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SWEDEN AND UKRAINE: PARTNERSHIP FOR THE FUTURE

I am honoured to be given this opportunity to address the readers of this edition of "National Security & Defence" dedicated to Swedish-Ukrainian relations.

First and foremost it should be noted that our relations are excellent. The number of visits in both directions, including at the highest level, is a good indicator. We continue to see a positive trend in trade, investment and business contacts, even at a time of economic crisis. People-to-people contacts develop at a steady pace. We share a political will to strengthen and deepen our relations in all fields.

My vision of Swedish-Ukrainian cooperation is a broad network of self-sustainable partnerships in trade, finance, education, science, culture and other spheres. The guiding principles for us in this endeavour should be democracy and respect for human rights, the rule of law and the principles of a modern market economy, the conviction that the sustainable management of natural resources and the care for the environment is not only important but necessary, and that we all share in the responsibility for the global issue of climate change.

There is also a European dimension to our relations. Sweden remains a strong supporter of Ukraine's European aspirations. The Swedish Government has adopted a five-year Strategy to assist Ukraine in its efforts to adapt its legislation and administration to European standards. The focus of our support will be on democratic governance and on efforts to improve energy efficiency and the environment. These are important, indeed crucial areas. In addition, the energy and environmental technology market has a huge potential for growth, and Swedish companies are already among the leaders in the world on this market.

This year, 2009, will be a difficult year for the world economy. The crisis in the financial system has led to a global economic recession. We all feel its effects. To turn the tide will require wise political leadership and an unprecedented readiness to shoulder responsibility for unpopular but necessary decisions, both domestically and globally. If we manage to take the right decisions today, then we will all be able to reap the harvest of prosperity tomorrow. If not, then we will all be in trouble.

For Sweden, 2009 will pose a particular challenge. On 1 July, Sweden will assume the Presidency of the

European Union. The Eastern Partnership initiative and the negotiations with Ukraine on an Association Agreement and a deep Free Trade Agreement are important issues on the EU's external relations agenda.

It will be a challenge at this critical juncture in the world economy to avoid the temptations of protectionism. Some argue that by protecting the national market with trade barriers and other measures, the impact of the global economic crisis will be diminished. In Sweden, we view this as a dangerous path. We are strong believers in the principles of free trade, which we continue to view as the best recipe for economic recovery, and for sustainable growth and prosperity. Free trade ensures competition, whereby the market will work to the benefit of the consumer, not in the interest of inefficient producers of goods and services that would never find a buyer without the covering shield of protectionism. In other words, free trade leads to efficiency and prosperity – protectionism, if maintained, leads to waste and stagnation.

That is why we are convinced that a deep Free Trade Agreement must be a cornerstone of any future EU-Ukraine Association Agreement. We want Ukraine to prosper together with us. We need to remove barriers for trade and investment, not impose them.

The negotiations of this agreement will be a hard exercise. It will require Ukraine to undertake serious, long-term commitments. The European Union is, above all, a legal union. At its heart is the Common market, with 450 million people. The proper functioning of this market is ensured by laws and regulations that apply equally for all. A Free Trade Agreement would give Ukraine access to this market. It would also help Ukraine attract foreign investment in production of goods aimed for this market. The EU-Ukraine Association Agreement is thus less about political slogans, and more about propitious conditions for economic growth.

Although there will be many difficulties ahead, I am still hopeful about 2009. It will indeed be a year of challenges, but also of opportunities. We should focus on the opportunities, while facing the challenges with steely resolve and optimism. ■



Yevgen PEREBYINIS,
*Extraordinary and Plenipotentiary Ambassador
of Ukraine to the Kingdom of Sweden*

UKRAINE



SWEDEN

UKRAINE AND SWEDEN: PARTNERSHIP TESTED BY HISTORY

I am extremely pleased to greet the readers of the special issue of the “National Security & Defence” magazine devoted to the Ukrainian-Swedish relations. Although Ukraine and Sweden have had close historic ties and maintain an active dialogue now, Ukrainians still little know of that Nordic country. It remains a secret for many our compatriots, what prompted the two geographically remote nations to ally 300 years ago, when the fate of our independence was decided, and to be partners today, when the fate of Ukraine’s European future is at stake. Answers to those questions may be found in both rational and irrational domains, but the undisputed fact is that Ukraine and Sweden are united by something more than the national colours.

Sweden is a country one can long speak about absorbedly. Some nine million Swedes managed to build a stable and prosperous state, the so-called “Swedish model”, focusing on a person, his interests and needs, harmonised with the state interests and the environment. In the Soviet times, that system was also referred to as the “Swedish socialism”, although it had little in common with the “socialism” imposed on the peoples of the former USSR.

Today, Sweden is an advanced industrial state famous for its car-making industry, ferrous metallurgy, woodworking and pulp-and-paper industries, advanced telecommunication technologies, a developed defence industry sector. Such Swedish brands as *Volvo, SAAB, Scania, Ericsson, Electrolux, Tetra Pak, Ikea, Oriflame* are well known all over the world.

Sweden is one of the world economic leaders, with its advanced industry, developed agriculture, broad foreign economic ties and one of the world-highest standards of social protection of the population. Sweden’s GDP exceeds \$400 billion, per capita GDP is some \$43 thousand (14th place among 179 countries by the IMF rating). With just 0.2% of the world population, Sweden accounts for some

1% of the world industrial produce, nearly 2% of the world export. The effectiveness of the Swedish economy is also proven by the fact that the sector of material production employing only a quarter of the able-bodied population (the rest is employed in intermediation and the service sector), generates almost 60% of the country’s GDP. The backbone of the Swedish economy (1/4 of the GDP) is made up by industry, yielding by the level of robotisation to Japan alone.

By per capita incomes, social security, education, public health, environmental protection and other features Sweden ranks among the countries with the world-highest standards of life. The social gains include the 40 hour workweek, paid five-week leaves, pensions (after 65 years) and sickness benefits (up to 90% of wages), unemployment benefits, subsidies and loans (for housing, study, etc.), annual tax-free allowances for every child under 16 years, scholarships (from 16 years) and many other benefits. The well-being largely rests on the Swedish model of the tax system, traditionally aimed to level incomes and living standards of citizens.

The safety margin of the Swedish economy proved strong enough to successfully oppose the present world financial crisis. The set of measures taken by the Swedish Government at the end of 2008 let the country minimise negative consequences for the economy, although, of course, even Sweden did not manage to totally avoid crisis phenomena.

Over the recent decades, Sweden has been a weighty and influential actor in the world politics. Beyond doubt, this was promoted by joining the EU in 1995. That step was a result of a historic decision passed by Swedes at a referendum, where over 52% of citizens supported the country’s accession to the EU. That decision may be called historic because for centuries, Sweden steadily abided by the principle of non-alignment. Although that policy mainly dealt with military-political blocs, the Swedish



society has always been wary of possible supranational structures. However, the EU was the project that won trust of Swedes in the conditions of globalisation. And they were not mistaken. As a result, Europe saw a new influential actor, and Sweden got a chance of active involvement in the dynamic processes taking place in the EU and across the continent.

It should be noted that Sweden has immediately become one of the leaders of the European Union, adding to its activity the so needed Northern dimension and new approaches to the solution of topical issues of the day. In particular, Sweden, by contrast to some so-called “old” members of the EU, in all ways supports enlargement of the European Union, seeing it as a natural process promoting the expansion of the area of stability and democracy on the continent. Swedish diplomacy has always been rather active in peaceful settlement in the Balkans and took a clear stand for soonest integration of the countries of that region into the EU.

The latest Swedish initiative worked out jointly with Poland deals with the Eastern dimension of the EU policy – the subject previously overlooked by many in the European Union. It was not done to speak about practical integration of Eastern European countries into the EU, all talk was confined to cooperation. Only the Swedish-Polish concept of the Eastern Partnership finally broke the taboo regarding Eastern European states. Although Europe still avoids an answer to the question of prospects of their membership in the EU, the Eastern Partnership provides rather effective mechanisms of integration.

What makes Sweden seek closer interaction with Eastern European countries, including Ukraine? In my opinion, it is the ability to take a wider look at the context of international cooperation and to be more far-sighted, when it deals with the future of Europe and the world. It is appropriate to mention here long-term efforts of Sweden dealing with climate change and environmental protection. Although Swedes often faced misunderstanding or even open opposition in that domain, today, the whole world understands that our planet needs protection now. Swedes are often ahead of time – in technologies, in the economy and in politics alike.

When 300 years ago Hetman Ivan Mazepa entered into a military-political union with King Carl XII of Sweden, it was not accidental at all. At that time, Sweden was one of the mightiest European states, and such ally could be a strong guarantor at building the independent Ukrainian state, European by its essence. The defeat of that union delayed implementation of the dream of Ukrainians by centuries, but the invisible connection, mutual sympathy and trust between the two nations were preserved over centuries. Just two telling examples: it was the city of Christianstad in Sweden that gave refuge to Hetman Pylyp Orlyk after forced emigration, and in Ukraine, the village of Zmiyivka, Kherson region, for 200 years has been a home for ethnic Swedes who have preserved their culture, traditions and language.

The spirit of mutual understanding and partnership is specific of the Ukrainian-Swedish relations also at the present historic stage, after Ukraine gained independence. Since early 1990s, Sweden has taken a leading position in the trade and economic sector in Ukraine. Then, a number of Swedish companies came to the Ukrainian market, planning to stay here, as they say, “seriously and for long”. Today, Sweden is Ukraine’s biggest trade and economic partner in Northern Europe. Bilateral trade grows from year to year, the structure of Ukrainian exports is gradually improving. Meanwhile, we are concerned by the ever-growing negative balance in the bilateral trade, caused by many factors, first of all, insufficient presence of Ukrainian companies on the Swedish market. We hope that in the near future, adequate mechanisms will be found for gradual evening on the situation, and in this connection pin great expectations on a representative Ukrainian-Swedish Business Forum to be held in May, 2009, in Stockholm.

Sweden is one of the biggest investors in Ukraine’s economy (some \$1.5 billion). Swedish direct private investments in Ukraine make nearly 3.5% of all foreign investments. Many Swedish companies and banking institutions are actively and successfully working on the Ukrainian market. In the first place, those are banks – *SEB* and *Swedbank*, companies *Alfa Laval*, *ABB*, *Ericsson*, and others.

One of the most promising domains of bilateral cooperation is presented by the energy sector, especially, use of renewable sources of energy, energy conservation, where Sweden is the undisputed world leader (26% of the national in energy falls on renewable sources). Noteworthy, exactly those domains of cooperation made the basis of the new Strategy of Cooperation with Ukraine for 2009-2013, approved by the Swedish Government in December 2008. The Strategy envisages extension of technical assistance by Sweden to Ukraine to the amount of \$25 million a year on the average for implementation of projects in the fields of rational use of energy resources and environmental protection, as well as democratic transformations, in particular, in the issues of European integration.

In the recent years, the political dimension of bilateral relations gained momentum. We well remember that in



due time the term “strategic partnership” was used in international practice to describe the highest level of relations between countries. The term has never been applied to the Ukrainian-Swedish relations. But on a large scale, the formal side in this case is secondary, since by the spirit and essence, the relations between Ukraine and Sweden, in my opinion, may be termed strategic. For Ukraine, Sweden is the key partner in Northern Europe, one of the most consistent promoters of its aspirations of European integration among countries of “old” Europe. In turn, for Sweden, paying particular attention to the issues of democratic development, security and stability in the Eastern European region, Ukraine is a key partner in the area.

The dynamics of the bilateral political dialogue has always witnessed the level of relations between states. In this respect, 2008 may certainly be seen as a milestone in the development of Ukrainian-Swedish cooperation. Beyond doubt, the main event was presented by the state visit to Ukraine by King Carl XVI Gustaf and Queen Silvia of Sweden (30 September - 3 October) on the invitation of Ukraine’s President Victor Yushchenko. Noteworthy, it was not only the first visit of the Swedish King to Ukraine, but the first official visit of a foreign monarch in the history of this country. The very fact of the visit gave an important signal to representatives of the political and business circles not only in Sweden but throughout Europe of the success of democratic and market reforms implemented in this country and the importance of establishment of closer cooperation with it. The visit witnessed the high level of political trust between the two countries and proved consistent support of Sweden for Ukraine’s course of the European integration.

Furthermore, in November 2008, Ukraine’s Prime Minister Yulia Tymoshenko paid an official visit to Sweden that became a logical continuation of negotiations held during the Kyiv visit of the Swedish King, practical implementation of previous agreements. Again, it was the first official visit of a head of the Ukrainian Government in the history of bilateral relations. The negotiations focused on interaction of the two countries in the field of European integration, and development of bilateral cooperation in the energy sector.

The year of 2009 in the Ukrainian-Swedish relations is expected to be not less busy. The parties are discussing a number of high-level governmental and parliamentary visits.

This year, Sweden will for the second time in its history stand at the European helm – in July, the six-month long Swedish presidency in the European Union starts. That period will be among the most difficult in the recent years for the EU and for the presidency. Challenges are more than serious: the financial crisis, uncertainty with the Lisbon Treaty, elections to the European Parliament and further rotation of the European Commission. Meanwhile, Sweden has rather ambitious plans of getting the best results from its presidency. Priorities of the Swedish presidency also include the issue of further enlargement of the



EU and deepening cooperation with Eastern European countries, in particular, practical implementation of the initiative of the Eastern Partnership. As one of the authors of that ambitious project, Sweden is among the main drivers in implementation of the initiative set to cover six Eastern European states (Ukraine, Belarus, Moldova, Georgia, Azerbaijan and Armenia). The Eastern Partnership envisages the establishment of an area of stability, security and prosperity in the East of Europe, resting on European political, economic, social norms and standards, and possibility to conclude agreements of association, a new generation of action plans, creation of deep and all-inclusive free trade areas, liberalisation of visa procedures between the EU and partner countries.

Ukraine pins great hopes on the Sweden presidency in the EU. We expect that during the Swedish presidency we will manage to sign an Association Agreement with the EU, achieve serious progress in implementation of visa-free travel, implement a new practical instrument of cooperation between Ukraine and the EU, seriously deepen interaction with the European Union in the energy sector. Our cooperation with the EU under the Swedish presidency is to see its culmination during the scheduled Ukraine-EU Summit that will take place at the year end in Kyiv and is expected to be attended by the Swedish Prime Minister Fredrik Reinfeldt.

Sweden is among those European countries that sincerely support Ukraine in its aspirations of the European integration. We praise that highly. The question of the cause for such behaviour of the country lying more than a thousand kilometres away from us, of course, has an answer. First, they in Stockholm are well aware that Ukraine is one of the keys to security and stability in Eastern Europe and the entire continent. So, it is in the European and Swedish interests to help Ukraine come closer to the European Union, deepen democratic processes in this state. Unfortunately, not everyone in Europe now understands that, but Swedes do, because, as we noted above, they are used to be half a step ahead of others. Additionally, I am absolutely positive that our nations probably subconsciously preserved and carried through centuries the spirit of alliance that even now helps us be true and sincere partners. ■

UKRAINE-EU: WHAT WILL THE FORTHCOMING DAY BRING US?



Kostyantyn YELISEYEV,
Deputy Minister for Foreign Affairs of Ukraine

Sweden occupies a special place among the EU member states. I see it as a symbol state. A symbol of the European neutrality that did not evolve into isolationism. A symbol of wealth that did not evolve into indifference. A symbol of democracy and economic freedom that found optimal symbiosis with nearly socialist fundamentals of society.

It is not accidental that in the recent years, despite all their controversy for the EU, it was Sweden that so proudly and consistently carried the banner of the European idea. Creativity, openness, fidelity to European ideals mark Sweden out in these uneasy for Europe times, when it is so easy to be tempted by the theories of isolationism and ideology of “everyone for himself”. That is why I was not surprised when exactly Sweden jointly with Poland initiated the so-called Eastern Partnership – a new format of regional cooperation that can employ the new synergy of the EU member states and Eastern European countries yet seeking to join the European Union in Europe’s interests.

The future Swedish presidency in the EU is good news for both Ukraine and the whole post-socialist Eastern Europe. This is a sign pointing that the European ambitions of official Kyiv and the entire region will find a decent place in the European agenda. The Ukraine–EU Summit set to take place in Ukraine at the end of 2009 is to be demonstrative in this respect. The results of that forum should materialise the European aspirations of Ukraine and witness the success of the policy of small but concrete steps towards integration into the EU.

European integration as a national project

What are the European aspirations of Ukraine? Those who term them as a “civilisational choice” are right. We have never had an etalon of development as successful as the EU beside us. It is sufficient to visit Poland, the Czech Republic or Hungary just once to make sure that the European idea is not a political abstraction. It is a concrete and practical recipe of success more than once tested by other countries. The recipe Ukraine must use to reverse the negative inertia of our history.

