

SPECIAL ANALYSIS

The 2018 budget bill

According to the NIER's calculations, the measures set out in the government's budget bill for 2018 will increase expenditure by SEK 36 billion and decrease revenue by SEK 4 billion relative to previously decided policies (see Table 3). Taken together, this means that the budget will reduce net lending for the public sector by SEK 40 billion.

INCREASED FUNDING FOR EDUCATION, HEALTH CARE, DEFENCE, POLICE AND CLIMATE TO PUSH UP EXPENDITURE BY SEK 36 BILLION

The budget bill contains SEK 40 billion in measures on the expenditure side. The proposed increases in allocations total SEK 46 billion. Of this, SEK 4 billion consists of higher central government grants to the municipal sector to compensate for a tax cut for the over-65s which will reduce municipal tax revenue. Adjusted for this, allocation increases impacting on public finances come to SEK 42 billion. The government also proposes reductions in allocations in a number of areas totalling SEK 6 billion. Taken together, this means that expenditure will increase by SEK 36 billion (see Table 3).

Almost 60 per cent of the reforms on the expenditure side – just over SEK 21 billion – relate to government consumption. Of this, SEK 14 billion concerns the municipal sector, mainly central government grants for specific initiatives in the health sector¹ (SEK 7.5 billion) and primary school² (SEK 3.5 billion).

Municipal adult education is to receive just over SEK 1 billion to increase the number of places. Municipalities and county councils that hire people with a weak position in the labour market through the Extra Jobs scheme will also receive additional central government grants of SEK 0.5 billion, partly to improve opportunities for mentoring in the workplace.

When it comes to central government consumption, measures amounting to SEK 8 billion are proposed. The largest measures concern the armed forces and the police and legal

¹ The health sector is to receive SEK 2 billion to improve the working environment and SEK 1 billion to reduce waiting lists (the "Patient Billion"). An additional SEK 1 billion is earmarked for continued improvements in maternity care, and SEK 1.5 billion for an initiative in paediatric care. County councils are also to receive additional central government grants of almost SEK 3 billion as a result of the agreement on sharing the cost of prescription medicines reached in spring 2017.

² It is proposed that schools in socio-economically exposed areas are allocated an additional SEK 1.5 billion to improve the working environment and their performance. There are also a variety of smaller school initiatives totalling almost SEK 2 billion, such as holiday tuition for underachievers, free public transport for school pupils, and various measures to support recent immigrants in primary and upper secondary education.

system. It is proposed that SEK 3 billion is awarded to the armed forces, which the NIER assumes consist of SEK 2 billion consumption and SEK 1 billion investment, while the police and legal system will receive additional funding of SEK 3 billion.

The government also proposes earmarking SEK 5 billion for various climate initiatives. The NIER estimates that SEK 3 billion of this will consist of various transfers to firms and households, comprising support for various projects in the business sector plus subsidies and premiums for environmentally friendly vehicles, electric bicycles and solar cells. Government investment will account for SEK 1 billion, while the remainder will take the form of government consumption.

One of the main proposals in the budget is an increase in the child allowance of SEK 200 per month, which will boost transfers to households by SEK 4 billion. It is also proposed that transfers to households are increased through higher disability pensions, a higher ceiling for sickness benefits, a higher housing supplement for pensioners, and higher student grants. Altogether, transfers to households will rise by SEK 10 billion.

Transfers to firms will increase by SEK 3 billion, due mainly to climate initiatives but also to increased funding for schemes supporting the employment of people with disabilities.

PERMANENT REFORMS TO BE EXPANDED IN 2019 AND 2020

The NIER's interpretation is that the bulk of these increases in expenditure are to be viewed as permanent. The government also plans to expand many of these reforms in 2019 and 2020, most notably the climate initiatives and grants to municipalities and county councils, pushing up expenditure by another SEK 15 billion in 2019 and a further SEK 13 billion in 2020. This includes the government's proposal to increase grants to municipalities and county councils by SEK 5 billion in 2019 and a further SEK 5 billion in 2020.

IMPACT ON THE LABOUR MARKET

The NIER's overall conclusion is that the new measures in the labour market area will have limited effects on employment and unemployment in the short term.

There is a considerable need for education and training following the recent influx of refugees. The NIER believes that it is a good idea to invest in vocationally-oriented education. More people in education will, however, mean fewer people in the labour force, and so both employment and unemployment will be somewhat reduced. That said, the NIER expects it to take

time to increase volumes in education. In the longer term, the effects will depend on how much this education improves job-finding rates, which is very difficult to estimate.

To assess what labour market effects more available places in education might have, they need to be considered in relation to the size of the target group and its needs.

