

Unclassified

ECO/WKP(2002)31



Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development

10-Dec-2002

English text only

ECONOMICS DEPARTMENT

ECO/WKP(2002)31
Unclassified

ENHANCING THE EFFECTIVENESS OF PUBLIC EXPENDITURE IN SWEDEN

ECONOMICS DEPARTMENT WORKING PAPERS NO. 345

by
Deborah Roseveare

All Economics Department Working Papers are now available through OECD's Internet Web site at
<http://www.oecd.org/eco>

JT00136628

Document complet disponible sur OLIS dans son format d'origine
Complete document available on OLIS in its original format

English text only

ABSTRACT/RÉSUMÉ

ENHANCING THE EFFECTIVENESS OF PUBLIC EXPENDITURE IN SWEDEN

This paper analyses the main features of Sweden's public expenditure and addresses some key policy issues. Public spending is high relative to GDP, reflecting the wide support for the Swedish welfare state. The institutional framework within which spending decisions are made has both strengths and weaknesses: the expenditure ceilings need to be reinforced, more prioritisation of expenditure is needed, and state agencies need to become more accountable for their performance. Outlays and outcomes are examined for childcare and education, health, caring for the elderly, and social insurance, where some aspects function very well and others need considerable improvement. Some tools and techniques for getting better results from public spending are also considered, including contracting out and user charges. More could be done to clearly set out the costs as well as the benefits of social choices.

JEL classification: H11, H51, H52, H53, H55, H57, H61, H72

Keywords: Public expenditure, public sector efficiency, fiscal federalism, budget systems, Sweden, education, welfare state.

* * *

AMÉLIORER L'EFFICACITÉ DES DÉPENSES PUBLIQUES EN SUÈDE

Ce document analyse les principales caractéristiques des dépenses publiques de la Suède et aborde quelques questions politiques déterminantes. La part des dépenses publiques dans le PIB est importante et traduit le large soutien dont jouit l'État providence en Suède. Le cadre institutionnel dans lequel sont prises les décisions concernant les dépenses publiques possède des points forts et des faiblesses : les plafonds des dépenses ont besoin d'être renforcés, l'ordre des priorités nécessite d'être mieux établi, et les organismes publics doivent plus être tenus pour responsables de leurs résultats. Les dépenses et les résultats sont examinés dans les domaines de la garde des enfants et de l'éducation, de la santé, du soin des personnes âgées et de l'assurance sociale, dont certains aspects fonctionnent très bien et d'autres exigent des améliorations considérables. En vue de l'obtention de meilleurs résultats, certains outils et techniques, tels que la sous-traitance et les redevances payées par les usagers, sont pris en considération. Un plus grand effort pourrait être réalisé en vue de mieux établir les coûts et bénéfices des choix faits dans le domaine social.

Classification JEL : H11, H51, H52, H53, H55, H57, H61, H72

Mots clés : Dépenses publiques, efficacité du secteur public, fédéralisme budgétaire, systèmes budgétaires, Suède, éducation, État providence.

Copyright © OECD 2002. All rights reserved.

**Applications for permission to reproduce or translate all, or part of, this material should be made to:
Head of Publications Service, OECD, 2 rue André-Pascal, 75775 PARIS CEDEX 16, France**

TABLE OF CONTENTS

Background	5
Public expenditure in perspective	7
Institutional arrangements and the policy-making process	9
Strengthening the central budget process.....	9
Exercising firmer control over state agencies	12
Decentralised responsibilities and intergovernmental relations.....	13
Assessing expenditure and outcomes in selected areas	14
Childcare and schooling.....	14
Tertiary education	20
Health care has been restructured	22
Caring for the elderly	25
Social insurance	27
Some tools and techniques for getting better results from public spending.....	29
Conclusions and policy recommendations	31
 Bibliography.....	 33
 <i>Annexes</i>	
I. Income distribution of taxes and public expenditure	36
II. Equalisation — “the same standard for the same price”	39
III. Individual learning accounts.....	40
 Boxes	
1. Challenges and pressures facing public expenditure.....	6
2. Reforms for better management and greater choice.....	15
3. Reforms to the health care sector	24
4. Policy recommendations	32
 Tables	
1. Public outlays in OECD countries	8
2. Expenditure ceilings	10
3. Student performance and educational cost	16
4. Teachers salaries in selected OECD countries	17
5. Comparisons of long-term care systems	26
6. Social insurance expenditures.....	28
 <i>Annexes</i>	
A1. Impact of taxes, transfers and public consumption by quintile	37
A2. Impacts on GINI coefficient	38

Figures

1.	Composition of public outlays.....	7
2.	Composition of publicly-funded social expenditure.....	8
3.	Composition of local expenditures	9
4.	Ratio of students to teaching staff	18
5.	Intended instruction time	19
6.	Health status indicators.....	22
7.	Key features of health expenditure	23
8.	Inpatient hospital care by age groups	25
9.	Shares of elderly and very elderly in OECD countries.....	26

Annexes

A1.	Age distribution of taxes, transfers and public services	36
A2.	Disposable income and individual public services by household type.....	37

ENHANCING THE EFFECTIVENESS OF PUBLIC EXPENDITURE IN SWEDEN

Deborah Roseveare¹

Background

1. The Swedish welfare state comprises a fine-mesh social insurance safety net, along with the provision of a broad range of free or almost free public services. This inevitably implies extensive public outlays and a considerable amount of redistribution of income and consumption. Despite the economic burden that these choices impose on the tax-paying public, this broad approach seems to enjoy widespread support. Nevertheless, given the challenges facing the country (see Box 1), it is necessary to consider what changes to the institutional framework governing public expenditures and to the design of public policies might help to ease the stress arising from financing the welfare state in the future.

2. This chapter focuses on the key policy issues and starts by setting out the main features of public expenditure in Sweden and comparing them in an international context. It then examines the institutional settings within which decisions are made about the overall level of public spending and the resources applied to different programmes. Local authorities play a major role in the delivery of public services, and the relations between different levels of government are another issue covered. The following section considers aspects of some of the key programmes that absorb a large proportion of total public resources: education, health, care for the elderly, and social benefits. The roles for instruments, tools and techniques such as benchmarking, user charges and outsourcing are also explored. The final section provides conclusions and policy recommendations.

1. The author is a senior economist at the OECD. This paper was originally produced for the *OECD Economic Survey of Sweden* published in August 2002 under the authority of the Economic and Development Review Committee. The author is indebted to Peter Jarrett, Steen Daugaard, Michael Feiner, Jorgen Elmeskov, Val Koromzay, Andrew Dean and Isabelle Joumard for comments and drafting suggestions, and to the Swedish authorities for their assistance with obtaining the information and clarifications necessary to prepare the paper. Special thanks go to Raoul Doquin-St. Preux for invaluable technical assistance with the graphs and to Mee-Lan Frank for expert word processing.

Box 1. Challenges and pressures facing public expenditure

In analysing and assessing public expenditure, a number of challenges cut across all types of outlays. The rest of this chapter will deal with specific areas and dimensions, but these can only be effectively addressed against a broader backdrop. These more general considerations are of two broad types.

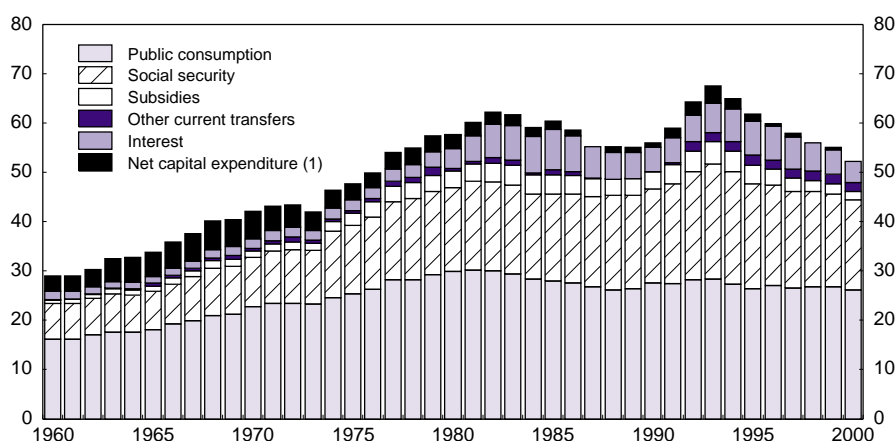
Policy challenges in optimising the use of public funds

- *Keeping the gains already made.* The deep budgetary crisis of the early 1990s forced Sweden to make a number of important changes to the institutional framework concerning public finances, as well as to scale back a number of programmes significantly. But as public finances have been brought back onto a sound footing, there have been calls for reversing those earlier cutbacks, which underline concerns that the constraints of the budgetary framework may be eroding.
- *Establishing the appropriate level of public expenditure.* Financing government spending inevitably entails economic costs because of the impact of taxation on resource allocation. Although this is a question of how much voters are willing to pay, relatively little empirical work has been done on this subject in Sweden or elsewhere; such research requires reliable information on the true economic cost and benefits of public services and financing them.
- *Getting the best mix of expenditures.* Resources are wasted if the mix of public spending policies does not match the collective priorities of the population or if the policies and programmes chosen are not the most efficient way to achieve the outcomes sought. Although prices make it easy to identify costs and consumer valuation for market-based activities, most public spending is not subjected to market testing. Even though user charges can provide useful signals about preferences, they generally need to be supplemented by other reliable information on peoples' preferences in order to optimise the use of resources.
- *Improving cost and operational efficiency.* Productivity gains are an important part of minimising the burden of public expenditure and maximising economic output. In the absence of marketplace transactions, it is a challenge to develop appropriate incentives on producers to search actively for productivity improvements. Management tools such as performance contracts and performance-related pay can help, but it is important to take account of difficult-to-define service dimensions that are often the reason for public provision in the first place.

Constraints impinging on public expenditure choices

- *Rising real unit costs.* The age structure of public-sector employees in education, health and care services is heavily skewed towards older groups. At current relative wages, significant shortages of skilled personnel may arise in the future even if these services are partly contracted out to private sector providers, putting further upward pressure on expenditure.
- *Mounting demographic pressures.* Population ageing, other things equal, will generate increased demand and upward pressure on public expenditures on health and care services, even though the public pension regime has been reformed in a way that should ensure that it presents no threat to public finances.
- *Financing pressures.* Despite a significant fiscal surplus and a programme of tax cuts, financing may become increasingly difficult. As well as the negative labour supply effects of high taxes, tax bases are becoming more mobile, while demographic developments will gradually erode revenues.

Figure 1. Composition of public outlays
Per cent of GDP



1. Small negative values in 1987 and 1998 are not shown.

Source: Statistics Sweden; OECD, National Accounts.

Public expenditure in perspective

3. Public expenditure currently amounts to around 52 per cent of GDP, down significantly from its peak of 67 per cent of GDP at the depth of the economic crisis in 1993 (Figure 1). This rapid reduction reflects a combination of dramatically improved economic circumstances and a major consolidation effort to eliminate the general government deficit, *inter alia* by reducing the generosity of social benefits, cutting back public subsidies, reducing net capital outlays and trimming public consumption. Notwithstanding these cuts, Sweden's total current outlays relative to GDP remain the highest in the OECD as are net cash social expenditures² (Table 1). Sweden also stands out as having the highest public consumption ratio of all OECD countries, although once again such cross-country comparisons should be interpreted with caution since allowance should be made for differences in demographics on demand for public services, and variation in the instruments used to achieve public policy goals in different countries.

4. Sweden's spending reflects social priorities, as highlighted in the latest Spring Fiscal Policy bill, which sets out the degree of redistribution achieved through transfers and subsidised public services, as well as through the tax system (see Annex I). In 1999, the top 20 per cent of households had 8.4 times the disposable income of the lowest 20 per cent, but once public spending is taken into account, the ratio is reduced to 2.3 times. Net cash public social expenditure, as measured by the OECD's social expenditure database, amounted to 32 per cent of GDP, with old-age cash benefits amounting to almost more than one quarter and health close to another quarter (Figure 2). This high level of spending by OECD standards reflects both generous benefits and wide coverage of the social safety net. Sweden also has a higher proportion of the population over 65 years than virtually all other countries, which would result in a higher proportion of GDP being allocated to this age group, all else being equal.

2. Net cash social expenditures are adjusted to exclude direct taxes and social contributions, which are paid on income benefits in some countries but not in others (Adema, 2001). These data do not include tax breaks for social purposes, which amounted to 1.9 per cent of GDP in Germany and 1.6 per cent of GDP in the United States in 1997.

