**Policy Responses to Economic Crises**

**Sweden, 2008-**

Note: Policy background memos contain information from various sources on the political economy of a particular country and economic and social policy choices before, during, and after an economic crisis. The memos do NOT contain any original information or analyses, but rather summarize material from various sources. The material is at times quite raw – the text is often presented in bullet points and sources are often quoted verbatim. Thus, the background memos should primarily serve as an overview of 1) policy developments in a particular country, and 2) academic research on the subject.

# 1 Background

**Economy**

In the lead up to the recession, unemployment was average (around 6% in 2007), GDP growth was consistently above the OECD average, and public debt was modest (Starke, Kaasch, and Hooren 2013, 160).

**Politics**

A right-of-center coalition, led by Moderaterna (The Moderate Party), took office in the autumn of 2006 and was in power at the onset of the crisis. The parties forming the coalition campaigned on a platform that was committed to the Swedish welfare state, although once in office, and before the crisis, the government took incremental steps towards reducing social protection. This included reducing unemployment and sickness benefits and changing employment protection (Starke, Kaasch, and Hooren 2013, 161).

**Fiscal Policy and Welfare**

Before the crisis, the right-of-center government adhered to the economically orthodox view that in “normal” recessions, macroeconomic stabilization should be left to monetary policy and automatic stabilizers, i.e. that the government should not pursue active, discretionary spending (Lindvall 2012, 242).

The 1990s crisis left a lasting impact on fiscal policymaking, leaving Sweden particularly well situated to respond to the crisis. First, automatic stabilizers in Sweden are the second largest of all OECD countries (after Denmark), suggesting that during a recession fiscal policy will automatically become expansionary (Girouard and André 2005, 22). Second, the budgetary process was reformed in 1997 such that parliament must first approve an expenditure ceiling before making decisions on specific budgetary items Finally, a mechanism had been implemented into the pension system such that pensions automatically decrease during recessions (Starke, Kaasch, and Hooren 2013, 160–1).

In 2007, Sweden's budget had a considerable surplus, which gave the government greater leeway to respond to the crisis by stimulating the economy, both because it had the financial capacity to do so, but also because the European Stability and Growth Pact has restrictions in place to limit budget deficits over the business cycle (Cameron 2012, 114).

# 2 Crisis

The Swedish economy was officially in recession from the first quarter of 2008 until the end of the first quarter of 2009 (Cameron 2012, 96).

# 3 Policy Response and Politics

During 2008-2010, Sweden pursued a policy of fiscal stimulus, with the approach being balanced between spending increases and tax cuts (Cameron 2012, 114). The general approach was to expand and alter existing social policies during the regular budgetary process, rather than by enacting emergency legislation (Starke, Kaasch, and Hooren 2013, 160). Unlike the 1990s crisis, the coalition government made minimal efforts to consult opposition parties and social partners (Starke, Kaasch, and Hooren 2013, 162).

**September 2008**

Government's budget introduced, under the slogan "Putting Sweden to Work – Safeguarding Welfare". While the budget did not offer a full-on crisis package, it included three reform "packages" meant to mitigate the effects of the downturn: for jobs, for the future, and to strengthen welfare (Starke, Kaasch, and Hooren 2013, 162). "[M]ost of the measures presented as stimulus measures in the final document […] were in fact permanent policy changes that the government had originally adopted for reasons that had little to do with the economic crisis" (Lindvall 2012, 241)

Taxation → Corporate tax reduced from 28% to just over 26%. (International Labour Organisation/World Bank 2012).

Old age → Taxes for pensioners lowered (Starke, Kaasch, and Hooren 2013, 162).

Public Investment → A substantial, permanent, annual allocation was made to municipalities and county councils, strengthening the status of local social services, health care, and public employment (Starke, Kaasch, and Hooren 2013, 162).

**October 2008**

Financial → Stabilization plan for the financial sector introduced. While Swedish banks were vulnerable at this stage, they were generally considered solid and unlikely to fall prey to the crisis. The main thrust of the stabilization plan focused on protecting middle-sized banks and mortgage companies (Starke, Kaasch, and Hooren 2013, 162).

**January 2009**

Fiscal → First crisis stimulus package introduced, with a special focus on active labor market policies. Additionally, it included increases in spending on education, investments in infrastructure, support for the automobile industry and a special tax credit for home repairs (Lindvall 2012, 241). The government's proposal was in many ways similar to a proposal introduced by the main opposition party, Socialdemokraterna (The Social Democratic Party), with the main difference being over income tax cuts. (Lindvall 2012, 243). Nonetheless, various political actors, including the opposition, trade unions, and the Fiscal Policy Council, criticized the government for not taking a more expansionary stance (Starke, Kaasch, and Hooren 2013, 164).

Employment → In the domain of labor market protection, the package focused on supporting newly unemployed individuals and short-time workers, as well as additional support for the long-term unemployed (Starke, Kaasch, and Hooren 2013, 163).

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# Sweden, 2008-

**Spring 2009**

Fiscal → Budget amendment introduced, with a number of expansionary items, including investment in child and elderly care, education, and active labor market programs, as well as grants to local governments to support public employment and social services. Combined, these items amounted to a 2.7% of GDP increase in spending (Starke, Kaasch, and Hooren 2013, 164).