I do not mean the EU membership here, since we all understand that its prospects are rather remote. I mean reformation of Ukraine after the Czech, Polish, Hungarian model. I mean its “Europeisation”, modernisation and adaptation to European standards. That is, reforms in actually all domains of the state development.

Unfortunately, now it seems that the age of the EU enlargement by large and medium “waves” has passed away. Ukraine seems to face the prospects of multiyear

“infiltration” into the EU. Such integration will be more difficult and painful than, say, of Poles and Czechs who (on top of successfully implemented reforms) were brought to the EU by one political wave. However, from the viewpoint of internal development of Ukraine, that integration will be not less useful, since it puts us before the strong and urgent need of deep and all-embracing reforms.

As they put it, “sink or swim”. Such will be the principle of the European integration of Ukraine, since, by contrast to the mentioned Poles, Czechs or Balts, we have no high patrons or protectors who will spare no efforts to push us to the EU. At the same time, there are no open enemies of our membership either. This puts us in charge. If reforms succeed, Ukraine will succeed. If Ukraine succeeds, it will get the EU membership. Such is the simple reality of our European integration.

Beyond doubt, the global economic crisis may substantially shift the international balance and make the EU even more introversive. However, even under that, the most pessimistic scenario I can hardly imagine



an alternative to the European etalon of a successful state to appear and strike roots in the consciousness of a rank-and-file Ukrainian. By and large, it is confined to two basic things – democracy and effective market economy, especially its European variety, mentally close for Ukrainians.

European integration is not a foreign political and even not a governmental project. To afford and gain momentum, European integration should become a national project, practical and producing attainable results felt by an ordinary Ukrainian.

That is why huge importance is paid to practical aspects of the European integration, first of all, establishment of a free trade area and liberalisation of visa procedures. These two issues are (a) close and clear for all or next to all citizens of Ukraine and (b) cause no idiosyncrasy in Brussels and other European capitals.

We witness positive dynamics in the initiation of the deepened and all-embracing **free trade area** (FTA). That process was initiated in February, 2008, simultaneously with Ukraine's accession to the WTO. The creation of the FTA will be an integral part of the Association Agreement between Ukraine and the EU.

The creation and operation of the FTA presents a practical tool of gradual integration of Ukraine into the internal EU market. The ambitious nature of the FTA between Ukraine and the EU envisages liberalisation of trade in goods, services, free movement of capital, partially – of labour, removal of non-tariff barriers and regulatory approximation. That should be a free trade area unprecedented for the EU and, certainly, for Ukraine.

At the end of January, 2009, the 5th round of FTA talks took place, where the discussion of draft articles of the future agreement dealing with FTA continued. To be sure, the work on such large-scale project as creation of a viable FTA requires focused attention, time and efforts of both negotiating teams. By and large, it may be the most serious test of inter-departmental coordination of Ukraine's activities in the recent years. The Foreign Ministry is ready to carry on the leading coordinative role there.

The same refers to Ukraine's integration into the EU Energy Community Treaty and the EU common air space. Realisation of those projects will witness practical implementation of the tactics of small steps (small from the viewpoint of interstate relations, but huge from the viewpoint of the involved sectors), whereby Ukraine will make its civilisational choice in favour of the European Union.

As regards **liberalisation of visa procedures**, an active process in that domain began, as you know, in September, 2008, at the Paris EU summit. The Foreign Ministry views that process as a practical opportunity to do away with evident "excesses" previously and, unfortunately, presently committed with respect to Ukrainian citizens at embassies and consulates of the EU countries. The times when Ukraine overlooked European consular services "pressing" our citizens remained in the past.

The result came immediately. *First*, however tough a dialogue in that domain could be, now, when we began to defend our position stronger, we meet more respect. *Second*, there are categories of Ukrainian citizens who

already begin to practically feel liberalisation of visa requirements on the part of the EU (students, scientists, journalists, diplomats, businessmen, and so on.). *Third*, we understand that we are only in the beginning of this process and see practical ways for further liberalisation of visa procedures.

The results of a more aggressive position of Ukraine are evident: in 2008, Ukrainians got 25% more Schengen visas than in 2007. Visa refusals dropped from 10% to 5% of total applications. The amount of the visa charge was nearly halved (from €60 to €35). 14 categories of Ukrainian citizens were granted the right to free visas. And finally, there appeared the prospects of getting a visa-free regime with the EU by 2012. At least, it is encouraging that the Vice President of the European Commission Günter Verheugen refers to that as a technical, rather than a political issue. Cancellation of visa charges for Ukrainian citizens by the EU would be an important step on that road. That proposal, with which we officially turned to the EU on the February 5, 2009, is now being considered by the member states of the Schengen area.

On October 29, 2008, we launched a new mechanism of expert consultations with the EU – the so-called "visa-free dialogue". The Foreign Ministry leadership keeps that issue under control and continuously brings it to the knowledge of our strategic partners that Ukraine cannot be treated as a European "Cinderella". Every fact of unreasonable refusal or incorrect treatment of our citizens is recorded, reviewed and raised at a high level before the EU.

A visa-free dialogue is waged along four main lines: security of documents, including collection of biometric data, fighting illegal migration, including readmission, maintenance of public order and safety, foreign relations and guarantee of fundamental civil rights.

It is of fundamental importance that it remains dynamic, substantive and aimed at a concrete result. A relevant institutional framework has been created, development of regulatory-legal acts intended for utmost adaptation of the Ukrainian legislation to the EU requirements and criteria is underway.

Association Agreement with the EU – a new level of relations

Touching upon wider, political aspects of our relations with the EU, I wish in the first place to remind of our absolute priority – conclusion of a fully-fledged **Association Agreement with the EU**. Its idea is to widen the horizons of our European integration by raising the level of the basic documents regulating Ukraine-EU relations. Up until now, they have rested on the standard Partnership and Cooperation Agreement signed yet in 1994. In our opinion, the Association Agreement should raise those relations to a new level, transparently showing the strategic importance of Ukraine for the EU and the prospects of its membership.

I believe the decision of the Paris Summit to build relations with Ukraine on the basis of political association and European integration to be one of our greatest foreign political achievements of the recent years. That decision brings a new quality and new substance to the Ukraine-EU relations.

Another new element of the Ukraine-EU relations is to be made up by the so-called **New Practical**



Instrument (NPI) – the provisional title of the document set to replace traditional Ukraine-EU Action Plans at implementation of the Partnership and Cooperation Agreement. As soon as there is a new agreement, there will be the need of a new scheme of its implementation. Therefore, we believe that the NPI should rest on the following principles:

- *Principle of progressive convergence.* The document should rest on the axiom of “political association plus economic integration”.
- *Principle of two-way traffic.* The document should envisage not only efforts of Ukraine but also actions of the EU as a concerned party.
- *Principle of joint responsibility.* The success or failure of NPI should be a common responsibility of both parties – Ukraine and the EU. Therefore, the document should contain not mere declarations but set realistic, attainable goals.
- *Principle of joint monitoring.* NPI implementation should be in the focus of permanent analysis and review by both parties.
- *Principle of sufficient funding.* The NPI should contain only provisions backed with funds of both parties.

The title of the would-be document is of fundamental importance – it should reflect the logic of development of relations for the near future. I personally would prefer the *Association Roadmap* title. Regarding the timeframe, we consider it expedient to conclude an NPI on a three-year basis.

Eastern Partnership

The project of the Eastern Partnership appeared in May 2008 as a result of joint intellectual efforts of two countries we not unreasonably see as Ukraine’s partners in the EU – Sweden and Poland. The idea was to depart from political “egalitarianism” previously inherent in the policy of “neighbourhood”. That is, to work out a differentiated approach to countries immediately bordering the EU, or close to its borders.

We have long insisted on such differentiation. The mechanical principle of neighbourhood in fact equated Ukraine, and, say, Iraq that would be an immediate neighbour of the EU after the admission of Turkey. It ran contrary to political expediency, economic effectiveness, and elementary common sense. In 2008, this was realized by France that initiated the so-called “Union for the Mediterranean”. In the light of that initiative, it made sense to single out in a separate group the countries of the so-called post-Soviet space. This gave birth to the Eastern Partnership. It became the golden mean that brought together two factions existing in the EU – optimistic (that is, adherents of further eastward enlargement) and egoistic (that is, sceptics suggesting that the EU has reached the limit after which, further enlargement will do harm to it). The former see Partnership as a next milestone on the way to new horizons. The latter believe that that milestone should symbolically close the process of enlargement.

The Communication of the European Commission released in December 2008, that elaborated the EU vision of the spirit and letter of the new partnership, contained items both positive and negative for Ukraine. The positive one was that it supported the concept of “political association/economic integration” initiated in Paris.

The negative is reduced to the fact that the concrete content of that provision can be levelled by efforts of the “egoistic” faction.

It is not the first time that the principle of consensus obligatory for the EU damages our interests. However, the situation is not hopeless. Here, a lot will depend on coordinated actions of Ukraine and other candidate countries (Azerbaijan, Armenia, Georgia, Moldova and, possibly, Belarus). Ukraine, as the most interested and influential party, took the initiative. On 28 November 2008, said states held consultations on the level of heads of concerned departments of the Foreign Ministry.

We believe that the Eastern Partnership should give a chance of political rehabilitation and restoration of the reputation of Belarus in Europe. If democratic trends in that state progress further, I guess that there will be sufficient grounds for that. In particular, Ukraine supports invitation of President Lukashenko to the inauguration summit of Eastern Partnership scheduled for May 7, 2009, in Prague.

The problem of funding is another question for Eastern Partnership. We are convinced that the project will get the scale only if it rests on a sufficient financial basis. And if the allocated funds are enough only to arrange summits, conferences and seminars, one may ask why they are all needed.

In addition to a strong financial basis, the viability of that project will be tested by its ability or inability to effectively take care of such issues as creation of an integrated system of management of Ukraine’s state borders and further liberalisation of visa procedures with the prospects of total cancellation of visas.

We will see the result in March, when the EU will gather for another summit in Brussels.

Such are, very briefly, the main lines, priorities and problems of our cooperation with the EU. One of the bottlenecks of that process has always been presented by its extreme bureaucracy. It should be removed by more active work with European public and non-governmental organisations, the European Parliament, etc. In politics, as well as in court, one should appeal to the jury rather than the judge. And the “jury”, in our case, is presented by the European public opinion. It should get not less and maybe even more attention than politicians.

I say again: the policy of the European integration should leave bureaucratic offices. European integration takes place not only and not as much on paper as in human minds, actions, behaviour. European integration means reforms that should be felt by people, by rank-and-file Ukrainians. If they feel them, Europe will feel and praise them, too. Ukraine goes through exactly that period of raising the European integration to a new, pragmatic, public level. Apparently, it is not the best time for such a fundamental, strategic shift. Ukraine suffers from the economic crisis and permanent political tension. The EU is still at the transformation stage. The world economic situation is, to put it mildly, unfavourable.

But no matter what the situation is, no one will do our “homework” instead of us. No one will instead of us pass the way from a fraction of the Soviet empire to a truly European nation. ■

“SWEDISH MODEL”: BRIEF REVIEW OF ITS EMERGENCE, GAINS AND PROBLEMS

The term “Swedish model” is associated with the establishment and strengthening of Sweden in the second half of the XX century as one of the most socio-economically advanced countries, combining good governance, political stability, sustainable economic growth, high level of social security and decent standard of life.

Establishment and development of the Swedish economic system were not free from negative effects of global economic crises and recessions, and internal socio-economic contradictions. However, the Government every time managed to find an acceptable compromise between the interests of hired workers and employees, small and big owners, between the need to maintain a high employment rate and labour remuneration, on one hand, and continuous enhancement of the competitiveness of the national economy – on the other¹.

Sweden today: general description

By the production level, Sweden surpasses most countries of the European Union, its per capita GDP far exceeds the average for EU-27: in 2008 – by almost 48%.

GDP per capita ² , €				
	2000	2003	2006	2008
EU-27	19,000	20,600	23,500	26,211
Sweden	29,600	30,100	33,700	38,550
Germany	25,100	26,200	28,200	31,513
Finland	25,600	28,000	31,700	37,281
For reference: USA	37,600	33,300	35,000	32,066

Sweden occupies a decent place in the world division of labour, being one of the world leaders in production of innovative produce (in 2005, the share of hi-tech exports made nearly 17% of its total industry exports).

Sweden has one of the world-highest values of labour (in 2006, the average hourly pay equalled €32.2, which is 25% higher than in EU-15 and 62% – than in EU-27). Therefore, Swedish society is considered rich:

an average Swedish family spends on food only 14% of total expenditures.

The effectiveness of the Swedish mixed economy is proven with the high standard of life: the life expectancy of Swedes ranks among the highest in the world (for men – 76 years, for women – 82). Consolidated state expenditures on education and public health are among Europe-highest and on the aggregate exceed 15% of the GDP.

Human Development Index ratings								
	1975	1980	1985	1990	1995	2000	2005	2006
1. Iceland	0.868	0.890	0.899	0.918	0.923	0.947	0.968	0.968
...								
5. Ireland	0.823	0.835	0.851	0.875	0.898	0.931	0.959	0.960
6. Sweden	0.872	0.882	0.893	0.904	0.935	0.952	0.956	0.958
7. Switzerland	0.883	0.895	0.902	0.915	0.926	0.946	0.955	0.955

For comparison: in 2006 ratings, Ukraine shares 82nd place with Thailand with Index value of 0.786.

As a result, in the UNDP Human Development Index, Sweden steadily occupies a place in the world's top ten.

Mixed economy

The concept of mixed economy presumes combination and interaction of the key forms of ownership: private, state and cooperative. Although those forms are to a greater or lesser degree found in the majority of the world economies, it was Sweden that managed to attain accuracy and effectiveness in their combination. Each of them has its “niche” and performs its functions within the general system of economic and social relations, and the state regulation is intended to support the most effective forms of their interaction for multiplication of well-being.

The private sector plays the key role in the production of goods and services. Here, one may speak about big business dominating in the sectors decisive for production and export specialisation, first of all, in the manufacturing industry.

Cooperatives (production and consumer) are spread in the agricultural sector, retail trade, housing construction and some other sectors of activity.

Production cooperatives (total employed – nearly 50 thousand persons) dominate in production of milk, meat and other products, as well as in the pulp-and-paper industry. Over 60% of foodstuffs (including 99% of milk, 80% of meat) consumed in the country are produced by advanced farms united in cooperatives. Farming

cooperatives also own enterprises processing the bulk of the national agricultural produce.

Consumer cooperatives (total employed – 70 thousand persons) play an important role in retail trade, selling 20% of day-to-day goods.

The main function of the **state sector** is to accumulate and redistribute funds for social and economic goals, in line with the concept of the Swedish model.

State property takes the form of joint-stock companies or state-owned enterprises. The latter belong to the state but enjoy enough freedom and responsibility in the issues of finance (including the pricing policy) and employment; on top of them, they must bring profit. Some state enterprises are designed for special functions and in some cases are legislatively provided monopolies. For instance, two state monopolies active in post and communication employ over 60% of all employees in the sector.

To be sure, a mixed economy cannot operate without developed financial markets, including long-term markets of capital and debentures, a short-term money market, a market of securities, ensuring access to resources and their multiplication for all economic agents. In Sweden, those markets are highly reliable and enjoy trust of businessmen and citizens alike.

¹ The Review builds on materials provided within the project framework by the Swedish side: Bergval D. Ministry of Finance Sweden; Confederation of Swedish Enterprise; Wallen F. Globalization and the Swedish Economy – a Historical Perspective. – Razumkov Centre's archives.

² Sources: GDP per inhabitant. – Statistical Yearbook of Sweden 2008, p.732; Human Development Report 2007/2008. – <http://hdrstats.undp.org>; Hourly labour costs. – <http://ep.eurostat.ec.europa.eu>



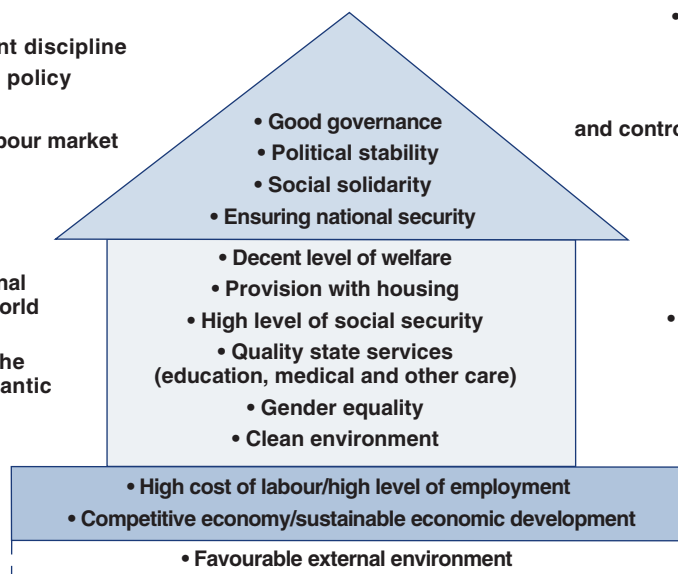
At that, Sweden passed its way to the top positions in the world ratings mainly in the post-war period, showing stable economic dynamics, steady advance on foreign

markets and high adaptability of the socio-economic system to the rapid pace of the global progress (Insert “Sweden in the second half of the XX century”, pp.11-12)³.