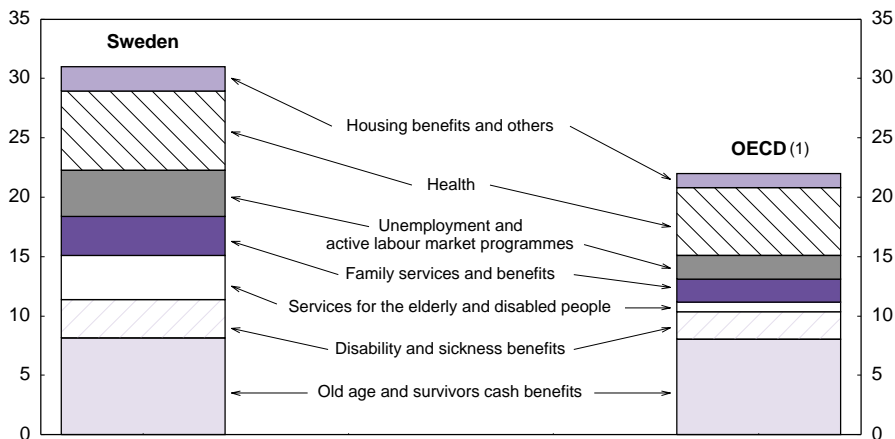
Table 1. Public outlays in OECD countries
Per cent of GDP, 2000

	Public consumption	Social transfers	Other transfers	Subsidies	Interest payments	Current outlays	Net cash public social expenditures ¹
Australia	18.8	8.5	1.9	1.0	2.2	32.5	18.4
Austria	19.4	18.8	2.2	2.6	3.5	46.5	26.0
Belgium	21.2	14.2	2.1	1.5	6.8	45.7	28.6
Canada	18.3	-	10.8	1.1	7.2	37.4	19.0
Denmark	25.1	17.1	2.5	2.2	4.2	51.1	30.8
Finland	20.6	12.1	6.4	1.5	2.9	43.5	28.9
France	23.3	18.0	1.6	1.3	3.3	47.4	-
Germany	19.0	18.8	1.7	1.7	3.4	44.5	27.8
Greece	15.5	16.3	8.3	0.2	8.4	48.7	-
Ireland	13.4	8.2	2.0	0.7	2.1	26.4	19.3
Italy	18.0	16.7	1.3	1.2	6.5	43.6	26.6
Japan	16.7	10.0	0.9	0.9	3.3	31.9	14.9
Netherlands	22.7	11.9	1.6	1.5	3.9	41.7	22.7
Norway	19.0	13.9	1.9	2.2	2.3	39.3	27.6
Portugal	20.1	12.1	2.4	0.9	3.1	38.6	-
Spain	17.4	12.3	1.3	1.1	3.3	35.4	-
Sweden	26.2	18.3	1.8	1.9	4.3	52.4	31.3
United Kingdom	18.6	13.3	2.3	0.4	2.8	37.4	23.4
United States	14.4	10.6	-	0.4	3.7	29.1	15.5
Average, unweighted	19.4	15.2	2.9	1.3	4.1	40.7	-

1. Memorandum item, as a per cent of GDP in 1997, net of direct taxes and social contributions which are paid on income benefits in some countries but not others.

Source: OECD; Adema (2001).

Figure 2. Composition of publicly-funded social expenditure 1998, per cent of GDP

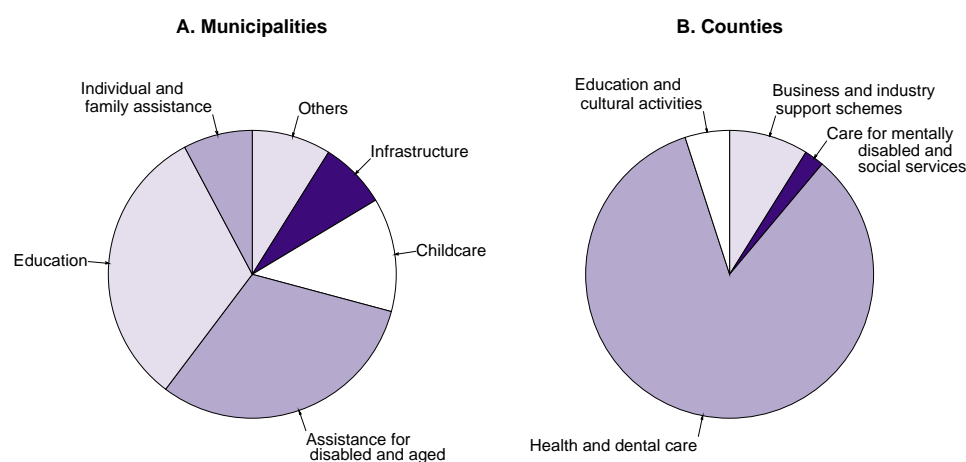


1. Unweighted average, 28 countries.

Source: OECD, Social expenditure database.

5. Sweden has a very decentralised approach to public consumption of services, with municipalities responsible for childcare, non-tertiary education, and care services for the elderly and disabled; county councils are responsible mainly for health care (Figure 3). Overall, general government services provided under local authority control amount to around 23 per cent of GDP, a proportion surpassed only by Denmark. Swedish local authorities also have more extensive taxing powers than in any other OECD country, with taxes on earned incomes providing the main tax base. Local direction of a wide range of matters is a long established tradition. Successive amalgamations have resulted in the present structure of 289 municipalities³ and 20 county councils.

Figure 3. Composition of local expenditures
2000, per cent of total



Source: Statistics Sweden.

Institutional arrangements and the policy-making process

Strengthening the central budget process

6. Major reforms have been made to the institutional framework and process governing central government expenditure since the crisis of the early 1990s. The present budget process, in place since the budget for 1997, has instituted top-down control of outlays: Parliament approves a ceiling for total expenditure, and the budget envelope for each of 27 different expenditure areas. As a further move to enhance expenditure management and control, the government is planning to shift to accrual budgeting starting in 2004,⁴ which will provide clearer information about the true resource cost of spending decisions.

7. The expenditure ceiling approach has provided a key tool in constraining the growth of total central government spending, excluding debt servicing. The ceilings are set by Parliament on a rolling three-years-ahead basis,⁵ and are codified in the budget law. Although they are only a guideline decision,

3. Only 11 municipalities had more than 100 000 inhabitants at the beginning of 2001, and 73 had less than 10 000 residents. Although this may suggest that some municipalities are too small to be viable, this is mitigated by a degree of inter-municipality co-operation, which appeared to be on the rise in the 1990s (Häggroth *et al.*, 1999).

4. The government accounts (*ex post*) are already prepared on a full accruals basis.

5. Until this year, the expenditure ceiling for the third year was effectively established in the Spring Fiscal Policy bill, when Parliament debated the current economic situation and perspectives for coming years

and can be changed simply by a new decision by Parliament, the present government has repeatedly signalled its commitment to them and other political parties have also shown strong support. Parliament first takes a decision on total government spending, then how it will be allocated to each of the 27 expenditure areas. Both the expenditure ceilings and the top-down budget bill approach are deliberately designed to encourage Parliament to make trade-offs among alternative spending priorities, instead of simply raising higher taxes to finance new expenditures.

8. The expenditure ceilings have shown clear signs of strain in recent years; even though the ceilings themselves have been technically respected each year, the safety margins originally provided have been steadily eroded. Already in 1998, actual expenditure was only SEK 2 billion under the ceiling, and in 1999 the gap was down to SEK 1 billion (Table 2). These results arise despite the favourable effects of strong economic growth and unusually low inflation. This “good fortune” was redistributed to other programmes. Now there is virtually no room left for actual outlays to exceed budgeted levels in 2002 without breaching the ceiling (see OECD, 2002a). Furthermore, there has been increasing recourse to tax expenditures, most notably with further abatement of social insurance contributions in category A development areas and general tax relief to municipalities (to be distributed in proportion to their employment in 2002). These measures, amounting in total to SEK 3.8 billion channel additional expenditure to local authorities and companies respectively. Delivering such increases through the tax system rather than through the outlays side of the budget damages the credibility of the expenditure ceilings themselves and undermines their role in forcing the government to prioritise expenditure within an overall constraint.

Table 2. **Expenditure ceilings**
Billion SEK

	1997	1998	1999	2000	2001	2002	2003	2004
Expenditure ceiling ¹ (1)	723	720	753	765	791	809	844	878
Expected outlays ¹ (2)	708	702	731	764	788	807	842	871
Actual (3)	699	718	752	760	785			
<i>Ex ante</i> safety margin (1-2)	15	18	22	1	3	2	2	7
Actual minus ceiling (3-1)	-24	-2	-1	-4	-6			
Actual minus expected (3-2)	-9	+16	+21	-4	-3			
<i>of which:</i>								
Macroeconomic assumptions	1	-6	-15					
Discretionary spending increases	7	26	41					
Discretionary savings	-4	-1	-7					
Residual	-13	-3	2					

1. Data for 1997 to 1999 are from the spring budget 1996, while those for 2000 to 2003 are from the 2001 budget. The numbers for 1999 have been adjusted for a technical effect related to the reform of the old-age pension system.

Source: Ministry of Finance.

along with proposals for the orientation of budgetary policy, including local government activities. However, as this debate has increasingly covered detailed issues concerning expenditure, the annual extension of the ceilings will now be presented instead in the autumn Budget bill. This latter bill provides the main vehicle for policy changes to revenues or expenditures, along with estimates of central government revenues, taking into account any proposals for changes in taxes and charges, and details of proposed spending.

9. The experience with the expenditure ceilings suggests that although they have undoubtedly provided stronger expenditure control than the previous system, they need to be strengthened in order to more effectively restrain the political pressures to raise public spending. The planned switch to accruals-based budgeting in 2004 provides a timely opportunity to reshape the policy approach into a more effective instrument. Another important tool is the proposed minimum size of the safety margin planned for introduction from 2005. Beyond that, a useful starting point in establishing a better system for overall expenditure would be to recall the three main objectives that motivate such rules, namely: *i*) to constrain overall expenditure so as to minimise the damaging economic effects of high taxes, without accumulating public debt; *ii*) to force a prioritisation of expenditure and eliminate low-priority programmes; and *iii*) to place downward pressures on costs.

10. Under the proposed accrual budgeting framework, a separate ceiling could be developed to cover operating expenses and non-entitlement transfers. This could then be established on a 3-year ahead basis as a hard budget constraint and even placed on a clearly specified downward path, if Parliament wished to go further in reducing the expenditure burden, to provide scope for tax cuts or more room to manoeuvre later *inter alia*, in responding to ageing pressures. A strict limit is more difficult to apply to entitlement expenditures: the government can estimate spending in the out-years but not cap it without legislative changes. This distinction could be acknowledged by operating a separate entitlements ceiling with a significant safety margin that could not be reallocated to non-entitlement expenditures if unspent. This margin would *inter alia* provide room to absorb fluctuations in the economic cycle. However, an appropriate balance needs to be found: introducing too many fiscal targets may reduce their strength and also complicate the budget process.

11. Expenditure trade-offs are already made under the present approach, but the windfall gains on entitlements have considerably eased the effective pressure to prioritise. One option might be to require that each new spending proposal be accompanied by proposals to cut elsewhere to focus the attention on trade-offs and prioritising among expenditures at the margin. This approach might also provide a counterweight to the tendency for the political process to generate upward pressures. But to work well, such savings proposals need to be concrete and credible. Another tactic adopted by some OECD countries is to enhance transparency and more systematically draw linkages between spending proposals and their tax impact. This approach is intended to encourage citizens both to place more downward pressure on outlays and to more clearly and knowledgeably signal their priorities and willingness to pay through the political process.

12. The ceiling can also be used to encourage the public sector to “do more with less”, which could provide a rationale for building a downward bias into the spending limit. The appropriations for operating expenditures are currently indexed to the difference between wage developments in the manufacturing sector and the 10 year moving average of productivity growth in the private services sector. However, this confronts the question of the extent to which a “productivity dividend” can be squeezed out simply by reducing funding, the risk being that service dimensions may be cut instead. It is at least evident from experience in other countries that productivity gains are more likely to be achieved when reinforced by clearly specified outputs and appropriate incentives on management performance. Nonetheless, in this context, an explicit prioritisation approach would provide some protection against cutbacks that compromise quality or quantity, by providing the option of re-instituting a higher budget allocation after careful scrutiny of the actual expenses involved.

Re-balancing the envelopes

13. With the advent of accrual accounting, management of the state sector has undergone significant reform. The budget has already been organised into 27 expenditure areas so as to shift away from inputs

budgeting to concentrating on policies and outcomes, and to provide a closer alignment between the objectives and performance of government agencies and their financial resources. Parliament decides on the amount to allocate to each of these areas, which in principle provides a mechanism for reallocating between the different policy areas. However, the definition of expenditure areas depends on the committee structure in the Parliament and in the 2002 budget the 27 categories vary in size from SEK 1 billion for “working life” to SEK 108 billion for “financial security for the sick and disabled”. This suggests that the prioritising exercise may be lopsided, with undue time spent on a few smaller spending areas at the expense of sufficient attention being paid to the allocation of significantly greater resources within the larger areas. In addition, the reallocations might be more effective if a comprehensive assessment of priorities within each of the larger envelopes were periodically undertaken, to supplement the present approach, which only reallocates at the margin. Simultaneous review of all spending programmes could also help to curb tendencies of the welfare state to “overshoot” the spending and taxation preferences of the people as a whole (Lindbeck, 2001).

Exercising firmer control over state agencies

14. The Swedish model for state administration was established in 1634 and makes a clear distinction between ministries, whose role is preparation, planning and co-ordination, and independent agencies charged with carrying out responsibilities under a written mandate from the relevant minister. Currently there are 10 ministries and the Prime Minister’s office, which collectively form the Chancery. Apart from the Ministry of Foreign Affairs, the Ministries are generally small and together employ only around 2 000 to 2 500 persons.⁶ In contrast, there are around 300 agencies employing about 250 000 civil servants (Larsson, 2001). This organisational structure receives widespread support, and Parliament has resisted all attempts to establish implementation functions within Ministries themselves (Rexed, 2001). However, from an expenditure point of view, this may no longer be entirely satisfactory, as the shift towards greater managerial freedoms and client orientation over recent years has replaced some of the earlier input-based constraints on agencies’ operations.

