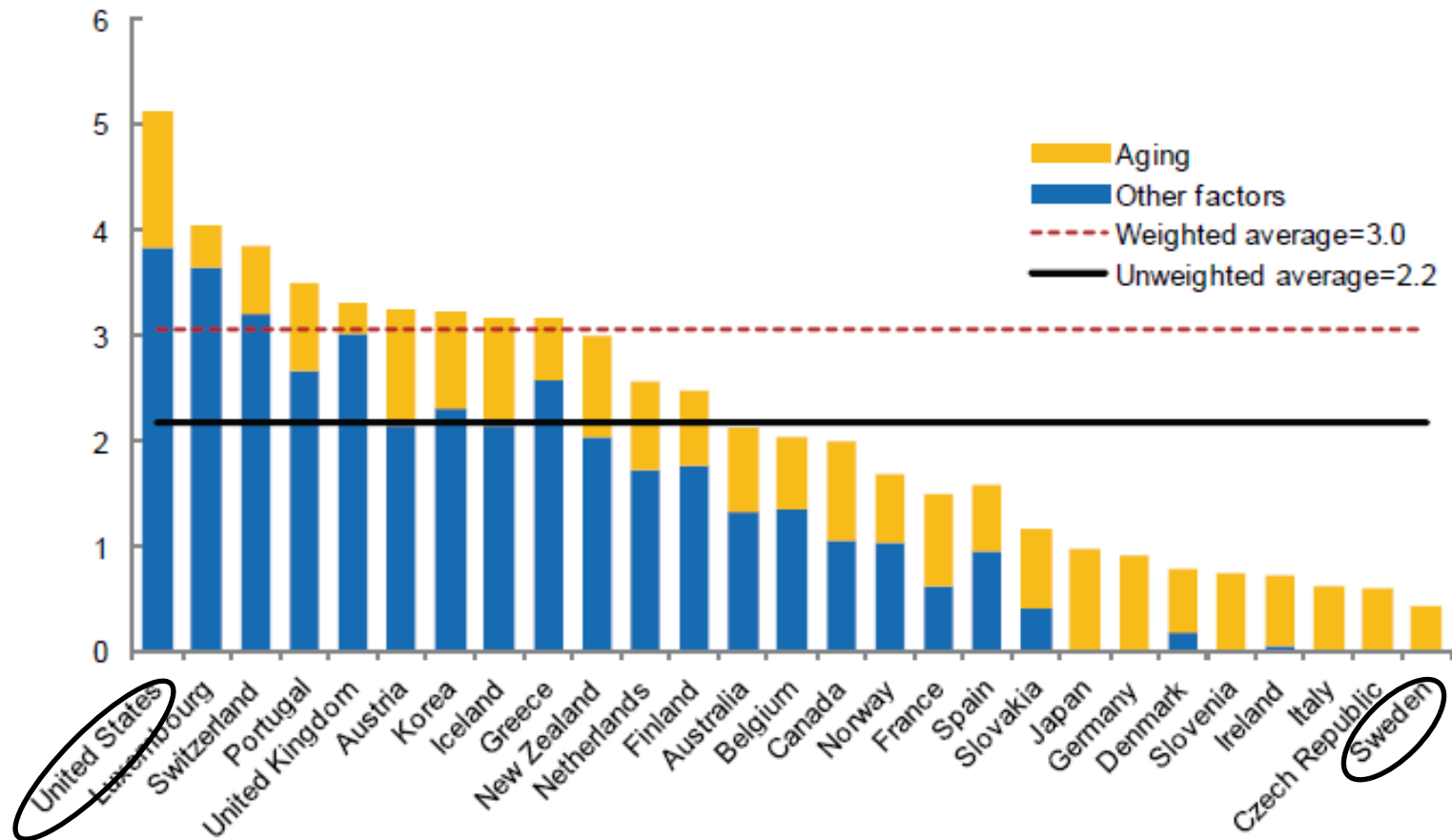
Maturing debt and budget deficit 2011, % of GDP