TOOLS/MECHANISMS

- utmost de-politicisation of economic decisions
- tough tax and payment discipline
- effective equalization policy
- social partnership
- active policy on the labour market
- active foreign policy
- foreign economic expansion
- protection of the national manufacturer on the world markets
- external security on the principles of Euro-Atlantic political solidarity
- promotion of the positive image of the country in the world

SWEDISH HOUSE



TOOLS/MECHANISMS

- civil activity and responsibility of society
- responsibility and readiness of political forces for consensus
- responsibility of the authorities
 - publicity, transparency and controllability of governance to society
 - unconditional abidance by the principle of the rule of law
- decentralisation of power, development of local self-government
- balanced regional development
 - support for civil society structures
- promotion of independence of mass media
- guarantee of equal rights for all national and ethnic groups

Responsibly and effectively employing economic, political, social mechanisms and tools, Swedish society managed to build its “Swedish house” on the principles of democracy, well-being, transparency and security.

That is why Swedish example and experience (in particular, the experience of its economic policy) are of practical interest for the world, first of all – for so-called “transitional” countries, including Ukraine.

Party and political context

Sweden’s party and political scene is wide enough, but the country in fact sees no hard-line confrontation on ideological grounds and no practice of “settling scores” with political opponents.

Since early 1930s, the Social Democratic Party has been the main political force that used to win elections and form the Government, consistently pursuing the policy of the “third path”. Enjoying steady electoral support, before 2006, it was losing leadership only occasionally and every time regained it after another election. As one may see from Table “Election to the Riksdag”, Social Democrats maintained their lead even after the extension of the list of parliamentary parties that occurred in mid-1980s¹.

Election to the Riksdag, seats by party

	Voter turnout, %	MP*	CP*	LP*	ChD*	GP*	SD*	L*
2006	82.0	97	29	28	24	19	130	22
2002	80.1	55	22	48	33	17	144	30
1998	81.4	82	18	17	42	16	131	43
1994	86.8	80	27	26	15	18	161	22
1991	86.7	80	31	33	26	-	138	16
1988	86.0	66	42	44	-	20	156	21
1985	89.0	76	44	51	-	-	159	19
1982	91.4	86	56	21	-	-	166	20
1979	90.7	73	64	38	-	-	154	20
1976	91.8	55	86	39	-	-	152	17

* MP – Moderate Party, CP – Centre Party, LP – Liberal Party, ChD – Christian Democratic Party, GP – Green Party, SD – Social Democratic Party, L – Left Party. Total seats in Riksdag – 349.

¹ Source: Election to the Rikstag. – Statistical Yearbook of Sweden 2008, p.648.

However, at the 2006 elections Social Democrats and their allies were defeated: with a high turnout of voters (82% of all eligible to vote), the left-of-centre bloc led by Social Democrats won 46.1% of votes, “bourgeois” parties – 48.2%. This came as a surprise, since there were no apparent reasons for the defeat.

Election to the Riksdag in 2002 and 2006, % distribution of valid ballots by party

	2002	2006
Parties (“bourgeois”)		
Moderate Party	15.26	26.23
Centre Party	6.19	7.88
Liberal Party	13.29	7.54
Christian Democratic Party	9.15	6.59
Parties (left-of-centre)		
Social Democratic Party	39.85	34.99
Left Party	8.39	5.85
Green Party	4.65	5.24
Other	3.12	5.67

This, however, does not point to devaluation of values of the “Swedish model”. It is another matter that combination of the processes of globalisation in the world economy with demographic trends in Sweden (above-average growth in the number of elderly people, that is, pensioners, compared to the youth), as well as the current financial and economic crisis will step up pressure on the social component of the “Swedish model”. Most probably, in the forthcoming years the Swedish society will again face the difficult dilemma: some social gains to the benefit of refusal from higher competitiveness, or maintenance of high social standards at the expense of loss of the place on the world markets?

In fact, the response to that question alone will show whether the “Swedish model” is losing value in the eyes of Swedes, or they will do their best to once again adapt it to the challenges of the time.

³ For more detail see the article by F.Wallen “Sweden: the Path from Underdevelopment to Modernization”, published in this magazine.



SWEDEN IN THE SECOND HALF OF THE XX CENTURY

ideological fundamentals of the swedish model of welfare society

Formation of the ideology of the Swedish model (or the “third path”) as a political doctrine began after the Social Democratic Party won parliamentary elections in 1932. The Government it formed was influenced by economists representing the Stockholm school and initiated an active policy called to reduce the effects of the “Great Depression” on the country.

Finance Minister E. Wigfors proved that **state investments and civil works could increase the purchasing power of the Swedish citizens and reduce the scale of the economic crisis**. Those ideas were supported by trade unions and implemented in the Saltsjöbaden Agreement between the Swedish Trade Union Confederation and the Swedish Employers Association that, *inter alia*, showed the possibility of peaceful (without resort to strikes) conclusion of collective labour agreements.

By early 1950s, formation of the ideology of the Swedish model had largely been completed, it became the invariant core of the economic policy of the Social Democrats, and its practical implementation – a showy example of an option of socio-economic development combining market economy with a high level of social justice.

Economic grounds

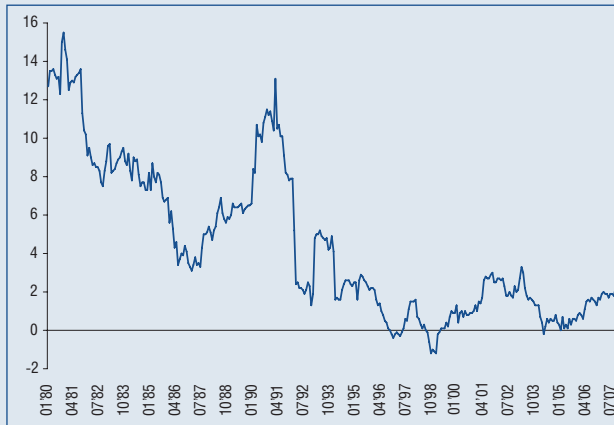
From the end of World War II till early 1970s, Sweden's economy was developing at a high pace, yielding only to Japan's. Thanks to large-scale investments in industry and pursuance of an adequate employment policy, the year-average growth of labour productivity equalled 5.1% in early 1960s and 4.3% in 1965-1974. In 1980-90s, the stability of economic dynamics somewhat deteriorated (there were even instances of recession), but in the past decade, one could speak of a new economic rise of the country (Diagram “*Real economic growth*”).

The high rate of growth largely originated from the development of industrial enterprises, their high competitiveness and active expansion on foreign markets – it is clear after all that the economy of a relatively small country would not have been that dynamic, **if the produced goods and services were sold only on the domestic market**.

Raising sales on the world market, the Swedish companies managed to consolidate expenses on research and development, on growth of volumes and improvement of the quality of produce. And presence on the markets of developing countries made it possible to easily adjust volumes and prices, minimising risks and losses on some unstable markets.

Strong economic dynamics combined with the export expansion enabled maintenance of a relatively low (one of the lowest in Europe) inflation rates that, in turn, also contributed to the steady economic and social growth (Diagram “*Inflation*”).

Inflation, yoy



At the same time, it should be noted that the effectiveness of the Swedish model was repeatedly tested.

1970s: first trials and “leap over the world crisis”

In mid-1970s, toughening competition on foreign markets and a series of the world economic crises (energy, debt, etc.) negatively influenced the country's standing, for the first time questioning the viability of the Swedish model in the conditions of growing competition and economic openness.

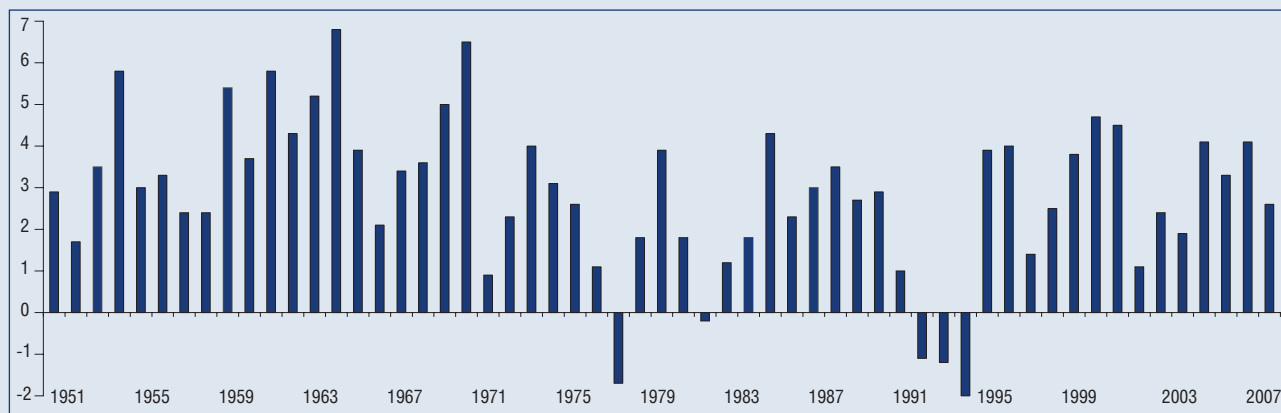
In particular, after the energy crisis of 1973-1974, the Swedish industry faced serious structural problems, since nearly a quarter of industrial production fell on the sectors hit by the crisis – mining, metallurgy, shipbuilding³. Meanwhile, countries with low labour costs (first of all, Asia and South America) came to the world markets, which also had an adverse effect on the competitiveness of Sweden. By and large, in 1975-1977, the Swedish industry lost almost 20% of its share on the world markets.

In that critical situation, **the state played a stabilising role**. The Government saw its task in the maintenance of a high pace of economic development at the expense of domestic resources and improvement of conditions for export.

The following measures were taken:

- **state assistance** to the sectors hit by the crisis, including to maintain high social standards (in 1975-1976 alone, labour costs rose by almost 40%) – with the purpose of maintenance and increase of the purchasing power of the population;

Real economic growth, % over previous year



¹ Source: Statistical Yearbook of Sweden 2008. 2008, p.422.

² Source: *Ibid.*, p.396.

³ In particular, redundant capacities and low world demand for cast iron and steel affected Sweden's ferrous metallurgy. The timber industry was losing ground under the pressure of competitors, first of all, from North America. The huge excess of the world shipbuilding capacities combined with low demand for new vessels and freight resulted in the reduction of ship production. The light industry faced tough competition with the developing countries, where the cost of labour was much lower than in Sweden.

⁴ In 1977, the Government (by the way, formed by the “bourgeois” parties) nationalised shipbuilding and metallurgical companies, with their subsequent merger with the purpose of toughening control of their activity and retention of workers. However, despite big subsidies to such new companies, their losses did not go down. That policy was termed as the “feeding limping duck” and dropped in 1982 by the Social Democratic Government



- **nationalisation** of some shipbuilding and metallurgical companies – with the purpose of maintenance of employment⁵;
- **reduction of taxes** – with the purpose of encouragement of production growth, including for export;
- **devaluation of the krona** – with the purpose of enhancement of competitiveness and promotion of export;
- **non-interference in the processes of monopolisation and consolidation of capital**, which let big Swedish corporations reorient production to hi-tech products and pursue an aggressive policy of their promotion on the world markets.

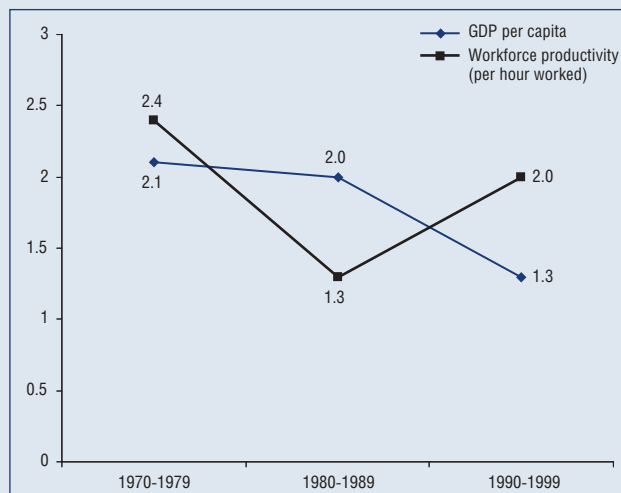
Therefore, the state not only avoided a decrease in wages and production (as was the case in most foreign states), but used the favourable domestic situation (thanks to the previous growth) to reduce taxes, somewhat devaluated the krona, in that way promoting production and export⁶.

Hence, exactly during the world crisis the Swedish model demonstrated the effectiveness of its social priorities, leaving social guarantees for the population unchanged even at a time of crisis and backing competitiveness with effective actions of the government. The effective Swedish policy of 1973-1977 was termed as the “leap over the world crisis”, since the country went out of that crisis with comparatively low losses.

1980s: payment for high employment

Early 1980s saw sharp slowdown in the dynamic of the labour productivity – the average annual rate of its growth barely exceeded 1% (Diagram “Real economic growth and productivity”⁶). This was accompanied with a deficit of the balance of payments, growth of the

Real economic growth and productivity,
yoy, average over the period



foreign debt, growth of the budget deficit, etc. Given difficulties on the world markets, this posed a threat of decline in production.

The situation was a result of maintenance of a high employment rate (and, respectively, a low unemployment rate) and stronger, compared to labour productivity, growth of wages, steadily higher than in the neighbouring countries⁷. Therefore, overall growth of production rested on higher employment, rather than on economic effectiveness.

Difficulties of that period were further complicated by the big public sector where productivity was actually not growing. That is why relatively slack economic dynamics was kind of “atonement” for the policy of full employment and solidary social equality.

As a result, as soon as in late 1980s, combination of a high employment rate, growth of incomes and demand and low growth of labour productivity caused problems in the economy, the most painful of them being foreign economic deficits and growing inflation. This somewhat aggravated crisis phenomena in the country in early 1990s, when the world markets saw another tide of difficulties.

1990s: correction of mistakes

Early 1990s saw serious and comprehensive deterioration of the economic situation in the country:

- weakening of the public finance and high inflation undermined the fundamentals of economic stability, on which the national socio-economic model rested;
- growing tax pressure undermined incentives for growth;
- an insufficiently active competitive policy and failed measures to promote enterprise and innovation resulted in the loss of competitiveness and undermined possibilities for export expansion;
- underestimation of risks specific of separate branches and sectors, especially in the period of their active growth and development, added to economic and financial disparities, and, alongside with that, brought signs of recession. In particular, this caused crisis in construction that, in turn, brought about crisis in all allied sectors (first of all, the manufacturing industry), which in the end resulted in the negative effect on the economy in general⁸.

Economic decline resulted in sharp rise in unemployment, the state debt and the budget deficit⁹. However, the experience of earlier successful structural reforms strengthened incentives for resolute changes, which made it possible to restore economic dynamics¹⁰. As soon as in late 1990s, regulation of the public finance and implementation of the policy of low inflation, promotion of the sectors of communication and information technologies let the economy find new competitive niches.

That time, the Government mainly resorted to levers of the budget-financial and monetary policy. The anti-crisis activities of early 1990s included:

- institution of a fundamentally new approach to the public finance. In particular, it declared and consistently implemented new strategic conditions - requirements to the fiscal sector, among them:
 - maintenance of the surplus of the public finance (so-called budget of the “general government”);
 - establishment (in the middle run) of the upper limit of expenditures of the central government, and its consistent reduction¹¹;
 - introduction of the practice of “proper economic management” and balancing of municipality and district budgets;
- establishment of clear priorities, spheres of powers and responsibilities of state institutions. In particular, the law provided that the main goal of the Central Bank was to ensure the low and steady inflation rate (policy of controlled inflation)¹², the main task – to provide for the payment system functionality as a precondition for effective operation of the economy;
- enhancement of the stability and durability of the financial and banking system, being a reliable source of accumulation of resources and their employment for social and production needs¹³;
- growth of the influence of the “monetary power” (of the Central Bank and other state institutes formulating and implementing the monetary policy) on competitiveness with tools of the interest and monetary policy: for instance, starting from 1992, the floating exchange rate was introduced, along with measures for controlled devaluation of the krona.

As the result of implementation of said measures, the competitive standing of enterprises notably improved, growth trends were restored, and Sweden regained its leading position on the world markets.

⁵ For more detail see: Macroeconomic Model of the Socio-Economic System (by the example of Sweden). – <http://www.lib.ua-ru>

⁶ Source: Sweden 2008. IMF Staff Report, p.13.