15. The government’s ability to direct these agencies through their mandates now depends more on setting targets and measuring results. Yet it is a difficult exercise to identify appropriate and measurable performance indicators and it is even harder when there are principal-agent problems involved. The government’s priority is outcomes, whereas the agencies are created to deliver certain outputs. Managing conflicts in objectives and getting a better alignment of incentives with objectives and, thus, more efficient use of public resources requires ministries as supervisory bodies to be able to overcome the significant information disadvantage that they face compared with the agencies. They also need to have sufficiently high calibre teams, which are appropriately organised to carry out effective monitoring and control. To complicate the picture, the trend away from a rules-based administration to a “citizen-centred” organisation has made it more difficult to hold the agency head accountable for performance, and it would appear that it is difficult for the government to remove a director-general that fails to deliver the performance expected. More generally the process of appointing senior managers to agencies is an identified weakness of the system. The appointments are made by Parliament, formally according to criteria such as tenure and skills, usually for six years.⁷ In practice, filling these posts has become political and controversial

6. In addition to the tasks undertaken directly by the Chancery, much of the work involved in preparing for a government bill is done by a government-appointed *ad hoc* commission of enquiry. There are some 250 to 300 commissions underway in any one year, which usually run for one to two years.

7. In some countries, the process of appointing senior officials is entrusted to particular agency, which recommends an appointee to the government. This approach is used in New Zealand, for example, where the State Services Commissioner is responsible for the selection of chief executives of government departments and some other agencies. He also plays a role in monitoring their performance against the delivery contract established between the chief executive and the minister. A different process is used in

(Larsson, 2001). However, since the agencies play an administrative role in implementation rather than designing policy itself, the skills and experience of senior managers should match closely the operational tasks required.

16. Agencies are entitled to set their own wages, and their annual budget allocation is calculated on the assumption that wages increase at the same rate as the private sector average. In principle, an agency that awards higher wages must find offsetting savings elsewhere in their budget. In practice, some agencies with “case-load” based costs are able to hold the government hostage under these arrangements. The National Courts Administration provides an illustration. It recently awarded high salary increases to judges and offset this by reducing court capacity, producing a growing backlog of cases waiting to be heard. The judges themselves argue that the government reduced capacity by not providing the necessary additional funding, while at the same time they have opposed government proposals to make efficiency improvements through streamlined procedures and a reorganisation of the number of courts to gain economies of scale. As a result, the government finds itself with higher unit costs, upward pressure on overall outlays and a lack of an effective instrument for obtaining efficiency improvements.

Decentralised responsibilities and intergovernmental relations

17. With the ability to set their own income tax rates, Swedish local authorities have the scope to choose the mix of services and match that with local revenues,⁸ rewarding efficiency gains in service provision with lower tax rates or expanded activities. Conversely, a municipality can sustain inefficiencies through a higher tax rate as long as the residents are willing to pay: the capacity for Swedish residents to “vote with their feet” is limited in practice by the rigidities of the housing sector (see OECD, 2002a). There has been a conscious effort to develop high-quality information to enable citizens to benchmark the performance of their administration against others. For example, the Swedish Association of Local Authorities compiles “What do programmes cost in your municipality?” and has also developed a method for municipalities to use to assess the views of its citizens on municipal operations. The Federation of County Councils has undertaken a similar initiative. Efforts over recent years to upgrade the quality of financial information and accounting standards have also helped to improve the quality of comparisons. In addition, the decentralised Swedish approach provides scope for innovation and experimentation. Individual authorities that wish to establish different delivery mechanisms or approaches to management have complete freedom to do so, unless and until the state places restrictions on them. This has included a move away from an inertial, inputs-based approach to allocating expenditure to a prioritisation on the basis of outputs, either by “needs-based budgeting”, which establishes objective criteria for assessing the need for services, or *via* a purchaser/provider model for encouraging competition and enhancing efficiency.

18. In addition to redistribution of resources through the equalisation transfer system (see Annex II), all municipalities and county councils also receive general state grants to enable them to carry out their mandated tasks. These grants are mainly calculated on the basis of the number of inhabitants, although a small part (less than 10 per cent for 1997 to 2004) are based on the age structure. Until 1992, 90 per cent of the value of grants were earmarked, with extensive regulation over the way the money could be spent. But it was concluded that this led to an inefficient use of local resources and inhibited innovation; block grants would be more appropriate, except for activities where local governments are primarily acting as agents for

the United Kingdom, where the appointments are made by the minister, but usually after an open competition and clearance with civil service heads. But the capacity for select committees of parliament to scrutinise appointments or dismissals provides a degree of transparency that appears to work quite well in maintaining the integrity of the process and matching skills and competence to the job.

8. Since 2000, local governments have been required to balance their operating budgets and are no longer allowed to borrow except for capital investment projects.

the state, for example, in labour market policy. Currently some 25 per cent of total grants remain earmarked. Nevertheless, the local authorities provide a range of services in which the state has a legitimate interest, and to control this, the state uses two main devices: legislation that obliges local governments to provide specific services, and state monitoring and performance evaluations.

19. There is an inherent tension between the priorities of the state and the choices made at the local level in any decentralised system of government, as can be seen in the ongoing debate in other countries about whether certain grants should be earmarked or untied according to central priorities or dissatisfaction with the choices made by certain local authorities (for example in Italy and the United Kingdom, OECD, 2002*b* and OECD, 2002*c*). In Denmark, micro-management of local authority spending by the state has become a significant concern (OECD, 2002*d*). By comparison, the Swedish arrangements are much simpler, more clearly defined and less contentious. However, there are two areas where central government has recently sought to rein in the freedom of local authorities:

- The first is in the disposal of public housing, where it has prevented councils from selling housing stock and using the proceeds to fund operations. It should be noted that this housing stock was built using extensive subsidies from central government.
- The second and more significant area for public expenditure has been the constraints placed on user charges for child and elderly care, imposed in the last budget. The particular concern motivating the introduction of maximum charges in these two areas was the degree of dispersion of the charges being levied by different municipalities. In the case of childcare, high charges were undermining labour supply objectives at the national level.⁹ For care of the elderly, wide variation in user charges is considered inequitable.

Assessing expenditure and outcomes in selected areas

20. It is beyond the scope of this *Survey* to provide a comprehensive assessment of how well spending policies and programmes are performing in delivering good outcomes that enhance the welfare of Swedish residents to the greatest extent possible. This section provides a selective analysis of several spending areas — childcare and schooling, tertiary education, health, care for the elderly and social insurance — which account for a large proportion of public outlays. Many important reforms have been put in place and in some cases, a full and complete assessment of the outcomes achieved cannot be made until several more years have passed, because of transition effects, even though initial results are promising. This section focuses on the remaining points of pressure and weaknesses that may need further attention to find ways of achieving even better results.

Childcare and schooling

21. The government has instituted important reforms in the organisation and funding of schools and childcare in the past decade (see Box 2). The shift to an outputs-oriented approach for managing the state's interest reflects a model for local school management that appears to have indeed delivered significant benefits in promoting better organisation and management of resources, while making transparent and reinforcing the state's role in ensuring quality and standards of results. Allowing school choice has been a difficult issue for many countries, and the Swedish approach seems to rather elegantly avoid the most important concern, that private schools would be able to deliver better results by "cream-skimming" the

9. This limit is estimated to reduce the effective replacement ratio by around 7 per cent for a single mother with one child under the age of two years, in Uppsala (Fredriksson and Runeson, 2002).

best pupils or having a stronger financial base. It is too early to fully evaluate the success, since the system is clearly still working through an adjustment process, with rapid growth in private schools. Nevertheless, there is a clear demand from parents for places in independent schools. Initial evidence suggests that independent schools have not had an adverse effect on the performance of public schools¹⁰ (Bergström and Sandström, 2001). The recent reforms to improve access to pre-school childcare for all children including those of non-working parents and to establish free pre-school classes for all 4 and 5 year olds are particularly important and positive measures given the very high social returns that can be obtained from investing public resources in high quality early childhood education and care (OECD, 2001a).

Box 2. Reforms for better management and greater choice

Major reforms have taken place in education in the past decade embodying three major changes:

- There was a shift from detailed state control of inputs *via* earmarked grants to an outputs-oriented approach with the curriculum and syllabus for each subject established at the central level, while devolving all responsibility for delivery to municipalities, with funding via the block grant.
- Parents were given the right to choose their children's school. Concurrently, independent schools can be established on the approval of the National Agency for Education. Municipalities are obliged to provide funding to independent schools, while the schools are required to be open to all pupils and are prohibited from charging tuition fees. These reforms have led to a rapid increase in independent schools, with some 350 in the 2000/01 school year, covering around 3 per cent of all pupils. The distribution of private schools across municipalities is currently quite diverse: around half all municipalities have no independent schools at all, while, at the other extreme, one municipality has almost 20 per cent of its pupils in independent schools.
- Responsibility for childcare (pre-school and after-school) was shifted from the Ministry of Health and Social Affairs to the Ministry of Education in order to strengthen the integration of care and education. From 1998, municipalities were obliged to offer pre-school classes (usually around 3 hours per day) to all 6 year-olds. From 1 January 2003, free pre-school classes will be offered to all 4 and 5 year-olds. (Compulsory schooling is from age 7 to 15.)

22. Sweden's education scores quite well by international standards, as measured by the PISA international comparisons¹¹ of average reading, science and mathematics performance of 15 year olds, ranking 7th, 8th, and 11th among 28 OECD countries in each of these areas (OECD, 2001b). In assessing performance it is also relevant to examine the spread of results and Sweden seems to have been particularly successful in reading literacy, since its weakest 5 per cent of students still read at least as well as the least competent in several other countries that have better average skills, and well above the average for the 5th percentile across the OECD as a whole. However, the PISA study shows a wider range of performance across science, especially mathematics, where 13 countries deliver better absolute scores for the bottom 25 per cent of pupils. In any case, this performance seems to come at a relatively high cost: of countries returning better average results than Sweden, only Austria spends a higher ratio of cumulative education spending to GDP per capita for barely better results, while several others deliver stronger educational attainment for significantly lower spending ratios (Table 3).

10. Analysis of the introduction of school choice in three states of the United States showed a clear improvement in the performance of state schools (Hoxby, 2002a).

11. The OECD's Programme for International Student Assessment (PISA) is a collaborative process to assess how far students approaching the end of compulsory education have acquired some of the knowledge and skills that are essential for full participation in society. For example, reading literacy requires students to perform a range of tasks from retrieving specific information to demonstrating a broad understanding, interpreting text and reflecting on its content and features. See <http://www.pisa.oecd.org/>.

Table 3. Student performance and educational cost

	Reading	Science	Math	Average	Cumulative expenditure	
					\$ PPP	Ratio to GDP per capita
Japan	522	550	557	543	53 25	2.17
Korea	525	552	547	541	30 84	1.94
Finland	546	538	536	540	45 36	1.99
Australia	528	528	533	530	44 62	1.83
United Kingdom	523	532	529	528	42 79	1.92
Ireland	527	513	503	514	31 01	1.23
Austria	507	519	515	514	71 38	2.90
Sweden	516	512	510	513	53 38	2.32
Belgium	507	496	520	508	46 33	1.91
France	505	500	517	507	50 48	2.31
Norway	505	500	499	501	61 67	2.23
United States	504	499	493	499	67 31	1.99
Denmark	497	481	514	497	65 79	2.50
Germany	484	487	490	487	41 97	1.78
OECD average	500	500	500	500	-	-

Source: OECD (2001), Programme for International Student Assessment (PISA).

23. In another perspective on educational competence, it is estimated that some 10 per cent of pupils leave compulsory school without meeting the required standard in basic skills. This prevents them from moving on to the national or specially designed programmes in upper secondary school, which are the main study paths for further education and which provide eligibility to continue on to the tertiary level. Failure to successfully complete compulsory education also leaves young people at a disadvantage if they wish to directly enter the labour market. Another concern is that almost a quarter of upper secondary students do not complete their studies within four years, even though courses are designed to span three years. Of those who do graduate from upper secondary school, the number of students who have the right qualifications and interest in continuing their studies in engineering or sciences at tertiary level is not sufficient to fill the available student places: only half of those who complete the science programme at upper secondary school continue those subjects at university. The government has instituted additional preparatory courses for natural science and technology and intends to extend this approach, with the specific goal of raising the numbers pursuing university studies in these disciplines. At the same time, the return on the resources invested in vocational courses at upper secondary school is undermined by the fact that only half of those who obtained their qualification were employed in that profession or studying, one and a half years after leaving school, although the reasons for this remain somewhat unclear.

24. Despite the success of the reforms to date and improvements in the delivery of education over recent years, more could be done to raise the overall productivity of the sector in order to maximise the results obtained from the resources devoted to education. Sweden's spending per pupil each year looks rather high in comparison with other OECD countries, particularly for primary education, although this may to some extent reflect the inclusion of some cost items, such as school meals, which are provided free in Sweden, whereas parents pay some or all of these costs in a number of other countries, and more expensive school transport and building requirements due to geography. Teachers salaries do not appear high either by international standards, or compared to other occupations (Table 4). The teacher-pupil ratio is one of the lowest in the OECD at the primary level (Figure 4), although there appears to be a rather large

gap between the ratio and typical class sizes.¹² The reason for this is unclear, and it may reflect the use of teachers for concentrated work with students in particularly difficult situations. It would be helpful to more closely investigate the reasons for this phenomenon, especially given the recent public debate about class sizes.