Källa: IMF Fiscal Monitor, 2011

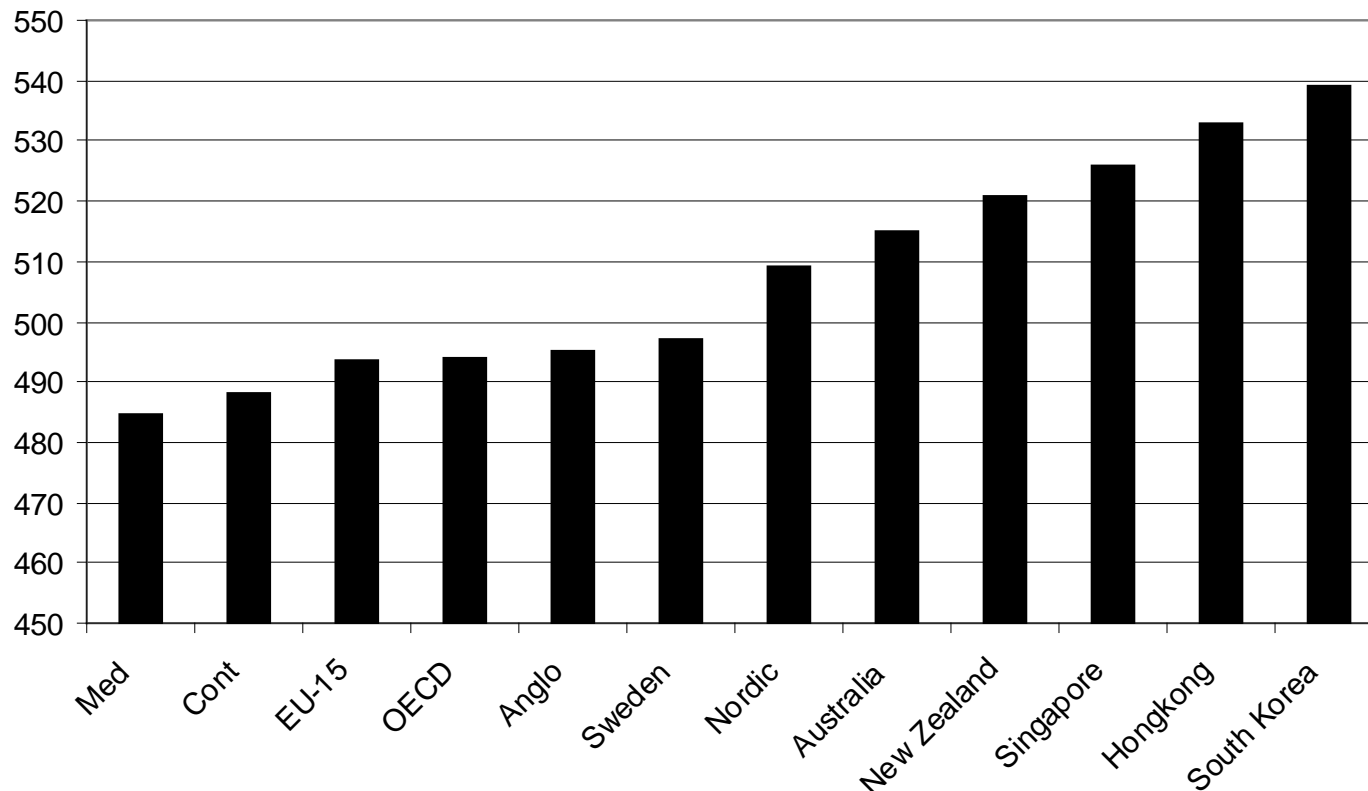
Dramatic increases in health care costs

Forecast increase of public health care expenditure 2011-2030, % of GDP. Source:



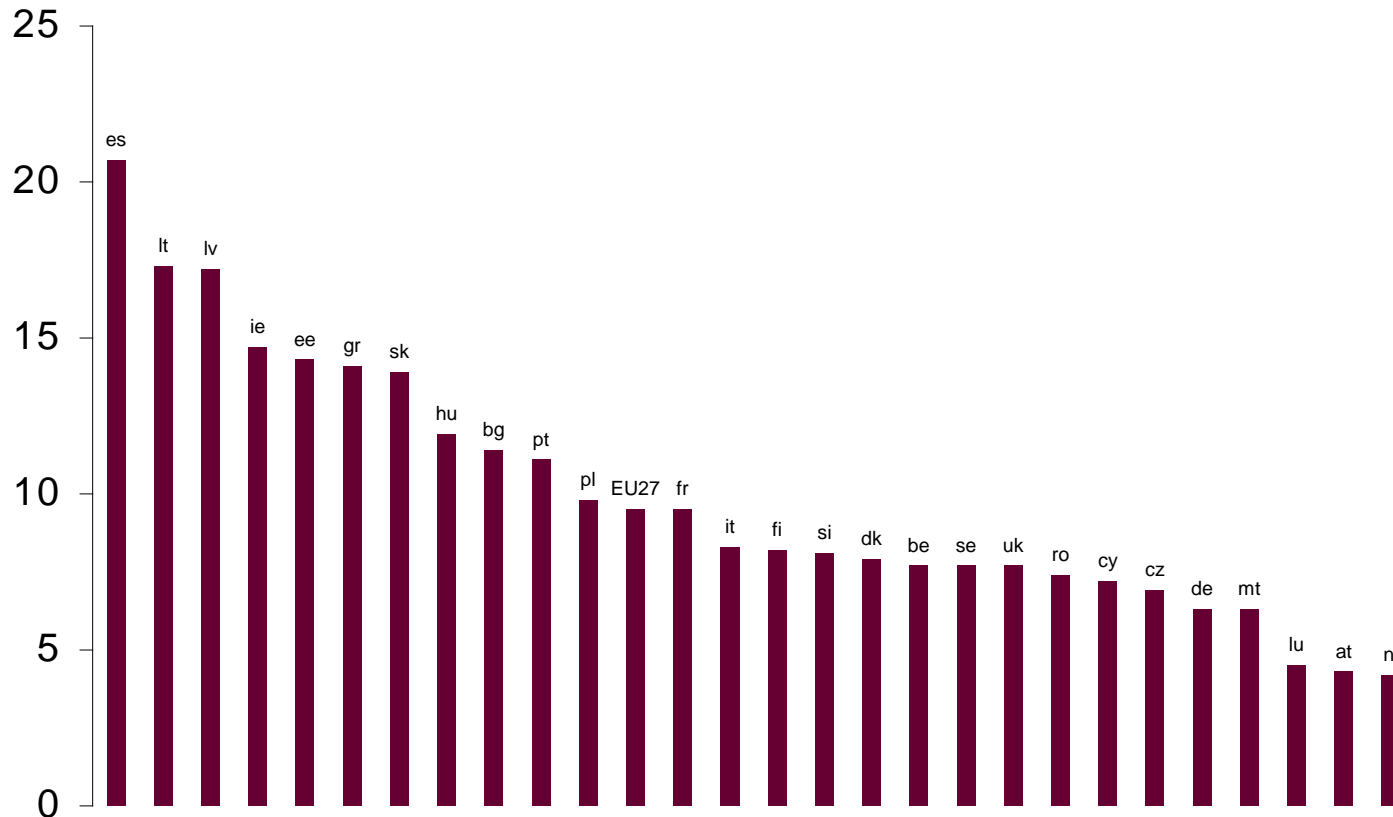
Europe's educational systems must improve considerably

