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# ECONOMIC POLICIES AND PRACTICES

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PAPER NO. 5  
UNEMPLOYMENT PROGRAMS IN SWEDEN

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MATERIALS PREPARED FOR THE  
JOINT ECONOMIC COMMITTEE  
CONGRESS OF THE UNITED STATES

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## LETTERS OF TRANSMITTAL

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APRIL 22, 1964.

*To Members of the Joint Economic Committee:*

Transmitted herewith are materials examining the various programs used by Sweden to maintain high levels of employment throughout its economy. The problems of employment in Sweden are, of course, greatly different than in the United States where we have a dynamic economy and a wide variation in climate which means that frictional unemployment may often be high. On the other hand, Sweden has enjoyed, as is generally known, an enviable record of unemployment. The experience in Sweden seemed particularly worth studying since it has given a great deal of advanced and forward-looking attention to employment-creating measures which may be suggestive of application even in our differing circumstances.

This study is the fifth of a series being issued as aids to an increased understanding of economic policies and institutions in the various industrial countries. No precise pattern is being followed in the series. I believe, however, that by making data more readily available for a comparison of national policies and practices in various areas, members of the committee, other Members of Congress, and the general U.S. reader will be aided in understanding economic problems within the framework of the enterprise and free market "rules of the game" as practiced by the leading industrial nations. The views expressed in these papers are exclusively those of the authors and do not necessarily represent the views of the committee or individual members thereof.

This study of "Unemployment Programs in Sweden" was prepared at the Joint Economic Committee's request by Prof. Martin Schnitzer of the Department of Business Administration, Virginia Polytechnic Institute.

Faithfully,

PAUL H. DOUGLAS, *Chairman.*

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APRIL 21, 1964.

HON. PAUL H. DOUGLAS,  
*Chairman, Joint Economic Committee,  
U.S. Senate, Washington, D.C.*

DEAR SENATOR DOUGLAS: Transmitted herewith is a paper entitled "Unemployment Programs in Sweden," prepared by Prof. Martin Schnitzer of the Department of Business Administration, Virginia Polytechnic Institute, for the committee's series on economic policies and practices. The paper is presented as prepared by Professor Schnitzer. The study was based on materials furnished by Swedish authorities concerned with the labor market programs and from discussions with these same authorities when the author was in Stockholm in September 1963. The study was financed largely by a grant awarded the author by the American Philosophical Society.

JAMES W. KNOWLES, *Executive Director.*

## PREFACE

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The purpose of this monograph is to examine the various programs used by Sweden to maintain high levels of employment throughout its economy. These programs are selective in that they can be applied to a given area or to the country as a whole. They can be applied to a given type of unemployment—seasonal, structural, or cyclical.

Two important parts of the Swedish unemployment programs—relocation assistance and the use of tax incentives—are explored in detail. There is little question but that these devices are among the most ingenious devised by any Western country to cope with the problem of unemployment. The Swedish unemployment programs are characterized by a willingness to experiment and innovate. There is much to be learned from the Swedish experience.

The materials for this monograph were derived from interviews with Swedish officials connected with the National Labor Market Board and the Ministry of Finance and from materials furnished by these and other Swedish agencies. The Swedish Embassy in Washington also furnished materials and advice. Financial support came from a grant which was awarded to the author by the American Philosophical Society.

The author wishes to thank the following people who assisted him with this paper: Mr. Thorbjorn Carlsson, former labor attaché of the Swedish Embassy in Washington, who provided advice and materials and who also reviewed the paper; Mr. Jon Lofblad, current labor attaché at the Swedish Embassy, who reviewed the paper; and Dr. Sar Levitan of the W. E. Upjohn Institute for Employment Research who also reviewed the paper.

Meetings were held with the following people in Stockholm: Mr. Jarna Kaukonen and Miss Sylvia Von Eltz of the American Embassy in Stockholm who provided materials on the Swedish programs; Mr. Jan Nipstad of the Ministry of Finance who provided most of the information on the investment reserves and who also reviewed the paper; Mr. Gideon Nitare and Mr. Curt Canarp of the National Labor Market Board who are also experts on the investment reserves; Mr. Ture Berggren, Mr. Gunnar Olsson, and many others who are associated with the National Labor Market Board; and finally, representatives from the Swedish Employers' Confederation and the Confederation of Swedish Trade Unions.

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# UNEMPLOYMENT PROGRAMS IN SWEDEN

## CHAPTER I

### SWEDEN: A GENERAL BACKGROUND

#### INTRODUCTION

The purpose of this paper is to review the measures adopted by Sweden to cope with the problem of unemployment. In view of our increasing concern with a high overall rate of unemployment and higher unemployment rates in certain areas, it is meaningful to examine some of the programs which are used in other countries. A resourceful and well-planned program is that which is used by Sweden. This program includes measures which are used for depressed areas and measures which are used to combat cyclical and seasonal unemployment.

Before examining the Swedish programs for unemployment, it is necessary to review two of our own programs which were created by the passage of the Area Redevelopment Act and the Manpower Development and Training Act.

#### *The Area Redevelopment Act*

This act created the Area Redevelopment Administration within the Department of Commerce with the function of administering aid to areas which are classified as depressed.<sup>1</sup> It established criteria which are to be followed by this agency (ARA) in designating areas which are eligible for assistance.<sup>2</sup> These areas must suffer from persistent unemployment or must be among the lowest in the country from the standpoint of income.

The Area Redevelopment Act provided the following programs for eligible areas:

1. Long-term loans at low rates of interest to provide venture capital to attract industries to locate in depressed areas or to help expand established industries.<sup>3</sup>
2. Loans and grants to provide new or expanded public facilities, such as industrial water systems and railroad spur lines, so that industry will be encouraged to locate in these areas.<sup>4</sup>
3. Training programs to equip the unemployed and underemployed to secure jobs.
4. Technical assistance to help communities plan constructive programs which would stimulate their economic growth.

<sup>1</sup> Senate bill 1 is the Area Redevelopment Act. It was passed by the 87th Cong. and became Public Law 87-27.

<sup>2</sup> See pp. 2-3, Senate bill 1, for the criteria used in designating 5(a) and 5(b) counties (counties with high rates of unemployment and rural low-income counties).

<sup>3</sup> These loans currently carry an annual interest rate of 4 percent and can run for as long as 25 years.

<sup>4</sup> The loans currently carry an annual interest rate of 3½ percent and can run for as long as 40 years. Grants are limited to 65 percent of total cost. Approval for grants is contingent upon the likelihood that new jobs would be generated within the community.

To finance these programs, the act provided two \$100 million revolving funds, one for industrial projects in the nonrural depressed areas (ARA prefers the term "redevelopment areas") and the other for rural depressed areas.<sup>5</sup> The funds are to provide venture capital to new and expanding businesses in depressed areas. The rationale for providing this assistance is that conventional lending facilities in these areas are not capable or willing to provide such capital.

In addition to these revolving funds, the act provided a \$100 million revolving loan fund for public facilities and an additional \$75 million for grants for the same purpose.<sup>6</sup> The rationale for this assistance is that new or improved public facilities would attract industry.<sup>7</sup>

The act also introduced the concept of Federal retraining for unemployed workers, providing for brief training—with subsistence allowances up to 16 weeks while in training—to equip the jobless with new skills required by expanding industries or by identifiable job vacancies within the area.

Without elaborating further on the other provisions of the Area Redevelopment Act, it can be said that its basic objective is to provide new employment opportunities within the depressed areas. The emphasis is on bringing industry into these areas and promoting the expansion of existing industries within them.

#### *The Manpower Development and Training Act*

This act added several important innovations to the training structure of the Area Redevelopment Act.<sup>8</sup> Training is not limited to particular areas; training and living allowances are authorized up to 52 weeks; transportation expenses where necessary can be offered trainees; and the training needs of workers in low-income farm families, as well as special projects, are authorized.

The Manpower Development and Training Act allows payments for 52 weeks of training.<sup>9</sup> The amount of the weekly payment is not to exceed the average weekly unemployment compensation—including allowances for dependents—in the State making the payments. Trainees are eligible for this payment if they are selected and enrolled in a training course established under the act and are unemployed, have at least 3 years' experience in gainful employment, and are the head of a family or a household.<sup>10</sup>

A trainee may receive a transportation allowance and a subsistence allowance for separate maintenance when training facilities are not located within commuting distance of his regular place of residence.

<sup>5</sup> See pp. 3-4 of the act.

<sup>6</sup> See pp. 5-6 of the act.

<sup>7</sup> The Area Redevelopment Administration is involved in another public works program under the Public Works Acceleration Act (Public Law 87-658). The purpose of this act is to speed up and expand public works in communities with substantial unemployment, primarily to provide immediate employment opportunities. The program is geared to aid areas designated by ARA as having substantial unemployment for a year or longer.

<sup>8</sup> The accelerated public works program is a short-term program aimed at providing immediate employment opportunities for the unemployed and underemployed. It adds about 150 communities which are not eligible for assistance under the regular ARA public works program. Eligibility criteria for the program are as follows:

1. A project must meet an essential public need.
2. It must contribute to the reduction of local unemployment.
3. It must be at least 50 percent completed within 12 months after initiation or acceleration.

<sup>9</sup> The Manpower Development and Training Act became Public Law 87-415 on Mar. 15, 1962.

<sup>10</sup> See p. 4 of the act.

<sup>10</sup> The overall selection criteria for trainees is as follows:

- (1) The person is unemployed or comes from farm families with less than \$1,200 annual net family income.
- (2) Persons who will be working less than full time or will be unemployed because their skills have become, or are becoming, obsolete.
- (3) Persons who are 16 years old but less than 22 and are in need of occupational training.
- (4) Persons who are working substantially less than full time.

The subsistence allowance may not be more than \$35 a week at the rate of \$5 a day, and the transportation allowance may not be more than 10 cents a mile.

There is no cost to trainees for any training received under the act. Prior to June 30, 1964, 100 percent of the operating cost of training programs for unemployed persons will be paid by the Federal Government through the Department of Health, Education, and Welfare. However, after this period, States which participate in the program will bear one-half of the cost of school training facilities for all persons in training.

Apportionment of Manpower Development and Training Act funds among the States is based on the following five criteria:<sup>11</sup>

1. The proportion which the labor force of a State bears to the total labor force of the United States.
2. The proportion which the unemployed in a State during the preceding calendar year bears to the total number of unemployed in the United States in the preceding calendar year.
3. The lack of appropriate full-time employment in the State.
4. The proportion which the insured unemployed within a State bears to the total number of insured employed within the State.
5. The average weekly unemployment compensation benefits paid by the State.

The Trade Expansion Act, a measure passed by Congress shortly after the Manpower Development and Training Act, also provides for retraining assistance to workers, including both subsistence and relocation allowances. This training is restricted to workers whose employment is adversely affected by the reduction of foreign trade restrictions.<sup>12</sup>

There has been much opposition to our program for depressed areas. This opposition catalyzes around the contention that the area redevelopment program directs economic activity away from its natural course to benefit a few areas at the expense of the rest of the country. It is contended that industries will tend to locate where there is a combination of favorable location factors, such as the presence of markets, transportation, power, and labor. These factors are likely to be missing to a major degree in a depressed area. The existence of capital or adequate public facilities is not likely to offset the absence of the other more important factors.<sup>13</sup>

Supporters of our area redevelopment program contend that a decline in the population of communities involves a waste of major proportions, and sound conservation of resources requires that social capital invested in communities should not be abandoned when it is possible to save such capital. A lack of job opportunities delays the entrance of young people into the labor force, drives older people out of the labor force at an earlier age, and discourages women from seeking employment. Outmigration is no solution, because the majority of people in depressed areas cannot leave for a number of complex reasons.<sup>14</sup>

<sup>11</sup> See title III, sec. 301 of the Manpower Development and Training Act.

<sup>12</sup> The Trade Expansion Act is Public Law 87-794. For the provisions on retraining assistance, see secs. 322 and 323 on pp. 22 and 23.

<sup>13</sup> "Area Redevelopment—1961," report of the Committee on Banking and Currency, 87th Cong., 1st sess., U.S. Senate.

<sup>14</sup> For a thorough analysis of the Area Redevelopment Administration, see "Federal Aid for Depressed Areas, An Experiment on Trial," by Sar Levitan.



With this as a background, the study will proceed to the analysis of the Swedish programs for unemployment. The uniqueness of the Swedish programs is that they are closely integrated with national policies to deal with cyclical swings and to stimulate overall economic growth.<sup>15</sup> This integration is an important reason for their success in recent years. The programs apply everywhere and are always available. Sweden stresses geographic and occupational mobility as the solution for depressed areas. It is the only country in the world which uses labor migration assistance extensively to combat regional unemployment. The stimulation of labor mobility—occupational and geographic—is considered to be the quickest and cheapest solution to the problem of localized unemployment, and as an approach is less vulnerable to the risks of inflation.

There is also reliance on (1) tax incentives to employers to expand during low points in the business cycle, and also to locate in areas with unemployment; (2) public works which are actually or tentatively scheduled for construction by the various agencies of government in the event of unemployment; and (3) liberal depreciation policies to stimulate a high level of aggregate demand.

These measures are selective as opposed to the more general monetary and fiscal policies for influencing the state of the economy. They are less inflationary with regard to cost and prices. Since most of the unemployment in Sweden is attributable to an imbalance between the supply of labor and the demand for it, the appropriate remedies are special programs to retrain and relocate the unemployed, or make-work projects to give them jobs that the private sector of the economy cannot provide.

These programs are formulated and carried out by the Labor Market Board which has authority over all labor market questions. This board is an autonomous arm of the Ministry of Interior Affairs. It is responsible for the entire employment program. In addition to operating a nationwide placement service, the Labor Market Board has the responsibility for putting into operation various employment-creating measures, such as the release of investment reserves, and for stimulating geographical and occupational mobility.

#### GEOGRAPHY AND POPULATION

Sweden is the third largest country in Western Europe. Its area is 173,423 square miles, of which 158,486 are land and 14,937 are water. It occupies the eastern part of the Scandinavian peninsula, being separated from Norway on the west by the Kjolen mountain range. It is separated from Finland by the Gulf of Bothnia in the east but is joined by a common land frontier 333 miles long.

The three main territorial divisions are Norrland, Svealand, and Gotaland. Main physical divisions are the northern mountains and the lake region, covering all of Norrland and the western part of Svealand; the lowlands of central Sweden; and the plains of Skane, occupying the extreme south. Most of the country is covered with forests, with only 9 percent of the total land area cultivated for agricultural purposes.

<sup>15</sup> See "Nation's Manpower Revolution," hearings before the Subcommittee on Employment and Manpower, Subcommittee on Employment and Manpower, 83th Cong., 1st sess., pt. 3, pp. 967-1013.

The population of Sweden amounts to seven and a half million people and is homogeneous with respect to race, language, and religion.<sup>16</sup> It is necessary to keep these facts in mind if Sweden is to be compared with other countries. It is this homogeneity of the population which perhaps explains why its unemployment programs are suitable for it, but not for Belgium which is divided into Catholic and Protestant, and Fleming and Walloon.