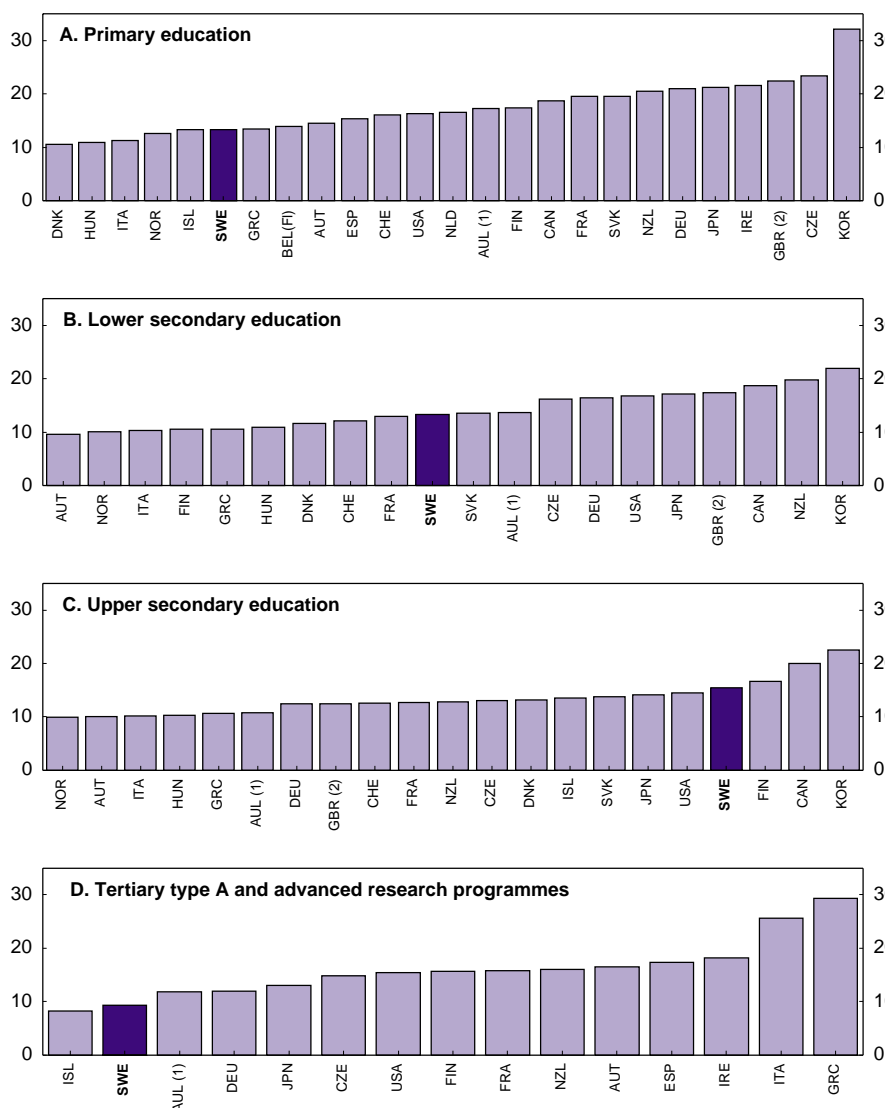
Table 4. **Teachers salaries in selected OECD countries**

	Starting salary US\$ PPP	Ratio to Swedish salary	Ratio starting salary to GDP per capita	Ratio salary after 15 years to GDP per capita	Wage premium for 15 years experience
Primary					
Sweden	18 581	1.00	0.81	1.07	1.32
Australia	25 661	1.38	1.04	1.50	1.44
Denmark	28 140	1.51	1.07	1.24	1.16
England	19 999	1.08	0.89	1.38	1.55
Finland	18 110	0.97	1.08	1.29	1.19
Germany	29 697	1.60	1.26	1.53	1.21
Ireland	21 940	1.18	0.85	1.38	1.62
New Zealand	16 678	0.90	0.91	1.78	1.95
Norway	22 194	1.19	0.78	0.91	1.17
United States	25 707	1.38	0.76	1.03	1.35
Lower secondary					
Sweden	18 704	1.00	0.82	1.07	1.30
Australia	26 638	1.43	1.08	1.50	1.39
Denmark	28 140	1.50	1.07	1.24	1.16
England	19 999	1.07	0.89	1.50	1.69
Finland	20 394	1.09	0.89	1.23	1.38
Germany	33 196	1.77	1.41	1.63	1.16
Ireland	23 033	1.23	0.89	1.39	1.56
New Zealand	16 678	0.89	0.91	1.78	1.95
Norway	22 194	1.19	0.78	0.91	1.17
United States	25 155	1.34	0.74	0.99	1.34
Upper secondary general education					
Sweden	20 549	1.00	0.90	1.15	1.28
Australia	26 658	1.30	1.08	1.50	1.39
Denmark	29 986	1.46	1.14	1.52	1.33
England	19 999	0.97	0.89	1.50	1.69
Finland	21 047	1.02	0.92	1.29	1.40
Germany	35 546	1.73	1.51	1.77	1.17
Ireland	23 033	1.12	0.89	1.39	1.56
New Zealand	16 678	0.81	0.91	1.78	1.95
Norway	22 194	1.08	0.78	0.91	1.17
United States	25 405	1.24	0.75	1.07	1.43

Source: OECD (2001c).

12. Nationwide information about class sizes has not been collected since 1994, when the average class size was 22.1 pupils in grades 1 to 9. It is not clear what the current average class size is, but 1994 was the low point in real expenditure per pupil for primary and lower secondary schools (Krueger and Lindahl, 2002).

Figure 4. Ratio of students to teaching staff
 1999, for public and private institutions, by level of education
 Calculations based on full-time equivalents



1. Includes only general programmes at lower and upper secondary education.

2. Includes only general programmes at upper secondary education.

Source: OECD.

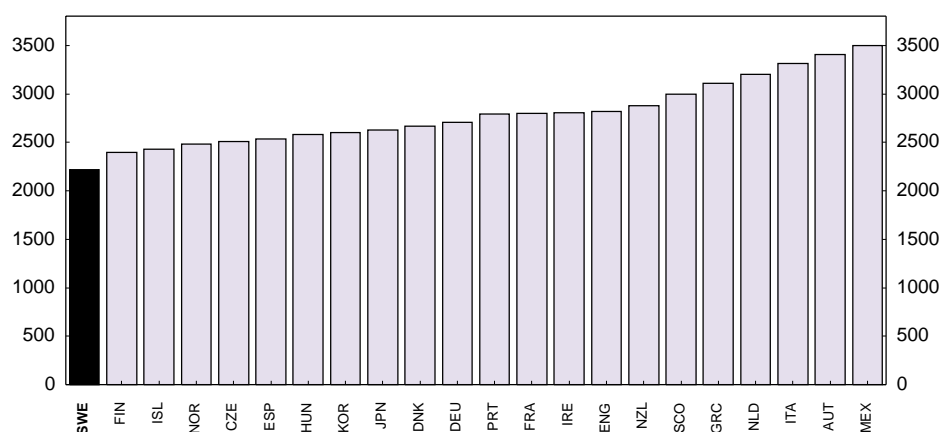
25. As a further challenge to the management of resources, the demographic bulge¹³ currently passing its way through the system will need to be managed efficiently, especially given the expected retirement of a large proportion of teachers. Increasing the number of training places for teachers to meet

13. An upsurge in births in the early 1990s produced a demographic bulge that is currently passing through the compulsory school system, so that in 1998 there were 615 000 children aged 5 to 9 years old, 25 per cent more than in 1990. However, births are falling, and demographic projections from Statistics Sweden show the 0 to 4 year-old group falling from its peak in 1993 of 609 000 to 452 000 in 2001 before expanding again but at modest rates.

all the shortfall may not be the optimal solution, since the increased demand is temporary. Instead, more effort will be needed to retain teachers to a greater extent and to ensure better utilisation of the qualified teachers in the system as a whole. Increased financial rewards targeted at experienced teachers nearing retirement might be worth considering, especially since major teacher shortages would probably lead to higher wages in any case. It would also help if there were sufficient flexibility to shift resources from one part of the education sector to another as the largest group of students age. Another option might be to re-examine after-school day-care, where an increasing proportion of staff is tertiary-qualified and where scarce skilled teaching resources may be under-utilised. More extensive use of good quality technology-assisted learning might provide some additional scope for easing the potential shortage of teaching resources, although the potential here should not be over-estimated.

26. Efforts could also be made to truncate the educational process by lifting the pace of education, by increasing the number of hours per year spent in instruction towards international averages, and shortening the overall years of schooling. Schooling tends to be a somewhat drawn-out process in Sweden, with children spending on average more years in full and part-time schooling than in any other OECD country.¹⁴ This means that Swedish students generally leave education later than in most countries, which is also an issue for labour supply. At the same time, the annual hours of instruction are generally lower than elsewhere: for example, Swedish 12 to 14 year olds spent less time in instruction than in any other OECD country (Figure 5). However, with the high take-up rate of after-school care, there may also be some scope for adjusting the balance between instruction time and after-school care. In strengthening the foundations for future learning, the introduction of pre-school classes for 4 and 5 year-olds could provide an opportunity to reassess the pace of subsequent progression through schooling and facilitate bringing forward the age of completion.

Figure 5. Intended instruction time
Total intended instruction time in hours per year for students 12 to 14 years of age¹



1. Averaged over the relevant three years of schooling; 1999.
Source: OECD.

27. Improving the productivity of the education sector also requires concerted efforts to maximise the learning benefit generated by each krona spent. This needs to be based on extensive information on the standards achieved in each year of education. In autumn 2001, the National Agency for Education started

14. Swedish 5 year olds can expect to spend 16.7 years in full-time education and 3.6 years in part-time education, compared with an OECD average of 15.4 years full time and 1.2 years part-time (OECD, 2001c).

publishing the results for each school of the 9th grade standard tests, together with results for the commune and the country as a whole. This is a good first start, but to pinpoint the value-added of the classroom, and most importantly to identify the best techniques and the optimal use of available resources, more comprehensive testing is needed. This would also help considerably in clarifying the impact of such important matters as class size on results.¹⁵ While this sounds ambitious, a high quality national testing programme could be established for a very small sum in the context of overall educational budgets (Hoxby, 2002*b*). This could also help to identify why Sweden appears to be relatively weak in mathematics and science and currently unable to deliver consistent, high performance by international standards, or the number and quality of graduates consistent with national goals.¹⁶ This might be a more cost-effective long-term strategy than the present approach of adding additional remedial classes to bridge the gap between upper secondary and tertiary courses.

Tertiary education

28. Providing additional resources to boost access to tertiary education has been a high priority for the government. Swedish tertiary institutions are almost 90 per cent publicly funded, in contrast to the OECD average of just over 75 per cent and countries such as Australia, Canada, Japan and the United States, where the public funding covers around half of institutions' expenditure. A major reform to the funding arrangements was put in place in 1993, with the aim of encouraging institutions to tailor the courses they offer to the demand from students and to maintain high performance standards. Under this voucher-type system, each institution receives an educational "assignment" which specifies the minimum number of degrees to be awarded over a 4 year period (including specific professional degrees where appropriate), the minimum number of full-time annual student equivalents and the maximum total remuneration to be provided (including for annual performance achievement). Within this framework and with some restrictions, the institutions can reallocate their resources between courses as they see fit.

29. The number of tertiary students has increased by more than 50 per cent over the 1990s. But there is still substantial excess demand, with only just over half of the applicants being offered a place in autumn 2000: some programmes receive ten applications for each place, while others could not find students for all available slots. It has been particularly difficult to fill places in natural sciences and technology, and institutions have been encouraged to compensate with additional places in arts, social sciences and law instead. Of those who gain places, the median age is almost 23 years old, which partly seems to reflect the nature of the national admittance process.¹⁷ The current entry procedure not only encourages students who miss out on a place to pursue further courses as an adult student at upper

15. See, for example, Krueger and Lindahl (2002) and Woessmann and West (2002).

16. Sweden has nevertheless moved up in OECD rankings to around the average for the percentage of 25-34 year olds possessing mathematics and science qualifications.

17. Gaining admittance to university is a difficult procedure with several weaknesses that encourage wasted education. Basic eligibility is obtained by the completion of upper secondary school and passing 90 per cent of the credits of the programme. If there are more applications than places, then at least one third of places must be allocated on the basis of upper secondary grades and one-third on the basis of the national scholastic aptitude test. These rules are identical, regardless of the upper secondary courses studied or the university programme in question, although the government has recently proposed that individual institutions should be able to decide on the grounds of selection for 10 per cent of admissions. The admissions process also involves those students wishing to return after a break in studies and those who wish to change courses.

secondary school, in an attempt to raise grade averages and increase their access chances,¹⁸ but also tends to encourage irrelevant study because of efforts to raise grades *per se* rather than concentrating on those courses most relevant to the future course of study (Brandell and Kim, 2000).

30. Once in university, the study process seems to be rather drawn out. The average years of study required to obtain a qualification has increased from 2.7 years to almost 3.7 years during the 1990s, as the requirement for a number of degree programmes have been extended to four years.¹⁹ Nevertheless, only around a third of new students are enrolled in a professional degree programme and it is hard to identify how many of the remaining students intend to complete a general degree, since universities in Sweden also provide a significant amount of lifelong learning. However, only two-thirds of the professional degree programme students had completed their degree after 7 years. This may be attributable in part to the still relatively weak economic incentives for students to complete their studies in a reasonably timely manner. Students pay no tuition fees at all, while in the 2001 academic year, full-time undergraduate students could receive SEK 64 700 in grants and loans (around 27 per cent of the average production wage), with additional study support for certain groups. Support is also generous in duration as students can continue receiving it for a maximum of six years at university, regardless of the subject studied, although they also need to maintain grades to continue qualifying for study finance. It has been argued that generous student support is necessary to compensate for a quite compressed wage structure,²⁰ but at the same time, the generous support reduces the incentive for students to complete studies in the most expeditious manner.