PISA score in reading, 2009



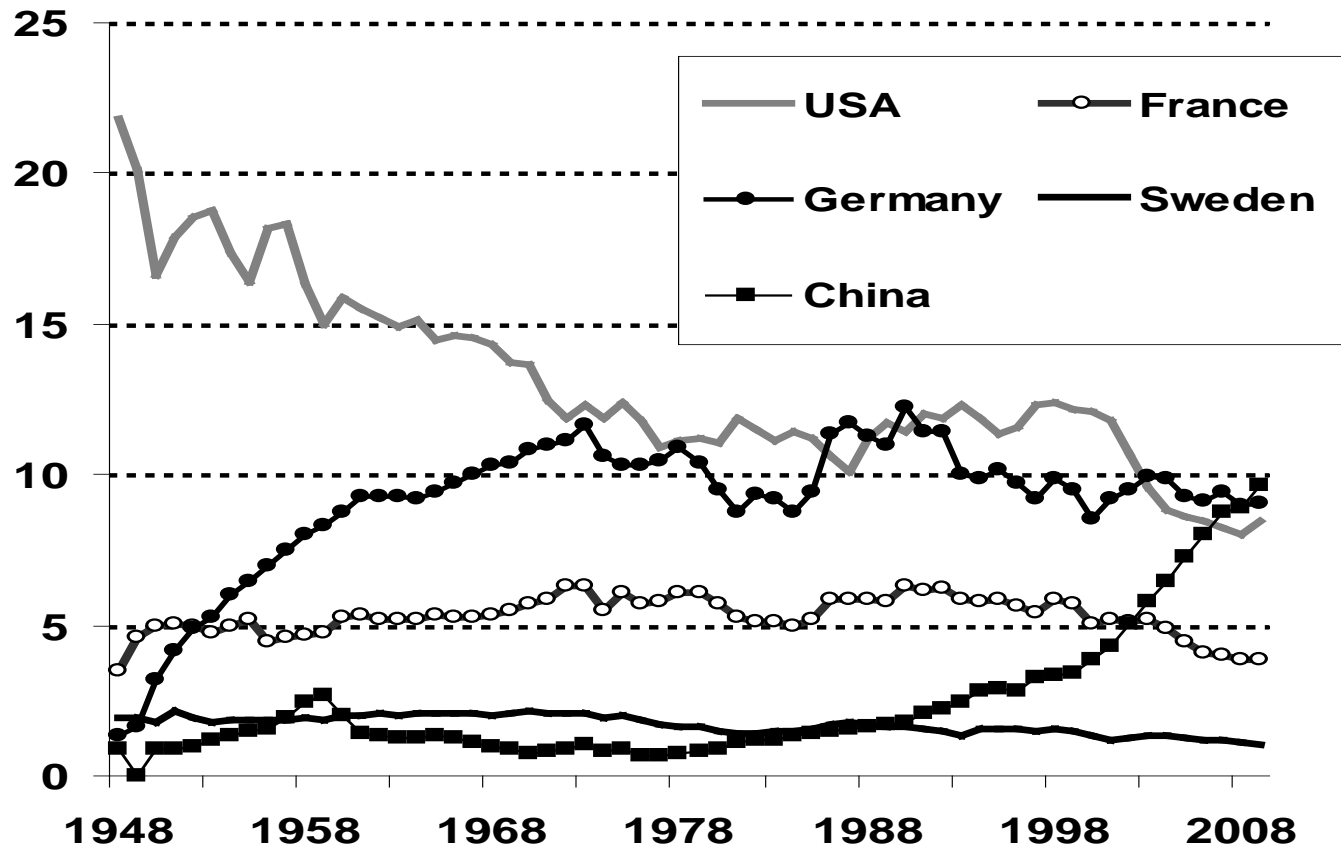
Poor labour market performance

Harmonized unemployment, % of labour force. March 2011, except EE, GR, LT, LV, RO (Dec 2010) and UK (Jan 2011). Source: Eurostat.



Increased competition: China's share of world trade now greater than the US and Germany

Share of world trade of goods, %. Source: WTO



Conclusions

- **The Nordic model still seems to perform the best**
 - Stronger public finances, stronger labour market, lower inequality
- **Performance depends on a number of institutional factors**
 - Education, fiscal policy frameworks, innovation, transparency
- **Sweden's development helped by structural reforms**
- **Key future challenges for all social and economic models**