**September 2009**

Fiscal → Budget introduced, again emphasizing the government's primary aim of increasing employment. Local governments received additional funds to continue funding health care, social services and public employment, while an increased focus was put on providing active labor market policies to combat youth unemployment. These changes included job subsidies, recruitment incentives, job-search assistance, and training programs (Starke, Kaasch, and Hooren 2013, 164).

Employment → Reduction in employer social security contributions, which cost an estimated 0.52% of GDP in 2009 and 2010. The measure was planned prior to the crisis (OECD 2011, 76).

Employment → The subsidy for the employment incentive scheme Nystartsjobb doubled. Estimated cost 0.07% of GDP in 2009 and 2010 (OECD 2011, 76).

Employment → A tax credit for home repair and maintenance introduced permanently. Estimated cost 0.71% of GDP (OECD 2011, 76).

Employment → Increase in number of places in work experience programs, a total of 91600 places in 2009 and 2010, which cost an estimates 0.23% of GDP (OECD 2011, 76).

Public Investment → Investment in infrastructure projects to maintain employment in construction sector. Estimated costs 0.32% of GDP in 2009 and 2010 (OECD 2011, 76).

**October 2009**

Old age → The feature of the pension system which automatically reduced pensions during recessions was addressed by limiting its effects on pensioners. The automatic reduction was spread out over a longer time period, with small changes up front, but larger changes later on. These changes garnered the support of major opposition parties (Starke, Kaasch, and Hooren 2013, 165).

**Spring 2010**

Fiscal → Budget amendment introduced amidst a rapid recovery of the economy. The budget included several expansionary policies, particularly focused at pensioners and families with children (Starke, Kaasch, and Hooren 2013, 166).

Old age → Income tax on pensions reduced to offset automatic pension decreases (Starke, Kaasch, and Hooren 2013, 166).

Family → Child benefits increased (Starke, Kaasch, and Hooren 2013, 166).

Employment → Active labor market policies introduced to help older people (Starke, Kaasch, and Hooren 2013, 166).

**September 2010**

Politics → Elections held, which resulted in a continuation of the right-of-center coalition, although it lost its majority in parliament. The minority coalition continued with the support of the Green Party and, when required, the Social Democrats. The most significant changes the elections brought about was the electoral win of the Swedish Democrats, which won 20 seats (of 349) (Starke, Kaasch, and Hooren 2013, 166).

Fiscal → Budget introduced, which introduced further policies to support young people and the unemployed in finding employment (Starke, Kaasch, and Hooren 2013, 166).

Old age → Income tax on pensions further reduced (Starke, Kaasch, and Hooren 2013, 166).

Family → Housing allowance for families with children increased (Starke, Kaasch, and Hooren 2013, 166).

Taxation → "From January 2011 the basic income tax allowance was increased for people over 65 [0.2% of GDP]" (European Commission 2015).

Public Investment → Increased grants (about 0.52% of GDP) to local governments to reduce the fall in local government employment (OECD 2011, 76).

**Spring 2011**

Fiscal → Supplementary budget introduced. Tax reductions proposed. (Starke, Kaasch, and Hooren 2013, 167)

**Spring 2011 (?)**

Housing → "The housing benefit for rented accommodation will increase in 2012 in three different ways. 1) The flat benefit for families with children will increase. 2) The low housing cost bracket will be lowered. 3) The compensation rate for young people will be increased. The housing supplement for elderly will also increase"

**September 2011**

Fiscal → Budget introduced. Previous emphasis on social policy continued, primarily aimed at supporting pensioners, families with children and unemployed youth. Critics considered the budget too austere and being unnecessarily cautious (Starke, Kaasch, and Hooren 2013, 167)

Taxation → "From 2012 the VAT on restaurant and catering services was reduced by 13 pp to 12% [0.2% of GDP]" (European Commission 2015).

Employment → "Structural measures to improve employment services and monitoring of job seeking activities, and more places in labor market programs for people at risk of long-term unemployment. Temporary increases in the number of employment training and work experience places, and in the number of places in vocational education" (IMF 2012, 28).

Public Investment → Spending on infrastructure increased by 0.1% of GDP (European Commission 2013, 13).

**September 2012**

Taxation → "The budget bill for 2013 introduced a further increase in the basic tax allowance for individuals over 65 years old and tax incentives for investment in new companies" (European Commission 2015).

Taxation → "The budget bill reduced the CIT statutory rate by 4.3 percentage points from 26.3 % to 22 %" (European Commission 2015).

Employment → Labor market package introduced, at a cost of 0.1% GDP (European Commission 2013, 13). [Details?]

**September 2013**

Taxation → "The earned income tax credit was reinforced as from 1 January 2014. At the same time, the tax-free allowance for individuals over 65 years old was again increased" (European Commission 2015)

**September 2014**

Politics → Elections held, with the Social Democrats and Greens gaining more support than the right-of-center minority coalition. SD and Greens formed a minority government. The biggest news of the elections were the continued rise of the Swedish Democrats, which added 29 seats to their 20 seats in parliament. "Economic policies were not at the top of the agenda in the 2014 election; instead, social welfare in general, and schooling/education in particular, dominated the debate" (Berg and Oscarsson 2015, 2).

# References

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