31. Addressing the outstanding problems of excess demand for places and boosting effective participation in tertiary education might be helped by building stronger price signals into the system. Having students pay even modest tuition fees would complement the current voucher-type arrangements used to fund the institutions and provide additional incentives for students to choose their courses carefully and complete their coursework more quickly. Private participation in the costs of tertiary study is generally considered justified by the high private returns that accrue to such education, as long as safeguards are in place to ensure that able students are not excluded on economic grounds (OECD, 2001c). Indeed, experience with imposing tuition fees in other countries suggests that there is little adverse effect on participation, particularly in the presence of student loans (OECD, 2001d). It should also be noted that those countries where students have to contribute to their tertiary expenses also show some of the highest take-up rates. It could also be appropriate to review the system by which students earn the right to a voucher, which is currently conditional on winning a place at a specific institution.²¹ It could also be useful to limit the duration of the voucher to, say, one year more than the minimum years of study required for the course chosen; this would encourage students to complete their studies expeditiously.

18. There were approximately 300 000 pupils pursuing upper secondary courses as adult students, including some 100 000 Special Adult Education Initiative students; it is not clear how many of the remainder are repeat students endeavouring to raise their grade average.

19. A new general masters degree was introduced in 2002 and is intended to be an important element of lifelong learning by making it attractive for those graduates already in employment to return to higher educational studies.

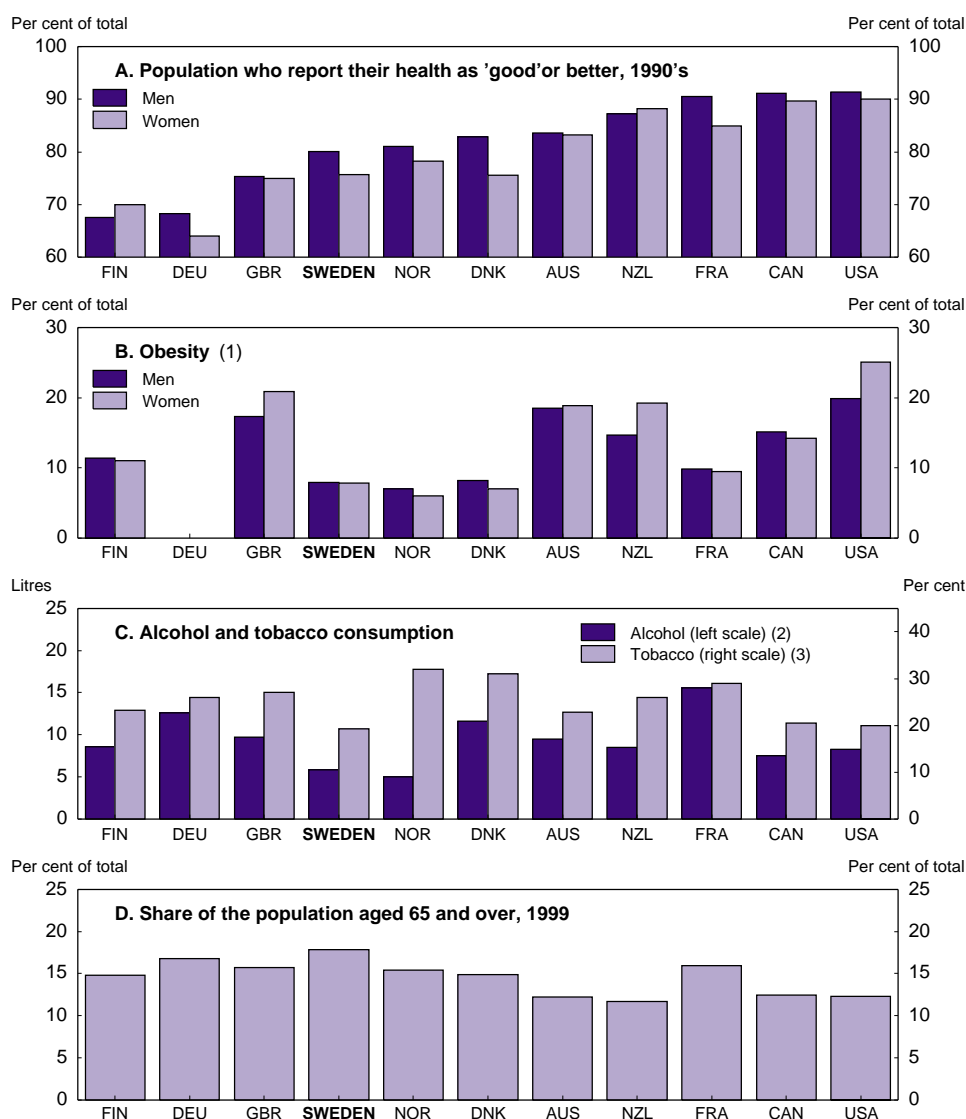
20. Several elements affect the private returns to tertiary education, including tuition fees (negatively) and publicly funded student support. In Sweden's case these two factors help to offset the relatively low wage premium by international standards (OECD, 2001e).

21. The present grades and/or national aptitude test could conceivably be used here and since the most damaging effects of the present admissions process seem to arise from its role in determining access to limited places.

Health care has been restructured

32. Swedes are in relatively good health, despite an older age structure, rating well on lifestyle factors that would normally be associated with higher health care expenditures (Figure 6). The Swedish health care system provides universal coverage and is integrated, *i.e.* physicians, including general practitioners, are employed by the county and receive a salary. Public funds covered around 84 per cent of

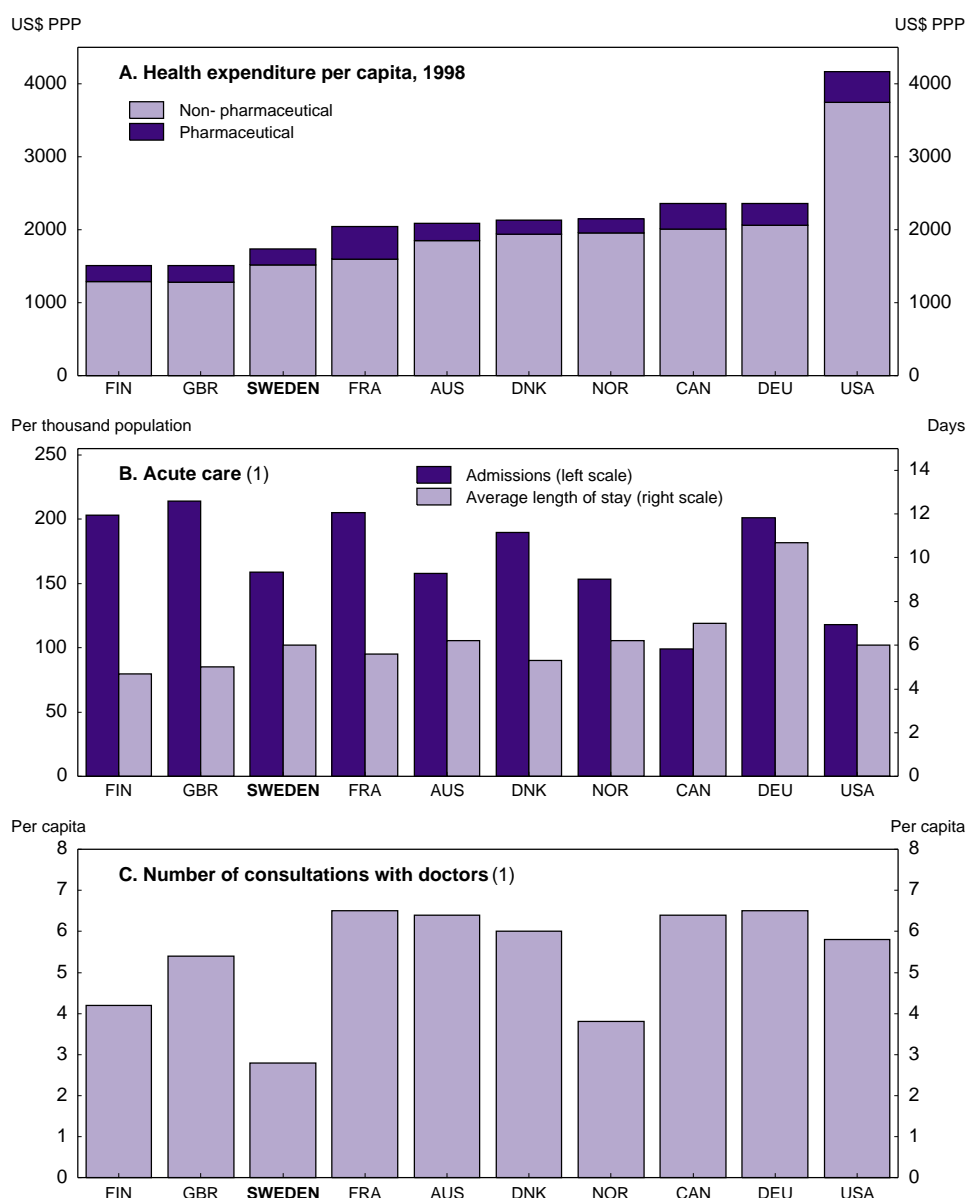
Figure 6. Health status indicators



1. Measured as body mass index over 30 per cent of population aged 15 years and over; latest year available.
 2. Alcohol consumption per population 15 years and over; late 1990s.
 3. Self-reported proportion of daily smokers; persons 15 years and over; latest year available.
- Source: OECD, Health database.

total health care expenditures, a decline of almost 10 percentage points since 1980. Despite an ageing population, per capita expenditures remain relatively modest, towards the lower end of comparable countries (Figure 7). Acute hospital admittance is around the average for OECD countries, while the length of stay is around 20 per cent shorter. In addition, Swedes consult doctors less than half as often each year as patients in other countries. This may reflect the traditional preponderance of hospital-based consultations with specialists and an under-developed primary care network. It may also reflect the relatively important role played by nurses in primary health care: they carry out a range of tasks normally done by doctors in other countries (Or, 2002).

Figure 7. Key features of health expenditure



1. 1998 or closest available year.

Source: OECD, Health at a Glance.

33. To some extent the health care sector is still in a state of transition (see Box 3). Given the system's decentralised nature, some counties are more innovative than others, and best practices take time to spread throughout the country. This process would be facilitated by more comprehensive and rigorous evaluation and follow-up of changes implemented (European Observatory on Health Care Systems, 2001). There have also been some problems with conflicting approaches, for example, giving patients greater choice and establishing purchasing organisations, which may then find they have entered into contracts which do not match what local patients want. There is also a widespread belief that the quality of purchasing can be poor in part because of inadequate monitoring (Rehnqvist, 2002).

Box 3. Reforms to the health care sector

The sector has undergone major changes in the past decade, aimed at increasing productivity and addressing quality and equity concerns. The reforms undertaken had three main elements.

The first element has been a significant efficiency drive by county councils, most of whom have introduced a purchaser/provider split for at least some of their health services. Under this approach, hospitals can manage their resources with extensive freedom and receive payment for services provided, usually based on diagnostically-related groups. The task of hospitals in managing resources was significantly enhanced by the move in 1992 to shift financial responsibility for long-term care to the municipalities, who are now required to pay the hospital for care services for patients who are no longer in need of hospital-based medical treatment. Private providers are able to compete alongside public suppliers, although the development of private hospitals has so far remained limited. Stockholm has sold several hospitals but is currently prevented from selling hospitals with emergency care facilities by the central government. The impact of these various management changes is difficult to assess, but one estimate suggests that the switch from a budget-based allocation to performance-based funding has enhanced efficiency, with estimated potential savings of around 13 per cent (Gerdtham *et al.*, 1997).

The second element has been the increase in user choice and the provision of guarantees of service. Since 1994, Swedes have been free to choose a health centre, hospital or family doctor anywhere in the country, although they may need a referral to go to a hospital outside their county. In addition, since 1991 there has been a system of guarantees that provide for patients who cannot get the services they demand from their local area within three months: they must be offered the same care somewhere else, at the county's expense. This scheme was introduced to deal with waiting lists and applied to 12 priority procedures, including hip replacements, surgery for coronary artery disease, cataracts, gallstones and hernias. This measure did reduce waiting lists substantially for those operations and also led to better management of waiting lists, although the impact was mainly to raise productivity and improve throughput in operating units with long queues, rather than patients being sent to hospitals elsewhere (Or, 2002). It would appear that these efficiency gains have been retained, even though the 12 priority areas were replaced by a more general access guarantee in 1997. The current agreement is that primary care services should offer help on the same day and a medical consultation within eight days. For specialists, the limit is three months wait, which is reduced to one month if there is doubt about the diagnosis. There are also guidelines for which types of medical conditions should be given priority.

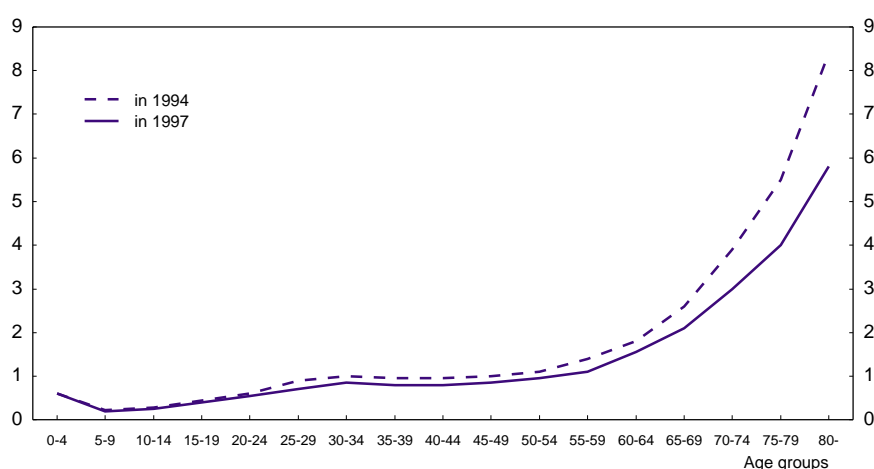
The third element was decentralisation of pharmaceutical expenditures to the counties, to permit a more integrated approach to managing costs. Sweden has a system of modest patient fees, which involve co-payments up to a maximum annual amount. For medical visits, the fees are set by each county and vary between SEK 100 and SEK 140 for a general practitioner and between SEK 120 and SEK 250 for a specialist consultation. There are also co-payments for other paramedical services, such as physiotherapy, and a hospital fee of SEK 80 per day. The annual ceiling for user co-payment is SEK 900 (approximately 0.4 per cent of household disposable income), after which services are provided free for the rest of the year. However, children under 20 receive all services free of charge. Pharmaceuticals operate under a similar but separate system. The patient pays the entire cost up to SEK 900, and then there is a rising scale of subsidy so that no one pays more than SEK 1 800 in any 12-month period.