### HISTORY

Sweden, like Spain, was once a major European power. From the end of the Thirty Years' War (1618-48) to 1709, Sweden, along with Holland and England, was a first-class power with dominance over the entire Baltic area. The attempts of the Swedish kings to establish control in Poland culminated in the defeat of the Swedish army at Poltava by the Russians in 1709. This victory marked the emergence of Russia in place of Sweden as the dominant power in eastern Europe. Since the end of the Napoleonic Wars, Sweden has participated in no European war.

### THE POLITICAL SYSTEM

Sweden is a constitutional monarchy. Legislative authority is exercised by the King and the Riksdag (Parliament) jointly. The right to tax is placed in the exclusive hands of the Riksdag. The Swedish Riksdag consists of two chambers, both elected—one directly and the other indirectly—by the people. The upper house is composed of 151 members who are chosen for 8-year terms by the provincial assemblies. There are 25 provinces, and representation in the Riksdag is proportional to the population of each province. One-eighth of the members of the Swedish upper house finish their terms each year. The lower house is a larger body. It has 232 members, all of whom are directly elected by an electorate of men and women aged 21 and over. The term of office is 4 years.

The major political party in Sweden is the Social Democrat Party. It has been in power since 1932. It has been responsible for the Government-supported program of welfare activities. There are three other important political parties—Conservative, Center, and Liberal. The last party, representing the rural elements, has usually supported the program of the Social Democrats. There is a small Communist Party which has four seats in the Riksdag.<sup>17</sup>

### THE ECONOMY

Sweden has the highest standard of living in Western Europe and is second only to the United States in the world. In 1961 per capita income of Sweden was \$1,781 compared to \$1,763 for Canada, \$2,830 for the United States, and \$1,418 for Great Britain. In such outward manifestations of living standards as number of automobiles, television sets, radios, and telephones per thousand people, Sweden is second only to the United States.

Contrary to what most Americans think, private enterprise is dominant in Sweden. Ninety-one percent of all enterprises in industry

<sup>16</sup> Approximately 99 percent of the people are Lutherans, and there are no significant racial minorities.

<sup>17</sup> In 1962 the election results on a percentage basis were as follows: Social Democrats, 50.4 percent; Liberal, 17.2 percent; Conservative, 15.5 percent; Center, 13.1 percent; and Communist, 3.8 percent

are privately owned. Of the remaining 9 percent, public ownership holds 4 percent, and consumer cooperatives the rest. Private enterprise accounts for 93 percent of the gross national product and employs 89 percent of the labor force. The government has constantly stimulated private industry through a liberal depreciation system and an investment reserve program which allows a corporation to make a tax-free deduction of 40 percent of pretax income.

Government ownership is largely limited to railroads, telephone, telegraph, and other utilities. There is one government-owned steel mill, situated in northern Sweden, which was built to stimulate local employment. The Swedish, Danish, and Norwegian Governments together own 50 percent of the Scandinavian Airlines System (SAS). The other 50 percent is in the hands of private nationals of the three countries. The shipping industry is privately owned and receives no government subsidy. Private industry accounts for 93 percent of steel production, 92 percent of chemical production, 95 percent of forest production, and 86 percent of food production. The automobile industry is privately owned. Private sources account for 58 percent of the total production of electricity. Eighty-eight percent of Sweden's retail business is in private hands, and the same is true of 94 percent of the banking business.

Foreign trade is a vital factor in Sweden's economy, and fluctuations in it are quickly reflected in the country's general level of prosperity. Exports are comprised mostly of a few major classes of goods—woodpulp, paper, wood products, iron ore, iron and steel, ships, and automobiles. One out of every five workers in Sweden is employed in export industries. Foreign trade accounts for 20 percent of the gross national product, and forest products account for 34 percent of total exports.

#### THE SOCIAL WELFARE PROGRAM

The Swedish social welfare program is one of the most comprehensive in the world. This is the program which supposedly has resulted in the stultification of Swedish initiative and is also supposedly responsible for the high suicide rate.<sup>18</sup> A brief outline of this program is as follows:

1. There is a basic old-age pension for everyone who reaches 67. At present this amounts to 3,325 kronor (\$640) a year for a single person and 5,210 kronor (\$1,000) for a married couple.<sup>19</sup> However, at his discretion a Swedish citizen can apply for his old-age pension at the age of 63, in which case he will receive seven-tenths of the full pension for the rest of his life. He can also put off his pensionable age to 70, which would give him a benefit rate that is about 20 percent higher than the level at age 67.

There is also a supplementary old-age pension which becomes payable at 67. The benefits under this pension program depend upon a person's earned income during the time he has been actively employed. The income earned through employment or self-employment, on which pension rights are based, is termed "pension-earning income" and is computed annually between the ages of 16 and 65 on the basis of the insured person's income tax return. For each year in

<sup>18</sup> Actually, the suicide rate is lower in Sweden than it is in Finland, Austria, West Germany, Denmark, Japan, Hungary, and Switzerland.

<sup>19</sup> The Swedish-American exchange rate is 5.19 kronor to \$1.

which a person's pension-earning income has been established, he is credited with pension points equal to his pension-earning income divided by a base amount valid at the beginning of the year.

This includes cost-of-living supplements. The Swedish pension program is tied to the cost of living. The Government fixes for each month a pension price index which is used to calculate the cost-of-living index.

The national supplementary pension benefits have constant purchasing power which is obtained as follows. Both the pension-carrying income and the pension payable stand in a direct relation to what is known as the basic amount. This fluctuates in accordance with the value of money. The basic amount is tied to a consumer price index. The basic amount for 1960 was 4,200 kronor; 4,300 in 1961; 4,500 in 1962; and 4,700 in 1963.

The general level of total old-age pensions (basic national pensions plus supplementary pensions) will amount by 1965 to approximately two-thirds of the average annual earnings of the pensioner during his or her 15 best years of income.<sup>20</sup> The pensions are guaranteed against inflation. Costs of the pensions are paid by the Swedish Government and by the employer.

2. There is a compulsory health program which covers all of the population. It pays three-fourths of the doctor's fees and travel expenses, part of the cost of the medicine (vitaly important medicines—e.g., insulin—are free), and the total cost of hospital treatment for each illness. There is also a daily sickness allowance which ranges from 5 to 28 kronor a day during the whole illness. The rate depends on the worker's annual income.<sup>21</sup> There are supplementary benefits if the worker has children under 16 years of age. A benefit of 1 kronor a day is paid for one or two children, 2 kronor for three to four children, and 3 kronor for five or more children. A worker with two children, hospitalized for 2 weeks, would receive two-thirds of his lost income in sickness benefits. The compulsory health program is supported by fees from the insured.

3. Unemployment insurance, which is voluntary, covers the majority of those who are exposed to the risks of unemployment. There are 47 unemployment insurance societies, each representing a particular union, but administered separately from the union, to which the workers belong. Benefits, which range between certain maximums and minimums, are paid on a daily basis, and they amount to a maximum of 20 kronor a day plus 2 kronor for the wife and 2 kronor for each child under 16. Assistance is payable for a maximum of 156 days per year.

Forty-nine percent of the benefits and administrative costs of unemployment compensation are met by the Swedish Government, 45 percent by worker contributions, and the remainder by interest on unemployment reserves. Employers do not contribute. Contributions by the workers average about 1 to 1½ kronor a week. Maximum

<sup>20</sup> The computation of the pension-earning income is based on the relationship of the basic amount for a given year to the total earned income for the same year which cannot exceed 7½ times the basic amount. For example, a worker earns 12,000 kronor in 1962. The pension-earning income is 12,000 minus 4,500, equals 7,500 kronor.

Pension points are computed by dividing the pensionable earnings by the basic amount for a given year. In the above example, divide 7,500 by 4,500 to get 1.65 pension points.

To calculate the pension, multiply the average number of pension points for the 15 best years by the basic amount for the month for which the pension is payable.

<sup>21</sup> For example, a Swede earning between 1,200 to 1,600 kronor a year would receive 5 kronor a day; a Swede earning between 12,000 to 14,000 kronor would receive 20 kronor a day.

benefits, including supplements for dependents, amount to 55 percent of average weekly take-home pay.

4. There are maternity and family allowances which take the form of cash benefits. Every mother receives a sum of 900 kronor at childbirth. If she gives birth to twins or to more children, the sum is increased by 450 kronor for each child above one child. If the woman is gainfully employed, she is entitled to an extra allowance ranging from 1 to 22 kronor a day depending on her income. This allowance is payable for the time she has to be absent from her work, but not for more than 180 days. All care before, during, and after childbirth is free. There is also a general family allowance for children under 16 which amounts to 550 kronor per child. The allowance is tax-free. There are holiday grants for housewives with at least two children under the age of 15, which include a holiday grant of 50 to 200 kronor depending on yearly income, free transportation, and a stay at a holiday home for which a nominal fee is charge.<sup>22</sup>

The universality of coverage is worthy of comment. No groups are left outside of the welfare program. This may be contrasted to the United States where pressure groups are able to gain many advantages over unorganized groups. Since the Swedish workers have all of what we would call "fringe benefits," bargaining between labor and management is primarily limited to wages.

#### LABOR-MANAGEMENT RELATIONS

Management and labor in Sweden are strongly organized. Both have formed central organizations—the Swedish Employers' Confederation for the employers, and the Confederation of Swedish Trade Unions and the Central Organization of Salaried Employees for the workers. In addition to these groups, there is the Swedish Confederation of Professional Associations which includes professional workers—doctors, lawyers, engineers, and teachers—and an organization representing civil service personnel called the Central Organization of State Employees.

##### *The Confederation of Swedish Trade Unions (LO)*

The Confederation of Swedish Trade Unions (LO) represents about 95 percent of all production workers in the country and has about 1,500,000 members. Forty-one unions with 6,567 branches are included in this organization. There is a congress which consists of 300 delegates elected by the members of the unions. It meets every fifth year. The congress elects the executive board. This consists of 13 people. There is a general council of 140 members which meets twice a year. Its members are also elected by the unions.

The local organizations which constitute the fundamental units of LO are of three different kinds. In each place where a productive enterprise is in operation, the workers join a local union which, in turn, is associated with an industrywide union. If there are several enterprises in the same industrial branch in one place, independently working organizations, called factory sections, are organized at each plant and are parts of the local union. In places where there are several branches of production represented, and there is more than

<sup>22</sup> These subsidies are for low-income families with a taxable income of 5,700 kronor or less.

one local union involved, these unions are combined into local trade councils. These have no duties with regard to wage policies.

The Swedish union movement has been marked by centralism. There have been worked out within LO so-called model statutes which the affiliated unions must accept. According to these rules, the locals do not have the right to take any sort of coercive action without receiving the national union's permission. In connection with negotiations for wage agreements, the members involved elect delegates to a wage conference which discusses and decides the cancellation of existing agreements. The wage conference appoints a delegation whose purpose is to negotiate for a new agreement. When the negotiations are over, the result is laid before the wage conference and the national union's board for examination and approval or disapproval.

If a union has exhausted the possibilities of negotiation without being able to reach an acceptable result and decides in favor of open conflict, it must according to law announce the work stoppage 7 days before the strike is called. Union rules in such cases require a union to obtain the approval of the board of LO of the announcement of the strike if as much as 3 percent of the union's membership is involved. If the union should refuse to ask LO for permission or announce a strike against the will of the board, it loses the right to economic and moral support from all of the member unions in LO.

#### *The Central Organization of Salaried Employees (TCO)*

TCO is comprised of 33 unions with 2,500 local branches. There are 447,000 members of which 256,000 are employed in private enterprises and 191,000 in State and municipal administration and services. About 75 percent of the employees not engaged in actual production—foremen, office employees of all types, sales personnel and engineers—are affiliated with this organization.

The organization of TCO is based on the three levels of a congress, general council, and a board. Congress, the supreme authority; meets every third year and consists of 200 delegates from the member unions. The general council, elected annually, consists of 100 representatives appointed by the affiliated unions and usually meets twice a year. The executive board consists of 10 members elected by the congress and meets once a week. The board has the power to participate in the general wage negotiations of the TCO unions where the results of the negotiations affected other affiliated organizations directly or indirectly.

The major unions affiliated with TCO are: the Union of Clerical and Technical Employees in Industry with 107,000 members; the Foremen's and Supervisors' Union with 43,000 members; the Union of Municipal Employees with 32,500 members; the Federation of Civil Servants with 22,300 members; the Union of Nurses with 19,000 members; and the Union of Elementary School Teachers with 12,800 members.

#### *The Swedish Employers' Confederation (SAF)*

SAF is by far the largest organization of employers in Sweden. Not only the greatest part of Swedish industry, but groups of enterprises engaged in handicrafts, transportation, and other services have associated themselves with this organization in order to present a common front in employer-employee relations. Forty-four employer

associations belong to SAF. These associations involve some 16,500 enterprises with 1,019,000 employees.<sup>23</sup>

There are also a number of associations outside of SAF—in banking and insurance, commerce, shipping, agriculture and forestry, and service trades. The cooperative movement and the fields of national and local government have employers' associations of their own. But the policies laid down by the SAF usually set the pattern for the negotiations.

The SAF began as a defensive body to take care of the employers' interests in disputes with labor unions. This has meant that the top organization must maintain a united employer front and that, in turn, has called for concentrated power. The SAF's employer associations must get its approval of their constitutions or any amendments to them. Moreover, employers who wish to become affiliated with any of the SAF associations must be recognized by the paramount organization. Every labor contract must have the SAF's approval, and members are liable to penalties if they ignore this rule or break the employer front in an open conflict by making a separate agreement contrary to the SAF line. In fulfilling its chief function as assistant in wage bargaining, the SAF has a representative at all key negotiations. Finally, it gives financial assistance to its members during an open conflict, provided the conflict is legal and in conformity with the constitution of the SAF.<sup>24</sup>

The organization of SAF consists of a general assembly of 364 delegates chosen by the member associations which usually meets once a year; a general council of 80 members chosen by the associations which also meets once a year; and a board of 29 members, some chosen by the general assembly and the remainder by the member associations. The board has formidable powers in its task of organizing, supervising member associations, and making decisions about direct action. For example, it decides upon all measures contemplated in connection with strikes and lockouts, unless this decision is referred by it to the general council.<sup>25</sup> Lockouts ordered or approved by the general council or by the board are binding for all members of SAF. Failure of members to observe the terms of such resolutions entails the assessment of damages by SAF against the offending member.

#### *The basic agreements*

Agreements which prescribe an obligation to negotiate before economic sanctions can be used have been concluded between the Swedish Employers' Confederation and its various union counterparts.

