



The end of the deadlock in Sweden: policy reforms in a four-party agreement

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After more than four months of deadlock following the elections in Sweden, a government was finally formed in January 2019. The basis for the government is a four-party agreement paper, listing 73 policy items to be implemented. Many of these run counter to earlier Social Democrat policy.

Description

The Swedish elections of 9 September 2018 resulted in an indecisive outcome. None of the blocks had a clear victory and the populist anti-immigration party (*Sverigedemokraterna*) received 17.5% of the votes. In principle, the parliamentary situation was the same as after the 2014 election. More than four months after the election, the deadlock still remained.

However, in the new year, the Social democrats, the Green Party and two of the former Alliance parties (the Centre party and the Liberals) reached agreement on 73 policy items, subject to which Stefan Löfven (Social democrats) could remain as Prime Minister. However, the stated precondition for the deal was that the Left party would be blocked from having an influence. This statement, and the content of the 73-point deal, was a provocation to the Left party but, after additional negotiations between the Left and the Social democrats, a new Government was formed on 20 January 2019. The Left party, however, declared that they would bring a vote of no-confidence if the Social democratic government put forward proposals which increase social and economic inequalities.

The 73-point deal covered almost all policy domains. This Flash Report briefly looks at four crucial social policy aspects: the issue of profit in the welfare sector (see ESPN Flash report 2016/69); housing regulations aiming

to improve the efficiency of the housing market (also mentioned in several EU “Country Specific Recommendations” [CSRs] to Sweden); tax policy changes increasing inequality; and proposed changes to Swedish labour law and labour market regulations.

On the issue of profit in the welfare sector, the heated discussions about deregulation and private for-profit sector involvement in basic education, healthcare and social services seem now, after many years, to have come to an end. The agreement paper states clearly that no private for-profit interference will be allowed. Possible problems should be resolved by increasing quality controls in these sectors.

As far as housing regulations are concerned, although all political parties agree that the housing market in Sweden is dysfunctional, that there is a shortage of housing, that production has been too low for many years, and also that household debt due to extreme housing prices is a serious problem, there has been no agreement to date on how to resolve this. The agreement now states that market prices should be introduced in the renting sector for new apartments. Given that new production represents only about 1-2% of the total housing stock, the overall impact is likely to be small but it might lead to marked rent increases in attractive areas such as Stockholm’s inner city.

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On the tax policy issue, the agreement states that tax progressivity will be reduced, in particular by abandoning the 5% increase in the high earners' tax, first introduced during the severe recession years in the 1990s (*värnskatt*). The many earned-income tax credits that have been implemented have led to a situation in which old-age pensioners pay higher taxes for the same income than those working. These higher taxes paid by old-age pensioners will be abolished in 2020. A tax reform is suggested, reducing taxes on labour and introducing a number of "green taxes".

Finally, on the fourth issue, Swedish labour laws and regulations will be changed to increase flexibility. The Employment Protection Act (LAS), which states that in case of redundancy those employed most recently should be the first to leave, will therefore be reformed. This issue has also been discussed for many years, with the Social democrats often repeating that they want neither changes of LAS, nor state intervention in wage negotiations/ collective bargaining. However, under the agreement an official inquiry will be set up in order to reform LAS. The social partners will have a chance to conclude such an agreement, but otherwise the government will implement reforms during 2021.

Outlook & commentary

In general, the agreement paper on which the new government is based has been regarded as a move to the right by the Social democrats. This is true, in particular, since it touches on a number of issues seen as "sacred cows" by the Social democrats. The last days of the negotiations between the Social Democrats and the Left party increased uncertainty in the minds of the public. Following the discussions, both party leaders said that they

had made a deal resulting in a secret agreement. Nevertheless, the agreement paper with the other three parties remains valid.

Given the fragile position of the new government, it of course remains to be seen whether all these reforms will be implemented. Under the agreement, there will most likely be no change in the types of providers permitted in the welfare sector. Sweden will therefore continue to have for-profit providers, not only in the healthcare and long-term care sectors but also, at odds with most other countries, in primary education. The paper even states that "Freedom of choice is a central part of the Swedish welfare model"; this is a real departure from how the Swedish welfare model has traditionally been defined in international policy discussions and in welfare state research. In addition, the agreement includes a point stating that provision of employment services will be opened up to private providers. To a large extent, the Swedish Public Employment Service (*Arbetsförmedlingen*) will therefore have a reduced role, more concerned with quality check-ups of the private providers that will do the matching between employers and job seekers. This reduced role has already led to a situation in which the Public Employment Service has stated that about a third of its employees will lose their jobs.

The changes in the tax system planned in the agreement (reduced progressivity etc.) will be implemented but other reforms are more uncertain. Many of the policy items mentioned in the agreements follow a typically Swedish procedure: an official inquiry/ commission is opened, which is asked to come up with specific policy proposals within a stipulated period. Accordingly, many of the reforms proposed in the four-party agreement document, such as the changes to Swedish labour law and

regulations, will not be put to Parliament in the next two years. The same is true for the introduction of market prices in the housing sector, which is planned for July 2021, and only for new dwellings. Needless to say, it remains to be seen whether such reforms will then get through Parliament, or even if the new government will still be in power.

Political commentators mostly point to the fragile position of the government. In sum, the uncertainty regarding many of these policy reforms is likely to remain.

Criticism of the agreement has come from very different parts of the political spectrum, but in particular from more left-wing writers and think-tanks, and from the LO (trade union confederation), which has long been close to the Social democratic party. The chief economists of LO wrote that the four-party agreement compounds the challenges of polarisation and increasing inequalities.

Severe criticism has also come from the right-wing party, the Christian democrats and the Sweden democrats. This has generally, however, been levelled less at the suggested policy reforms, and more at the four-party agreement as such. It is seen as a betrayal of the two former alliance parties.

Further reading

LO. Sveriges problem riskeras nu att fördjupas, Svenska Dagbladet January 21, 2019.

<https://www.svd.se/lo-sveriges-problem-riskerar-nu-att-fordjupas>

The 73-point agreement:

<https://www.socialdemokraterna.se/aktuellt/2019/Utkast/>

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