34. It is not clear to what extent the apparent public misgivings about the performance of the Swedish health care sector are justified. To the extent that it is possible to assess, the system delivers good medical outcomes, for example, Sweden has the highest breast cancer survival rate of OECD countries for which

data is available. In any case, more systematic information linking outcomes and costs would either dispel doubts or pinpoint where improvements are necessary. The national quality registers designed to disseminate valuable information about clinical performance could provide a structure for also collecting high-quality cost data. At the county level, more could be done to demonstrate that existing resources are being applied in the most efficient way. Until more comprehensive information is available, it would be unwise to conclude that the sector is under-resourced and in need of more public funding.

35. It will be a further challenge as the elderly proportion increases to obtain higher productivity in health services and to find a mechanism that establishes the appropriate level of public health service provision, priorities for treatment and the extent of patient co-payment. The potential impact of an ageing population can be seen in the age distribution of days spent in hospital, which accelerates sharply at around 60 years of age, although the rate of increase has become less steep since 1994 (Figure 8). Projections of the evolution of health care expenditures due to ageing are complicated by a number of uncertainties including whether health improvements are increasing faster than life expectancy (*i.e.* the degree of compression of morbidity) and the scope for productivity improvements (Lagergren and Batljan, 2000). One set of estimates suggests that demographics might increase outlays for health and care for the elderly in Sweden by some 3¼ percentage points of GDP by 2050 (Casey *et al.*, 2002). The current emphasis on strengthening patient choice may raise expectations about future public funding that may prove to be unsustainable, and an informed debate is needed on how the balance of publicly-funded services, private insurance²² and user co-payments should evolve particularly in the face of mounting demographic pressures.

Figure 8. Inpatient hospital care by age groups
Days per person, per year



Source: Epidemiologiskt centrum.

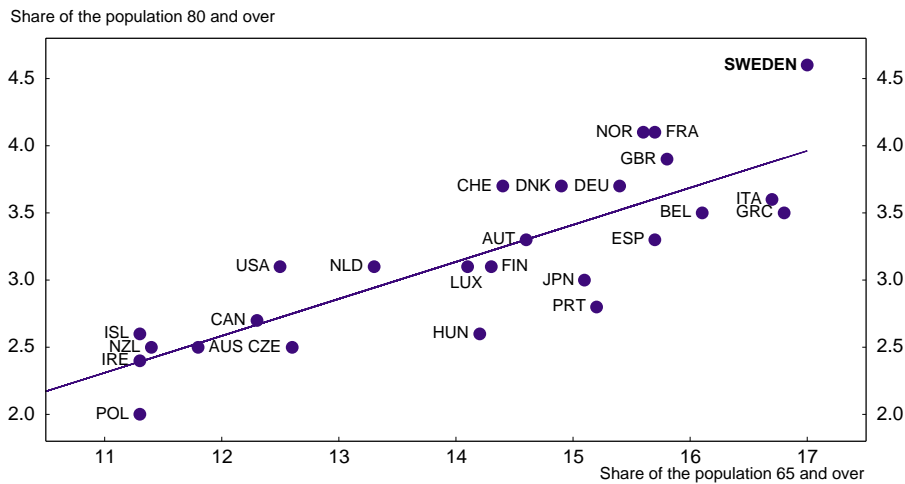
Caring for the elderly

36. Care services for the elderly were fully shifted to municipalities in 1992, when they assumed responsibility for nursing homes. Since Sweden has the largest share of over-80 year olds in the OECD

22. Private insurance currently plays only a very minor role, covering less than 1 per cent of total health costs, and is limited to non-acute care. Only around 120 000 people have such coverage, usually provided by employers wishing to reduce absences (Hjortsberg and Ghatnekar, 2001).

(Figure 9), it is not surprising that Sweden also spends a higher proportion of GDP on elderly care than all other countries, except Norway, and has a relatively high proportion of over-65s in institutions and receiving formal help at home (Table 5). Nevertheless, care services have been significantly restructured

Figure 9. Shares of elderly and very elderly in OECD countries 1997, per cent



Source: OECD, Health database.

Table 5. Comparisons of long-term care systems

Country	Estimated total spending on long-term care	Estimated public spending on long-term care	Share of population aged 65 and over in institutions	Share of population aged 65 and over receiving formal help at home	Share of private beds among institutions	Share of spending towards institutions in total public spending on long-term care
	(1992-95)	(1992-95)				
	Per cent GDP		Per cent of total			
Australia	0.90	0.73	6.8	11.7	26	73
Austria	1.40	n.a.	4.9	24	n.a.	n.a.
Belgium	1.21	0.66	6.4	4.5	49	53
Canada	1.08	0.76	6.2 to 7.5	17	38	67
Denmark	n.a.	2.24	7	20.3	n.a.	80
Finland	1.12	0.89	5.3 to 7.6	14	12	86
France	n.a.	0.50	6.5	6.1	32	59
Germany	n.a.	0.82	6.8	9.6	33	48
Japan (5)	n.a.	0.15 / 0.62	6.0	5	n.a.	n.a.
Luxembourg	n.a.	n.a.	6.8	n.a.	n.a.	n.a.
Netherlands	2.70	1.80	8.8	12	n.a.	76
Norway	2.80	2.80	6.6	17	10	63
Sweden	2.70	2.70	8.7	11.2	n.a.	n.a.
United Kingdom	1.30	1.00	5.1	5.5	44	70
United States	1.32	0.70	5.7	16	100	67
Ireland	0.86	n.a.	5	3.5	47	n.a.
Italy	0.58	n.a.	3.9	2.8	33	n.a.
Spain	0.56	n.a.	2.9	1.6	n.a.	n.a.

Source: Jacobzone (1999).

with a decrease in the percentage of elderly in institutions and curtailment of household help.²³ Of those in the 80-plus group, 23 per cent lived in institutions and another 20 per cent had home help. Between 50 and 80 per cent of non-institutional time is now spent on assisting with personal care. Average hours per household are around 30 per month, although the distribution is quite large; a majority of recipients receive less than 10 hours per month and 5 per cent receive 120 hours or more. Family care also plays a role that is, as far as can be assessed, similar in extent to other countries,²⁴ although around 8 per cent of the elderly in Sweden have never been married and 18 per cent are childless, limiting the scope for family support in those cases.

37. The organisation of care services is up to the municipality, and some at least have shifted to a purchaser/provider split, with about 10 per cent of care provided by the private sector, especially in institutions. About 10 per cent of the costs are covered by user charges, but there has been wide variation across municipalities, which recently led the government to impose a maximum charge to address equity concerns. The highest charge that can be levied for health and elder care will be SEK 1 516 per month and those who pay charges are guaranteed that they will have a minimum monthly income after charges of SEK 4 087 for single people and SEK 3 424 per person for couples.²⁵

38. Significant gains in efficiency have been made, with excessive care trimmed back and better management of service provision. The main concern now is whether unit costs may have been squeezed to an unsustainably low level, since wages are quite modest, and some recruitment problems have been reported as employment prospects have improved elsewhere. Additional productivity gains could prove relatively difficult to realise in this sector, unless there is a further reduction in institutional care²⁶ and/or a shift to greater reliance on technology. As well as the challenge of obtaining further improvements to the supply of care services, demographics are likely to significantly increase demand in the coming 20 years. Given other pressures likely to weigh on public finances at that time, not least pensions and a shrinking working-age population, one option would be to establish prepayment of care services through insurance arrangements, as Japan and Germany have done. This would make a clearer link between contributions and services supplied to individuals, provide assurance that care will be financed and reduce the risk that funds will be unavailable when the time comes to deliver the services required. Such a scheme would have to incorporate provisions for those unable to contribute adequately for themselves and might require some mechanism to adjust for any future mismatch between funds available and future demands. However, given the moral hazard arising from the fact that Sweden would be extremely unlikely to deny care to anyone, setting up such funding arrangements may be economically indistinguishable from ear-marked taxes.

Social insurance

39. Social insurance is pervasive in Sweden, providing pensions or benefits of one sort or another to 2.1 million people (*i.e.* one in three over age 18) in 2000, not including unemployment benefits, at a cost of

23. Household help is mainly shopping, food preparation, cleaning and laundry.

24. For Sweden, conservative estimates suggest that relatives spend at least twice as many hours providing nursing and care to the elderly living at home as are provided by municipalities (Swedish Association of Municipalities, 1999).

25. This compares with the lowest pension of around SEK 4 600 per month. Older women who were housewives rather than in the workforce are the group most likely to have minimal resources.

26. It should be noted that the cost function for community care rises with the degree of disability. Moderately handicapped people may be cheaper to care for in the community, but for the severely disabled, such as those with dementia, institutional care may be a more efficient option (Jacobzone, 1999).

SEK 343 billion or 16½ per cent of GDP (Table 6). Old-age pensions alone amount to more than 8 per cent of GDP, and although Sweden has put into place a new pensions scheme designed to keep expenditures in line with resources, it will not come into full force until 2020. In any case, it would be inequitable to trim back benefits to existing pensioners, who have virtually no capacity to supplement their incomes by re-entering the workforce. With projected increases in the proportion of elderly in the population, the share of resources that will be pre-empted by commitments to old-age pensions is projected to peak at 10½ per cent of GDP by 2035, before tapering off slightly (Casey *et al.*, 2002). Although this ratio is currently higher than in many OECD countries, as would be expected given an older population, by 2050 total old-age pensions relative to GDP will be near the OECD average, largely because other countries will have caught up.

Table 6. **Social insurance expenditures**

	2000	
	SEK billion	Per cent of GDP
Financial security for families and children	51.1	2.5
<i>of which:</i>		
Child allowance	18.9	0.9
Parental insurance	16.8	0.8
Maintenance support	4.8	0.2
Housing allowance for families with children	4.4	0.2
Financial security in sickness and disability	104.3	5.0
<i>of which:</i>		
Sickness benefit and rehabilitation allowance	36.5	1.7
Disability pensions and housing supplement	49.7	2.4
Work injury benefit	7.3	0.3
Attendance allowance	7.0	0.3
Financial security in old age, etc.	170.0	8.1
Other payments	8.8	0.4
Administration	9.0	0.4
Total social insurance expenditure	343.1	16.4

Source: National Social Insurance Board.

40. Financial support for families is extensive and universal, motivated by the wish that all households should be able to maintain the same financial status regardless of their family situation. Contrary to popular belief, Sweden does not offer the most generous family support in the OECD, although it stands out for the clarity and transparency of its approach.²⁷ Sweden's family benefits comprise three

27. France, for example, provides some assistance to families indirectly through the tax system, where the household is the taxation unit and two children reduce the household taxable income by one-third, compared with the same household without children. In addition, means-tested child benefits are paid. Equivalence elasticities, defined as the increase in net family income for an additional household member compared to a single person with no children, calculated for 1997 (OECD, 2002*d*) indicated that several

main types. The first is parental insurance to replace loss of income due to absence from work because of young children. This element is probably the most generous in the OECD. Between them, parents may take 13 months full-time leave for each child, taken at any time up until the child is eight years old, and receive 80 per cent of previous income up to the social insurance ceiling.²⁸ Parents are also entitled to a temporary parental cash benefit for up to 60 days per child under 12 per year to cover child illness. The second is a child allowance of SEK 11 400 per year, paid for each child under the age of 16. Supplementary allowances are provided for third and subsequent children. These benefits are currently disbursed to some 1.6 to 1.8 million children. In addition, housing allowances for families with children were paid out to almost 350 000 households in 2000. The third is maintenance benefits for single parent households, which include payments made by the non-custodial parents.

41. Sweden has made a deliberate social choice to provide extensive redistribution towards families. During the period of budgetary consolidation, parental insurance was made less generous, and the child allowance was reduced. However, the benefit levels were restored once public finance was back onto a sounder footing, and the government has now proposed that an additional 30 days parental leave be granted. It is difficult to make a judgement of the appropriate amount of state-financed parental care on economic grounds alone, although the dead-weight costs associated with raising taxes should be included in the assessment.

Some tools and techniques for getting better results from public spending

42. A number of ways of improving the efficiency and the effectiveness of public outlays have been tried in OECD countries. Possible techniques include greater emphasis on transparency and benchmarking, creating internal competition and contracting-out, user charges and consumer choice. Each of these techniques has been used to some degree in Sweden. This section looks at some of the experience with these techniques, both in Sweden and elsewhere, and considers aspects of possible extension to other areas of expenditure.

43. Transparency and benchmarking are two techniques that focus the attention of taxpayers and providers on how performance of one unit compares with that of others. At the local authority level, a considerable amount of benchmarking is already taking place: the high degree of flexibility in delivery of services afforded to municipalities and counties already provides considerable scope for innovation and identification of best practices. Many local councils make a significant effort to inform their citizens of the costs and benefits of different services provided. The internet as a diffusion tool has been particularly helpful here, and Swedes can find a range of data to assist them in assessing the performance of their local authorities. One striking absence is information on school performance, where more meaningful indicators need to be developed and made available to the public. More generally, further work on refining unit costs for all activities would assist municipalities themselves in identifying where efficiencies could be realised.