⁷ The cost of labour in Sweden in late 1980s was some 20% higher than in Western European countries. At that, the growth of wages was combined with reduction of the working day, lowering of the pension age, and an increase in the length of paid leave.

⁸ This may seem paradoxical but the depth of decline in the construction sector is attributed to the previous growth of 1980s. Growth of production and the purchasing power of the population caused a high demand for production and housing premises, which led to the growth of construction and contributed to the rise in prices and rent.

In such situation, slowdown of economic dynamics (in particular, in the result of deterioration of business conditions on some of the world markets) caused a sharp decrease in demand for real estate, so that even the decrease in prices and rent failed to stop crisis in the sector.

⁹ Say, while in 1989, the public finance had a surplus (over 5% of GDP), in 1993 – a deficit of 12.3% of GDP.

¹⁰ For instance, after the decline of 1991-1993, the GDP rose by 3.3% in 1994 and by 3.6% in 1995.

¹¹ In particular, the upper limit of expenditures for the central government was fully implemented in 1997; over the next 10 years, said limit was reduced by 3-5%, but never exceeded. Maintenance of the positive balance of the budget of the general government is on from 2000, and since then, the annual average surplus of the budget has been equal to some 1.5% of the GDP.

¹² Implemented since 1995; set inflation rate – 2%, with the maximum allowable deviation of 1%.

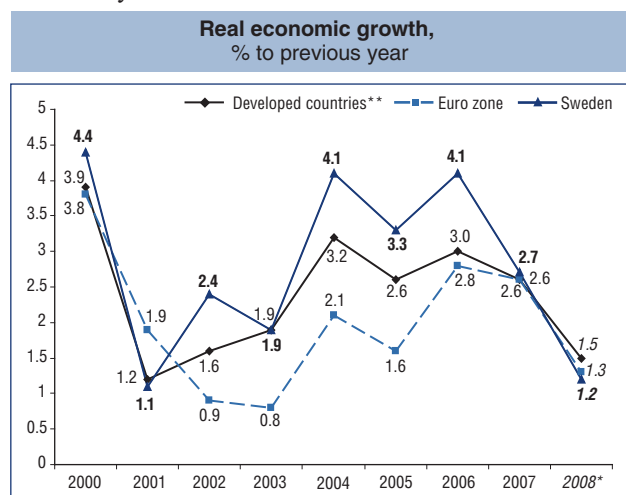
¹³ The banking system saw consolidation of capital. Now, the economy is dominated by four major banks: *Nordea* (accounts for nearly 30% of the bank assets in the country), *SEB* (20%), *Handelsbanken* (18%), *Swedbank* (14%), the other banks hold some 20% of assets. See: IMF Staff Report. Sweden 2008, p.15.



Sweden of the XXI century: specificity of economic development

Sweden entered the XXI century with a strong and stable economy, its growth rate exceeds the pace of economic growth in the Euro zone. Meanwhile, since the country is integrated into the system of the world economic ties, the global political and economic processes seriously influenced and continue to influence its economic standing.

Economic growth. As one may see from Diagram “Real economic growth”⁴, the world economic difficulties of 2001-2003 (including in the result of the terrorist attacks on the USA) slowed down the economic development of the country.



* Data of 2008 is evaluative.

** Hereinafter, the developed countries are: EU-25, Iceland, Norway, Switzerland, Canada, USA, Australia, Israel, New Zealand, Japan, Gibraltar.

However, from 2004, its economy began to recover, largely due to the **investment demand**. Investments grow primarily in dynamic export-oriented branches, first of all – telecommunications and pharmaceutical industry. This enables effective employment of resources and capacities to ensure the competitiveness of the Swedish economy (in particular, the rate of employment of production capacities in industry is close to 90%).

This gives grounds to assume that the current world financial and economic crisis will have a weaker effect on Sweden, in particular, thanks to a stable budget and high competitiveness of the produce of Swedish enterprises, demanded on the world markets.

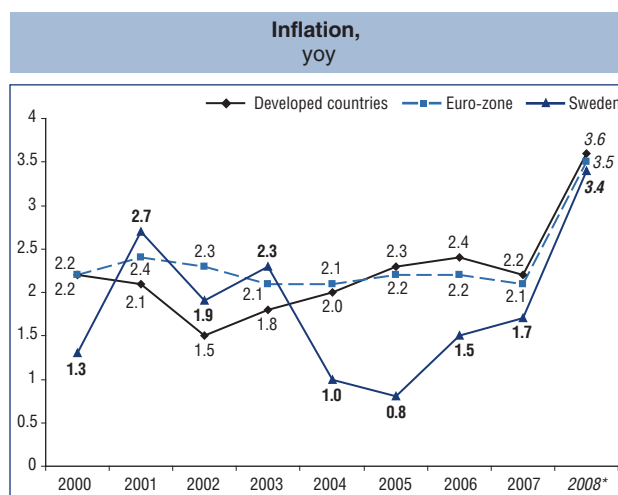
GDP inputs. The country demonstrates a high level of consumption and active foreign economic expansion. For instance, in 2006, consumption equalled almost 74% of the GDP, net export – over 8%, while foreign trade was only a bit smaller than the GDP – over 94% (Table “GDP by final use categories”⁵). At that, the dynamic of foreign trade shows that the country, expanding its presence on international markets, effectively employs the benefits of the international division of labour.

GDP by final use categories, SEK billion			
	2002	2004	2006
GDP	2,420.8	2,625.0	2,899.7
Final consumption	1,848.8	1,980.7	2,135.8
Investments	407.8	430.4	526.0
Net exports* of goods and services, at that:	164.1	214.0	237.9
Exports	1,078.8	1,215.8	1,490.9
Imports	914.7	1,001.8	1,253.0
In structure of GDP, % GDP			
Final consumption	76.4	75.5	73.6
Investments	16.8	16.4	18.1
Net exports of goods and services, at that:	6.8	8.2	8.2
Exports	44.6	46.3	51.4
Imports	37.8	38.2	43.2

* Net exports – difference between exports and imports.

High consumption is maintained thanks to the consistent anti-inflation policy, socialisation of the public finance and high employment rate, resulting in stable purchasing power of the population. Meanwhile, in the recent years, the imperative of raising competitiveness demands greater investments in the national economy: while in early 2000s, investments equalled 16.4-16.8% of the GDP, in 2006, they grew to 18.1%.

Inflation. Specific of the Swedish economy is low inflation whose rate in 2000s only during the mentioned global difficulties of 2001-2003 exceeded the target of 2%⁶. According to estimates, an excess was also observed in the crisis year of 2008, when inflation reached 3.4% – but, as one may see from Diagram “Inflation”, this is the lowest figure among the developed countries and in the Euro zone.



* Data of 2008 is evaluative.

⁴ The data cited in this and other Tables and Diagrams of this subsection were taken from: IMF World Economic Outlook 2008. – <http://www.imf.org>. Noteworthy, due to the aggravation of the financial and economic crisis at the end of 2008, international financial institutes revised short- and middle run estimates and forecasts. In particular, growth of the world economy and in the Euro zone in 2008 is estimated only at 1%. See, e.g.: IMF World Economic Outlook Update. – *Ibid*.

⁵ Source: Expenditure in gross domestic product. – Statistical Yearbook of Sweden 2008, p.428.

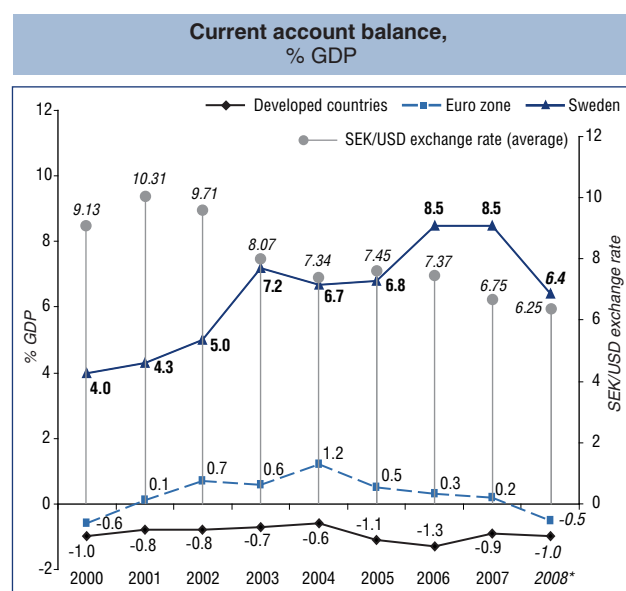
⁶ For more detail see the article by V.Yurchyshyn “Specificity of the Swedish Monetary Policy” published in this magazine.



The low rate and stability of inflation mainly rest on an active anti-inflation policy, notable growth of the labour productivity, and generally favourable for the country dynamic of world prices. Inflation is also reduced thanks to the growing competition in retail trade because of facilitation of access to the domestic food market for new foreign trade companies (due to liberalisation of trade and the EU enlargement).

Foreign trade. Nearly half of the GDP generated in the country is sold on foreign markets, and in the leading branches, the relevant indices are even higher. Growth of export of goods and services outstripped the general growth, in some years making 10-13%. In particular, export of goods and services in 2004, compared to the previous year, rose by 10.4% (from SEK 1,101 billion to SEK 1,216 billion), in 2005 – by 9.6% (to SEK 1,333 billion), in 2006 – by 11.9% (to SEK 1,491 billion).

At that, as one may see from Diagram “*Current account balance*”, the positive balance of trade was growing even in the conditions of revaluation of the krona – thanks to high labour productivity, low inflation and favourable overall economic dynamics.



Export expansion is offset by growing imports, slower than exports though, and their growth in the recent years has been caused by the increase in the share of imported components in Swedish export goods.

The growth of exports is also accompanied by the improvement of its commodity structure: the share of the produce of transport machine building, telecommunication means, pharmaceutical industry goes up. In the geographic structure of Swedish exports, European markets play the key role: the EU countries, Iceland and Norway account for nearly 60% of total exports, followed by the USA and Asia.

By and large, it should be noted that export expansion greatly contributed to the high employment rate and high revenues of the country. Meanwhile, openness for

imports in the conditions of the stable krona ensured stability of prices and purchasing power.

Investments. Specific of Sweden, as well as of many other developed countries, is a relatively low share of investments in the GDP structure. However, generation of ever more competitive added value requires effective use of production inputs found on markets of different countries. So, along with export expansion, investments in production capacities of Swedish companies abroad are also growing. In the recent decades, Swedish industrial enterprises have been among the most active international investors in the world, and Swedish investments abroad far exceeded foreign direct investments (FDI) in Sweden⁷ (Table “*FDI, cumulative*”). Finally, some 60% of employed in Swedish multinational companies work beyond the country’s borders.

FDI, cumulative \$ million						
	INFLOW			OUTFLOW		
	1990	2000	2006	1990	2000	2006
EU	749 838	2 180 717	5 434 329	808 014	3 050 357	6 428 665
Sweden	12 636	93 970	218 373	50 720	123 230	262 951
Outflow-Inflow ratio				4.0	1.3	1.2
Cumulative FDI as % GDP						
EU	10.5	26.0	38.0	11.4	36.4	44.9
Sweden	5.2	38.8	56.8	20.9	50.9	68.4

On the other hand, the growth of competitiveness is attributed to the focus of the Swedish economy on high technologies (so-called “knowledge-based economy”). That is why big national and transnational companies invest significant funds in research and development, with the key research performed in Sweden (Insert “*Funding of scientific research*”). As a result, as we noted above, Swedish corporations are among the most science-intensive companies in the world.

Funding of scientific research	
Funding of research and introduction is dominated by the private sector, with the bulk of funds invested by big corporations. For instance, in 2005, total funding exceeded SEK 104 billion (a bit less than 4% of the GDP), 65% of that – by private companies.	
Meanwhile, Swedish experts draw attention to complications recently arising in that sector, specifically:	
<ul style="list-style-type: none">relative reduction of funding (as a percentage) in the GDP structure;decrease in the effectiveness of research, first of all, funded by the state, including as the result of absence of a national strategy in development of a scientific research system;insufficient effectiveness of introduction (transformation of scientific knowledge into a source of generation of new competitive capabilities).	
Sources of R&D financing in 2005, SEK billion	
Private, incl.:	68
AsstraZeneca	12
Ericsson	17
Government	23
Other (including national and European funds)	13

⁷ The gap was especially evident in late 1980s, when high cost and lack of manpower complicated growth of production in Sweden. However, in 1990s, the situation somewhat changed, and in 1991-1995, direct investments in Sweden exceeded Swedish investments abroad, although cumulative investments abroad remain higher.

⁸ Source: World Investment Report 2008. – <http://www.unctad.org>

EXPORT SUPPORT: THE SWEDISH EXPERIENCE



Anatoliy BOBROVYTSKY,
Head of the Trade and Economic Mission at
the Embassy of Ukraine to the Kingdom of Sweden

Over 50% of Sweden's GDP is sold on foreign markets. This is the result of effective operation of Swedish enterprises and the considerate, target-minded and coordinated state policy of export support and promotion of goods and services on international markets. Thanks to the joint efforts of business and the state, Sweden occupies a leading position in many sectors of the world economy.

Economic specialities of the Nordic Kingdom

The core of the Swedish economy and its export potential was formed in the XX century. Today, the leading branches of the Swedish economy are:

- 1) mining (including ore dressing) and metallurgy;
- 2) machine building;
- 3) aircraft building;
- 4) arms production;
- 5) telecommunications;
- 6) production of equipment for the pulp-and-paper industry, different sectors of the chemical industry.

Mining industry and metallurgy. A set of enterprises located in the North of Sweden, engaged in extraction and enrichment of iron ore, production of iron ore pellets for both domestic consumption and for export (only 10% of raw materials extracted in Sweden are processed into cast iron and steel, since metal production is extremely energy consuming).

The annual production of metal products amounts to 3-3.2 million tons, 80-85% of which is exported. Meanwhile, Sweden imports for its machine building and construction over 2.6 million tons of metal products a year.

Machine building. Along with other advanced machine-building countries (Germany, the Czech Republic, Japan), Sweden manufactures over 60% of the stock-list of the machine-building branch. On the world markets, the country is represented by such versatile and known companies as *Volvo* and *Saab*.

Over the recent decades, machine building has seen significant change. Due to tough competition, some of its sectors died out, but new industries arose in their place – as a rule, with state support (e.g., production of special rail cars instead of shipbuilding).

Aircraft building and arms production. Sweden has a powerful defence industry that has a closed production cycle in such sensitive sectors as aircraft building and arms production, high quality of the end products, moderate prices, quality and timely supporting services, which gives the country a chance to find markets even in the worst for its economy times, and the national economy – an opportunity of stable operation under any circumstances in the world economy.

Telecommunications and equipment. *Ericsson* company is known on the world telecommunications market for over 120 years now. The branch focuses on intellectual products; meanwhile, production is gradually shifted to countries with a lower than in Sweden cost of labour.

Sweden is also known for production of equipment for the pulp-and-paper industry, different sectors of the chemical industry.

Swedish process equipment is considered to be of high quality, highly productive and energy efficient. Despite rather high initial price, it stands for quality, long service life and reliability.

Factors of the export policy success

What stands behind the positive image of the Swedish position on the world markets?

- **Free trade** – possibility to freely buy/sell goods and services: decisions of purchase/sale are taken by buyers and sellers themselves. The absence of the excise tax on imports and exports and of any forms of protectionism (e.g., protection of the national manufacturer with protectionist means, discrimination of buyers and sellers, etc.).
- **Development of the internal European market**, where Sweden is a key actor, since two thirds of export of its produce are sold on the common EU market. Sweden takes an active part in preparation of basic regulatory acts¹.
- **Active participation in the development of the legal side** of the EU trade with other countries.
- **Active work of the Government for implementation of the WTO arrangements**, especially of the Doha round, to ensure free movement of goods and services worldwide.
- **Governmental support for globalisation of trade**, which helps to increase the number of countries – trade partners of Sweden.
- **Creation of the best (next to ideal) trade law and a system of settlement of disputes** arising from export-import contract relations.
- **The activity of special state agencies** is coordinated by the Ministry for Foreign Affairs of Sweden² (their brief description is to be found in Table), as well as **non-governmental organisations** in one or another way supporting foreign trade (Association of Swedish Importers, Association of Swedish Chambers of Commerce and Industry, Stockholm Arbitration Institute).