Both the size of the target group and the average need for more education have increased as a result of the influx of refugees, many of whom do not have an upper secondary education. It is uncertain how much input would be required to take this target group to reach secondary level competence, for example. It is also hard to know what those participating in educational initiatives would have been doing otherwise.

The NIER's assessment is that increasing the number of places in education could bring down equilibrium unemployment. The NIER has taken account of the effects of these additional places in education on equilibrium unemployment by assuming constant levels of education in the population in its demographic projections of equilibrium unemployment. Without more places in education, in the current situation, the population's educational levels would fall, pushing up equilibrium unemployment through a deterioration in matching.

The government also proposes changes to employment subsidies. Simplifying these subsidies may make it easier for employers to make use of them. How the proposed changes will impact on employment and unemployment will depend primarily on the change in the total number of people on employment programmes. The number of people on these programmes is set to increase, mainly as a result of the introduction of the Extra Jobs scheme. The NIER's assessment is that volumes will not be affected by the proposed rule changes.

The proposed additional support for municipalities and county councils employing people on Extra Jobs is not expected to affect the rate of increase in the number of such jobs relative to the NIER's previous estimate. Instead, this support will enable municipalities and county councils to take better care of those employed through the Extra Jobs scheme.

TAX CUTS OF SEK 4 BILLION

The government proposes both tax cuts and tax increases. The cuts amount to SEK 9 billion, and the increases SEK 5 billion, giving a net decrease of SEK 4 billion (see Table 3).

The proposed cuts are mainly in the taxation of households. The single biggest is an increase in the basic allowance for those aged 65 and over, which will reduce direct household taxes by SEK 4.4 billion. The government also plans to raise the basic

allowance further for the over-65s in 2019 and 2020. In addition, the government proposes to reintroduce the tax credit for union dues from 1 July 2018. This entails a tax reduction of SEK 1.3 billion for households in 2018 and then again in 2019, as the 2019 credit will apply to union dues for the full year. On the other hand, households will see increases in vehicle tax and the tax on investment savings accounts. All in all, household taxes will be lowered by SEK 4.6 billion (see Table 3).

The government proposes expanding the Growth Support scheme, which offers reduced employer contributions for a first employee, to encourage more one-person businesses to take on staff. This will decrease central government revenue from employer contributions by almost SEK 2 billion (see wage-related production taxes in Table 3).

The government also proposes a rise in the resolution fee payable by banks, which is classified as a production tax in the national accounts. This translates into a net increase in central government revenue of SEK 2 billion.

The budget includes a number of changes to energy and environmental taxes. Some are to be raised, others lowered, and new ones are to be added. Altogether, these changes spell an increase in central government revenue of SEK 0.4 billion. The single largest change is an airfare tax, which is expected to raise around SEK 1 billion in 2018.

Firms' taxes and duties will be affected indirectly by some of the changes in environmental and energy taxes, the expansion of the Growth Support scheme, and the change in the bank resolution fee. Firms will also be impacted directly by the introduction of a cap on interest deductions in line with an EU directive. This is combined with a proposed reduction in the corporate income tax rate from 22 to 20 per cent. The idea behind this change is to avoid increasing the tax burden on the business sector as a whole as the tax base widens, and so it does not appear in Table 3.

Table 3 Fiscal measures in the budget bill for 2018 and their effect on general government net lending

SEK billion

	2018 budget bill
Expenditure	36.3
Government consumption	21.4
<i>Central government consumption</i>	7.8
<i>Grants to municipalities to fund increased consumption</i>	13.7
Government investment	1.7
Transfers to households	9.7
Transfers to firms	2.8
Transfers to abroad	0.6
Revenue	-3.9
Direct household taxes	-4.6
<i>Municipal taxes</i>	-4.4
<i>Central government taxes</i>	-0.2
Direct business taxes	0.0
Direct taxes from abroad	0.4
Production taxes	0.3
<i>Wage-related</i>	-1.7
<i>Other production taxes¹</i>	2.0
Product taxes	0.1
<i>Value-added tax</i>	-0.3
<i>Energy and environmental taxes</i>	0.4
<i>Other product taxes</i>	0.0

¹ Includes the change in the bank resolution fee, which is classified as a production tax in the national accounts. The government does not account for the change in the resolution fee in Table 6.30 or Table 1.1 of the budget bill, but it is included in its Table 9.1.

Note: Amounts denote the change in levels relative to decisions taken up to and including the 2017 spring fiscal policy bill.

Source: The Swedish government (2018 budget bill, Tables 6.30 and 8.14) and NIER.