The basic agreement of 1938 (Saltsjöbaden agreement) was concluded between the Swedish Employers' Confederation (SAF) and the Confederation of Swedish Trade Unions (LO). It contains provisions for industrial peace which have been accepted by the federations of the SAF and LO. First, this agreement makes negotiations of labor-management disputes obligatory and sets out the procedure in detail. Secondly, it provides restrictions on coercive action. Economic sanctions, such as strikes and lockouts, can only

<sup>23</sup> The largest association is the Swedish Metal Trades Employers Association with 1,393 members and 257,402 workers. The second largest is the Federation of Swedish Building Employers with 1,651 members and 72,625 employees. Other large employer associations are the Swedish Iron & Steel Works Association and the Swedish Textile Employers Association.

<sup>24</sup> T. L. Johnston, "Collective Bargaining in Sweden," George Allen & Unwin, Ltd., London, pp. 68-82.

<sup>25</sup> See the Constitution of the Swedish Employers' Confederation (Svenska Arbetsgivareföreningar), arts. 34 and 42, pp. 21 and 25.

be used after direct negotiations between labor and management at the local and national levels have failed. Third, there is the provision which limits action against third parties; i.e., secondary action used against someone who is not directly concerned in the dispute in order to influence one of the parties involved. Fourth, there are provisions relating to the dismissal and layoff of workers. The employer has the unquestioned right to hire and fire as he sees fit.<sup>26</sup> However, the agreement specifies that an employer must notify the local union 2 weeks in advance when dismissing or laying off a worker who has been employed at least 9 months, except in certain circumstances, such as misconduct on the part of the worker.<sup>27</sup>

A final provision of the basic agreement pertains to conflicts which concern essential public services. Such conflicts are referred to the Labor Market Council—a special body created by the agreement—made up of three representatives from each side appointed for 3-year terms. For 15 years, the Council was never tested on this score. However, a conflict occurred in the electrical industry in 1953 which threatened large sections of industry, hospitals, and transportation. Management and labor were adamant on the issues involved.<sup>28</sup> Appeals were made to the Labor Market Council by several public agencies. A unanimous recommendation was rendered and accepted by the conflicting parties.

#### *Collective bargaining*

Industrywide collective bargaining is the most usual form in Sweden. Most unions are organized on an industrywide basis. For example, there is one union for metalworkers. Both skilled and unskilled workers belong to it. However, this may differ from trade to trade. Nevertheless, there are certain points which are characteristic of the Swedish system. If neither the labor or management federation in a given trade gives notice of termination of contract by a specified time—normally 3 months—before it expires, the contract is automatically renewed. Otherwise, the union usually makes the first move. It holds a contract conference to decide its requests. Delegates to such conferences—elected by the locals in proportion to their membership—vote on the new demands to be presented to management and elect negotiators. The corresponding organization on the employers' side discusses the specific demands of the union, determines the approach that should be followed, and marshals its bargaining forces.

When they meet at the bargaining table, labor's demands are discussed and countered by management's demands, bolstered in each case by a review of what is happening in the industry and the overall economy. It is a characteristic of all negotiations in Sweden that the mainspring of debate and agreement is a knowledge of economic facts, used not only to justify demands but also to test demands in terms of what they mean to the industry and to the country as a whole.

Agreements may be reached after a few sessions. However, when an accord on certain issues appears impossible and open conflict appears imminent, an official mediator is required by law to intervene.

<sup>26</sup> See Folke Schmidt, "The Law of Labor Relations in Sweden," Almquist and Wicksell, Stockholm, pp. 263-278.

<sup>27</sup> Employers affiliated with SAF are obliged to include in their collective contracts a provision which excludes closed shops, union shops, or similar arrangements. The freedom of the employer to engage workers freely, irrespective of whether they are or are not organized, is a basic rule of the labor market.

<sup>28</sup> The main issue was a wage dispute in the privately owned electric power stations; the workers in these power stations claimed they had lagged behind the Government-owned power stations in wage increases.



However, it is more usual for the conflicting parties themselves to ask for official help. Eight district mediators—appointed and paid by the Swedish Government—are supposed to help solve disputes in their respective regions. Special mediators may also be appointed by the Government. After concessions on both sides, the mediator can present a formal proposal which may or may not be signed.

Collective bargaining is free from compulsory arbitration. Legislation enters only at three points: It makes existing collective contracts enforceable and compels arbitration in cases of disputes over their interpretation of application; it makes the intervention of a Government mediator obligatory if the parties cannot reach agreement in negotiations for new contracts; and it requires 1 week's notice of strikes or lockouts if mediation fails.

The central bargaining agreements between SAF and LO sets the pattern for the whole labor market. The settlements thereby reached have taken the form of recommendations to all of the federations affiliated with each group to enter into collective agreements of specified contents; e.g., wage increases up to a certain cost ceiling. Most of the agreements are concluded between a trade union on one side and an employers' association on the other. The agreement is valid for all companies belonging to the employers' association.

The collective-bargaining contracts are concluded for a specific period of time—usually 1 or 2 years. When the contract has been established, direct action such as strikes cannot be carried on during the period of the contract.<sup>25</sup> Disputes must be settled peacefully. If the terms of the contract have been violated, an employer can take the union into court and sue for damages or vice versa. It is only after the contracts have expired, that unions and employers are free to take any direct action to influence the terms of the collective agreement. But during the period of the contract, peace prevails. The individual employer can make his plans with a greater degree of assurance. This is important for competition in foreign markets where delivery can often be upset by labor disputes.

Cases of contract violation and disputes over interpretation or application which cannot be settled by the parties concerned are taken to the Labor Court—a seven-man body with two representatives from the SAF and two from LO. If a case involves salaried workers, a TCO representative replaces an LO representative. A union can take an employer before the Labor Court and demand benefits in accordance with the contract. A firm hit by an unofficial strike can bring the strikers before the Labor Court and demand damages which are limited to a maximum amount of 200 kronor per person. There is no appeal from the decision of the Court.

Under the terms of the collective agreements, wages in industry are differentiated to allow for the fact that costs of living vary in

<sup>25</sup> The 1928 Collective Agreements Act defines the contractual obligations between labor and management. Once entered into, a contract is binding all along the line, from the national federations to the individual employers and union members. Even resignation from the organization does not free anyone from the terms of the contract.

different parts of Sweden. Such wage differentials, tied to the cost of living, are accepted by the unions.<sup>30</sup> There is also widespread use of the piecework system of wage payments. Approximately 65 percent of the total wages of all industrial workers are earned on the basis of piecework. Almost all collective-bargaining contracts provide that piecework is to be used wherever possible.

<sup>30</sup> Sweden is divided into several cost-of-living zones. In nearly all contracts the minimum wage for any category is differentiated by a cost-of-living zone. For example, in the agreement between the Swedish Metal Trades Employers' Association and the Central Organization of Salaried Employees, salary class IV is 2,114 kronor a month in zone 2, 2,278 a month in zone 3, and 2,427 a month in zones 4 and 5.

## CHAPTER II

# THE ADMINISTRATION OF UNEMPLOYMENT PROGRAMS IN SWEDEN

### DESCRIPTION OF UNEMPLOYMENT

Sweden has had a very high level of employment since the end of the Second World War. In fact, the supply of labor has been so short that many workers have been brought in from other countries.<sup>1</sup> Unemployment has averaged less than 2 percent since the end of the war.<sup>2</sup> However, there was a downturn in employment during the 1958 recession which also affected other Western European countries. In 1962 there was also a downturn in employment which was caused primarily by a decline in the exports of Swedish heavy industry. It must be pointed out that unemployment during both recessions was moderate by any standard, ranging from a low of about 1 percent to a high of 4.3 percent in January 1959.

Why then the concern with unemployment? There are several reasons. First, seasonal unemployment has been somewhat of a problem, ranging several points above the average rate of 1.5 percent which has prevailed since the Second World War. Second, long-term structural changes have been taking place in several industries—textiles, forestry, clothing, and shoe and leather—which have caused islands of unemployment throughout Sweden. These structural changes have been in part attributable to shifts in consumer demand and in part to foreign competition. Third, upgrading of skills in response to improved technology has resulted in the unemployment of many semiskilled and unskilled workers, and, fourth, the export-oriented economy has made Sweden vulnerable to a decline in exports.

Seasonal unemployment has been a problem in northern Sweden, particularly among the forestry workers. In January 1962 the unemployment rate in Sweden was 2.1 percent; however, in the two northernmost provinces—Norbottens and Vasterbottens—the unemployment rate was 6.0 and 6.3 percent, respectively. In April of 1962 the unemployment rate for Norbottens was 8.0 percent and for Vasterbottens 7.9 percent, compared to a national average of 2 percent.

The following table presents the percentage of unemployment, by months, over an 8-year period. These percentages indicate the effects of seasonal unemployment upon the overall totals.

<sup>1</sup> About 150,000 workers. The majority are Finns and Norwegians.

<sup>2</sup> For the measurement of unemployment in Sweden see "Measuring Employment and Unemployment," President's Committee To Appraise Employment and Unemployment Statistics, pp. 250-251.

Unemployment in Sweden is measured by taking those unemployed who are members of unemployment insurance societies and expressing their number as a percentage of the total number of members in the societies. Since the members of these societies make up only 36 percent of the total labor force, reliance is also placed on periodic sample surveys.

TABLE I.—Unemployment rates, by months, for Sweden, 1956-63

[In percent]

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1956.....	2.4	3.6	2.4	2.1	1.3	0.7	0.5	0.7	0.7	0.9	1.3	1.9
1957.....	2.9	2.6	2.6	2.7	1.9	1.2	.8	.9	.9	1.2	1.7	2.7
1958.....	3.8	3.6	3.6	3.8	2.6	1.3	1.0	1.3	1.3	1.7	2.4	3.3
1959.....	4.3	3.4	2.6	2.7	1.9	1.2	1.0	1.2	1.2	1.3	1.6	1.8
1960.....	2.8	2.5	2.0	1.9	1.2	.8	.6	.8	.8	.8	1.1	1.4
1961.....	2.1	2.0	1.5	1.6	1.1	.7	.5	.7	.7	.9	1.2	1.4
1962.....	2.1	2.2	2.0	1.9	1.3	.8	.6	.8	.8	1.0	1.2	1.3
1963.....	3.6	2.5	1.9	1.8	1.1	.7	.6	.8	.9	-----	-----	-----

Source: Sammanställning Arbetsmarknadstabeller, Kungl Arbetsmarknadsstyrelsen, Stockholm, October 1963.

The percentage unemployed is based on the number of registered unemployed within the unemployment insurance system. This number is considerably less than the total number of unemployed. Sample surveys of the labor force are also taken to gain more complete information about the number of the unemployed. The estimate of the total percentage of all unemployed as opposed to the actual percentage of insured registrants who are unemployed indicates a minor upward revision is necessary in the percentages in the table. For example, the estimated employment rate for all workers in November 1961 was 1.7 percent compared to 1.2 percent for workers covered by unemployment insurance. To adjust Swedish unemployment rates to American definitions, an upward adjustment of about 0.3 to 0.5 percent is necessary.

This low rate of unemployment may be contrasted with the average rate of unemployment which prevailed in Sweden during the period between the two World Wars. In the period 1923-30 the average rate of unemployment was 11 percent; in the period 1930-33 the average rate was 19 percent; and in the period 1933-37 the average rate was 16 percent. In the period 1929-39 the average rate was 15 percent.<sup>3</sup>

#### THE NATIONAL LABOR MARKET BOARD

The organization which is responsible for the entire employment program is the National Labor Market Board. In addition to operating a nationwide placement service, the Board has the responsibility for putting into operation various employment-creating measures, such as the management of investment reserve funds, and for stimulating occupational and geographical mobility. Other responsibilities include the supervision of the public employment service, planning of projects suitable to be carried out as emergency public works, direction of the start and discontinuance of such works, licensing of starting permits for building, and advice as to location of new industrial establishments. The Board functions as an independent agency under the Ministry of Interior Affairs.

The Labor Market Board is a tripartite board consisting of representatives from labor, management, and the Government. There are two representatives from the Swedish Employer's Confederation, two representatives from the Swedish Trade Union Confederation, one representative from the Central Organization of Salaried Workers, one representative from the Confederation of Professional Associations, one representative for female workers, one representative for agriculture, and three representatives from the Government.

There are 25 county labor boards, 25 regional offices, and 233 local offices. They provide quick information on employment changes within their areas. County job vacancy lists are published by the county labor boards of the different counties each week and sent to

<sup>3</sup> Erik Lundberg, "Business Cycles and Economic Policy," George Allen & Unwin, Ltd., London, 1957 p. 52.

the county employment offices. Vacancies which cannot be filled this way and which are suitable for exchange on the national level are reported by the regional employment office to the National Labor Market Board in Stockholm. In the Employment Service Division this material is compiled on a daily as well as weekly basis for publication in national vacancy lists which are distributed to all employment offices. Daily reports canceling vacancies filled are sent by the Employment Service Division to each office.

Information as to the existence of job vacancies in different parts of the nation is broadcast daily over the radio. Advertisements in the Swedish newspapers are also used to inform the public on employment opportunities. Bulletins are inserted periodically on television, and folders are distributed in the employment offices.

#### *Advanced warnings of layoffs*

A system for advanced information on impending employment changes is used in Sweden. It is based on agreements between the Labor Market Board and different employers associations. Anticipated discharges of labor have to be notified by a Swedish company to the county labor board in its area, as a rule, 2 months in advance. The same is true for governmental organizations. This information, gathered from county and local offices all over Sweden, is reported to the Labor Market Board in Stockholm.

When reporting to the county labor board in its area, a company provides information on (1) the date when the expected discharge or layoff is likely to be put into effect, (2) the number of workers expected to be discharged, (3) the estimated duration of the unemployment, and (4) the reasons for the curtailment of production.

#### *Industrial location*

Through its Location and Research Division the Labor Market Board has an instrument to influence the choice of location for the establishment of new industrial plants and other enterprises by private owners and central and local government authorities. However, this influence is limited largely to the giving of advice and information in order to make firms interested in a given location. Apart from the granting of certain allowances for vocational training in connection with the starting of firms, no financial inducement is used by this Division to influence a firm's choice as regards location.<sup>4</sup>

The Location and Research Division ascertains a firm's manpower requirements, transportation and communication needs, and site location, and public utility requirements. On the basis of this information, the Division proposes localities meeting the firm's requirements which appear suitable from the point of view of the public interest. Certain guideposts are used, which are as follows:

1. Localities and areas with a single and dominant industry susceptible to changes in the level of business activity.
2. Rural areas losing too much manpower to cities.
3. Localities providing employment opportunities predominantly for men only or women only.

<sup>4</sup> The location of industry is, however, influenced by Government guarantees for loans to handicrafts and small industrial enterprises. Responsible for this activity are the Board of Trade and the associations of small enterprisers on the county level. Guarantees are not limited to enterprises located in places where the economy is weak, but this factor is considered important and the authorities are prepared to take risks in supporting new establishments or expansions in such places.

Several other financial inducements will be discussed in later chapters.

4. Areas in great need of a new industry because of the discontinuance of some major plant.

An attempt is also made to achieve a regional balance by dissuading firms from establishing plants in Stockholm.