44. Nevertheless, more could usefully be done at the central level to make more transparent the link between outlays and the economic costs of raising the revenue to fund them and to present clearly the trade-offs involved in spending choices. This is particularly true in the light of the upward pressures that have emerged recently to restore the generosity of programmes and benefits to their pre-crisis levels. It could also help to focus attention on this issue if more systematic information could be collected on the public's preferences for different levels of overall spending and on programme priorities, given the

countries offered more support than Sweden for the first child, and Belgium, France, and Luxembourg offered considerably more assistance for large families.

28. Parents may also take an additional 120 days and receive a basic benefit. Of the 390 days, 60 days are not transferable from one parent to the other, so that a maximum of 330 days are available to one parent.

deadweight losses associated with taxes. While the argument that paring back programmes was essential to restore sound public finances was a powerful motivation for otherwise unacceptable cuts at the time, the downside is that now that public finances are strong once again, there is a sense that the earlier cuts were temporary. More recognition could be given to the underlying benefits of the gains achieved and a careful assessment of the costs and benefits of reinstating earlier levels of generosity undertaken. International benchmarking of performance in particular areas such as education, health and caring for the elderly can also provide an important perspective on Sweden's performance and pinpoint areas where improvements could be sought. Simplistic comparisons should be avoided, but careful assessment of relative performance could help to encourage an informed debate, better use of funds and more realistic expectations. In any case, it would make sense to ensure that any additional funding to particular areas were accompanied by rigorous monitoring and control to ensure that the expected gains in performance are actually realised.

45. Another feature of Sweden's service provision is the use of internal competition and contracting out of services, most notably in the health area, where the purchaser/provider split has been applied quite extensively. Contracting out of day-care centres and programmes for the elderly and disabled have also to some extent generated additional choice. At the municipal level, contracting-out, at least as measured by purchases as a share of total operating costs, has increased quite sharply from under 4 per cent in 1995 to 8 per cent in 2000, with the largest expansion in upper secondary and adult education. Measuring efficiency gains in the hospital sectors is complex given the way budgets are organised, but two Swedish studies have found that internal markets clearly improved efficiency (Gerdtham *et al.*, 1997; Tambour and Rehnberg, 1997). However, there is still not consensus on the long-term outcome of contracting out and there is a need for more extensive and comprehensive evaluation.

46. It should be noted, however, that not all public services can be successfully contracted out. Some services are difficult to assess for quality, and equity is often also a high priority in those areas. In these situations, where contracts covering every aspect of services to be supplied are difficult to establish, it may be a better alternative to provide a voucher to consumers and allow them to assess for themselves which supplier they prefer. Care for the elderly and childcare are two prime candidates, and policies in Sweden have indeed gone in this direction.

47. User charges are another technique for managing demand in situations where there is a risk of excess demand. Health and other care services are a case in point. Sweden's framework for user charges in these areas is a logically appealing one, particularly in striking a balance between co-payments and a modest "stop-loss" maximum to avoid imposing unduly high expenses on some households. However, there are limits to the extent to which reasonable user charges can curb an overall upward trend in demand for health services, and an alternative may be to concentrate greater efforts in establishing priorities in treatment for which the taxpayer should pay and those where supplementary private insurance could fill the gap. Concerns about the standard of "hotel" services provided in hospitals could, for example, be accommodated through supplementary payments. Patients could also be expected to provide items themselves where this is standard practice elsewhere.²⁹

48. Compulsory education is an area where user payments cannot play any role in curbing demand for schooling since coverage is 100 per cent. Nevertheless, Sweden is unusually generous in providing everything free, including school meals and materials, items which would require some financial contribution from parents in many OECD countries. Pre-compulsory education is a more contentious area, where views differ about the appropriateness of user charges. Previously out-of-pocket expenses for pre-school care for a family with two children in care for 40-hour per week ranged from nothing to SEK 4 200 per month. On average, charges covered 16 per cent of costs. The problem is complicated by

29. For example, Swedish patients are not allowed to wear their own clothes in hospital, ostensibly for hygiene reasons; these concerns do not seem to be matched elsewhere except for operating theatres, etc.

the unusually late start in school for most Swedish children since in a number of other OECD countries, virtually all children are in school for 5-6 hours per day and in a few countries from as young as 3 years. Effectively this provides free (and generally highly educational) childcare to all these children, against which Sweden's care looks both expensive in unit costs and highly priced for some parents. The move to providing pre-school classes for 4 and 5 year-olds brings Sweden closer in line with international practice, although school will only be approximately 3 hours per day until age 7. Demand for childcare outside these hours and for younger children will vary according to the costs of other childcare alternatives, including parental care. Concerns about variability of childcare charges have led the state to provide an incentive for municipalities to set income-tested, maximum monthly user charges ranging from SEK 300 for one child and low incomes to SEK 2 280 for 3 children and high incomes.

49. User charges could be used much more extensively in the post-compulsory sectors and especially in tertiary institutions. Requiring students to pay some portion of the costs for their education would both free up public funding for other purposes and provide helpful incentives on demand, by encouraging students to make more careful assessments of what they should do, to consider carefully the trade-offs between different study routes, and to finish their courses within a reasonable period of time.

50. Individual learning accounts are a new proposal from the government (see Annex III) which contains a number of unhelpful elements from a public expenditure perspective, as well as having a dubious impact on labour supply (see OECD, 2002a). These accounts embody a subsidy element although they are delivered as tax expenditures, which makes them less transparent and more difficult to monitor, as well as placing them outside the expenditure ceiling framework. In the present proposal, this subsidy is explicitly intended to be spent on courses of the employees' own choice, and it is unclear what economic benefit will be likely to ensue from the studies pursued. A further concern is the long financial commitment and public liability being built into this system, making it a difficult policy to reverse if it should be found unsuccessful or other priorities become more pressing in the future. Lastly, it appears to require complex administration. Overall, it would be better to rely on market signals through wages to help people determine what skills acquisition they should seek. If government action is really required, it would be more appropriate to provide vouchers and record the expenditure directly in the budget.

Conclusions and policy recommendations

51. Sweden has gone a considerable way towards improving both the quality and efficiency of public expenditure, achieving a reduction of the overall level of expenditures as a proportion of GDP and the corresponding burden on the economy. However, some of the instruments used could benefit from further improvement, not least to better equip the country to face the upward pressures that are likely to arise in the future. Enhancing the institutional framework within which spending decisions are made should be a priority. The country has made major changes to the operation of education, health and care services and could provide a model for others, particularly in the voucher system providing school choice and the purchaser/provider split and the design of user charges in health. Nevertheless, there are shortcomings that need to be addressed in order to improve the efficiency of services provided and achieve better outcomes for the public money spent. Some specific policy recommendations are set out in Box 4.

Box 4. Policy recommendations

The specific policy recommendations emerging from the analysis in this chapter are the following:

- Strengthen the expenditure ceilings by operating the ceiling for operational and non-entitlement transfers as a hard budget constraint on a three-year ahead basis, and building in an explicit safety margin on a separate ceiling on entitlement spending.
- Rebalance the budget envelopes and bolster the incentives for prioritising expenditures within and between expenditure areas.
- Strengthen the accountability of the state agencies and ensure that they have clear and measurable performance targets to achieve.
- Identify and pursue cost-effective ways of improving the performance of the education system, particularly in mathematics and science.
- Look at ways of truncating the years spent in school, by raising the number of hours spent in instruction each year towards international averages and re-examining the balance between instruction time and after-school care.
- Invest in developing better quality indicators of school performance both to increase transparency for parents, municipalities and the national educational authorities, and to enable the identification of factors influencing outcomes.
- Strengthen the voucher element and institute a system of tuition fees for the tertiary sector, allowing institutions to offer whatever courses and places they wish, while encouraging students to complete their studies in a shorter time frame.
- Undertake more rigorous evaluation of the costs associated with outcomes in the health care sector, and consider integrating detailed cost data into the national registers on clinical outcomes.
- Consider whether the annual maximum for patient co-payments could be raised to provide additional resources to the health sector and examine the pros and cons of allowing private insurance markets to assist in dealing with the upward pressures likely to arise as the population ages further.

BIBLIOGRAPHY

- Adema, W. (2001),
Net Social Expenditure (2nd Edition), OECD Labour Market and Social Policy Occasional Papers
No. 52.
- Bergström, Frederik and F. Mikael Sandström (2001),
Competition and the Quality of Municipal Schools, Expert Group on Public Finance (ESO)
(DS 2001:12).
- Brandell, Lars, and Lillemor Kim (2000),
Higher Education — A Privilege or a Right — A Summary Expert Group on Public Finance
DS2000:24.
- Casey, B., H. Oxley, E. Whitehouse and P. Antolin (2002),
Policies for an Ageing Society: Recent Measures and Areas for Further Reform.
- European Observatory on Health Care Systems (2001),
Health Care Systems in Transition, Sweden.
- Fredriksson, Peter and Carolien Runeson (2002),
Follow-up of EU's Recommendations on the Tax and Benefits Systems, IFAU Rapport 2002:5.
- Gerdtham, U-G., C. Rhenberg, and M. Tambour (1997),
The Impact of Internal Markets on Health Care Efficiency: Evidence from Health Care Reforms in
Sweden, Stockholm School of Economics, Working Paper series in Economics and Finance
No. 170.
- Häggroth, Sören, Kai Kronvall, Curt Riberdahl and Karin Rudebeck (1999),
Swedish Local Government, Traditions and Reforms, Swedish Institute, third edition.
- Hjortsberg, Catharina and Ola Ghatnekar (2001),
Health Care Systems in Transition, Sweden 2001, European Observatory on Health Care Systems.
- Hoxby, Caroline (2002a),
School Choice and School Productivity, NBER Working Paper No. 8873.
- Hoxby, Caroline (2002b),
The Cost of Accountability, NBER Working Paper No. 8855.
- Jacobzone, Stephan (1999),
Ageing and Care for Frail Elderly Persons: An Overview of International Perspectives, Labour
Market and Social Policy — Occasional Paper No. 38, OECD 1999.

- Krueger, Alan B. and Mikael Lindhal (2002),
The School's Need for Resources — A Report on the Importance of Small Classes (Ds 2002:12)
- Lagergren, Mårten and Ilija Batljan (2000),
Will There be a Helping Hand? Annex 8 to the Long Term Survey 1999/2000, Ministry of Finance.
- Larsson, Torbjörn (2001),
Sweden, Distributed Public Governance, Agencies, Authorities and other Autonomous Bodies, OECD 2001.
- Lindbeck, Assar (2001),
Changing Tides for the Welfare State — An Essay, Research Institute of Industrial Economics, Working Paper No. 550.
- National Social Insurance Board (2000),
Social Insurance in Sweden 2000.
- National Tax Board (2001),
“Taxes in Sweden 2001”.
- OECD (2001a),
Starting Strong: Early Childhood Education and Care, Paris.
- OECD (2001b),
Knowledge and Skills for Life - First results from PISA 2000, Paris.
- OECD (2001c),
Education at a Glance, Paris.
- OECD (2001d),
Economic Outlook No. 70, Paris.
- OECD (2002a),
Economic Survey of Sweden, Paris.
- OECD (2002b),
Economic Survey of Italy, Paris.
- OECD (2002c),
Economic Survey of the United Kingdom, Paris.
- OECD (2002d),
Economic Survey of Denmark, Paris.
- OECD (2002e),
Family-Friendly Policies: The Reconciliation of Work and Family Life (DEELSA/ELSA/WP1(2000)6), forthcoming, Paris.
- Or, Zeynep (2002),
Improving the Performance of Health Care Systems: From Measures to Action (A Review of Experiences in Four OECD Countries), Labour Market and Social Policy Occasional Papers No 57, OECD.

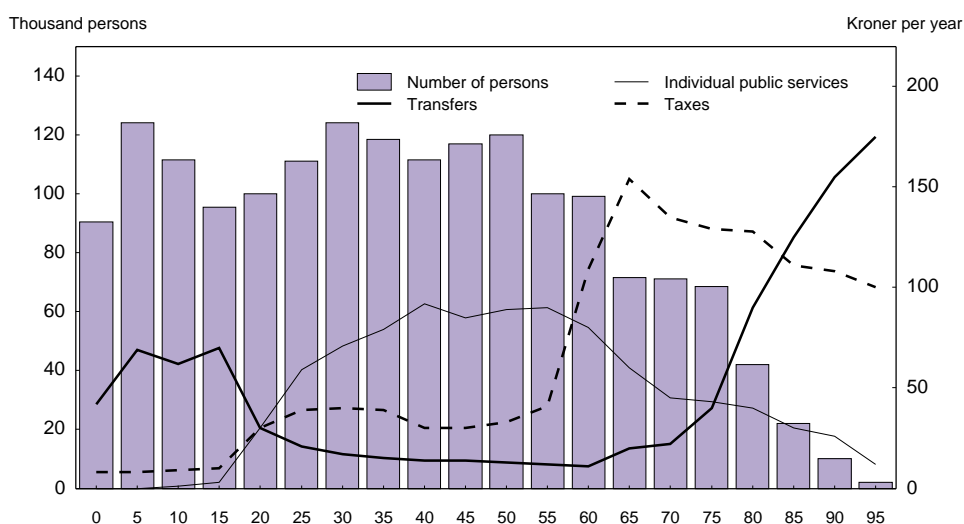
- Rehnqvist, Nina (2002),
Improving Accountability in a Decentralised System: A Swedish Perspective, in “Measuring Up:
Improving Health System Performance in OECD Countries”, OECD, 2002.
- Rexed, Knut (2001),
Internal Communication.
- Swedish Association of Municipalities (1999),
The Swedish Municipalities in the Future, A Long Term Survey of Needs and Resources Until the
Year 2010.
- Tambour, Magnus and Clas Rehnberg (1997),
Internal Markets and Performance in Swedish Health Care, Stockholm School of Economics,
Working Paper Series in Economics and Finance No. 161.
- Woessmann, Ludger and Martin R. West (2002),
Class-Size Effects in School Systems Around the World: Evidence from Between-Grade Variation
in TIMSS, Kiel Institute for World Economics and IZA, Bonn, Discussion Paper No. 485, April.

