

Executive Summary

Investing Sweden out of Recession

REFORMS FOR A BETTER INVESTMENT CLIMATE

CONFEDERATION OF SWEDISH ENTERPRISE – RESTART SWEDEN – REFORM PACKAGE II –
OCTOBER 2020

Future competitiveness requires a better investment climate

Close to 40 per cent of companies in Sweden have reduced investment in the past six months and the second half of the year is forecast to be even weaker for investment. Fewer than four out of 10 people of working age in Sweden are in work – the lowest level for more than 20 years. The speed at which company investment restarts will be decisive in how rapidly Sweden recovers from recession. If Sweden is to emerge stronger from the crisis, confidence in the future and the right reforms are needed.

The Covid-19 crisis has receded into recession. But the situation for many companies is bleak. Between and within sectors there are starkly contrasting realities. While some companies are experiencing a surge in demand, especially related to digitalisation and e-commerce, others remain in deep crisis and are dependent upon decisions linked to Covid restrictions and whether society can re-open safely. Structural change and digitalisation have been broadly accelerated by the crisis, but these trends have been undermined by uncertainty over the future and reduced investment.

Global conditions have a substantial impact on business confidence in Sweden. The international downturn creates significant uncertainty for a trade-dependent country such as Sweden. In 2020, the Swedish economy is set to contract by 4.4 per cent, before growing by 3.2 per cent in 2021, and by 3.0 per cent in 2022. Growth lost due to the crisis is not expected to be recovered until the second quarter of 2022. This is several quarters earlier than previous assessments made before the summer and this is primarily due to the contraction at the height of the crisis not being as deep as many analysts feared. Unemployment is not expected to fall back to either pre-crisis levels or its equilibrium level during the forecast horizon (2022).

A flourishing investment climate that promotes private investment is vital to the restart of the Swedish economy. Sweden should be a leading knowledge economy that attracts investment and talent, accelerates digitalisation, develops more sustainable solutions, and exports environmental benefit. Investment made here and now will accelerate recovery in the short term and build the foundations for Sweden's long-term competitiveness. Through productivity-boosting investment, Swedish companies can improve their international competitiveness beyond the crisis.

Our reform proposals

This is the second of three packages of reforms the Confederation of Swedish Enterprise will present in 2020; reforms that seek to support the restart the Swedish economy. In June, we presented a job creation initiative that included a raft of proposals for implementation in the near future to strengthen private and public sector investment, increase openness and trade, combat unemployment, and strengthen the supply of skilled workers. This package includes proposals in seven key reform areas – for a better investment climate, more jobs, and improved competitiveness.

1. Strengthen Sweden's position as a leading knowledge economy

- Increase state investment in research to trigger more private sector R&D.
- Ensure that research is relevant to business.
- Facilitate investment in knowledge by lowering taxes on employment.

Sweden needs to target an increase in combined overall investment in R&D by one per cent of GDP by 2030. Of this increase, the state should provide 25 per cent and business the remaining 75 per cent. Steps should also be taken to ensure that research is relevant to business by prioritising awarding grants to universities that successfully collaborate with companies; introduce a mobility bonus for researchers who move between academia and business; and exempt research from the Data Protection Act. Lastly, marginal tax should be cut five percentage points from January 1, 2022 to strengthen international competitiveness.

2. Unleash the potential of digitalisation and AI

- Establish a co-ordinated process for accelerated digitalisation.
- Safeguard the free flow of data, cloud services, and e-commerce.
- Improve the regulatory framework regarding the use of data and AI.

Digital development is a precondition for future competitiveness and to manage the climate transition. Our proposals include measures that the government and EU need to take to safeguard international dataflows, increased use and access to data, and a better regulatory framework for AI applications. This includes creating a co-ordinated process to accelerate digitalisation.

3. Facilitate the climate transition

- Bring forward the expansion of the national grid by 10 years.
- Start the electrification of the road network.
- Implement environmental legislation that facilitates investment for transition.
- Remove obstacles to a circular economy which in turn supports climate targets.

Sweden's national grid will have a central role in efforts to achieve the climate transition and the phasing out of the use of fossil fuels. Therefore, plans to expand the national grid should be brought forward by 10 years. Svenska Kraftnät, the Swedish state national grid operator, should be commissioned to plan an increase in transmission capacity between SE2-SE3 by 2,700MW as early as 2030. The government should also commission Svenska Kraftnät and the Swedish Transport Administration to draft plans for, and immediately start, the strengthening of national grid infrastructure to support our key transport corridors. Sweden's environmental permit system needs to be reformed with the aim of creating a more predictable and legally certain process. Additional measures are needed, including amendments to rules relating to waste management to make it easier for circular business models to emerge.

4. Safeguard global trade

- Sign trade agreements regarding critical products.
- Advocate reform of the WTO.
- Ensure VAT on imports is deductible.

Trade is vital to Swedish prosperity. Many jobs are directly dependent on trade with the rest of the world. Some 1.3 million jobs in Sweden are reliant on exports. A successful recovery requires functioning trade flows. This requires measures at national, European, and international level. Sweden needs to push for trade agreements that ensure the flow of critical products, take the lead within the EU to reform the WTO, and ensure that VAT on imports is deductible.

5. Reduce regulatory burden with a new approach

- Implement Swedish Agency for Economic and Regional Growth proposals for a new regulatory framework in Sweden.
- Introduce earlier consultation with business and establish guiding principles for input to the EU legislative process.

Companies' regulatory costs in Sweden increase by an average of SEK 1.2 billion per year. The conditions we create in Sweden should be at least as favourable as in our competitor countries. The Swedish Agency for Economic and Regional Growth proposals for a new regulatory framework should be introduced. In addition, earlier consultation with business is needed in conjunction with the drafting of EU legislation and the introduction of guiding principles for negotiations on proposed new EU rules. Further clarification is needed to avoid over-implementation of EU legislation.

6. Make it more attractive to invest in Sweden

- Lower corporation tax and improved regulations for improved competitiveness.
- Encourage investment in smaller companies.

Tax on company profits affects investment levels. Improve the investment climate in Sweden and its international competitiveness by cutting corporation tax from 20.6 to 18 per cent. Encourage investment in smaller companies by improving the so-called 3:12 rules of the Swedish tax code, i.e. increasing the dividend owners of smaller businesses can pay out under capital gains tax rules instead of under the income tax regime.

7. Use the EU's Recovery Fund to invest in competitiveness

- Ensure clear criteria for the distribution of resources.
- Establish an "EU Recovery Scoreboard".
- Invest allocated Swedish resources in future competitiveness.

Ensure that funds in the EU's Recovery Fund are used efficiently and appropriately and minimise risks of increased bureaucracy, waste, and severe distortions of competition. The EU Commission and Council should define clear criteria for the allocation of resources and an "EU Recovery Scoreboard" is needed for continuous follow-up of compliance. Similarly, resources allocated to Sweden need to be used for investment in future competitiveness.