Consultation with local government authorities interested in attracting new industries is another service rendered by the Location Division. The Division is often requested by these authorities to conduct research on the suitability of their area for the establishment of industries. Advice is also given to local authorities who wish to support financially firms interested in establishing a plant in their territory. These authorities may either be advised against making financial commitments or assisted in securing from the Ministry of Finance loans and guarantees for attracting.

#### *Forecasting*

As a rule, the Labor Market Board twice a year collects from the county labor boards surveys on the expected developments in the labor markets in each county, one covering the summer period and the other the winter period. The prediction of the expected development is based on comprehensive statistics from enterprises typical of the various trades in the industry of each county. This information is gathered through questionnaires and interviews with the heads of firms. It includes data on the amount of incoming orders, volume of production, inventories, market prospects, planned investment in buildings and machines, unfilled vacancies, and expected layoffs or increases in personnel.

Systematic and comprehensive manpower forecasting is of recent origin in Sweden. However, a special section of the Vocational Guidance Division of the Labor Market Board, called the Forecasting Institute, is responsible for long-term employment forecasts. These forecasts form the basis for long-term employment policy as well as for vocational guidance.<sup>5</sup> Demand and supply forecasts for occupations and industries are currently being made. Structural changes which can be expected in the composition of the labor force are also being examined.

### SWEDISH EMPLOYMENT POLICIES

In Sweden, as in many other countries, a very high priority is assigned to the maintenance of full employment. This priority has been achieved in an economy which, during the whole postwar period, has been under an almost constant pressure of excess demand, originating largely from an increasing demand for Swedish export goods. However, structural unemployment has been a problem in several areas of Sweden, and two recent recessions in 1958 and 1962 have presented problems for the Labor Market Board.

It can be said that Swedish employment policies aim at increasing the mobility and adaptability of the labor force in the face of rapid changes in industrial development. Measures designed to level out

<sup>5</sup> For a comprehensive description of long-term forecasting procedure in Sweden, see "Long-Term Employment Forecasting—Some Problems With Special Reference to Current Organization and Methods in Sweden," a report by Sten-Olof Doos, Chief of the Forecasting Institute, Royal Labor Market Board. This report is contained in pp. 29-69 in an overall report on employment forecasting by Jan Tinbergen, Director of the Netherlands Economic Institute, Rotterdam. This report concerns forecasting procedures which are currently being used in France, the Netherlands, and Sweden.

supply and demand geographically play a major role in labor market policies. These measures include relocation allowances, job retraining, and emergency public works. Unlike general monetary and fiscal measures for influencing the overall state of the economy, these measures are anti-inflationary with regard to cost and are selective with respect to the particular problem involved; namely, pockets of unemployment in a country with an overall unemployment rate of less than 2 percent. Their functions can be described as a continual striving to eliminate unemployment and satisfy the demand for labor by stimulating labor mobility between areas of oversupply and areas of excess demand.

The remainder of this study will present Swedish employment policies under three major headings which are as follows:

1. Policies which are designed to stimulate the occupational and geographical mobility of labor. These policies include the reliance on relocation assistance unmatched by any other country in the world.
2. Policies which involve the use of tax incentives to stimulate investment during a recession. The major tax device is the investment reserve which is used to counteract cyclical unemployment.
3. Policies which involve the use of public works and other devices to alleviate seasonal and cyclical unemployment.

## CHAPTER III

### MEASURES TO PROMOTE LABOR MOBILITY

#### RELOCATION ASSISTANCE

Sweden is the only country in the Western World where relocation assistance is important as a device to combat regional unemployment.<sup>1</sup> The Swedes realistically recognize the fact that not all depressed communities can be saved; therefore, a more feasible and less costly solution is to move the unemployed to areas with job shortages. If the necessary skills are lacking, the unemployed are trained in the appropriate ones which are marketable in these areas.

Although Sweden has had considerable success with her relocation program, it should be pointed out that two factors are present which help to make for its success:

1. The homogeneity of the population is an important factor. The Swede who moves from northern Sweden to Stockholm or Goteborg will encounter other Swedes who possess the same social characteristics. As was mentioned previously, 99 percent of the population is Lutheran, and there are no significant racial minorities.<sup>2</sup>

2. High levels of employment exist throughout most of Sweden. A general labor shortage has existed in the industrial areas since the end of the Second World War. In fact, more than 150,000 workers—Finns, Italians, Norwegians, and other nationalities—have been imported into Sweden in the last 15 years. This means that jobs are also available for the unemployed in the depressed areas. It is only a matter of inducing them to move. This is done through the use of relocation allowances.

The relocation allowances take four forms—travel allowances, family allowances, starting allowances, and settlement allowances.

<sup>1</sup> The Trade Expansion Act (Public Law 87-794) does make allowances for relocation. The act provides that unemployed heads of families, who have little prospect of finding suitable and gainful employment in their communities and have been offered long-term employment elsewhere, are eligible to receive relocation allowances which cover moving expenses of the worker and his family and the cost of transporting household goods. In addition, the worker receives a lump-sum allowance of 2½ times the average weekly manufacturing wage. See secs. 328, 329, and 330 on pp. 24 and 25.

The Bureau of the Budget favored in 1963 the expansion of a federally financed training program in depressed areas. In addition, one of the provisions proposed by the Bureau of the Budget included the application of the relocation allowance under the Trade Expansion Act to the Area Redevelopment Act. However, this proposal was not submitted to Congress.

In the Netherlands, workers can receive relocation assistance in several forms including the cost of moving, a flat allowance to assist the worker until his first wage payment, and settlement compensation which can be used to defray the cost of furnishing the new house. This assistance, however, varies as to the type of worker moving and the area of location. Holland is classified into three areas: Development centers which are locations in which economic development must be stimulated; centers which are classified as having too great a concentration of both population and industry; and other areas of the country in which an economic balance has been achieved.

Great Britain also uses relocation allowances to induce workers to move from areas of surplus labor to areas where shortages exist. This approach was embodied in the Employment and Training Act of 1948. Workers may receive transportation to the new area of employment. A contribution is made for rent if the worker's dependents have to remain at home until new accommodations can be found. The cost of moving the worker's furniture is paid. An allowance of half the cost of an attorney or agent's fees is paid a worker if he has to sell his house or purchase a house in the new area.

<sup>2</sup> However, some Swedes from the forest areas of the north and from the rural areas in general have not found city living compatible with their former way of life. So they have left the employment in the cities for the more insecure employment in their home area.



*Travel allowances*

This allowance may be paid either in the form of a grant without liability for repayment or as a loan with a liability for repayment for a worker's travel expenses, subsistence expenses, and removal expenses. Arrangements for this allowance are made through the employment office in the worker's home area. The employment office determines the eligibility of the worker to receive the allowance based on the criteria mentioned below.<sup>3</sup>

1. *Travel expenses*.—These expenses are payable for the following purposes:

- (a) Journeys to take up employment at another place.
- (b) A return trip to the worker's home provided that through no fault of his own the job never began or was discontinued a short time after his arrival.
- (c) Daily journeys for a period of not more than 3 months when the worker has to remain at his original home and commute to work until he is able to find housing.
- (d) A return trip to the place of prospective employment if his employment is to begin at a later date.

The amount of the travel allowance depends upon the mode of transportation. If the journey is made by public conveyance, the allowance must not exceed the cost of the cheapest mode of transport. If the worker uses his own car, compensation is based on an amount equivalent to the cheapest fare by public conveyance for the distance covered.

2. *Subsistence expenses*.—An allowance for board and lodging is payable to a worker for expenses incurred in transit while looking for a job. A day allowance (25 kronor) is payable when a journey is made between 6 a.m. and 12 midnight, and a night allowance (15 kronor) when the journey takes place between 12 midnight and 6 a.m.

This subsistence allowance is also payable when the worker is moving to a new job. His wife and children between the ages of 4 and 18 are also eligible for an allowance.

3. *Removal allowances*.—A travel allowance is payable for the removal of a worker's family and household furniture to the new employment locale. Payment is made for the expense of the personal transportation which would include the cost of transporting the family from the old to the new locale, freight charges for moving the worker's furniture, and the expenses of packing, unpacking, and handling of furniture.

*Family allowances*

The National Labor Market Board may pay family allowances in cases where the worker is to take employment in a new place where he cannot immediately find family housing. This allowance is to compensate the family for the expense of having to maintain two separate residences.

<sup>3</sup> General eligibility requirements for these allowances are as follows:

1. The worker must be unemployed or is, in the opinion of the employment service, likely to become unemployed in the near future.
2. It must be the judgment of the employment service that the worker cannot be offered employment in the near future at or near his place of residence.
3. The new job cannot be regarded as a transfer between jobs belonging to the same firm.
4. The worker will take up employment at another place, and the labor market situation in the new place is judged by the local employment office to be such that manpower from another area is required to fill the vacancy in question.
5. The worker must live in a labor surplus area.

The family allowance is granted for a period which is not to exceed 9 months. For the first 3 months, the allowance is not more than an amount equivalent to the actual rent, including heating costs, for the family in the home district, plus a supplementary living allowance. For the next 3 months, not more than two-thirds of the amount calculable above is payable, and for the last 3 months, not more than one-third of the amount is payable.

This allowance is payable up to the time when housing can be found in or near the new place of employment. The amount of the allowance is as follows:

*For the first 3 months.—*

1. A supplementary family allowance for the wife of 140 kronor a month.
2. A supplementary family allowance for children under 16 at a rate of 45 kronor per child per month.
3. A housing allowance, including heating costs, which is not to exceed 250 kronor a month.

*For the second 3 months.—*The amount payable is reduced by one-third. For example, if the total allowance amounted to 570 kronor for the first 3 months, it would be reduced to 380 kronor for the second 3 months.

*For the third 3 months.—*The original amount payable is reduced by two-thirds, or in the example to 190 kronor.

#### *Starting allowance*

This allowance is granted to cover the worker's living costs until the first pay day. The amount of the starting allowance depends upon the estimated duration of employment. It ranges from 150 kronor if the estimated duration of employment is under 2 months to 500 kronor if the duration of employment is for more than 6 months.<sup>4</sup>

The starting allowance is payable by the county labor market board in the county where the place of employment is situated. The board in the new place of employment has to check after 30, 60, and 90 days whether the employment is still in effect.

There is an obligation to refund the starting allowance if the worker terminates the new employment without good reason.<sup>5</sup> The refund is 5 kronor a day. For example, a worker receives an allowance of 150 kronor. He works 25 days and then decides to return to his home. He would have to refund 125 kronor (25 days times 5 kronor). If, however, the worker moves to another job during the first 6-month period, he is not liable for repayment, provided his change of employment is considered to be suitable by the employment service from the labor market point of view.

#### *Settlement grants*

The five northernmost provinces, generally referred to as Norrland, have the highest rates of unemployment and underemployment of any area in Sweden. These provinces largely depend upon forestry and forest industries. Rationalization of the forest industries in Sweden

<sup>4</sup> The payment scale is as follows and is based on the estimated duration of employment:

1. 150 kronor, estimated duration of employment up to 2 months.
2. 300 kronor, estimated duration of employment from 2 to 4 months.
3. 400 kronor, estimated duration of employment from 4 to 6 months.
4. 500 kronor, estimated duration of employment 6 or more months.

(Swedish-American exchange rate is 5.19 kronor to \$1.)

<sup>5</sup> The merit of the refund is obvious. For one thing, it keeps many individuals from seeing Sweden at the expense of the taxpayer.

and the long-run decline in demand for forest products has caused a decline in employment opportunities. Employment is also seasonal in this most frigid part of the country.

Therefore, workers living in Norrland are eligible for a special type of allowance called a settlement allowance if they will accept relocation in another part of Sweden. This settlement allowance amounts to a lump-sum payment of up to 2,000 kronor (\$400). The idea behind this special allowance is that the unemployed from this part of Sweden are so far behind the rest of the population that it is necessary, so to speak, to give them a new start in life. This settlement allowance will enable them to get new furniture and clothes and will help them adjust more readily to the new environment.

The settlement allowance is a recent development, but still more is proposed to stimulate labor mobility. A deterrent to labor mobility is the ownership of a home and the reluctance to take a loss on it if it has declined in value. Since the decline in value is a fact in many depressed areas, proposals have been submitted to the Riksdag (Parliament) to compensate homeowners for any loss in the market values of their homes. Presumably, a homeowner who has suffered a loss of several thousand kronor in the sale of his house would be compensated for at least part, if not all, of the loss.

However, this proposal has not been enacted into law by the Riksdag. The major problem is the amount and degree of compensation. There is also opposition to the proposal from elements in the Conservative and Center parties.

#### *Cost of the relocation program*

An idea of the cost of the Swedish relocation allowance program can be gained from the table below. A 5-year period of time is used.

TABLE II.—*Cost in relocation allowances, by types, 1958-63*

[In kronor <sup>1</sup>]

Fiscal year	Starting allowance	Family allowance	Travel allowance
1958-59.....	660,000	2,252,000	416,000
1959-60.....	2,102,000	2,761,000	915,000
1960-61.....	1,993,000	2,492,000	1,148,000
1961-62.....	2,292,000	2,224,000	1,575,000
1962-63.....	3,400,000	2,814,000	2,912,000
Total.....	10,447,000	12,543,000	6,966,000

<sup>1</sup> 5.19 kronor equal to \$1.

Source: Information furnished by the Labor Market Board at the request of the author.

The total cost of the program over the last 5 years is approximately 30 million kronor (\$5,800,000). This settlement allowance, which has only been in effect for the fiscal year 1962-63, adds another 696,000 kronor (\$130,000) to the total cost. The total cost for the fiscal year 1962-63 amounted to 9,700,000 kronor (\$1,900,000). A rough approximation of the cost of this relocation program in the United States—assuming similar allowances—would be about \$45,000,000. The population of the United States is 24 times as great as Sweden's.

The number of unemployed involved in the relocation programs is presented in the following table. It should be remembered that unemployment in Sweden during this period has averaged about 1.5 percent of the labor force, or approximately 50,000.

TABLE III.—*Number of individuals receiving relocation allowances, 1958-63*

Fiscal year	Starting allowance	Family allowance	Travel allowance
1958-59.....	2,200	1,881	3,212
1959-60.....	8,164	2,110	7,465
1960-61.....	7,898	2,116	9,850
1961-62.....	8,725	2,068	12,000
1962-63.....	12,895	2,678	20,124
Total.....	39,882	10,853	52,651

Source: Information furnished by the Labor Market Board. It is necessary to point out that individuals can get more than 1 travel allowance. This was mentioned previously. It is probable then that the actual number of individuals receiving travel allowances is less than the figures indicate. The same is true for the data on starting family allowances, because it is also likely that some of these persons have changed jobs during this 5-year period and have received the allowances again.

In Sweden, as in most industrialized countries, there is a shortage of housing in the areas of the country with expanding industry and a demand for labor. This housing shortage has complicated the leveling between areas with a labor shortage and those with a surplus. Different measures have been used to overcome this obstacle to the mobility of labor.