Agency	Brief description
National Board of Trade	Status – state executive body. Functions: (1) preparation of real-world data for the Ministry for Foreign Affairs; (2) monitoring of the pricing policy on markets interesting for Swedish manufacturers; (3) preparation of reports for the Government and development of scenarios of response to external challenges in the field of international trade (<i>in case of any urgent problems</i>). Funding: from the state budget. Staff: 60 analysts
Swedish Trade Council Representative offices in 60 countries of the world	Status – state agency subordinated to the Minister for Trade of Sweden. Functions: (1) practical assistance to Swedish exporters and investors with entry to new markets; (2) support for official visits related to the development of bilateral trade cooperation, arrangement of business forums, seminars and other events aimed at promotion of Swedish export to the country of stay (by representative offices). Funding: partly from the state budget; the rest – at the expense of extension of private services. Staff – 600 employees (including representative offices).
Swedish Export Credits Guarantee Board	Status – governmental agency. Functions: (1) analysis of credit and investment proposals; (2) passage of decisions on risk insurance. Funding: partly from the state budget in the form of state guarantees of insurance of export risks.
Swedish Export Credit Corporation	Status – governmental financial institution. Functions: (1) crediting of Swedish exports on the basis of individual requests of Swedish exporters; (2) support for issue of bilateral interstate credits on the basis of bilateral interstate agreements at fixed low interest rates for long terms. Authorised capital – nearly \$10 billion.

The mentioned institutions arrange for the promotion of Swedish exports on international markets and defence of Swedish manufacturers in the event of disputes. It should be added that the Stockholm Arbitration Institute mentioned above plays the key role in the system of dispute resolution.

Specialisation and diversification of the functions of agencies involved in support for the export potential of the country enable professional performance of the tasks set by the coordinating body – the Ministry for Foreign Affairs. Through agencies, Sweden takes an active part in the formation of the world trade and financial order, retaining a leading position as an exporting country.

¹ That Swedish experience is important for Ukraine on its path to conclusion of the Free Trade Agreement with the European Union.

² Specific of the Swedish system of state governance is concentration of several functions in one body of state power. For instance, formulation of the trade policy and growth of Swedish exports are among the main tasks of the Ministry.



Employment and unemployment. The traditional for the country active policy on the labour market ensures a high employment rate (Insert “*Structure of manpower by employment rate*”). At that, nearly a third are employed in the public sector, nearly two-thirds – in the private sector. The number of those employed in the cooperative sector is insignificant – not more than 2.5- 3%.

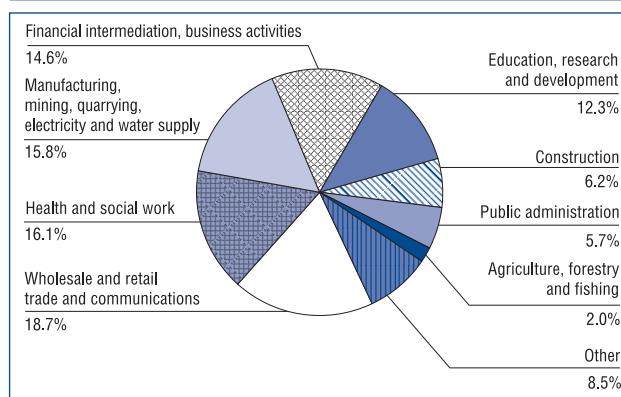
The branch structure of employment and its dynamic reflect changes in the structure of the national economy and witness, in particular, primary growth of the sector of services and science-intensive technologies (knowledge-based economy), making the basis of competitiveness of the national economy in the modern world. For instance, the sector of education and scientific research in 2002 accounted for 9% of all employees, in 2006 – for 12%. Instead, the number of employed in the manufacturing industry and agriculture is going down (Table “*Employed persons by industry*”⁹).

The unemployment rate in Sweden is lower than in the developed countries and in the Euro zone¹⁰. Its growth starting from 2003 was conditioned by job cuts in industry (2-3% a year), mainly in the result of rapid growth of labour productivity (over 3% a year in 2002-2004). However, with time, part of workers went to the services sector, in particular, thanks to the developed retraining system (on the average, 2-3% of employees are covered by relevant state programmes every year¹¹).

Employed persons by industry,
thousand persons

	2002	2004	2006
Total, incl.:	4,244	4,213	4,341
Agriculture, forestry and fishing	91	90	86
Manufacturing, mining, quarrying, electricity and water supply	747	711	686
Construction	235	242	271
Wholesale and retail trade and communications	800	795	810
Financial intermediation, business activities	611	589	633
Education, research and development	391	515	534
Health and social work	792	683	701
Public administration	241	246	249

Employed persons by industry in 2006,
%



⁹ *Ibid.*, p.328.

¹⁰ Transition to the EU statistic methodology in 2005 brought about a small increase in the estimates of the unemployment rate.

¹¹ Persons covered by such programmes are not recorded as unemployed, although this may be seen as a latent form of unemployment.

¹² *Source:* Labour force participation of the population. – Statistical Yearbook of Sweden 2008, p.325, 327.

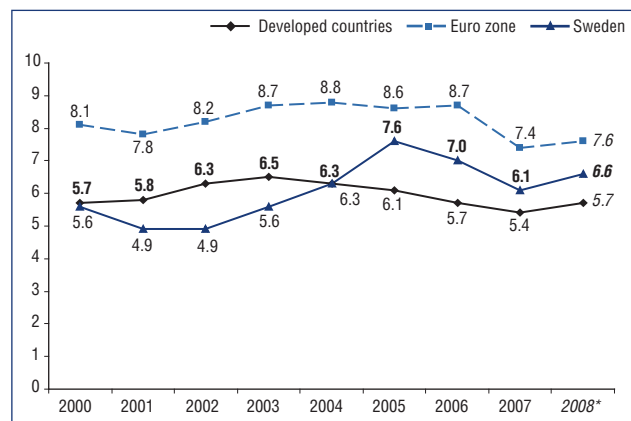
Structure of manpower by employment rate

The structure of manpower is an important index of the economy and society. In the recent years, its structure in Sweden has been comparatively stable. In particular, in 2006, out 5,826 thousand persons of the able-bodied age (16-64 years), 4,586 thousand, or 78.4% of those capable were counted as workforce. The number of employed made 4,341 thousand, or 74.5% of those capable to work¹². Among the latter, some 75% were employed full-time, the rest were employed part-time, engaged in individual business (self-employed) or worked in own households.

Structure of manpower by employment rate,
thousand persons

Manpower – 4,587			
Employed – 4,341			Unemployed – 246
Full-time employees – 3 252	Part-time employees – 656	Self-employed and employed in own households – 433	

Unemployment,
%



* Data of 2008 is evaluative.

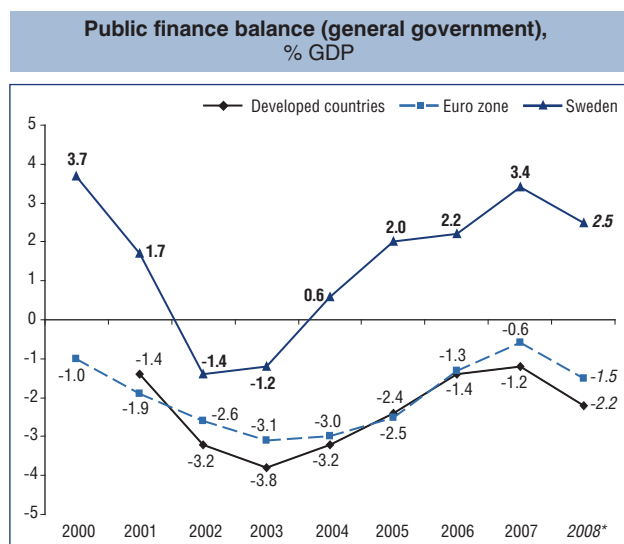
The macroeconomic indices of Sweden outlined above show that rational state policy, prioritising the competitiveness of national economy and public well-being, encourages the business community and employees to consistently improve the conditions of production activity, raise labour productivity and profitability of enterprises, being a precondition for steady production growth and enhancement of its effectiveness and ensuring:

- sustainable economic growth or minimisation of costs, even in the conditions of negative or crisis developments in the world economic system;
- steadfast implementation of anti-inflation policy, securing the well-being and savings of the population;
- deepening of foreign economic ties and expansion of investment flows, which promotes the competitive position of Swedish manufacturers on the world markets;
- exercise of socio-economic rights of citizens, first of all – to work and decent pay;
- prevention of external and internal negative influences on the stability and effectiveness of the national production.



Public finance

Specific of the system of public finance in Sweden is the mainly positive balance of the state and consolidated budgets. However, in some years (as a rule, at times of serious deterioration of the world economic situation) the country had a budget deficit (Diagram “Public finance balance (general government)”). In such cases, society is provided with timely (or even advance) clear explanation of the reasons of its emergency, and the deficit is always offset in the forthcoming years¹³.



Approaches to budgeting. Specific of the Swedish model is the high level of the GDP redistribution through the budget system (up to 48%), which put forward the requirements of reasonability and transparency of planning and implementation of budgets of all levels.

Before mid-1990s, budget concentrated on the next financial year and covered a period of 12 months, annual budgets were drawn up on the basis of the specified trends and assessments of revenues and expenditures¹⁴.

Instead, in the recent years, **plans of macroeconomic and fiscal development are drawn up for a middle (three years) run**¹⁵. Transition to middle run planning ensures rationality, substantiation and flexibility of state decisions not only for the current or next financial year but also in the long run, and rules out undesired internal or external influences¹⁶.

Economic forecasts are the key element of budgeting. Realistic macroeconomic limits are necessary for political decision-making, provision of the required level of revenues and expenditures intended for the attainment of

the goals and tasks set by the Government and specified in the budget. Furthermore, budgeting involves not only middle run budget planning but also continuous (year-long) monitoring of current observance of the targets of revenues and expenditures and associated adjustment of middle run plans¹⁷.

Among the key improvements of the budget process, the following deserve attention.

First, starting from 1997, budgeting takes place on the condition of **the set limit (ceiling) of expenditures of the central Government** (and the part of the pension system expenditures pertaining to old age pensions). Since such ceilings are specified for three years ahead, the importance of realistic macroeconomic forecasting goes up, and possibilities appear for close monitoring of the social commitment of the state. Furthermore, if actual budget expenditures differ from the planned, the deficit or surplus may be adjusted in the structure of budgets of the forthcoming years.

Second, in addition to the ceiling of expenditures, there is a **requirement of provision of the positive balance with the year-average level of 2% of the GDP**. Noteworthy, regional budgets are not subject to limitations of expenditures as tough as for the state budget, but the requirement of the positive balance make municipalities keep budgets balanced or even profitable. At that, resources are always redistributed (mainly through state budget), observing the overall positive balance and the specified ceiling of expenditures.

Practice of the budget process. Twice a year, the Minister of Finance of Sweden submits to Parliament the main state financial document – the budget. In spring, the **fiscal policy bill** is presented, in the fall – **the budget bill**. Those two bills **are essentially different**. The spring bill contains targets of the economic and budget policy proposed by the Government for a few years ahead and a long run. In the budget bill, those targets are translated into budget commitments of the Government for the following year, and, if necessary, tax changes are proposed.

Work on the regulatory-legal documents pertaining to the budget continues in course of the whole year (Chart “The Central Government budget process”¹⁸, pp.18-19).

The reliability, quality and effectiveness of such approach were tested by the practice of the recent years. As a rule, the budget is planned and implemented with a surplus, and the budget deficit arising in the years of economic difficulties on foreign markets and deteriorating the economic situation at home (2002-2003) was fully offset by the significant positive balance of the following years.

¹³ For instance, sharp deterioration of the economic situation in 2002-2003 made the Government to temporarily loosen the fiscal policy, to maintain the required level of revenues. However, since 2005, the balance has been positive, covering the “excessive” expenditures of the previous years.

¹⁴ Formally, the Budget Code of Ukraine presumes a similar approach. Documents submitted for review and approval of the State Budget contain three-year forecasts of revenues and expenditures, but they are determined as continuation of the current trends and do not take into account possible changes as a consequence of relevant reformations. So, any unexpected, even small deviations in the macroeconomic situation can bring real serious imbalances.

¹⁵ Hereinafter, it deals mainly with the central government budget (state budget), although the described approach is specific of budget planning and implementation on all levels. For more detail see: Ljungman G. The Medium-term Fiscal Framework in Sweden. – OECD Journal on Budgeting, 2006, Vol.6, No.3, pp.93-109.

¹⁶ NB: the Swedish experience proves that the mid-term approach may give a positive effect only if it rests on well-founded and realistic data, on the basis of which the authorities can build and plan their activity at improvement of the institutional and economic environment.

¹⁷ Provided by means of a computerised integrated system of budget management using interrelated data of the current and planned economic and financial situation, accessible to all governmental agencies.

¹⁸ Noteworthy, the budgeting cycle is not confined to a calendar year. For instance, yet at the end of the previous year, the Ministry of Finance examines forecasts of economic development for the forthcoming years, critical for the budget. Changes in assessments of economic growth, prices, unemployment, interest and exchange rate may demand additional measures for attainment of the goals of the economic and budget policy set by Parliament and the Government.



The Riksdag takes the final decisions on the central government budget in mid-December. After this, it is the task of the Government to ensure that the decisions are put into effect. This occurs by means of appropriation directions issued by the Government to the agencies.

These directions specify the objectives the agencies should pursue in their activities, the size of the appropriations available for their use, and the information on results that they are required to submit to the Government.

DECEMBER

The Riksdag takes its decision on central government budget appropriations.
The Government instructs the government agencies to implement the approved budget.

NOVEMBER

The Riksdag adopts frameworks for the expenditure areas.
The Government The ministries prepare the formulation of appropriation directions.

OCTOBER

The Riksdag considers the Budget Bill.
The Opposition presents different alternatives to the Government's budget proposal.

SEPTEMBER

The Government presents the Budget Bill to the Riksdag.

AUGUST

The Government continues work on the budget.

JULY

The Government pauses from its work on the Swedish budget.

The Riksdag takes a formal decision on the Spring Fiscal Policy Bill and the Central Government Annual Report.
The Government holds deliberations.

JUNE

When work on the budget resumes, a period of intense activity begins. As the budget nears finalisation, the Ministry of Finance negotiates with the other ministries on the details of the bill.

Work on the Swedish budget takes a break during the traditional holiday month of July. However, the Government Office is busy with the EU budget this month.

The EU Commission presents its proposal for the next year's EU budget in May, a proposal that the Council of Ministers (Budget Council) must take a position on in July. In June and July the Ministry of Finance prepares a Swedish position, in other words, Sweden's opinion regarding the expenditure levels in the different policy areas in the proposed EU budget.

The Riksdag adopts a formal decision on the Spring Fiscal Policy Bill at the beginning of June. In drawing up the final budget proposal in the summer for presentation in the Budget Bill, **the Government is bound by the expenditure frameworks that it agreed on during the spring**. In June government deliberations are held. The Minister for Finance reports on the financial situation and the scope for reforms is discussed. The Government agrees on the guidelines for work on the budget in August. In June the Riksdag concludes its consideration of the Central Government Annual Report and the Swedish National Audit Office's audit report on it.

Consideration of the budget by the Riksdag.
The Riksdag considers the Budget Bill in two stages. First the Committee on Finance considers the expenditure ceilings for the coming years. Next, an examination is made of how much money should be used for each of the expenditure areas covered by the Bill. The Committee then examines the Government's proposed estimate of central government tax revenues and other income. While it is the Committee on Finance that prepares these issues, the other Riksdag committees have an opportunity to comment. The Committee on Finance formulates a comprehensive proposal that is discussed by the Riksdag in a debate in the Chamber on or about 20 November. The debate in the Chamber concludes with the Riksdag deciding on the expenditure ceiling, the allocation of expenditure to expenditure areas, and changes in taxes and charges, and approving the estimate of central government revenues.

After this, each committee makes a proposal on the allocation of the money between appropriations in the expenditure areas for which it is responsible. The Chamber takes a formal decision on the nearly 500 appropriations in mid-December.

Up to and including the 15th day after the Government has submitted the Budget Bill, members of the Riksdag are entitled to present private member's motions in connection with the budget.

The opposition parties then submit alternatives to the Government's proposed budget. Generally, each opposition party will make an overall presentation of its alternative budget in a special economic policy motion.

On 20 September at the latest the Government presents its Budget Bill to the Riksdag. In election years the Budget Bill may be submitted slightly later.

The Budget Bill contains proposals on expenditure ceilings for the next fiscal year. In addition, it contains proposals on the next year's distribution of central government resources to all expenditure areas and the appropriations within these areas.

The Government also gives a breakdown of expenditure and activities in 48 different policy areas*.