ANNEX I

INCOME DISTRIBUTION OF TAXES AND PUBLIC EXPENDITURE

Some income distribution aspects of taxation and public expenditures are set out in this annex. The distribution of taxes, transfer and individual public consumption varies significantly by age group (Figure A1). Most taxes are paid during working life, although retirement income is also taxed. The heavy concentration of expenditure in older age groups is evident in both transfers and especially consumption of services.

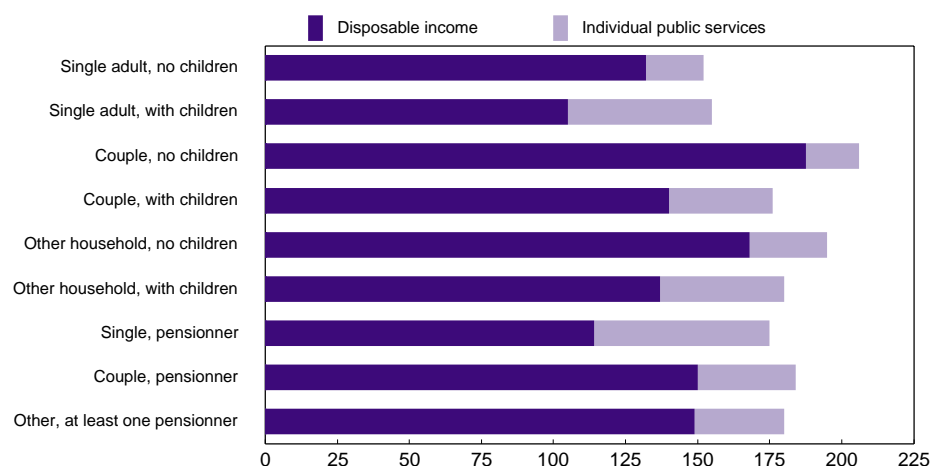
Figure A1. Age distribution of taxes, transfers and public services



Source: Statistics Sweden.

Public expenditures also go some considerable way to evening out income differences across different household types (Figure A2). Although couples without children have the highest disposable income, even when standardised for household composition, the gap in disposable income between this household type and single parent with children, the lowest income household type, is reduced by half when individual public consumption is added.

Figure A2. Disposable income and individual public services by household type
1999, thousand kroner per year



Source: Ministry of Finance.

The redistributive effect can also be measured by comparing income by quintiles (Table A1). The top 20 per cent of adults earn 45 per cent of factor incomes, whereas the bottom 20 per cent earn only 4 per cent. However, the gap is narrowed considerably once taxes and transfers are taken into account, and the disposable income ratio of the top quintile to the bottom quintile falls to 3.4. Consumption of individual public services further reduces the ratio to 2.3. The impact of public expenditures on the GINI co-efficient amounts to more than 5 percentage points, reducing it to 0.20 (Table A2).

Table A1. Impact of taxes, transfers and public consumption by quintile

Income quintile	Factor incomes	Disposable income ¹	Disposable income and public consumption ²
1	4	10	14
2	10	15	16
3	17	18	18
4	24	22	21
5	45	35	31
Total	100	100	100
Ratio 5 th quintile/1 st quintile	10.3	3.4	2.3

1. Adjusted for household composition.

2. Individual public consumption.

Source: Ministry of Finance.

Table A2. **Impacts on GINI coefficient**
1999

	GINI coefficient	Change in GINI coefficient
Factor incomes	0.49	
Transfers	0.33	-0.16
Disposable income adjusted for household composition	0.26	-0.07
Adjusted disposable income plus individual public consumption	0.20	-0.05

1. Adjusted for household composition.

2. Individual public consumption.

Source: Ministry of Finance.

ANNEX II

EQUALISATION — “THE SAME STANDARD FOR THE SAME PRICE”

While decentralisation of responsibilities to local authorities is widespread in OECD countries, Swedish local authorities are unique in having complete independence in setting tax rates.¹ Unusually by OECD standards, the local tax base is earned income rather than property, although there is no legal constraint on other local taxes (for example, a local authority could, if it wished impose a tax on automobiles). In 2001, local tax rates varied from 27.15 per cent to 33.17 per cent, with most of the variation coming from municipal taxes.² However, Sweden also puts great stress on equalising both the tax base and assessed expenditure needs across the country, with the objective of enabling all municipalities and county councils to offer the same standard of service at the same price anywhere in the country. This principle of equalisation is widely supported in Sweden, although there have been many discussions about how far equalisation should go and what formulae to use.

The present system was implemented in 1996 and is designed to be self-financing across the local government sector. It operates in two parts (and separately for municipalities and counties). The revenue equalisation involves those with a higher-than-average taxable income per person making a transfer to those with a lower-than-average per capita taxable income, according to a formula that involves the gap with average taxable income multiplied by 95 per cent of the previous year's average local tax rate across the country as a whole. The expenditure equalisation involves an adjustment for differences in “expenditure needs” and costs of different regions, based on evening out differences in demographics, density and climate. Those municipalities deemed to have advantageous structural characteristics pay to those below average. Both equalisation systems are designed to be completely self-financing within the municipality and county sectors although the state determines the parameters on the spending side. The system has the advantage of discouraging competition between authorities to attract higher-than-average earners with low needs, since this would be penalised through equalisation. But at the same time, the incentive to attract residents by improving the quality of services or being more efficient has been significantly reduced.

-
1. During two periods in the 1990s, Parliament regulated local tax rates — between 1991 and 1994, taxes were frozen at existing levels, and between 1997 and 1999, half of any tax increases were clawed back *via* reduced block grants. However, local freedom to set tax rates has since been reaffirmed by the courts.
 2. The lowest tax rates are generally found in suburbs of large cities, while the highest rates tend to be applied in the rural north and municipalities affected by industrial decline (National Tax Board, 2001).

ANNEX III

INDIVIDUAL LEARNING ACCOUNTS

The government has presented a so-called guideline bill on individual learning and skills development to the Riksdag and aims to present a supplementary bill during the autumn of 2002, in which the system will be developed in more detail and proposals for legislation presented. The system is planned to enter into force on 1 July 2003.

The main components of the proposal:

- The individual will be given the opportunity to set aside a maximum of 25 per cent of a base amount (approximately SEK 9 500) per year, including a tax reduction, to an individual learning account.
- The income on the balance of the individual learning account will be liable to full capital income tax (30 per cent).
- Funds withdrawn for learning and skills development will be liable to income tax. However, special stimulation will be given to withdrawal *via* a skills and learning premium. This will take the form of a tax deduction. The skills and learning premium consists of the following elements:
 - The maximum premium will amount to 2.5 per cent of a base amount (approximately SEK 9 500).
 - The full premium is paid on one-year's full-time study (=200 study days). When a lower number of study days is used, the maximum premium is proportionally reduced. However, no premium is paid for learning and skills development that takes less than five days.
 - The actual premium may not exceed 50 per cent of a withdrawal from an individual learning account.
 - The skills and learning premium is strengthened with a fixed amount — a basic sum — of SEK 1 000 applying irrespective of the number of study days.
 - The premium will take the form of a tax deduction. The possibility for special tax adjustment will be investigated so that this stimulation will benefit the individual during the course.
 - Special rules will be designed to ensure that abuse does not occur.
- Individuals saving in a learning account will later be able to withdraw savings without having undergone learning and skills development. In this case, withdrawn funds will be liable to full income tax.

- Employers depositing funds in an employee's learning account receive a tax deduction corresponding to a reduction of the employer contribution by 10 percentage points. An equivalent reduction will be given to individual business operators and partners in trading partnerships.
- To enable the rapid introduction of the system, savings will initially be made in accounts administered by a government agency. Later, the possibility of saving with different financial institutions such as banks and insurance companies will be considered.

Financing

Stimulation to individual learning and skills and development will be financed within the framework given in the 2000 Budget Bill. The framework amounts to SEK 1.15 billion per year and will be financed by increased energy tax revenue. The funds on the account at the National Debt Office in anticipation of the new reform will be used to cover the deficit during the years in which the system will be built up (at the close of 2002, this account amounts to SEK 3.65 billion, including deposits for 2002). In the longer term, the system will be in financial balance.

Source: Ministry of Industry, Employment and Communications.

ECONOMICS DEPARTMENT

WORKING PAPERS

344. *The Decline in Private Saving Rates in the 1990s in OECD Countries: How Much Can Be Explained by Non-Wealth Determinants*
(November 2002) Alain de Serres and Florian Pelgrin
343. *Enhancing the Effectiveness of Public Expenditure in Norway*
(October 2002) Isabelle Joumard and Wim Suyker
342. *Productivity and Convergence in a Panel of OECD Countries: Do Regulations and Institutions Matter?*
(September 2002) Stefano Scarpetta and Thierry Tressel
341. *Managing Public Expenditure: The UK Approach*
(August 2002) Paul van den Noord
340. *The Brazilian Pension System: Recent Reforms and Challenges Ahead*
(August 2002) Marcos Bonturi
339. *Challenges in the Mexican Financial Sector*
(August 2002) Marcos Bonturi
338. *Coping with Population Ageing in Hungary*
(August 2002) Andrew Burns and Jaromir Cekota
337. *Next Steps for Public Spending in New Zealand: The Pursuit of Effectiveness*
(July 2002) Dave Rae
336. *Strengthening the Management of Public Spending in Hungary*
(July 2002) Jaromir Cekota, Rauf Gonenc and Kwang-Yeol Yoo
335. *Automatic Stabilisers and Market Flexibility in EMU: Is There a Trade-Off?*
(July 2002) Marco Buti, Carlos Martinez-Mongay, Khalid Sekkat and Paul van den Noord
334. *The Economic Consequences of Terrorism*
(July 2002) Patrick Lenain, Marcos Bonturi and Vincent Koen
333. *Investment in human capital through post-compulsory education and training: Selected efficiency and equity aspects*
(July 2002) Sveinbjörn Blöndal, Simon Field and Nathalie Girouard
332. *Enhancing the Effectiveness of Public Spending in Switzerland*
(June 2002) Isabelle Joumard and Claude Giorno
331. *Competition and Efficiency in Publicly Funded Services*
(June 2002) Jens Lundsgaard
330. *Policy Pre-Commitment and Institutional Design: A Synthetic Indicator Applied to Currency Boards*
(May 2002) Marie-Thérèse Camilleri Gilson
329. *The Role of Policy and Institutions for Productivity and Firm Dynamics: Evidence from Micro and Industry Data*
(April 2002) Stefano Scarpetta, Philip Hemmings, Thierry Tressel and Jaejoon Woo

328. *Improving the Efficiency and Sustainability of Public Expenditure in the Czech Republic*
(April 2002) Andrew Burns and Kwang-Yeol Yoo
327. *Increases in Business Investment Rates in OECD Countries in the 1990s: How much can be explained by fundamentals?*
(April 2002) Florian Pelgrin, Sebastian Schich and Alain de Serres
326. *Sectoral Shifts in Europe and the United States: How They Affect Aggregate Labour Shares and the Properties of Wage Equations*
(April 2002) Alain de Serres, Stefano Scarpetta and Christine de la Maisonneuve
325. *Coping with Population Ageing in the Netherlands*
(March 2002) David Carey
324. *Public Spending in Italy: Policies to Enhance its Effectiveness*
(March 2002) Alexandra Bibbee and Alessandro Goglio
323. *Overheating in Small Euro Area Economies : Should Fiscal Policy React?*
(March 2002) Peter Hoeller, Claude Giorno and Christine de la Maisonneuve
322. *Encouraging Environmentally Sustainable Growth in Austria*
(February 2002) Jens Høj and Andreas Wörgötter
321. *Health Care Reform in Japan*
(February 2002) Yutaka Imai
320. *Enhancing Expenditure Control with a Decentralised Public Sector in Denmark*
(February 2002) Steen Daugaard
319. *Options for Reforming the Finnish Tax System*
(February 2002) Isabelle Joumard and Wim Suyker
318. *Product Market Regulation and Wage Premia in Europe and North America: An Empirical Investigation*
(January 2002) Sébastien Jean and Giuseppe Nicoletti
317. *Competition, Innovation and Productivity Growth: A Review of Theory and Evidence*
(January 2002) Sanghoon Ahn
316. *Labour Market Institutions, Product Market Regulation, and Innovation : Cross Country Evidence*
(January 2002) Andrea Bassanini and Ekkehard Ernst
315. *Ongoing Changes in the Business Cycle - Evidence and Causes*
(January 2002) Thomas Dalsgaard, Jorgen Elmeskov and Cyn-Young Park
314. *Comment encourager une croissance écologiquement durable en France?*
(December 2001) Ann Vourc'h et Patrick Lenain
313. *Increasing Efficiency and Reducing Complexity in the Tax System in the United States*
(December 2001) Richard Herd and Chiara Bronchi
312. *Product and Labour Markets Interactions in OECD Countries*
(December 2001) Giuseppe Nicoletti, Andrea Bassanini, Ekkehard Ernst, Sébastien Jean, Paulo Santiago and Paul Swaim
311. *Modelling Import Responsiveness for OECD Manufactures Trade*
(October 2001) Mara Meacci and David Turner