More than 90 percent of total housing construction in Sweden is supported by Government loans. When granting these loans, special account is taken of the demand for housing in and around areas with expanding industries. Extra loans are placed at the disposal of these areas on the condition that priority in housing is given to the unemployed from labor surplus areas. The National Labor Market Board can also build temporary houses for workers where there is a great demand for labor.

The success of the measures to stimulate geographical mobility has not been questioned.<sup>6</sup> The measures have been made selective with the intention of reducing pools of unemployment in parts of Sweden by removing workers to jobs elsewhere. The measures have been expanded since 1957 when the stimulation of geographical mobility became an important part of the overall employment program. In 1958 the family allowance was introduced, and 1 year later the starting allowance was instituted. In 1962 the settlement grant became a mobility measure.

As mentioned previously, it is necessary to point out that relocation assistance has been successful for the reason that an excess of demand exists for labor throughout most of Sweden. With a rise of unemployment throughout the country, relocation assistance would lose most of its effectiveness.

### OCCUPATIONAL MOBILITY

Changes in the occupational structure and in the geographical distribution of available work often lead to discrepancies between the professional qualifications of the available labor and the qualifications currently in demand. Old trades die out or have to be supplemented by training in new methods. Entirely new jobs develop, and the qualifications necessary to fill them must be acquired

<sup>6</sup> Bertil Olsson, Director General of the National Labor Market Board has this to say with reference to the use of relocation assistance: "It costs less than 1 million kronor to move 1,000 persons. For the same amount, these persons might have been given unemployment assistance for less than 2 months or employed on public relief works for not more than 5 days. It can hardly be denied that the money is well spent when it is used for removal, just as it cannot be denied that the experiment has succeeded."

in one way or another. A shortage of skilled labor can prevent industries from exploiting expanding market situations.

In Sweden vocational training plays a paramount role in labor market policies. Training courses are scheduled by the Labor Market Board and administered by the Central Board for Vocational Training. Some courses are given by employers through agreements with the local employment exchanges. There are several types of training courses—beginning courses for those entering the labor force for the first time, advanced training for those who are already employed, and retraining for those who are unemployed and have no likelihood of being utilized in their former occupation. The latter group is the most numerous.

### *Training courses*

Vocational training courses have been developing rapidly in Sweden. The number of courses offered has increased from 55 in 1957 to 822 in 1963. Instruction is given in some 80 different specialized occupations, with periods of training varying between 1 month to 2 years.

The training courses are offered in 14 major occupational fields. For example, in the metal industry field courses are offered in the following specialties: Car electrician, car mechanics, tractor repair, toolmakers, refrigeration mechanics, instrument repair, spray painting, welding, shipyard work, television repair, and a number of other specialized occupations.<sup>7</sup>

Courses are also given for a number of diverse occupations—bricklayer, cartographer, electrician, surveyor, punchcard operator, cook, waitress, X-ray technician, nurse, radiotherapy technician, truckdriver, clerk, housekeeper, laboratory technician, weaver, pattern cutter, and others.

During the fiscal year 1961–62, 20,000 persons were engaged in the training courses.<sup>8</sup> This number increased to 29,000 during the fiscal year 1962–63. This number is expected to increase to 35,000 during the fiscal year 1963–64.<sup>9</sup>

The costs of the training courses for the fiscal year 1961–62 amounted to 77,800,000 kronor (\$15 million). This amount increased to around 125 million kronor (\$24 million) for the fiscal year 1962–63.<sup>10</sup>

Grants are paid to individual companies to support training courses for their workers. They may amount up to 14,500 kronor (\$2,800) a year for courses with a maximum of 16 trainees. However, such grants have been given to only a handful of companies. The capacity for this type of training is at present very small.

About 80 percent of those trained receive jobs immediately in the occupations for which they were trained. Retraining is often combined with removal to another area. On completion of training, many workers receive removal allowances.

<sup>7</sup> Hakan Hakanson, "Vocational Training of the Unemployed," Employment Service Division, National Labor Market Board, September 1962, p. 9.

<sup>8</sup> Of these, 9,300 were women. Most received training in two fields—nursing and clerical work.

<sup>9</sup> The figure of 35,000 represents 1 percent of the Swedish labor force. The equivalent number in the United States would be around 700,000 persons.

<sup>10</sup> The Labor Market Board intends to offer retraining courses to about 1 percent of the labor force each year. The cost of the same program, assuming similar allowances, in the United States for the fiscal year 1962–63 would have been approximately \$480,000,000. The U.S. labor force is about 20 times as large as the Swedish labor force, and the assumption is that the same ratio holds for workers receiving training—580,000 to 29,000.

### *Training allowances*

There are several allowances and supplements for the worker who is undergoing job retraining, which are as follows:

1. A basic training allowance of 420 kronor (\$80) a month for a single or married person, male or female. This includes a 10-kronor allowance for work clothes.

2. A rental allowance which ranges from 85 kronor (\$16) to 125 kronor (\$20) a month depending on the area of the country in which the retraining is taking place. The worker must be living away from home.

3. A family living allowance of 55 kronor (\$11) for the wife if the trainee is living at home and 140 kronor (\$27) a month if he is away from home. There is also an allowance of 45 kronor (\$9) a month for each child under 16.

4. A family allowance for housing of 250 kronor (\$48) a month if the worker is married and living away from home.

It is possible for a trainee to receive as much as 1,070 kronor (\$206) a month in allowances for a period of up to 2 years while he is receiving training. All allowances are free of taxes and are paid by the county labor board in the county in which the worker is being trained.

Women who are the sole supporters of their children are also eligible for vocational training. Many have menial jobs or jobs with irregular hours. Vocational training would equip them for a trade with regular hours. They will be able to compete in the labor market, and at the same time they will have wider opportunities for choosing jobs with their children's needs taken into consideration. The allowances mentioned above are also payable to women who are eligible for retraining.

### *Individual assistance*

There are employment programs for the older and handicapped workers. Older workers who can neither be retrained or relocated in another area where work is available are given a form of public works employment. They are put to work cleaning parks, clearing forest areas, and performing janitorial or clerical services in libraries and museums.

Handicapped workers are given occupational tests and on-the-job training in workshops organized by the county councils and communes, or privately, with the assistance of national grants. Special courses for the handicapped are offered. In 1961 rehabilitation courses were started for forest workers with back injuries, and in 1962 a course for training punchcard operators was arranged for persons with reduced vision. Allowances are paid on the same basis as for retraining. Employment for those who cannot find employment in the open market is provided in the national archives and public libraries and in sheltered workshops which are organized by the communes with the help of county council grants for investment in building and machinery and subsidies for operating costs. It is also possible for handicapped workers, who have the necessary aptitudes, to start a business of their own through a business establishment grant of 5,000 kronor (\$1,000) from the Labor Market Board.

## CHAPTER IV

### MEASURES TO INFLUENCE INVESTMENT

An important measure to influence investment—the investment reserve—is used by Sweden to maintain an adequate level of demand throughout the country. This measure is rather unique and has been used rather effectively to counteract cyclical unemployment. The recession of 1958, which had its repercussions on Sweden's export-oriented industries, provided a test of its effectiveness.

It is important to point out that Sweden places emphasis upon stimulating private investment. The purpose is to take some of the responsibility off the Government for maintaining effective demand by enlisting the aid of private capital.<sup>1</sup>

#### INVESTMENT RESERVES

Companies are permitted to set aside, at their own discretion, up to 40 percent of pretax income as an investment reserve for economic stabilization.<sup>2</sup> This amount is deductible from income for the purpose of both the national and local income taxes.<sup>3</sup> Forty-six percent of the amount must be deposited in a non-interest-bearing account in the Central Bank of Sweden (Riksbank), and the remaining 54 percent remains a part of a company's working capital. No government permission is needed to set aside this reserve. However, control over the use of the reserve is exercised by the Labor Market Board.

For example, assume a pretax income of 2,500,000 kronor (\$480,000). A company may set aside 1 million kronor as an investment reserve. Forty-six percent of this amount (460,000 kronor) must be set aside in the Riksbank and is, in effect, neutralized until needed during a downturn in economic activity. The remaining 54 percent (540,000 kronor) belongs to the company as a part of ordinary working capital. The company may use this amount for any purpose if it so desires.

#### *Uses of investment reserve funds*

The purposes for which an investment reserve can be used are as follows:

1. To write off the cost of erecting, enlarging, or reconstructing a building; however, the amount that can be written off in a tax return must not exceed the expenditure actually incurred in the

<sup>1</sup> The World Tax Series volume, "Taxation in Sweden," makes this statement: "No country has sought more vigorously to use taxation, together with other fiscal, monetary, and regulatory measures, as a tool to affect the business cycle. Sweden has employed pioneering income tax devices designed at least in part to make the economy more resistant to depression and to influence the propensity of business to invest; in this way it has sought to enlist private capital in the task of leveling the business cycle," p. 69.

<sup>2</sup> Actually, there are two types of investment reserves—investment reserves for forestry and investment reserves for business. This paper is only concerned with the latter.

<sup>3</sup> Swedish corporations are subject to both national and local taxes on income. The national income tax is levied on corporations at a flat rate of 40 percent. The local income tax, averaging 15 percent, is levied at a flat rate on all corporations. The amount of the local income tax assessed during the year against a corporation is a deduction which is subtracted from net income to give the assessable income for national income tax purposes. The effective tax rate—national and local—is approximately 49 percent:

$$\frac{15.100}{100} + \frac{40.85}{100} = 49 \text{ percent}$$

fiscal year, a condition which applies also to the other types of investment.

2. To contribute toward the erection, enlargement, or reconstruction of dwellings of present or former employees of the corporation.

3. To defray the cost of repair and maintenance of buildings which are used in their regular activities by corporations engaged in mining or manufacturing.

4. To write off the cost of machinery and other equipment intended for permanent use which have been purchased or of vessels which have been purchased or rebuilt during the fiscal year.

5. To cover the cost of the repair of vessels.

6. To depreciate stocks of raw materials and of semifinished and finished products up to an amount equal to the expenditures for the production or procurement of stocks during the fiscal year.

7. To cover the costs of prospecting and other preproduction work during the year in mines, quarries, and similar deposits under exploitation.

8. To promote the sale abroad of commodities which the corporation produces in Sweden. This use of investment reserves, however, is subject to special authorization.

The 46 percent of the reserve in the Riksbank and the remaining 54 percent, which is a part of working capital, may be released for any of the above purposes when the Ministry of Finance considers economic conditions to be worsening. The reserves are to be released during a recession when they are needed to stimulate investment. The significance of the reserves lies in the fact that up to 100 percent of an investment can be written off immediately. When the investment reserve is used for the permissible purposes, the amount used is not restored to taxable income. The asset charged to the reserve is not subject to depreciation allowance.

Several examples of how the investment reserves may be utilized are as follows:

1. Assume, as in the previous example, that a company has set aside 1 million kronor as an investment reserve. Forty-six percent has been deposited in the Riksbank in a special non-interest-bearing account. The remaining 54 percent has been charged to working capital. The company has used the 54 percent in the operation of the business.<sup>4</sup>

A downturn in business activity occurs. The Ministry of Finance decides that the time is propitious for the release of the investment reserves. It notifies the Labor Market Board to this effect. The Labor Market Board then gives permission to individual companies to use their investment reserves for any of the purposes previously mentioned.

The company decides to use the entire 1 million kronor for the purchase of new equipment. It may withdraw the entire 460,000 kronor which it has on deposit with the Riksbank. As for the remaining 540,000 kronor which has been kept in the business and used, the company must reproduce this amount, because it is a part of the investment reserve.

<sup>4</sup> It is left to the company to manage its liquidity position with a view to the needs of a possible release. Thus, when reserves are released, the company must have on hand—or be able to raise—more than half of the amount it is required to invest.



2. Assume, however, that the company decides to use only a part of the total reserve; for example, 100,000 kronor. The company has to take 46 percent of this amount (46,000 kronor) from its deposit in the Riksbank. The amount of its deposit is reduced by 46,000 kronor, and the remainder is 414,000 kronor (460,000—46,000). As for the remaining 54 percent of the amount (54,000 kronor), the company must produce this amount. It is deducted from that part of the investment reserve (540,000 kronor) which has been retained by the company and which has been charged to working capital. When this deduction has been made, the original amount has been reduced to 486,000 kronor (540,000—54,000).

Not only is the investment reserve not restorable to taxable income, but in order to stimulate the use of this program even more, an extra investment deduction—10 percent of the reserve used—is permitted in the tax assessment in its next income tax return.<sup>5</sup>

For example, assume that a company sets aside 1 million kronor in an investment reserve fund in 1960. In 1962 a recession occurred, the reserve funds were released, and the company used its entire amount for new equipment. Ten percent of this amount (100,000 kronor) was deductible from pretax income in 1963. Assume a pretax income of 3 million kronor. The 100,000 is deductible from this amount, and the income for tax purposes is now 2,900,000 kronor.

If an investment reserve is used without the authorization of the Labor Market Board, the amount involved plus a penalty of 10 percent of the reserve is added to taxable income during the next assessment period.

For example, assume the company in the aforementioned example decides to use its entire investment reserve (1 million kronor) without the authorization of the Labor Market Board. This amount plus a penalty of 10 percent (100,000 kronor) is restored to taxable income.<sup>6</sup>

There is general permission after 5 years have elapsed, irrespective of business conditions, to withdraw up to 30 percent of the reserves provided they are used for the allowable purposes. However, in this case a company will not receive the extra 10-percent investment deduction.

For example, assume a company set aside 1 million kronor as an investment reserve in 1958. In 1963—a good year for the Swedish economy—the company decides to utilize part of its reserve to purchase machinery. It may use up to 30 percent of its reserve (300,000 kronor) for the acquisition. It decides to use this amount. Thirty percent of the amount on deposit in the Riksbank (460,000 kronor) can be withdrawn. This amounts to 138,000 kronor. Thirty percent of the reserve kept by the company (540,000 kronor) may also be withdrawn. This amounts to 162,000 kronor.

Through the system of investment reserves, the government has been able to influence a counter-cyclical movement of private investment. An increase in the investment reserve serves the purpose of dampening boom conditions; the release of the reserves during a recession has the effect of stimulating investment.

The 46-percent sterilization reserve in the Riksbank has an important advantage from the standpoint of business cycle policy in that the

<sup>5</sup> In other words, a company which uses its investment reserves in 1962 is permitted to deduct 10 percent of the amount from taxable profits in its income returns for 1963.

<sup>6</sup> Needless to say, this does not happen frequently.

reserve cannot be invested before permission to do so has been obtained from the Labor Market Board. The ideal from the business cycle point of view would be to sterilize the entire investment reserve (100 percent rather than 46 percent) during an inflationary period, but the consequence would be that no firms would be interested in making allocations to an investment reserve since it would be more advantageous from the standpoint of liquidity to pay the tax on profits.