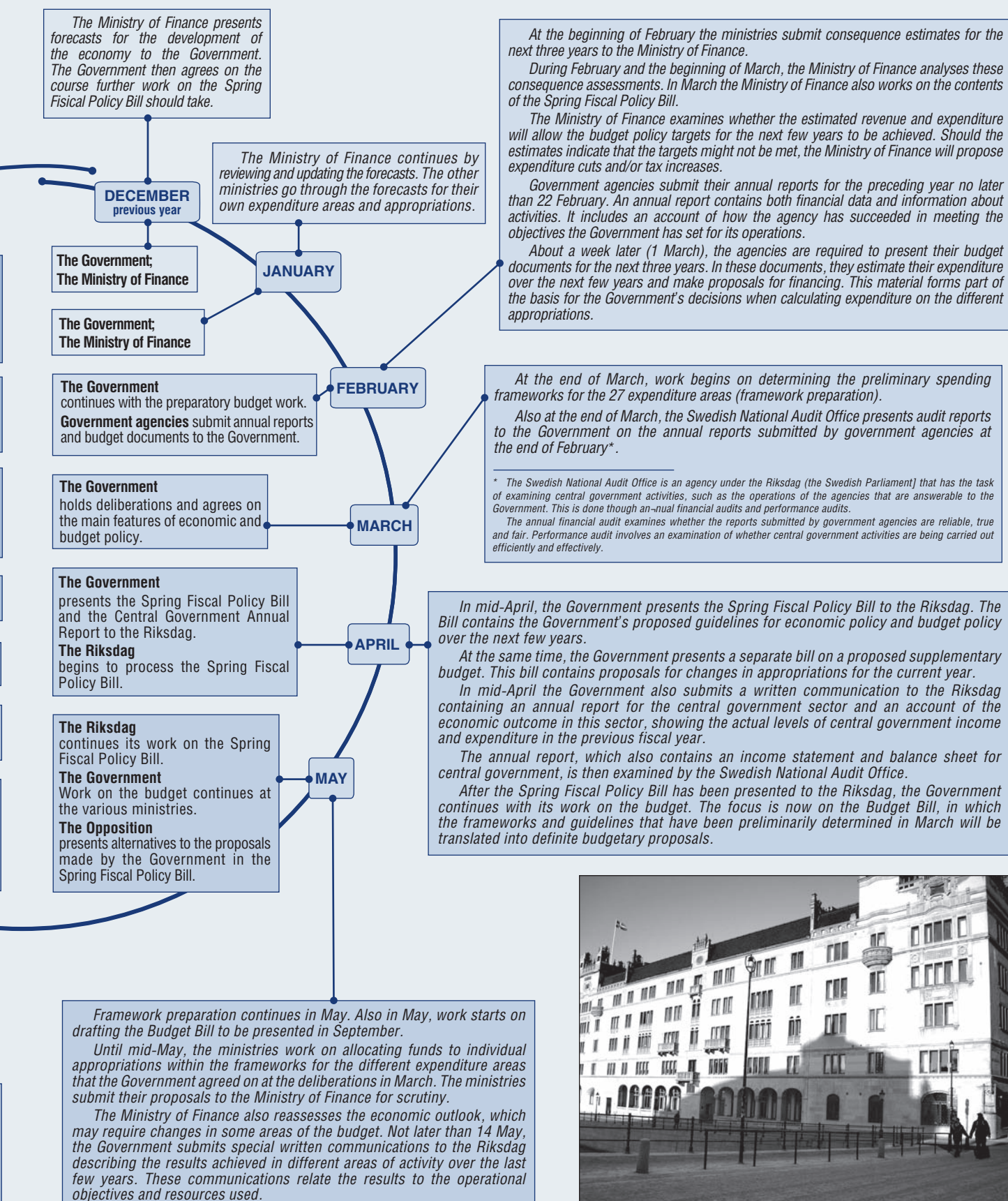
The proposed budget is now complete and the Government is not allowed to introduce any further bills during the autumn that would raise or lower the level of expenditures or revenues.

In conjunction with the Budget Bill, the Government usually also presents a supplementary budget containing proposed changes in appropriations for the current year.

* The policy areas are subdivisions of the expenditure areas which are used to allow a closer linkage between objectives, costs and results - the idea being to make it easier to see where the money goes.



BUDGET PROCESS





Social focus of the state policy

The social policy of Sweden rests on the **ideas of equality and human right to a decent standard of living**, which in practice means a higher than in most European countries degree of income equalization – with a high cost of labour and provision of the highest possible employment rate. Combination of those factors, *first*, guarantees a proper standard of living for society, *second*, only in their presence, the equalization policy can smoothen social contradictions and enhance cohesion in society. That is why they in Sweden pay such great attention to an active policy on the labour market. The Swedish Public Employment Service has more than 100 years of history and operates not only throughout the country but also in other countries of the world (Insert “*International activities of the Swedish Public Employment Service*”).

Labour Cost Index for workers in private sector,
1st quarter of 1994 = 100

	2001	2003	2005	2006
Mining, quarrying, manufacturing, electricity, gas and water supply	134.3	145.6	153.2	157.0
Wholesale and retail trade, repair of motor vehicles, personal and household goods, hotels and restaurants	136.0	147.5	155.3	159.6
Transport, storage and communication	135.3	144.8	149.1	154.9
Education, health and social work, other community, social and personal service activities	129.0	138.9	144.2	149.4
Financial intermediation, real estate, renting and business activities	131.8	142.5	148.2	151.5
Average	134.9	145.5	152.3	156.4

Social focus of the economy. Consistent implementation of the principle “equal pay for equal work” equalised imparities in labour remuneration among sectors (public, private and cooperative) and branches. Wage rises are also more or less uniform: as one may see from Table “*Labour Cost Index for workers in private sector*”, the dynamic of the cost of labour in different sectors and branches looks quite proportionate¹⁹.

The recent years witnessed reduction of the workweek with account of demographic features (age, gender). Today, Sweden has one of Europe-shortest workweeks; at the same time, there are broad opportunities for the choice of a flexible work schedule, especially important for women, youths and elderly people. On the average, women usually work less than men, young and elder people – less than persons in the active working age of 25-54 years (Table “*Employed persons by degree of attachment...*”²⁰).

The shorter workweek is one of the reasons for relatively smaller average wages of women, compared to men (Table “*Average monthly salary of non-manual workers...*”²¹). Another reason lies in the persisting tradition of so-called “masculine professions”, including highly paid (for instance, in banking and finance), and positions (at appointment to top executive positions, men are preferred). However, Sweden

Employed persons by degree of attachment to the labour market in 2006,
working hours per week, sex and age

Age, years	Total employed, thousand persons	Workweek, hours			Workweek average, hours
		1-19	20-34	35 and over	
16-24	446	102	98	243	30.1
25-54	3 046	71	502	2 470	38.7
55-64	849	32	191	624	37.2
TOTAL	4 341	206	791	3 337	37.5
male					
16-24	226	39	35	152	33.1
25-54	1 605	25	92	1 487	40.9
55-64	443	14	53	376	39.6
Male total	2 273	77	179	2 014	39.9
female					
16-24	220	64	64	91	27.1
25-54	1 441	47	410	983	36.1
55-64	406	18	139	249	34.7
Female total	2 067	129	613	1 323	34.9

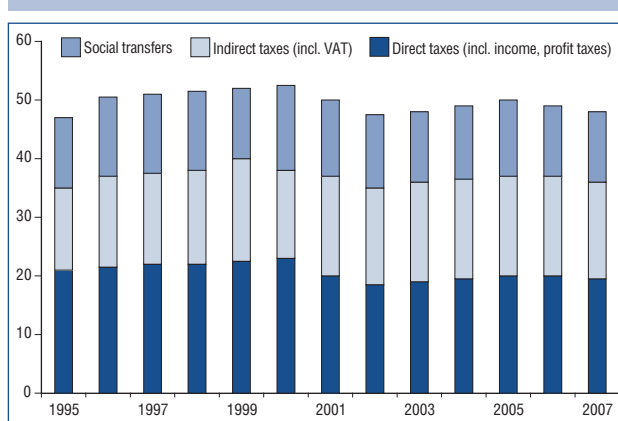
is known for an active policy of gender equality, designed to remove those differences.

Social focus of the budget policy. High social guarantees are ensured by the **state budget**. Although Sweden has high taxes, they are considered absolutely acceptable for society. The tax burden structure (taxes and proceeds of budgets of all levels) has also been stable in the recent years, making some 50% of the GDP²² (Diagram “*Total tax revenue*”).

Average monthly salary of non-manual workers in private sector, SEK

	2004		2006	
	Male	Female	Male	Female
Banks and other financial institutions	42,100	27,100	47,500	30,300
Mines, quarries and manufacturing industry	32,900	25,800	34,700	27,900
Wholesale and retail trade, repair shops	30,300	23,900	31,900	25,600
Hotels and restaurants	25,000	22,600	25,900	23,200

Total tax revenue, % GDP



¹⁹ Labour Cost Index. – Statistical Yearbook of Sweden 2008, p.356.

²⁰ Source: Employed persons by degree of working hours per week, sex and age. – Statistical Yearbook of Sweden 2008, p.327.

²¹ Source: Average monthly salary in private sector. – Statistical Yearbook of Sweden 2008, p.356.

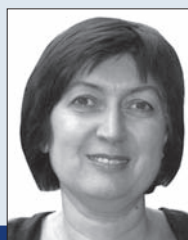
²² Tax revenues were growing mainly in 1960s - early 1970s. Say, in 1960, the aggregate tax revenues of budgets amounted to 30% of the GDP, and in 1977 – reached 49% of the GDP.



INTERNATIONAL ACTIVITIES OF THE SWEDISH PUBLIC EMPLOYMENT SERVICE



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Head of the International Division,
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Project Director, International Division,
Swedish Public Employment Service

In Sweden, the labour market policy is a part of economic policy. Employment issues are always among top priorities for the Swedish politicians. The Swedish Public Employment Service is a Government agency responsible for implementation of the labour market policy.

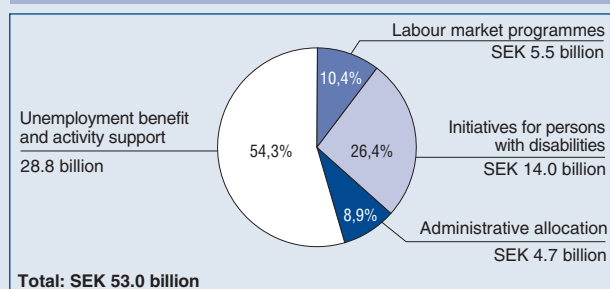
That is why the productivity and effectiveness of the Swedish Public Employment Service activities in many aspects determines successful socio-economic development of the country.

Principles and objectives

The situation in the labour market, employment and unemployment are traditionally the fields of utter importance in the Swedish politics, independently on which wing rules the country – the left or the right one. **Therefore, the principles of the labour market policy include:**

- objectives of the labour market policy are formulated by the Parliament and the Government;
- Public Employment Service is funded by the Parliament (Diagram “Funding-2008”);
- Director General and the members of the Managing Board are appointed by the Government.

Funding-2008



Today, the Swedish Public Employment Service (PES) has about 10 000 employees, most of them work in more than 300 employment offices around the country and provide services to customers via:

- Internet;
- customers services (telephone service);
- local offices.

The strategic objective of the PES is to contribute to well-functioning labour market through:

- facilitating more effective matching of vacancies and job seekers – both women and men;
- adapting the measures and programmes to demand on the labour force and the needs of the labour market;
- contributing to shortening period of unemployment for women and men who have the longest way to the labour market (Insert “Benefit periods and amounts”).

Benefit periods and amounts

- persons who satisfy the conditions entitling them to unemployment benefit will have a benefit period determined by the Unemployment Insurance Fund;
- benefit period is 300 days and can be extended by up to 450 days;
- basic benefit amount is SEK 320 per benefit day before tax;
- income-related benefit will be paid of up to 80% of previous income, but no more than SEK 680 per benefit day before tax.

The history of the Swedish Public Employment Service goes as far back as to 1902. The agency developed and changed a lot since then, but one issue is intact – its job in the first place is to match vacancies and job seekers. The PES has extensive experience of working under strong economic growth, as well as economic recession; strong labour demand, as well as high unemployment.

The Swedish PES shares its experience acquired during many years of its operational activities, with labour market institutions in other countries. It participates in developing the labour market authorities in many parts of the world. The international development work is carried out within the frame of Sweden's policy for global development and Sweden membership and coming presidency in the European Union.

An active partner in the EU cooperation

One of the fundamental principles of the EU is free movement of labour. The Swedish PES contributes to mobility in the EU labour market by cooperating with PES of other EU member states.

Besides, the Swedish PES has been mandated by the EU, as well as by the Government of Sweden to carry out multilateral projects with participation of the EU member states, EU candidate countries and one of the EU neighbouring countries. The aim of these projects is facilitating mobility in the European labour market.

Participation in the Sweden's international development cooperation

Labour market policy competence is an important part of Sweden's overall international development effort. Poverty reduction dominates today's global agenda for international development cooperation. A well-functioning labour market is a vital vehicle in combating poverty: one of the ways to attack poverty is to help people to get jobs.

Institutional development and capacity building:

- contributes to a well-functioning labour market;
- promotes economic growth and welfare;
- mobilises the resource of the poor;
- counteracts discrimination in society.

The Swedish PES international contribution takes shape of participating in Technical Assistance projects aimed at increase of employment and decrease of unemployment – the task becoming even more urgent in the conditions of the world global crisis.

The Swedish PES cooperates with governments and labour market institutions in those countries that recognise a need of international intervention in improvement functioning of their labour markets, strengthening Public Employment Services and development of active labour market measures.

In the framework of international development cooperation the Swedish PES provides services in:

- development of active labour market policies;
- development of institutions and social dialogue within the area of labour market policy;
- development of systems for objectives and performance-oriented management within labour market policy;
- development of information systems, and analytical and forecasting methods to provide better knowledge of the labour market;
- development of organisations, methods, techniques and instruments, as well as the competence required to provide an effective public employment service;
- development of competence and methods to promote employment for marginalised and vulnerable groups.

At the moment the Swedish PES runs Technical Assistance projects in Albania, Algeria, Armenia, Belarus, Botswana, China, Macedonia, Moldova, Morocco, Mozambique, Namibia, South Africa, Tunisia and Vietnam.



The vast budget revenues collected thanks to the strict tax discipline enable maintenance of the high standard of living and social justice. For instance, over 50% of the state expenditures falls on various transfers (to households and enterprises), including pensions, housing subsidies, child allowances, agricultural and industrial subsidies, etc.

Some of such transfers are intended to cheapen consumption (e.g., housing subsidies) or directly support certain groups of the population, such as families bringing up children, pensioners, disabled persons, and so on.

Other budget funds (after deduction of transfers) are used for public consumption and investments. The bulk of the public consumption (some 90%) is spent on the maintenance of the high level of public health, education, state governance (including decent wages for the employees of those sectors).

Such policy also influences the structure of expenditures of the population. As noted above, Swedish households spend on foodstuffs only 14% (*for comparison*: in Ukraine – some 50%). The bulk of expenditures of Swedish families is spent on housing and utilities – over one-fifth; with transport, they reach 38% of the total expenditures. Meanwhile, nearly one-sixth (almost 16%) of family expenditures falls on leisure and cultural events (in Ukraine – some 2%) (Table “Household budget survey”)²³.

Social security, public health, education. Specific of the Swedish model is extension of high quality state services for all citizens in such critical sectors as social security, education, public health, other social services. In particular, the official main goal of the social security

Household budget survey,
share of total consumption per household

	2004	2005	2006
Total expenditure, SEK	248 560	261 310	263 310
at that: % total expenditure			
Housing, water, electricity, gas and other fuels	20.41	20.67	20.62
Transport	15.58	16.55	17.63
Recreation and culture	15.64	15.52	15.83
Food and non-alcoholic beverages	14.61	13.31	13.70
Furnishings, household equipment and routine maintenance of the house	6.77	7.49	6.77
Clothing and footwear	5.51	5.80	5.56

system is to ensure economic protection for every citizen of the country in case of a disease, accident and/or occupational injury or illness, unemployment, as well as child allowances and retirement benefits. At that, the state **system of social security covers all the population**, not only the poor, as in many other developed countries.

Development of public health is a task for the state in Sweden. As we noted above, the consolidated state expenditures on public health make 7.7% of the GDP



(in Ukraine, according to foreign estimates – 3.7%)²⁴. Recently, experts and politicians pay particular attention to the growing risks of impairment of the working ability and health in general as the result of psychological overload, usual for modern post-industrial society²⁵.

State expenditures on education are similarly high. As noted above, in 2002-2005, they equalled 7.4% of the GDP (in Ukraine, according to foreign estimates – 6.4%)²⁶.

Housing. Sweden owes the high indices of provision with housing (47 m² per capita, against 23 m² in Ukraine) also to the state policy. By contrast to other developed market economies, housing construction in Sweden is utmost de-commercialised. Standard housing is built by so-called “public utility” companies, i.e., enterprises whose main goal lies not in getting profit but in maintenance of minimum profitability. Such companies are active not only in construction, but also in the financial, utility and other sectors.

In due time, thanks to such companies and with active participation of the state, Sweden in course of ten years (1965-1974) implemented the programme of construction of one million apartments (at that time, the population of Sweden was close to eight million people), having effectively resolved the housing problem for many years ahead.

Removal of commercial principles (including free pricing) from the housing market in Sweden is considered quite acceptable and not contrary to the market economy. The nation is well aware of the economic sense of that step: housing construction is seen in Sweden as a line of infrastructure development, indispensable for geographic mobility of manpower within the country borders.