During the boom conditions of 1960 a further inducement was added to the investment reserve program. If a firm wished, it could pay into the Riksbank an amount equal to 100 percent of the reserve.<sup>7</sup> A tax rebate was granted, which was as follows:

1. If a company placed its reserve with the Riksbank before August 1, 1960, it could deduct from its taxable income during this year an amount equal to 12 percent of its reserve.

2. If the reserve was placed in the Riksbank between August 1 and November 1, 1960, the corresponding deduction was 8 percent.

The amount of the reserve in excess of the required 46 percent was repayable at the end of 1961. However, in 1961 boom conditions again prevailed and companies which had deposited the full amount of their reserves to the Riksbank in 1960 were granted a further inducement to leave them in for another year or until the end of 1962.<sup>8</sup> The deduction permitted from taxable income in 1961 was 10.5 percent of the full reserve.

Similar tax deductions to those given in 1960 were given to companies in 1961 if they agreed to deposit the full 100 percent of the reserve in the Riksbank. A tax deduction of 12 percent was given if a deposit was made before July 1, 1961, and 8 percent if a deposit was made before October 1, 1961, with 54 percent of the deposit repayable at the end of 1962. This tax deduction could still be claimed if the reserves were released for authorized purposes.

#### *Investment reserves and depressed areas*

In July 1963 the Government announced its decision to authorize the release of investment reserve funds for the purpose of encouraging the location of industries in the four northernmost Provinces of Sweden (Norrbottens, Vasterbottens, Vasternorrlands, and Jamtlands), and some areas of central Sweden (Halsingland and the northern and western parts of Dalecarlia, Varmland, and Dalsland).<sup>9</sup> These areas have had the highest percentage of unemployment in Sweden, not only in periods when unemployment was high in the rest of Sweden, but also when it was low. Continued structural unemployment, especially in forestry, underscored the need to create job opportunities in these areas.

Investment reserve funds for industry as well as forestry may be used for projects started in these areas.<sup>10</sup> For example, the investment fund can be used to erect or enlarge a plant, procure machinery and equipment, or for other eligible purposes. Companies located within the depressed areas, as well as those located outside, are al-

<sup>7</sup> Prior to this time, the amount that had to be deposited in the Riksbank was 40 percent rather than the current 46 percent. The investment reserve program dates back to 1938; however, its current provisions date from 1955.

<sup>8</sup> A recession occurred and the reserves were released.

<sup>9</sup> This is at a time when general use of the investment reserves is not permitted.

<sup>10</sup> Deductions for forestry investment reserves cannot exceed 10 percent of gross receipts from forestry. Investment reserve funds for forestry, when released, can be used on the building of forest roads and floatways, forest conservation, and the erection and maintenance of buildings.

lowed to use the funds, as long as they are for projects relevant to the creation of employment.

The use of the investment reserves to promote the location of industry has been opposed by the Swedish Employers Federation on the grounds that this interference with free competition might result in the establishment of noncompetitive enterprises. However, supporters of the use of investment reserves for this purpose contend that the alternatives would be worse—either a considerable increase in unemployment in the areas concerned (it is estimated that 75,000 workers will lose their jobs within the next 5 years), or a one-sided increase in the public sector. Furthermore, imbalance in any given sector is reduced by the number of measures which can be used concurrently.

#### *Tax advantages of the investment reserve*

Although the tax advantages to be derived from the use of an investment reserve will be illustrated in more detail in the appendix at the end of the chapter, they can be briefly summarized as follows:

1. An advantage is gained when a company sets aside the 46 percent for deposit in the Riksbank. In the original example, the company set aside in the total investment reserve fund an amount of 1 million kronor out of a pretax income of 2,500,000 kronor. Forty-six percent was deposited in the Riksbank, and the remaining 54 percent was kept by the company. The company initially retains the difference between the income tax (49 percent of the income) and the amount deposited in the Riksbank (46 percent of the investment reserve), or, in the example, 490,000 kronor (49 percent of 1 million kronor) less 460,000 kronor (46 percent of 1 million kronor). The difference of 30,000 kronor represents an initial gain to the company.

2. When the reserve is used (assume the full amount of 1 million kronor), the company is entitled to an extra investment deduction of 100,000 kronor from taxable income in the next tax year. Since the tax rate is 49 percent, the company saves 49,000 kronor.

3. In certain cases, the investment may be written off at once by the amount withdrawn from the reserve.<sup>11</sup>

However, these advantages must be compared to the gains which would have accrued from the normal liberal depreciation allowances which could have been used. The net advantage is the difference between the advantages obtained with an investment reserve and those obtainable through the use of normal depreciation allowances.

#### *The release of investment reserves*

Although the use of investment reserves has been permitted since 1938, the present regulations were introduced since 1955. Since this time, permission to release the reserves has been granted twice—in 1958–59 and 1962–63.

<sup>11</sup> It should also be mentioned that for major projects requiring up to 2 years for completion, the Government can authorize not only the use of existing reserves, but also future allocations to the investment reserve. In either case, a ceiling of 75 percent of the project is set. The total amount a company can be authorized to draw on existing reserves and future allocations must not exceed 75 percent of the total cost of the project. This means that a company can write off up to 75 percent of the cost of the project as soon as the expenditure is made, instead of the far smaller depreciation allowances permitted. However, Government authorization is required. The project must be justified from the standpoint of public policy, unemployment, and the public welfare.

*A. The release of the reserves in 1958-59*

The investment reserves were released to stimulate investment during the recession of 1958-59. Permission was granted in May 1958 and was terminated in September 1959.

The 1958 recession which occurred in the United States and the major European countries adversely affected employment in Sweden's export-oriented industries. The deterioration in the export markets for the products of the forest industry was the major cause of unemployment. The recession also affected the textile and shoe industries.

General permission was given for the release of forestry reserves. The Labor Market Board prescribed the condition that forestry projects financed through the use of the reserve had to be finished before June 30, 1960.

However, more circumscribed permission was given for the release of the investment reserves for business. A basic criterion for permission to use the reserves was that projects should be started at times which corresponded with the highest rate of unemployment. This criterion was particularly applicable to investments in buildings, with the basic objective to start the construction during the winter months when unemployment was the highest. Projects also had to conform to a time schedule approved by the county labor boards. The money involved could only be utilized during a certain period. The length of the period depended on the size and nature of the project.<sup>12</sup>

Altogether 418 companies received 613 permits from the Labor Market Board to dispose of 695,300,000 kronor (\$133,000,000) during the period from May 1958 to September 1959. Additional permits for 320,000,000 kronor (\$61,000,000) were given for long-term projects, because in certain cases companies were allowed to use current reserves and future allocations to reserves.

The following table presents a breakdown of the use of investment reserve funds, by industries, during the period from May 1958 to September 1959. The largest proportion of the fund used involved investments in buildings and plants.<sup>13</sup>

<sup>12</sup> The obvious concern was with the timing and duration of projects. There was the danger that the duration of many projects would be longer than the duration of the recession. Therefore, the length of most projects was fixed at 1 and 1½ years.

<sup>13</sup> Approximately 90 percent.

TABLE IV.—*Distribution of reserve funds, by industry, May 1958 to September 1959*

Industry	Number of enterprises	Percent	Estimated use of funds (million kronor)	Percent
Bruksföretag <sup>1</sup> .....	8	1.9	86.1	12.4
Mines.....	4	1.0	3.8	.5
Metal and machinery.....	136	32.5	279.7	40.2
Earth and stone.....	17	4.1	5.5	.8
Wood products.....	29	6.9	36.2	5.2
Pulp and paper.....	32	7.7	90.2	13.0
Graphic trades.....	9	2.1	7.5	1.1
Food processing and beverages.....	22	5.3	18.2	2.6
Textiles.....	41	9.8	27.2	3.9
Leather, hair, and rubber.....	8	1.9	10.3	1.5
Heavy chemical.....	27	6.5	27.5	4.0
Power stations.....	4	1.0	10.7	1.5
Total (mining and manufacturing).....	337	80.7	602.9	86.7
Commerce.....	52	12.4	70.4	10.2
Transportation.....	18	4.3	18.1	2.6
Other.....	11	2.6	3.6	.5
Total.....	418	100.0	695.3	100.0

<sup>1</sup> Bruksföretag, a very old form of enterprise, combines agriculture and forestry with 1 or several kinds of industrial enterprise; e.g., mining.

Source: Gideon Nitare, "Investment Reserves," Division for Industrial Locations and Investigations, National Labor Market Board, January 1961, p. 10.

Several examples of projects for which investment reserves were used in the 1958-59 recession are as follows:<sup>14</sup>

1. 1,145,000 kronor for replacement of the ground-wood mill of the Göta River which was destroyed by a landslide.
2. 2,700,000 kronor to the Sandviken Iron Mills for the expansion of a carbide metal plant at Sandviken.
3. 280,000 kronor for modernization of an ore-sintering plant at Sködinge.

A major criticism of the effectiveness of the investment reserve program as it was used during the 1958-59 recession pertained to the matter of timing. It is contended that the investment reserves should have been released 6 months earlier—December 1957—and discontinued at an earlier date.<sup>15</sup> The full employment effects of the investment reserves were not felt until 15 months after the original permission was given for their release in May 1958.<sup>16</sup>

The employment effects derived from the use of the investment reserve funds during the 1958-59 period were as follows:<sup>17</sup>

1. In November 1958, 2,000 workers were employed on building projects financed with investment reserve funds. Total unemployment in Sweden during that month was approximately 100,000. The 2,000 workers represented about 8 percent of the total number of workers employed in building construction.

2. In February 1959 the number of workers employed on building projects financed with investment reserve funds had increased to 4,000. This amounted to 17 percent of the total number of workers employed in building construction.

3. In August 1959 the number had increased to 6,400. The maximum employment-creating effect from the use of the investment reserves was derived during this period which lasted through the fall and autumn of 1959-60. However, this maximum effect was not achieved until after a considerable period of time had elapsed after the original permission had been given to use the investment reserves.<sup>18</sup>

4. In February 1960, 6,300 workers were employed on projects financed with investment reserves. This amounted to 21 percent of the total number of workers employed in building construction.

#### *B. The release of the reserves in 1962-63*

Unemployment in the pulp and paper and building construction industries led to the second release of the investment reserves. Permission to use the investment reserves was first given to the pulp and paper industry in December 1961. In May 1962 the Labor Market Board, concerned about an expected substantial increase in unemployment in building construction for the fall and winter months, authorized a general release of investment reserves for building projects. These projects had to begin before November 1962, and the reserves were available for projects carried out during the time period July 1962 to April 1963. In this way the maximum effect on

<sup>14</sup> "Economic Policy in Western Europe," report for the Joint Economic Committee, 85th Cong., 2d sess., p. 248.

<sup>15</sup> Bertil Olsson, "Employment Policy During the Recession," Quarterly Review of the Skandinaviska Banken, April 1959, p. 59.

<sup>16</sup> In other words, the recession was over and the country was in a boom period.

<sup>17</sup> Curt Canarp, "Investment Reserves and How They Can Be Used To Combat Recession and Unemployment," Quarterly Review of the Skandinaviska Banken, April 1963, p. 36.

<sup>18</sup> Permission to use the investment reserve funds was terminated in September 1959. The economic upturn began in the summer of 1959. By 1960 special tax incentives were being offered to increase the amounts deposited in the Riksbank.

employment was produced during the winter months when unemployment in building construction is at its highest.

By the latter part of 1962, the recession had spread to the metal and machine tool industry. Orders were falling off and unemployment occurred. The Labor Market Board and the Ministry of Finance decided in November of 1962 to authorize the use of investment reserves for machinery investments.<sup>19</sup> Permission was given to use the reserves for this purpose. Orders had to be placed before May 1963. Through March 1963, permits to use investment reserves for machinery investments amounted to 280 million kronor (\$54,000,000).<sup>20</sup> Coupled with this release of investment reserves was a speedup of state and local government orders from the metal and machine tool industry.

Industrial plant construction, however, was the sector of investment on which the release of investment reserves had the greatest employment-creating effect. For example, in August of 1962, the total number of workers employed in plant construction amounted to 28,560; of this number, 1,600 workers or 6 percent were employed on projects using investment reserves. In November 1962, the total work force had increased to 34,860; however, of this total, 8,500 workers or 24.5 percent were employed on projects using investment reserves. In February of 1963, 10,100 workers or 31 percent of all workers were employed on investment reserve projects.<sup>21</sup>

In the case of forestry reserves, the Labor Market Board decided in June of 1962 to grant general permission to use funds for costs incurred between September 1, 1962, and April 30, 1963. The condition laid down was that planned projects had to be reported to the local county labor board.

From the standpoint of timing, the release of the reserves in the 1962-63 period was more effective than the release in the 1958-59 period. Permission to use the investment reserves for building construction was granted in May 1962. By November of the same year, 8,500 workers were employed on projects financed with investment reserves; in February 1963—less than a year after permission to use the reserves had been given—the number of workers had increased to more than 10,000.

#### *Evaluation of the investment reserve system*

Swedish experts in the Ministry of Finance and the Labor Market Board place the following evaluation on the effectiveness of the investment reserve system as an economic policy instrument.

1. The release of the investment reserves during the 1958-59 and 1962-63 recessions had a stimulating effect on investment. In 1958 private investment (excluding maintenance) increased 11 percent over 1957, and in 1959 investment increased 6 percent over 1958. In 1962 an anticipated drop in building investment did not materialize.

2. The restraining effect during a boom period is less pronounced, because the required deposit of 46 percent in the Riksbank is less than the effective tax rate of 49 percent. In other words, the setting aside of an investment reserve enhances the liquidity of companies at a

<sup>19</sup> The Ministry of Finance is responsible for general economic policy; the Labor Market Board is responsible for its implementation.

<sup>20</sup> The great majority of this amount went for purchases of machinery and equipment from the shipbuilding, metal, and machine tool industries.

<sup>21</sup> Canarp, *op. cit.*, p. 38.

time when liquidity is not a basic desideratum. However, as was mentioned previously, during the boom period of 1960-61, companies were offered special tax incentives to deposit the full amount of their investment reserves in their accounts at the Riksbank. This had the effect of neutralizing the full amount of the reserve rather than the 46 percent.

3. Compared to other devices used to stimulate investment—depreciation allowances and investment deductions—the investment reserve has several advantages which are as follows:

(a) It is more flexible in that it can be used for localization purposes (a given area) and for a particular branch of industry.

(b) The reserve allocation maintains an option on future tax advantages.

4. The system acts as an incentive to well managed and highly liquid companies to conform to the nation's desire to maintain employment, and at the same time avoids governmental administrative burdens connected with the support of individual projects.

5. Although there is an element of subsidy in the form of tax allowances, the Government does not subsidize or protect weak industries and badly managed companies.

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## APPENDIX TO CHAPTER IV

### A. DEPRECIATION POLICY

A brief summation of the flexible depreciation policy allowed in Sweden with respect to machinery and equipment is as follows:

1. The taxpayer may use a 30-percent declining balance method which means that depreciation in any one year cannot exceed 30 percent of the yearend book value of the taxpayers' machinery and equipment.<sup>1</sup> Under this rule, 30 percent of the cost of the equipment can be written off the first year, 30 percent of the remaining balance the second year, 30 percent of the remaining balance the third year, and by the end of the 5 years, the cost of the equipment has been written off. The 30 percent is the ceiling; the taxpayer can take less if he chooses—5 percent of book value one year, 30 percent the next year, and so on.

2. Instead of the 30-percent declining-balance method, a company may at any time take a straight-line deduction of 20 percent of the book value of its machinery and equipment. Under this rule, it can write off the cost of the machinery and equipment in 5 years.

In any particular year, the company can use either the declining-balance or straight-line method. However, whichever method is selected must be applied to all of the machinery and equipment. In other words, the declining-balance method cannot be applied to some items and the straight-line method to others. These methods and percentages apply only to machinery and equipment. Buildings are depreciated at straight-line rates which are often as low as 3 percent.

<sup>1</sup> See Martin Narr, "Taxation and Stability: Guidance From Sweden," *Harvard Business Review* January-February 1960, pp. 52-53.  
Also see World Tax Series, "Taxation in Sweden," pp. 276-281.



An example of the use of both the declining-balance and straight-line methods is as follows:

The cost of the machinery is assumed to be 100,000 kronor. The declining-balance method is used and 30 percent of the cost (30,000 kronor) is written off the first year. The balance is 70,000 kronor. For the second year, the declining-balance method is used and 30 percent of the balance or 21,000 kronor is written off. The balance is reduced to 49,000 kronor. For the third year, 30 percent of this balance or 14,700 kronor is written off. The balance is now 34,300 kronor. For the fourth year, the straight-line method is used (20 percent of the original cost of the machinery) and 20,000 kronor is written off. The balance for the fifth year is now 14,300 kronor. The straight-line method is used and this is written off. As a percentage of the total cost of the machinery, the annual writeoffs are 30 percent, 21 percent, 14.7 percent, 20 percent, and 14.3 percent for the 5-year period.

If the employment situation requires it, the Swedish Government may decide that business firms which procure within a stipulated period of time machinery and equipment for permanent use in their own enterprises—agriculture, business, and forestry—by purchase or by producing it themselves, or sign a contract for future delivery, will be entitled to an extra depreciation allowance of 30 percent of the cost, in addition to the regular declining-balance or straight-line depreciation allowed under tax legislation. In addition, the taxpayers may deduct 10 percent of the cost from taxable profits in their income tax returns. In the case that machinery is contracted for future delivery, the 10-percent deduction will be made for the fiscal year during which delivery has been made. The extra depreciation allowance and the 10-percent deduction from taxable profits apply to both national and local income taxation.

The Government has been given considerable discretionary powers. It may make the claim to tax benefits contingent on fulfillment of stipulated conditions and it may extend the tax benefits to business firms throughout Sweden or only in specified areas. The Government can also determine the kind of machinery and equipment procurement which can establish a claim to tax benefits. If the Government wishes to promote the location of industry in specified areas, this tax incentive can be limited to taxpayers in these areas.

If the procurement of machinery has been financed by the withdrawal of money from an investment reserve fund, the tax benefits under this special depreciation allowance cannot be claimed.

For machinery and equipment delivered immediately upon placement of the order, the extra first-year allowance of 30 percent and the allowance available under the regular tax legislation would amount to a total of 51 percent of the price in the fiscal year when the purchase was made. For example, assume the machinery cost 100,000 kronor. Using the regular declining-balance allowance of 30 percent, the depreciation deduction would be 30,000 kronor. This would leave a balance of 70,000 kronor. The extra first-year allowance of 30 percent is applied to this balance. The deduction would be 21,000 kronor. The balance is now 49,000 kronor. Fifty-one percent of the cost of the machinery, or 51,000 kronor, has been written off.

## B. THE ADVANTAGES OF USING INVESTMENT RESERVES

The Swedish Ministry of Finance has compared the advantages to be gained from the use of an investment reserve relative to the use of ordinary depreciation allowances which can be used as an alternative. This comparison involves a company which uses the investment reserve at its disposal to acquire an asset to a company which acquires an asset of the same value which is written off using the most favorable combination of the declining-balance and straight-line methods of depreciation.

The benefits obtained by the company using the investment reserve include the initial gain which is the difference between the 49 percent tax rate and the 46 percent of the reserve which has to be deposited in the Riksbank, the gain from the release of the reserve from the Riksbank, and the extra tax deduction amounting to 10 percent of the total reserve used.

The company without an investment reserve can make annual depreciation deductions in the future amounting to the cost of the asset. The discounted value of the future tax payments which this company escapes through the annual depreciations constitutes its major advantage.

Three types of assets are used to compare the results to be derived from using both methods:

1. Machinery which is to be depreciated as quickly as possible during a 5-year period with the declining-balance method being used (30 percent of the balance) for the first years and the straight-line method (20 percent) being used for the remainder.
2. An industrial building that may be written off at 5 percent a year for 20 years which is the shortest depreciation period permitted in Sweden for this type of asset.
3. An industrial building that may be written off at 3 percent a year for a 33-year period, a normal depreciation period for this asset.

In the following example, the investment in a given asset is put at 1 million kronor. The benefits of the investment reserve to the company using it consists of repayment of money previously blocked in the Riksbank of 460,000 kronor (46 percent of 1 million) and a tax gain through the extra tax deduction which amounts to 49,000 kronor, based on the tax rate of 49 percent multiplied by 10 percent of 1 million kronor. However, the latter sum will not be received in cash until the company's tax assessment has been filed. Assuming an interest rate of 4 percent, this amount is discounted to a current value of 47,000 kronor (49,000 divided by 1.04).

The position of the company without an investment reserve is represented by the discounted value of the tax gain which arises from future depreciation allowances on the 1 million investment. This value varies inversely with the rate of interest and the length of the depreciation period.

	Machinery (5 years)	Building (20 years)	Building (33 years)
1. Position of company using the investment reserve:			
Access to Riksbank deposits.....	1 460,000	1 460,000	1 460,000
Discounted value of extra tax deduction.....	47,000	47,000	47,000
Total.....	507,000	507,000	507,000
2. Position of company using depreciation allowances: Present value of tax credit through future depreciation allowances.			
Net gain through the use of the investment reserve.....	2 441,000	2 333,000	2 269,000
	66,000	174,000	238,000

<sup>1</sup> At the time of the setting aside of the investment reserve, a tax relief was gained which amounted to the difference between the tax rate and the deposit in the Riksbank. This difference amounted to 30,000 kronor (49 percent tax rate times 1 million, less the 46 percent deposited in the Riksbank or 490,000 minus 460,000). However, this tax gain has been realized before the release of the reserve.

<sup>2</sup> For machinery, a maximally favorable annual depreciation allowance of 30, 21, 14.7, 20, and 14.3 percent is used. This involves a combination of the declining-balance and straight-line methods. An after-tax rate of interest of 4 percent is used to discount the value of the tax credit through future depreciation allowances. For machinery, this amounts to 90 percent of the tax which is to be paid in the future. For buildings with a 20-year depreciation period (5 percent annual depreciation allowance), the corresponding percentage is 67.9, and for buildings with a depreciation period of 33 years, it is 54.9 percent.

<sup>3</sup> 490,000 times 0.90.  
<sup>4</sup> 490,000 times 0.679.  
<sup>5</sup> 490,000 times 0.549.

The general effect of using an investment reserve is approximately equal to a tax credit of about 7 percent of the value of the investment expenditure in the case of machinery, about 17 percent in the case of buildings with a 20-year depreciation period, and about 24 percent in the case of buildings with a depreciation period of 33 years.

### C. THE INVESTMENT TAX

An anti-inflationary device which has been tried in Sweden is an investment tax. It was used several times in the last decade when inflationary pressures were prevalent in the Swedish economy. The tax amounted to a rate of 10 to 12 percent on capital expenditures. The tax was in effect in 1951 and 1952 but was withdrawn for the years 1953 and 1954. It was again applied on an annual basis in the years 1955, 1956, and 1957. The tax was not renewed in 1958 and has not been used since. The basic reason why it has not been used is that the labor market authorities felt that the investment reserve system had a more moderating effect during inflationary periods than the investment tax. In 1960 the investment reserve system was amended to allow corporations that agreed to deposit the full amount of the investment reserve (100 percent) in the Riksbank and leave it there for a specified period of time, to receive a tax rebate equivalent to 8 to 10 percent of the extra amount deposited. This scheme met with great success and 770 million kronor (\$150,000,000), a sum equivalent to nearly one-tenth of the annual private investment, was sterilized. This inducement, as was mentioned elsewhere, was repeated in 1961.

The investment tax was a temporary tax on certain capital expenditures, in particular expenditures for machinery and equipment, new or used, with an anticipated life of more than 3 years, and expenditures for new buildings, or for the remodeling, rebuilding, or expansion of existing buildings. The tax also applied to the repair and maintenance of existing buildings; however, a deduction of 2 percent of the assessed value of the property was allowed for ordinary upkeep and maintenance. The tax did not apply to the purchase of

used buildings. The repair or replacement of property damaged or destroyed by fire and other phenomena was not taxable to the extent that the cost did not exceed more than 200 percent of the insurance recovery.

The investment tax was a flat tax levied on the sum total of the taxpayer's taxable investments for the year less an exemption which for 1956 amounted to 20,000 kronor and for 1957, 30,000 kronor. The tax rate for 1957, the last year the tax was used, was 12 percent. The tax was deductible for purposes of both the national and local income taxes. The effect was to reduce the impact of the tax considerably.

Although the tax was used as an anti-inflationary measure, the revenue produced was considerable. In 1957 the tax raised 201,699,600 kronor (\$39,000,000) based on total taxable expenditures of 1,681 million kronor (\$300,000,000). In 1956 the tax yielded 87 million kronor on taxable investment expenditures of 727 million kronor.

Erik Lundberg in his book, "Business Cycles and Public Policy," writes as follows:

The investment tax as a method of curtailing investments has been considered in Sweden to be preferable in many cases to a raising of the rate of interest. The tax can discriminate between different kinds of investment, and the increased cost of investment does not involve any increase in private incomes as an increase of investment rates may. But a great deal of uncertainty surrounds the actual effects on prices and demands of these investment taxes. The effects will be influenced, e.g., by speculation in the duration of the tax. Swedish experiences do not allow any definite conclusions to be made. So many other factors were at work during these years that statistical analysis of the effects of the investment tax is impossible.<sup>2</sup>

<sup>2</sup> Lundberg, *op. cit.*, p. 217.

## CHAPTER V

### OTHER EMPLOYMENT-CREATING MEASURES

When a general decline in economic activity affects the labor markets of the whole country, a series of employment measures may be used simultaneously. These measures include emergency public works, extra Government orders from industry, and accelerated building construction. A stimulus is also given to private investment by permitting companies to use their investment reserves. General monetary and fiscal policies are also used.

#### THE GENERAL EMERGENCY BUDGET

Extensive preparation is required to facilitate the rapid application of employment-creating measures in a recession. A general emergency budget, including a reserve of state and municipal building and road construction projects and Government orders from industry, is an integral part of this preparation.

The general emergency budget is a standby budget for public works. It is to be used when unemployment reaches such proportions that normal employment-creating measures are no longer adequate. Appropriations for public works projects are voted for this budget. Financial powers are delegated annually by the Riksdag to the Labor Market Board, so that the budget may be drawn on by it whenever necessary.<sup>1</sup> However, on no occasion has it been necessary to bring the emergency budget into operation.

The Labor Market Board presents proposals each year to the Government on a public investment reserve which covers such Government- and state-supported projects as may be started on short notice to counter unemployment. The public investment reserve forms the basis of the budget.

A general emergency budget, including a reserve of Government and municipal building and construction works and Government orders for industry, was used for the first time in 1938. Emergency budgets were adopted in the parliamentary sessions of 1939 and 1940. Since then an emergency budget has been adopted only periodically. It has been considered possible to maintain satisfactory preparedness against unemployment without having to submit proposals to the Riksdag each year.

#### PUBLIC INVESTMENT RESERVES

Proposals for a public investment reserve of Government, municipal, and Government-supported projects form the basis of the emergency budget. Such proposals have to be drawn up yearly by the Labor Market Board to the Government. Appropriations for these projects are voted in the general emergency budget.

<sup>1</sup> Actually, the emergency budget can only come into force with the approval of the Riksdag. However, to make it possible in an economic recession to start relief works and to place Government orders for industry without a loss of time, a special financial entitlement has been linked to the emergency budget. The Government is empowered to decide on the carrying out of works included in the budget. The entitlement, which is only valid for 1 year at a time, is at present 600 million kronor.

The public investment reserve exists on paper. It is a survey listing governmental work projects which are scheduled for execution in the next few years, but which could be undertaken ahead of schedule in the event that unemployment occurred. The survey includes projects of the Government and the municipalities. Emphasis is placed on roadbuilding and forestry projects, because these can be used during periods of seasonal unemployment. The total of all projects in this investment reserve is many times larger than the volume of construction that could be undertaken in any one year, since the purpose is to let the Labor Market Board choose among several possible projects in a given geographic area if and when unemployment occurs there.

The public investment reserve is always updated by annual revisions eliminating public works projects already executed either as emergency public works or within the framework of normal public investment, as well as projects which have been abandoned for various reasons.

Government orders for commodities produced by industry are also included in this investment reserve. These orders are scheduled to be placed within a given period of time, but can be placed ahead of schedule if this proves necessary to create employment opportunities in industry.

Appropriations for emergency public works and emergency orders for industry are voted in the general emergency budget. However, funds for public relief works which are used to combat seasonal unemployment are obtained from the national budget. Each year a certain amount is placed at the disposal of the Labor Market Board.

To insure preparedness against unemployment, the Labor Market Board makes grants to municipalities for the advanced planning of municipal buildings and other construction projects. The idea is to build up a reserve of public works. The size of the grant is determined for each municipality on the basis of its local level of taxation. In recent years, the planning grant has been approximately 50 percent of total cost.

Apart from the standby program for emergencies which would be financed by funds out of the general emergency budget, funds are regularly appropriated to the Labor Market Board out of the national budget to finance or subsidize public works projects which are necessary even in periods of full employment to relieve seasonal unemployment or local unemployment arising for special reasons. The appropriations are made in part from the budget of the Social Affairs Ministry and in part from the budget of the Ministry of Communications. The latter appropriation is earmarked entirely for roadbuilding. If the total appropriation proves inadequate because of an increase in unemployment above anticipated levels, the Labor Market Board can request supplemental appropriations from the Riksdag.

#### PUBLIC RELIEF WORKS

Public relief works is important as a means of reducing seasonal employment, especially in the northern part of Sweden where this type of unemployment is high among forestry and agricultural workers. This device is also used to even out cyclical fluctuations in manpower demand. The relief works involve the construction and maintenance

of roads, the repair of bridges, harbors, and channel facilities, the preparation of firebreaks, and other projects which can be completed during a short period of time.