The success of that policy is proven, in particular, by the high quality of life, as witnessed by the data cited at the beginning of this review. After all, Sweden ranks sixth in the UNDP Human Development Index and is considered one of the most attractive for living countries in the world. ■

²³ Household Budget Survey. – Statistical Yearbook of Sweden 2008, p.,384.

²⁴ Human Development Report 2007/2008. – <http://hdrstats.undp.org/indicators/>.

²⁵ For more detail see the article by L.Levi and Cary L.Cooper “Promotion of Occupational and Public Health: European Experience and Challenges” published in this magazine.

²⁶ Human Development Report 2007/2008. – <http://hdrstats.undp.org/indicators/>.

SWEDEN: THE PATH FROM UNDERDEVELOPMENT TO MODERNIZATION



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From having been a poor, agrarian economy in the Northern outskirts of Europe just a couple of generations earlier, Sweden had emerged as one of the richest countries in the world by 1960, which it still remains.

History proves that times of economic difficulties can sometimes illuminate the need for growth-enhancing economic reforms, consequently being able to give a chance and encouragement to the positive changes.

Historic overview

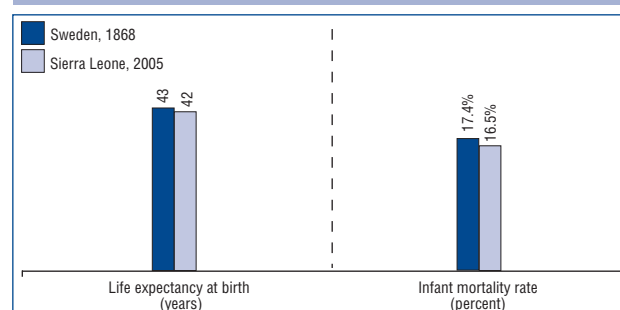
Strolling down Avenyn in Gothenburg or Kungsgatan in Stockholm, it is hard to imagine that Sweden some 150 years ago was an extremely poor country. At the end of the 1860's Sweden was struck by three years of extremely bad weather conditions, with harsh winters and dry summers. This had disastrous effects on agricultural production, and since over 70% of the population worked in agriculture, the economy was thrown into a deep crisis. In 1868 people in London, England, organized a large-scale voluntary collection of funds for the starving population of Sweden.

It is not only its agrarian-based economy that makes Sweden of that time resemble today's poorest countries. Most socio-economic indicators paint the picture of a deeply underdeveloped country. For example, approximately one fifth (17.4%) of the children born in the late 1860's would not survive to their first birthday, and the estimated life expectancy at birth was 43 years (Diagram "*Health indicators for two underdeveloped nations*"¹).

This can be compared to the situation in Sierra Leone today, where the infant mortality rate is 16.5% and life expectancy is 42 years². According to UNDP's Human Development Index, Sierra Leone is estimated to be the world's least developed country. In other words, by today's standards we would refer to Sweden in the late 1860's as a classical case of an underdeveloped country.

Reforms and Swedish industrialization. Fuelled by the market-friendly policy changes that took place throughout the second half of the XIX century, with radically reduced trade barriers, a deregulated system of enterprise, liberalization of the banking sector,

Health indicators for two underdeveloped nations



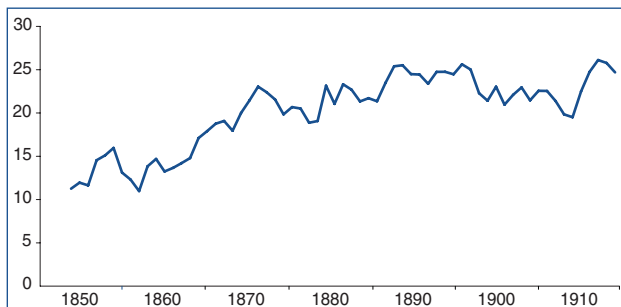
privatization of forestland, and the introduction of free migration, the Swedish economy began to industrialize at a tremendous speed. At the heart of this process was a strong commitment to entrepreneurship, combined with a self-confident attitude towards global competition. Around half of the 50 largest Swedish companies today were actually founded between 1870 and 1914, for instance *Atlas Copco* (1873), *Ericsson* (1876), and *SKF* (1907), just to name a few.

For a small economy, such as Sweden, the rapid industrialization process would not have been feasible without the possibility of Swedish companies to sell their products on the world market. This is especially illustrative looking at the export share of GDP, which increased from roughly 10% in the mid 1800's to around 25% by the start of World War I (Diagram "*Swedish exports of goods and services, 1850-1914*"³, p.&.). The telecommunications company *Ericsson*, which was founded in 1876, reached an export share of 90% already by 1900.

¹ Source: The Human Mortality Database, Human Development Report 2007/2008. – <http://hdr.undp.org/en/reports/global/hdr2007-2008>

² Source: Human Development Report 2007/2008...

³ Source: Edvinsson R.: Growth, Accumulation, Crisis. With New Macroeconomic Data for Sweden 1800-2000.

**Swedish exports of goods and services, 1850-1914,
% GDP**

It is quite difficult to compare the degree of economic freedom for the industrial countries in the late XIX century, but looking at a couple of important indicators we see that the Swedish economy had indeed emerged as one of the most free-market oriented economies in the world.

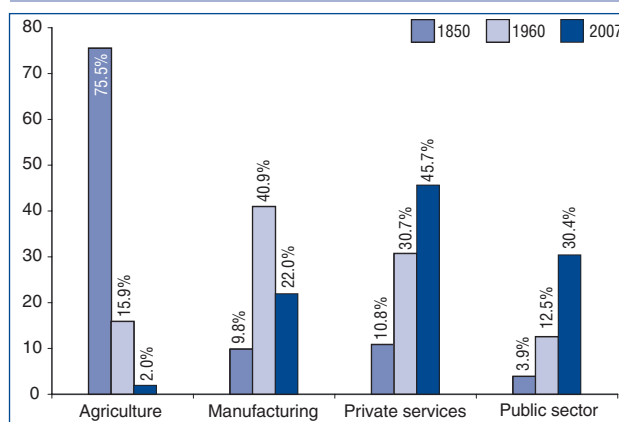
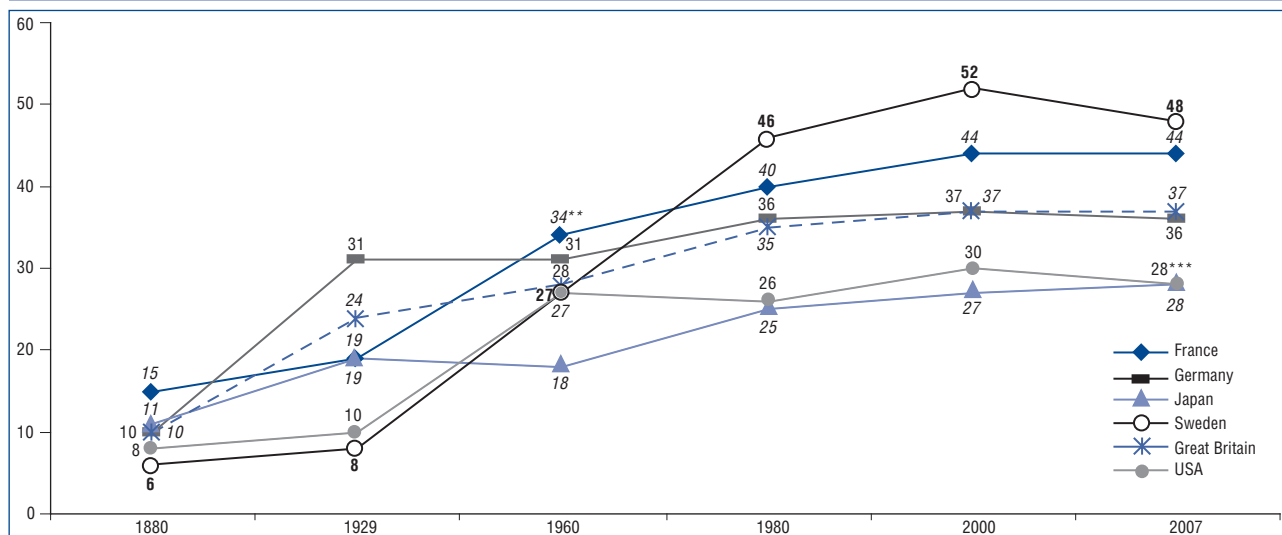
Tariff rates on industrial goods averaged between 3 and 5% around 1875, according to a study by the World Bank. Compared to other industrialized countries, tariffs were only lower in the United Kingdom (where they had practically been eliminated) (Table “*Tariff rates in industrial countries, 1875*”)⁴.

**Tariff rates in industrial countries, 1875,
manufactures, %**

United Kingdom	0
Sweden, Netherlands	3-5
Switzerland, Germany	4-6
Italy	8-10
Belgium	9-10
France	12-15
Austria, Denmark, Spain	15-20
United States	40-50
Average	11-14

Contrary to the situation today, where Sweden is considered a high-tax economy, the Swedish economy of the late XIX century was actually something of a tax paradise. According to a World Bank estimate, Government expenditure amounted to approximately 6% of the GNP in 1880, which was markedly lower compared to other industrialized countries. As a matter of fact, in 1960 Sweden was still something of a low tax economy compared to most other Western European economies (Diagram “*Tax revenues as a share of GDP*”)⁵.

The market-oriented structure of the Swedish economy – with relatively low taxes, a flexible labour market, and low tariffs on imported goods – resulted in a very high degree of competitiveness for the business community. The dynamic nature of the Swedish economy resulted in dramatic changes on the labour market. Agriculture’s share of total employment decreased from around 75% in the mid-1800’s to around 15% in 1960. During the same time period, the share of the labour force working in the private services sector had increased from around 10% to approximately 30%, and the share of the labour force working in the industrial sector had increased from around 10% to over 40% (Diagram “*Share of total employment in Sweden*”)⁶.

**Share of total employment in Sweden,
% of average****Tax revenues as a share of GDP,
%***

* 1880 and 1929 refers to Government expenditure share of GNP.

** Refers to 1965.

*** Refers to 2006.

⁴ Source: World Development Report 1991: The Challenge of Development. – <http://econ.worldbank.org/external>

⁵ Source: World Development Report 1991...

⁶ Edvinsson R. Growth, Accumulation, Crisis....



Thanks to strong private sector growth, the Swedish economy expanded faster than almost all other economies during this time period, and increased by more than 800% between 1870 and 1960. Comparing data of GDP per capita between a number of important trading partners, we find that Swedish income levels were markedly lower than those of France and Germany back in 1870, but more than 10% higher than the same countries in 1960. The United Kingdom, which had been more than twice as rich as Sweden in 1860, was on par with Sweden in 1960 (Table “GDP per capita”)⁷.

GDP per capita, Index Sweden = 100						
	France	Germany	Japan	Sweden	United Kingdom	USA
1870	113	111	44	100	192	147
1960	87	89	46	100	100	130

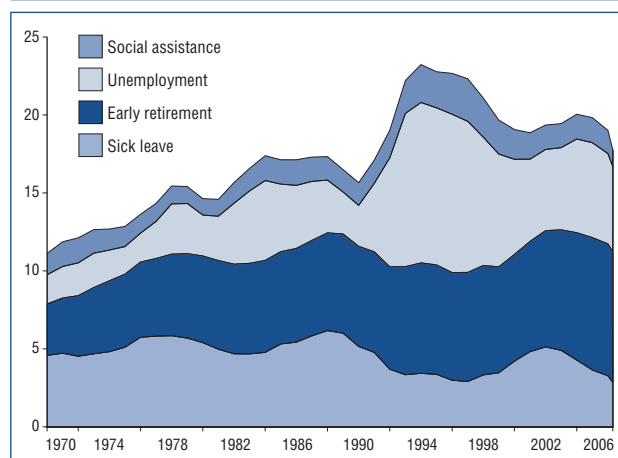
From having been a poor, agrarian economy in the Northern outskirts of Europe just a couple of generations earlier, Sweden had emerged as one of the richest countries in the world by 1960. The infant mortality rate had been brought down to 1.7%, which was only matched by Iceland among all developed countries in the world, and life expectancy had increased to 73 years, which was only matched by Norway and the Netherlands.

The increasing role of the Government and loss of competitiveness

Throughout history we are reminded that times of economic difficulties can sometimes open up windows of change in a positive way. Even though the economic recessions are clearly not pleasant times for most people, they sometimes may illuminate the need for growth-enhancing economic reforms. This was to a large degree the case of Sweden in the 1860's. However, the opposite can also be true; i.e. long periods of economic enhancements can sometimes result in a growing demand among politicians and the electorate for reforms that are not very good from a competitiveness perspective. This was exactly what happened in Sweden during the 1960's and 1970's.

The welfare state expanded quickly – both in actual size and in generosity – by the introduction of public monopolies on healthcare, day care, and care for the elderly people, combined with higher benefits for people on sick-leave and unemployment. Added to this, a number of rigid regulations on the labour market were introduced, such as a halt to labour immigration and strict rules concerning hiring and firing. As an effect of these policies, the Swedish labour market was struck by a nasty combination of high wage inflation and stagnation on the private sector labour market. Whereas just over 10% of the working age population had been supported by various welfare programmes in 1970, the share had increased to well over 20% by the mid-1990's (Diagram “People who are supported by welfare programmes”). During the same period the share of the labour force being employed by the public sector increased to over 30%.

People who are supported by welfare programmes,
% working age population (20-64 years) in Sweden



Due to the significantly increasing role of the Government in the economic sphere, tax revenues as a share of GDP increased from less than 30% in 1960 to over 50% just a couple of decades later. Needless to say, the competitiveness of the Swedish economy was seriously weakened by the increasing tax shares and labour costs. Having been the fourth richest economy among the OECD economies as late as in the early 1970's, Sweden eventually lost positions and became something of a mid-income OECD⁸ economy (Table “Ranking of OECD countries by GDP per capita”)⁹.

Ranking of OECD countries by GDP per capita,
current PPPs

	1970	1990	1997	2007
1	Switzerland	Luxembourg	Luxembourg	Luxembourg
2	Luxembourg	Switzerland	USA	Norway
3	USA	USA	Switzerland	USA
4	Sweden	Iceland	Norway	Ireland
5	Australia	Canada	Iceland	Switzerland
6	Canada	Austria	Denmark	Netherlands
7	Denmark	Sweden	Austria	Canada
8	New Zealand	Japan	Canada	Australia
9	Netherlands	Belgium	Japan	Austria
10	Belgium	Denmark	Netherlands	Sweden
11	Austria	Germany	Belgium	Denmark
12	Germany	Norway	Germany	Iceland
13	Iceland	Finland	Australia	United Kingdom
14	France	Netherlands	Sweden	Belgium
15	United Kingdom	Italy	Italy	Finland
16	Italy	France	United Kingdom	Germany
17	Finland	Australia	Ireland	Japan
18	Japan	United Kingdom	France	France
19	Norway	New Zealand	Finland	Spain
20	Greece	Spain	New Zealand	Italy

⁷ Source: Historical Statistics for the World Economy. – http://www.gdpc.net/maddison/Historical_Statistics/horizontal-file_09-2008.xls

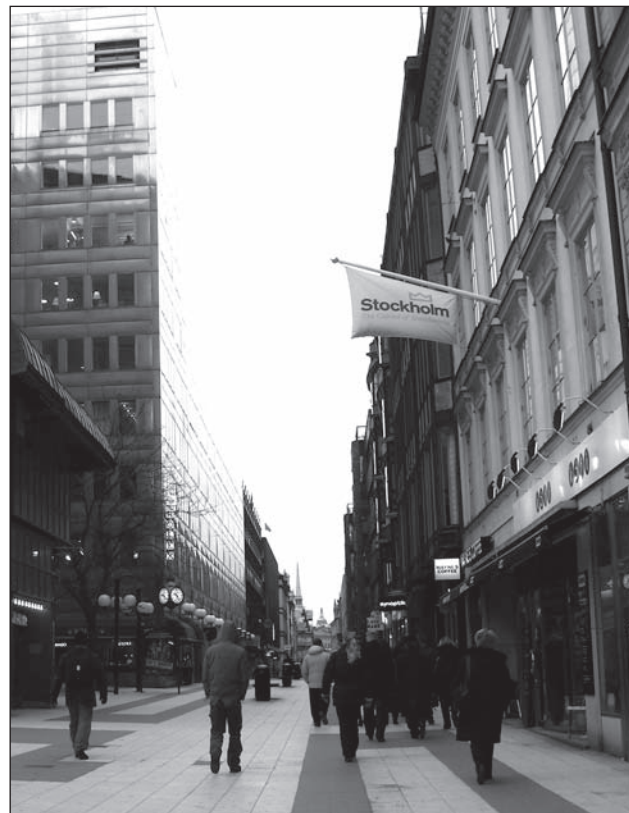
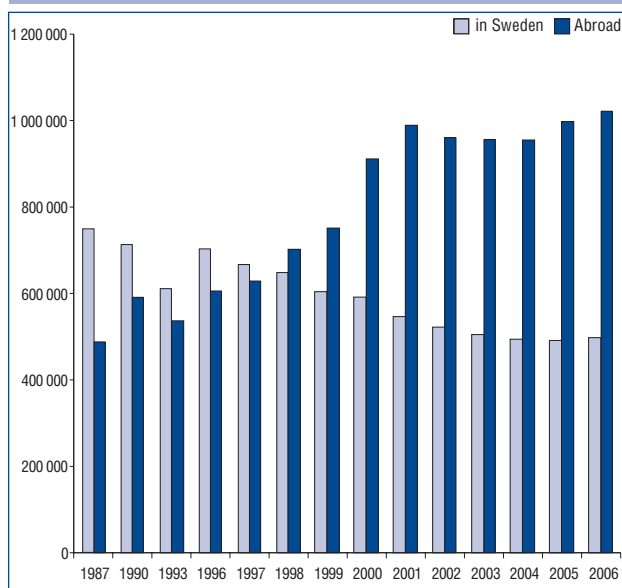
⁸ Organisation for Economic Co-operation and Development.