Investments in public relief works supplement regular public works programs which are planned on a year-to-year basis. They are called emergency relief works and are utilized whenever unemployment occurs. The county labor boards are responsible for assessing the need for relief works, but the decision to start such works lies with the Labor Market Board.

Public relief works can be carried out either as a state relief work or as a municipal relief work subsidized by the Swedish Government. A state relief work is carried out either by the Labor Market Board out of funds which are made available to it for employment stabilization purposes, from the ordinary budget, or by public institutions, such as the Royal Board of Roads, when it comes to roadworks. A municipal relief work is carried out under the auspices of the Labor Market Board by the commune or county council. The costs of the relief work are divided between the Labor Market Board and the commune.

Relief works are started when unemployment cannot be alleviated by other measures—relocation assistance or vocational training. The extent and scope of the relief works is dependent upon the general economic situation and the type of unemployment. Although the relief works have been used to combat seasonal unemployment, they are also used as a cyclical employment measure.

The category of worker which has been employed on the relief works has come from the building and construction industry, agriculture, and forestry. For the most part, these persons lack the necessary training to fit into the type of jobs which are currently available in Sweden.

An idea of the number of persons employed on public relief works can be gained from the table below. Employment over the 5-year period ranged from a high of 15,000 during the winter months of 1958-59 to a low of less than 1,000 during the summer months of 1958. Translating this into U.S. terms, given a 20 to 1 ratio in the work force, would mean a maximum of 300,000 and a minimum of 20,000.

TABLE V.—*Employment in public relief works, fiscal years 1958-59 through 1962-63*  
[Selected months are used]

Month	1958-59	1959-60	1960-61	1961-62	1962-63
June.....	1,800	6,000	3,000	2,000	4,000
July.....	1,000	4,000	2,000	1,500	3,000
August.....	900	3,000	2,000	1,500	3,000
December.....	6,000	11,000	3,600	3,000	8,000
January.....	8,000	13,000	4,000	4,500	10,000
February.....	12,000	13,000	5,000	6,000	13,000
March.....	15,000	12,000	5,000	7,000	15,000
April.....	14,000	10,000	4,000	7,000	14,000
May.....	12,000	6,000	2,000	5,000	12,000

Source: National Labor Market Board, Technical Division.

NOTE.—The number of employed are presented as an approximate average for each month.

Employment on public relief works was the highest during the winter and spring months of 1958-59 and 1962-63. This coincided with the recessions which occurred during these months.

Wages paid to those employed on relief works are based on the collective agreements between the public institution responsible for the works and the trade union involved. The wages are the same as those paid to ordinary workers performing the same type of work.

The cost of executing public relief works amounted to 260 million kronor (\$50,000,000) for the fiscal year 1961-62 and 380 million kronor (\$73,000,000)<sup>2</sup> for 1962-63.

Public relief works are subject to a number of criteria which are as follows:

1. They must be in inverse proportion to the level of economic activity—increasing when the level of economic activity is falling and decreasing when it is rising.

2. They must be increased during the winter and contracted to a minimum during the summer to work effectively against seasonal unemployment.

3. They must employ manpower which is difficult to place in other areas.

4. The projects should be of such a type that they can be started quickly and discontinued quickly.

5. Regard must be paid to the locale of these relief works from the standpoint of cost and from the standpoint of the absorption of the unemployed who cannot be moved to other areas.

During the period from the fall of 1957 to the spring of 1960, the following relief projects were completed: Thirteen railway projects including the widening of tracks, construction of tunnels, and the elimination of curves; 41 new or improved harbor and lighthouse installations; 23 improvement projects on various timber floatways; 65 fortification projects for the armed services; 401 water and drainage projects for local government authorities; 400 kilometers of new forest roads; 1,030 kilometers of new public roads; and 1,460 kilometers of minor improvement projects on public roads. The total cost of all projects started during this period was approximately a billion kronor (\$192,000,000). The number of persons employed on the relief works varied from a low of 478 in October of 1957 to a high of 15,587 in April of 1959.

When an upturn in business occurred in the spring of 1960, the relief works were quickly discontinued. In March of that year, 12,652 persons were employed on relief projects; in June the number was down to 4,031 and in August the number was 1,867. In 4 months 10,000 men were released from such projects and so became available for the general labor market.

In the winter of 1958-59, with unemployment at its highest point in the postwar period, labor market programs employed some 35,000 persons. Of these, some 15,500 persons were employed on relief works. Approximately 10 percent of the total number of unemployed during this period were put to work on relief projects.

<sup>2</sup> A rough estimate of the cost of a similar program in the United States would be \$1 billion for 1961-62 and \$1.5 billion for 1962-63. The estimate is based on the ratio of the two labor forces to each other.



## LOANS FOR INDUSTRIAL BUILDINGS

A new program for area development was initiated by the Labor Market Board in February 1963. This program involves the use of financial support to communities for the purpose of erecting industrial buildings to attract industry. Funds for this program come from those which have been set aside for emergency public works.

When a community finds an industry which is willing to come in provided an industrial building is erected, it can ask the Labor Market Board for a loan of up to 50 percent of the cost of the building. The Labor Market Board must approve the new industry. Although there are no specific criteria for assistance, there are general overall criteria which are listed below.<sup>3</sup> The community must guarantee the survival of the industry for 5 years. If the industry is successful, the loan becomes a grant after this period.

Examples of loans for industrial buildings are as follows:

1. The community of Hammerdale requested a loan to construct a potato warehouse. The calculated cost of the warehouse was 610,000 kronor (\$120,000). The request was approved and the community received a loan of 50 percent of the total cost.

2. The city of Oskarshamns requested a loan to construct a plant building. This city had been adversely affected by the closing down of its major industry, a shipyard which employed several thousand workers. The cost of the building was 1,200,000 kronor (\$200,000). A loan of 50 percent of this amount was granted.

These and other projects are considered to be a type of emergency public works which utilize the unemployed. A number of communities have been turned down in their requests for loans on the basis that the employment-creating effects do not justify the costs.

## PLACEMENT OF GOVERNMENT ORDERS TO INDUSTRY

Another employment-creating device used in Sweden is an increase in national and local governmental purchases from industry. Orders are placed and financed either by the Labor Market Board in behalf of the governmental units for which the purchases are intended, or by the units themselves after consultation with the Labor Market Board. Funds can come from two sources: (1) an increase in the regular state appropriations for this purpose, and (2) special funds which are made available to the Labor Market Board. Purchases from industry may be made at the onset of a recession or when a given industry is affected by a lack of sufficient orders to maintain the employment of its personnel. For example, in January and February of 1963, public orders for machinery were increased to forestall a decline in employment caused by a reduction in exports. The Labor Market Board also obtained the Government's permission to extend subsidies to counties and municipalities covering 20 percent of the orders for

<sup>3</sup> General overall requirements for this type of assistance are as follows:

1. Rural areas facing depopulation are eligible. There is concern in Sweden over the outmigration of people from much of the country into the cities.
2. Localities which have restricted employment opportunities for men or women are also eligible.
3. Localities which are in great need of a new industry because of the discontinuance of a major plant can qualify.
4. Eligibility extends to many communities which are dependent to a major degree on a single industry.

machinery and equipment placed by them over and above their previously established purchasing programs.

Increased Government orders from industry was used as one of a number of employment-creating measures in the recession of 1958. Orders amounting to 9,900,000 kronor were placed with the Navy shipyard at Karlskrona when it was faced with a general curtailment in the Navy's shipbuilding program. Other orders were given to textile and clothing companies and to other shipyards.

It is estimated that 2,000 jobs were created during the 1958 recession through the placement of Government orders to industry. The total expenditures in 1958 on industrial orders amounted to approximately 30 million kronor.

### HOUSING CONSTRUCTION

Housing construction is also used to counteract seasonal and cyclical employment. More than 90 percent of total housing production in Sweden is financed with Government loans, and employment in the building industry can easily be influenced by the easing or tightening of housing credit. The Riksdag decides on an annual minimum number of housing credits to be issued; however, if the employment situation warrants it, these credits may be increased. The county labor boards are given the power to grant starting permits for building construction with an overall objective of keeping this construction at a pace consistent with the employment situation. The housing and employment authorities allocate housing credits regionally in accordance with both employment and housing needs.

Housing construction was used as an employment-creating device during the 1958-59 and 1962-63 recessions. Total construction increased by some 10,000 houses in each of the two recessions. The employment-creating effects were as follows:

1. In the 1958-59 recession, employment attributable to increased housing construction ranged from 50 in the winter of 1957-58 to 7,000 in the winter of 1958-59. This represented approximately 20 percent of the total number of jobs created by the various employment-creating measures. From the standpoint of job creation, housing construction was exceeded only by emergency relief works. By the summer of 1959, employment had decreased to 3,000 as building permits were reduced to compensate for the upturn in business activity.

2. In the 1962-63 recession, increased housing construction, together with the release of private industry's anticyclical reserve funds, created approximately 10,000 jobs in building construction out of a total of some 50,000 jobs that were created by all of the employment programs.

### SUMMARY

Sweden has a firm commitment to maintain full employment. Its approach includes the movement of workers to available work, the use of public works, and the stimulation of needed investment during a downturn in economic activity. Policies are formulated and carried out by the National Labor Market Board which is an autonomous agency of the Ministry of Interior Affairs.

Great changes in the economic structure of Sweden have occurred during the past decade and will continue to occur as a result of rapid

technical progress as well as changes in the pattern of world trade. Much of the unemployment has been in areas in the country with declining industries. Therefore, an important approach has been to encourage labor mobility—occupational and geographical—as the quickest and cheapest solution to the problem of localized unemployment. Workers do not easily change their occupations or move away from their area or industry, so Sweden has employed public money to facilitate and stimulate their moving and retraining for better jobs. This approach is also less vulnerable to the risks of inflation.

Another approach which is used as an employment policy instrument is the investment reserve which is designed to stimulate private investment during a recession. Companies are encouraged to set aside part of their pretax profits in this reserve, and if these funds are disbursed for investments in buildings, machinery, and inventories during a period when investment is desirable for employment purposes, the companies obtain substantial tax privileges.

However, the basic purpose of the investment reserve allowance is to induce the private sector of the economy to spread investment activity more evenly over the business cycle. During boom years, companies are encouraged to set aside a certain percentage (40 percent) of their profits in an investment reserve allowance. To counterbalance the liquidity effect of a decrease in tax payments, a percentage (46 percent) of the amount—roughly corresponding to the amount of the tax a company would otherwise have to pay—has to be deposited with the Riksbank (Central Bank). The reserve is released in total or in part when the economy needs stimulation.

The investment reserves have been released in 1958–59 and 1962–63. Their effect on stimulating investment and employment has been favorable, particularly in the field of building construction. The major criticism involving the release of the reserves pertained to timing. It was felt that during the 1958–59 recession, the Labor Market Board waited too long to authorize the release of the reserves. When the release was given, its effectiveness was vitiated to a certain extent, because many of the projects financed with the reserves were still being built when the recession was over. However, the timing of the release was much more effective during the 1962–63 recession.

The investment reserve has not been particularly successful as an anti-inflationary device. A direct tax on investment (12 percent the last time it was used) was introduced in 1951–52 and 1955–57 to control the boom in business spending. It was effective in discouraging some investment; however, there was dissatisfaction with this tax since it seemed to affect the largest and best-run companies adversely. During the boom period of 1960–61, the investment tax was replaced by the use of further tax incentives to induce the deposit of the full amount of the investment reserves in the Riksbank.

The use of the investment reserves can be permitted for general overall or selective purposes. For example, if unemployment is confined to forestry, the reserves for forestry can be used; if unemployment is limited to building construction, industry reserves can be released for this purpose alone, and if unemployment is general, then industry reserves can be used for all of the prescribed purposes—building construction, stockpiling, et al.

These employment measures are specific and flexible. They are a valuable complement to general monetary and fiscal measures which would, if used alone, have an adverse effect on certain economic sectors or areas of the country. They can be applied at the point where they are needed without having adverse effects elsewhere. They can be put into force much more quickly than general measures, and they can be withdrawn much more quickly.

General fiscal and monetary measures have not solved the problem of localized unemployment in Sweden; to the contrary, postwar fiscal and monetary policies aimed at creating full employment created inflation instead. During the middle of the last decade, a shift toward more selective policies, such as the use of relocation assistance, occurred. Since this time, labor market policy has aimed at evening up the different parts of the market, both geographically and occupationally by stimulating movements between sectors of oversupply and sectors of excess demand.

All employment policies are the responsibility of one Government agency—the Labor Market Board. It has authority over all labor market problems. It formulates and carries out all employment policies. For example, each year it brings up to date an inventory of public works actually or tentatively scheduled for construction by the various agencies of Government. Acting on its own, or with other Government agencies, it can accelerate schedules of purchases and construction when this appears necessary, either for counter-cyclical purposes or to meet the needs of a particular area.

The local employment offices in Sweden have a complete knowledge of job opportunities throughout the country. They are aware of employment trends in their own areas and can provide advance information of impending change. An unemployed worker in one area is made immediately aware of job opportunities in another area. Through relocation assistance, the worker can move to the other area.

The Labor Market Board engages in a constant study of manpower development and employment patterns, directed at predictions of overall employment levels, by occupation and by area over both the short and long run. It seeks to provide advance knowledge of impending changes in employment through agreements between it and different employers' organizations. Imminent curtailment of employment is given by individual enterprises to the county labor board in its area, as a rule 2 months in advance. Government authorities also have to inform the Labor Market Board or its regional units of discharges of workers. Planning is set in motion even before the workers are laid off. The county labor market board reviews the employment qualifications of those laid off. Job openings elsewhere are studied to try to place workers on new jobs. Vocational training may be launched even before the layoffs.

It is necessary to remember that Sweden has had full employment since the Second World War. What unemployment has occurred has been largely structural in nature. With full employment and brisk labor demand as a precondition in most of the country, job retraining and relocation assistance has been used effectively to correct this labor imbalance. With widespread unemployment and little general expansion, the retrained would have difficulty in finding jobs and would be pushed back to their previous status.

Swedish employment programs are characterized by a willingness to experiment with new approaches. For example, the investment reserve program has been amended several times since 1955 to accomplish certain objectives. During inflationary periods, progressively greater inducements have been used to encourage its use; while the purposes for which it can be used during a recession have been expanded to include the stockpiling of inventories and the financing of plant construction in depressed areas.

The cost of employment policy during the fiscal year 1962-63 is estimated at 750 million kronor (\$145,000,000) or 0.8 percent of national income and 4 percent of the state budget. The bulk of the cost—about 50 percent—is spent on emergency relief works of various types. About 15 percent is spent on retraining and about 10 percent on unemployment insurance. The amount spent to encourage geographical mobility represents about 2 percent of the total.