⁹ Source: OECD Statistics Directorate. – <http://www.oecd.org/document>

During the 1990's and 2000's, a series of important economic reforms were introduced in Sweden. The Central Bank gained independence, a number of key product and service markets were liberalized (such as the markets for electricity, gas, railways, airlines, TV, etc.), a system of school vouchers was introduced, Sweden joined the European Union, the pension system and the budgetary system were reformed. Furthermore, the present Government has privatized a number of public companies (for instance, the manufacturer of *Absolut* Vodka), abolished the wealth tax, reduced unemployment benefits, and lowered taxes on labour. These free-market reforms have resulted in a somewhat stronger economic growth during the past decade compared to many other OECD economies. And the share of the working-age population being supported by various welfare programs has been reduced from 23% in the mid 1990's to around 17% today, which is still too high.

Nevertheless, the external circumstances have changed during the past 15-20 years. Most importantly, a number of countries in Central and Eastern Europe and Asia have made a swift transformation from centrally planned economies to highly competitive market economies. In most of these countries taxes are much lower than in Sweden, labour markets are much more flexible, and labour costs much lower. As a result, Swedish companies are to an increasing extent relocating production abroad, either indirectly through growing imports of input goods or directly through heavy investments abroad. During the past twenty years, the number of people employed in Swedish-owned multinational companies abroad has increased from less than half a million to over one million. Simultaneously, the number of people employed within the same companies in Sweden has decreased from around 750 thousand to less than half a million (Diagram "Number of employees in Swedish-owned companies with overseas subsidiaries")¹⁰.

Number of employees in Swedish-owned companies with overseas subsidiaries, persons



In light of these changes, it is of utmost importance that the Swedish reform process is not being put to a halt. Welfare benefits must be further reduced in order to strengthen the incentives to work. Taxes must be brought down and flattened in order to stimulate work efforts and education. The labour market must be liberalized in order to reinforce dynamism and flexibility. And the welfare sector, which is currently heavily monopolized by the public sector, must be opened up for private entrepreneurs. A more general theme for the reform strategy ought to be to make the welfare state more heterogeneous and selective rather than homogenous and universal.

With the world economy currently struggling with financial crisis, the Swedish economy is standing at crossroads. The choice of not continuing on the successful path of reforms could result in a vicious circle, with decreasing employment and an increasing share of the population being supported by welfare programmes, and as a consequence increasing tax shares and a further loss of competitiveness. The choice of embracing free-market reforms such as the ones described above, on the other hand, would most likely result in a virtuous circle, with incomes and living standards increasing steadily, employment growing dynamically, and, as a consequence, great opportunities for further tax cuts.

Looking at Sweden's path from underdevelopment to modernization, it should not be a difficult choice to make. **Strong long-term economic growth and improving living standards are ultimately a result of a dynamic, profitable and competitive private sector.** ■

¹⁰ Source: Swedish Institute for Growth Policy Studies. – <http://www.its.se/Sections/Textmall.asp?secl=1296>

PROMOTION OF OCCUPATIONAL AND PUBLIC HEALTH: EUROPEAN EXPERIENCE AND CHALLENGES*



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In the Constitution of the World Health Organization (WHO), health is defined as “a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity”¹. There is no doubt whatsoever that a wide variety of living and working conditions are powerful determinants of health, for better or for worse. The relationship works both ways. The conditions affect health. But health more often than not also affects a person’s productivity and earning capacity as well as his or her social and family relationships. Needless to say, this holds true for all aspects of health, both physical and mental, including stress.

Is there a problem?

We need to consider whether there is, indeed, a problem – whether stress and depression-related problems are widespread, have serious consequences, are becoming more prevalent and severe – and are accessible to interventions. Available evidence indicates that the answer to all these questions is affirmative. According to the World Health Organization, “mental health problems and stress-related disorders are the biggest overall cause of early death in Europe”².

According to the same report, mental ill health and related disorders are among the major health concerns in Europe today. In particular, depression, suicide and other stress-related conditions together with destructive lifestyles and psychosomatic diseases, cause immense suffering to people and their families, as well as placing “a great economic cost on society”. The cost of mental health problems in the 15 Member States of the European Union is estimated to be on average 3–4% of GNP.

In its recent Report on Swedish Public Health, the National Board of Health and Welfare³ points to some positive trends (in terms of life expectancy and functional

capacity), but also a number of clearly negative ones with regard to self-reported mental health, well-being, fatigue and sleeping problems, alcohol-related problems and obesity.

The root causes

Mental health problems can be caused by a combination of circumstances: biological, social and psychological factors, and stressful events. Analysis of such circumstances drew attention to five different types of determinants: the “fixed” factors (e.g., genes, sex, ageing); *social and economic* (e.g., employment, poverty, social exclusion); *environmental* (e.g., air and water quality, housing, social environment); *lifestyle* (e.g., diet, physical activity, tobacco, alcohol, drugs); and access to and quality of *services* (e.g., education, healthcare, social services). It is evident that “fixed” factors are hard to correct. But the situation around four other groups can very well be improved. At that, it is important to consider the following undoubted risks for people’s health:

- social and economic circumstances affect people’s health strongly throughout life;

* This publication is an abridged version of the article by: Cooper C., Levi L. *Promotion of occupational and public health: the European experience and challenge*. – Ergonomia IJE&HF, 2006, Vol. 28, No. 4, pp. 283–293. The article for “National Security & Defence” magazine is provided by Mr. Lennart Levi.

¹ See: The role of WHO in public health. – <http://www.who.int/about/role/en/index.html>.

² Source: Mental Health in Europe. – WHO: Copenhagen, 2001.

³ Public Health in Sweden – Status Report 2005. – <http://www.socialstyrelsen.se/Publicerat/2006/9081/Summary2006-131-7.htm>.



- work-related stress increases the risk of disease as do unemployment and job insecurity;
- social exclusion creates health risks, while social support promotes health and well-being;
- individuals may turn to alcohol, drugs and tobacco and suffer as a result of their use, but this process is also influenced by the wider social setting, which is often beyond individual control⁴.

Possible “root causes” in the Swedish society could include that every fifth adult of working age has been excluded from working life⁵.

Widespread morbidity and mortality

During the 1990s, the European Foundation for the Improvement of Living and Working Conditions conducted and published three major surveys of working conditions and workers’ health in the EU Member States. According to one of the most recent, more than a half of the 160 million workers in the EU report working at a very high speed (56%), and to tight deadlines (60%), more than one third have no influence on task order, 40% report having monotonous tasks. Such work-related “stressors” are likely to have contributed to the present spectrum of ill health: 15% of the workforce complain of headache, 23% of neck and shoulder pains, 23% of fatigue, 28% of stress, and 33% of backache⁶.

Sustained work-related stress is an important determinant of **depressive disorders. Such disorders are the fourth leading cause of the global disease burden.** They are expected to rank second by 2020, behind ischaemic heart disease, but ahead of all other diseases⁷. The most important pathogenic pathways from psychosocio-economic determinants to ill health in Europe comprise:

- psycho-socio-economically induced physiological over-arousal;
- psycho-socio-economically induced pathogenic behaviours;
- pathogenic interpretation of environmental characteristics;
- pathogenic interpretation of proprioceptive signals (signals originating within the tissues of the body);
- pathogenic “patient’s delay”;
- psychosocial “avitaminosis”.

Guidance on work-related stress

This Guidance (European Commission) emphasizes that, according to the EU Framework Directive, employers have a “duty to ensure the safety and health of workers in every aspect related to the work”⁸. Based on surveillance at individual workplaces and monitoring at national and regional levels, work-related stress should be prevented or counteracted by:

- job redesign (e.g. by empowering the employees, and avoiding both over- and underload);
- improving social support and by providing reasonable reward for the effort invested by workers, as integral parts of the overall management system, also for small and medium-sized enterprises;
- adjusting occupational physical settings to the workers’ abilities, needs and reasonable expectations.

This overall approach was further endorsed in the Swedish EU Presidency conclusions in 2001, according to which **employment not only involves focusing on more jobs, but also on better jobs**⁹. Increased efforts should be made to promote a good working environment for all, including equal opportunities for the disabled, gender equality, good and flexible work organisation permitting better reconciliation of working and personal life, lifelong learning, health and safety at work, employee involvement and diversity in working life. The answer to this question is considered in two relatively recent European documents, namely:

- the European Standard (EN ISO 10075-1 and 2) on Ergonomic Principles Related to Mental Work Load¹⁰;
- the European Commission’s Green Paper on “Promoting a European Framework for Corporate Social Responsibility”¹¹.

European Standard on Mental Work Load

The International series of the Standard ISO 10075, Part 1 and 2 related to mental work load have been adopted and published as European Standards by CEN in July and March, 2000. The CEN members are thereby giving this Standard the status of national standard without any alteration.

This Standard **defines** *mental stress* as “the total of all assessable influences impinging upon human being

⁴ For more detail see: Wilkinson R., Marmot M., The Solid Facts, 1998. – <http://www.euro.who.int/document/e81384.pdf>.

⁵ For more detail see: Public Health Report. National Board of Health and Welfare 2005. – <http://www.nutek.se/sb/d/441/a/1416>.

⁶ For more detail see: Third European Survey on Working Conditions 2001. – <http://www.eurofound.europa.eu/working/surveys/index.htm>.

⁷ The world health report 2001 - Mental Health: New Understanding, New Hope. – <http://www.who.int/whr/2001/en/index.html>

⁸ Guidance on work-related stress – Spice of life or kiss of death? European Commission, 2000. – http://ec.europa.eu/employment_social/publications/2002/ke4502361_en.html

⁹ Promoting a European Framework for Corporate Social Responsibility. European Commission, 2001. – http://ec.europa.eu/employment_social/news/2001/oct/socpolag/csr_communication.pdf

¹⁰ Ergonomic Principles Related to Mental Work Load. European Committee for Standardization 2000. – <http://www.cen.eu/cenorm/aboutus/index.asp>

¹¹ Promoting a European Framework for Corporate Social Responsibility 2001. – http://ec.europa.eu/employment_social/publications/2001/ke3701590_en.html.



from external sources and affecting it mentally”. *Mental strain* is correspondingly defined as “the immediate effect of mental stress within the individual (*not* the long-term effect) depending on his/her individual habitual and actual preconditions, including individual coping styles”¹².

In its “general design principles”, the Standard emphasizes the need to fit the work system to the user, and in doing so, to utilize his or her experiences and competences, e.g. by using methods of participation. These principles should be applied in order to influence the intensity of the workload and the duration of the exposure to the workload taking into account such personal factors as abilities, performance capacities, and motivation.

Accordingly, the work system design starts with a function analysis of the system, followed by function allocation among operators and machines, and task analysis, and results in task design and allocation to the operator.

Corporate Social Responsibility in Europe

The Green Paper on Corporate Social Responsibility (CSR), concludes that healthy, profitable, forward-thinking companies have a key contribution to make to the Lisbon goal of Europe becoming the “most competitive and dynamic knowledge-based economy in the world” by 2010. Such companies have recognised that, in order to operate successfully, they must satisfy three elements of sustainable development: financial, environmental and social. That is why recognition of and respect for corporate social responsibility are therefore key to any business interested in building a healthy future for its employees, shareholders and stakeholders in general.

Thus, CSR raises the question of the total impact of an activity on the lives of individuals, both within and external, to the company. Within: recruitment and employee retention, wages and benefits, investment in training, working environment, health and safety, labour rights, etc. Externally: human rights, fair trading, impact on human health and quality of life, acceptable balance of benefits and disbenefits for those most affected, sustainable development...

According to this Green Paper, the strategy’s basic message is that **long-term economic growth, social cohesion and environmental protection must go hand in hand.**

This has numerous implications for companies’ relations with their employees. It makes sense for companies to publish annual reports, addressing financial, environmental and social (including health) issues. In preparing such a bottom line, they could consider the Social Index (0–100 points) – a self-assessment tool developed by the Danish Ministry of Social Affairs, et al. (2000) for measuring the **degree to which a company lives up to its social responsibilities**¹³.

These above approaches are based on different but related paradigms. The European Commission’s Guidance has its roots in workers’ protection, stress medicine and social psychology, and in an ecological or systems approach. The European Standard is based on ergonomics – an applied science of equipment and work process design intended to maximize productivity by reducing operator fatigue and discomfort. And CSR has as its basic core a consideration for ethics and human rights.

In general, all three approaches constitute important bases for tripartite collaboration for the promotion of high productivity, high occupational and public health and high quality of life.

Swedish implementations

In early 2003, the Swedish Government presented its *Public Health Objectives Bill (2002/03:35)*, which was subsequently approved by the Swedish Parliament¹⁴.

It is based on an intersectoral structure approach, comprising 11 goal areas, to promote coherence in public health work. The following eleven goal “areas” have been established:

- participation and influence in society;
- economic and social security;
- secure and favourable conditions during childhood and adolescence;
- healthier working life;
- healthy and safe environments;
- health and medical care that more actively promotes good health;
- effective protection against communicative diseases;
- safe sexuality and good reproductive health;
- increased physical activity;
- better eating habits and safer foods;
- reduced use of tobacco and alcohol, a society free from illicit drugs and doping and a reduction in the harmful effects of excessive gambling.

These 11 objective “areas” for public health have been chosen because there is scientific evidence suggesting that a lack of primarily social measures in these areas may cause ill-health. These areas also incorporate health determinants that can either promote good health or lead to ill-health. **The preferred focus, therefore, is on measures to achieve the overall public health aim not just to be implemented in the policy area of public health as it is defined in government instructions to authorities.** ■

¹² See: Ergonomic Principles...

¹³ Social Index. Measuring a company’s social responsibility. – http://ec.europa.eu/dgs/employment_social/lisbonconf2000/berit.pdf

¹⁴ See: Public Health Objectives Bill (2002/03:35). – Extended summary. – http://www.fhi.se/upload/ar2005/rapporter/supplement_2objectivebill0502.pdf

NEW CHALLENGES AND THREATS REQUIRE NEW APPROACHES TO DEFENCE: SWEDISH EXPERIENCE



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Sweden is often mentioned in security discussions, when arguments in favour of neutrality and non-alignment are sought. Meanwhile, it seems that the discussions between adherents and opponents of the “Swedish model” overlook Sweden’s defence policy – while sustainable development of the country has always relied on the high level of security and protection of its territory, interests of the state and society.

On the other hand, the experience of formulation and implementation of Sweden’s defence policy may be of interest for Ukraine, since the defence of the two countries has some common traits, first of all, absence of the legally binding guarantees and commitments of collective security. At that, the two countries closely cooperate with regional and international structures, take part in multinational operations, and implement far-going military reforms involving review of the Armed Forces’ tasks, their restructuring, re-equipment and reduction of their strength.

To be sure, direct comparison of Ukraine and Sweden in general and from the military viewpoint in particular is incorrect, since such comparison will be not in Ukraine’s favour. However, it may give some background knowledge and reference points for assessment of the state of its defence sector and the progress of its reform (Map “Ukraine and Sweden: main military indices”).

During the cold war times Sweden, as a non-aligned country, had to guarantee security against a massive invasion on its own. The defence policy was outlined in the Total Defence Service Act that envisaged, in particular, general mobilisation of citizens in case of a military threat. The country maintained one of Europe-strongest armies, thousands of depots of arms, ammunitions, stocks worth billions of kronas, autonomous capacities of the defence industry, bomb shelters. In case of a war, Sweden could have under arms almost 1 million persons – almost one-sixth of the adult population of the country.

In that time, the country lived under the slogan: “Sweden only defends Sweden, and only Sweden defends Sweden”...

New world – new approaches to security and defence

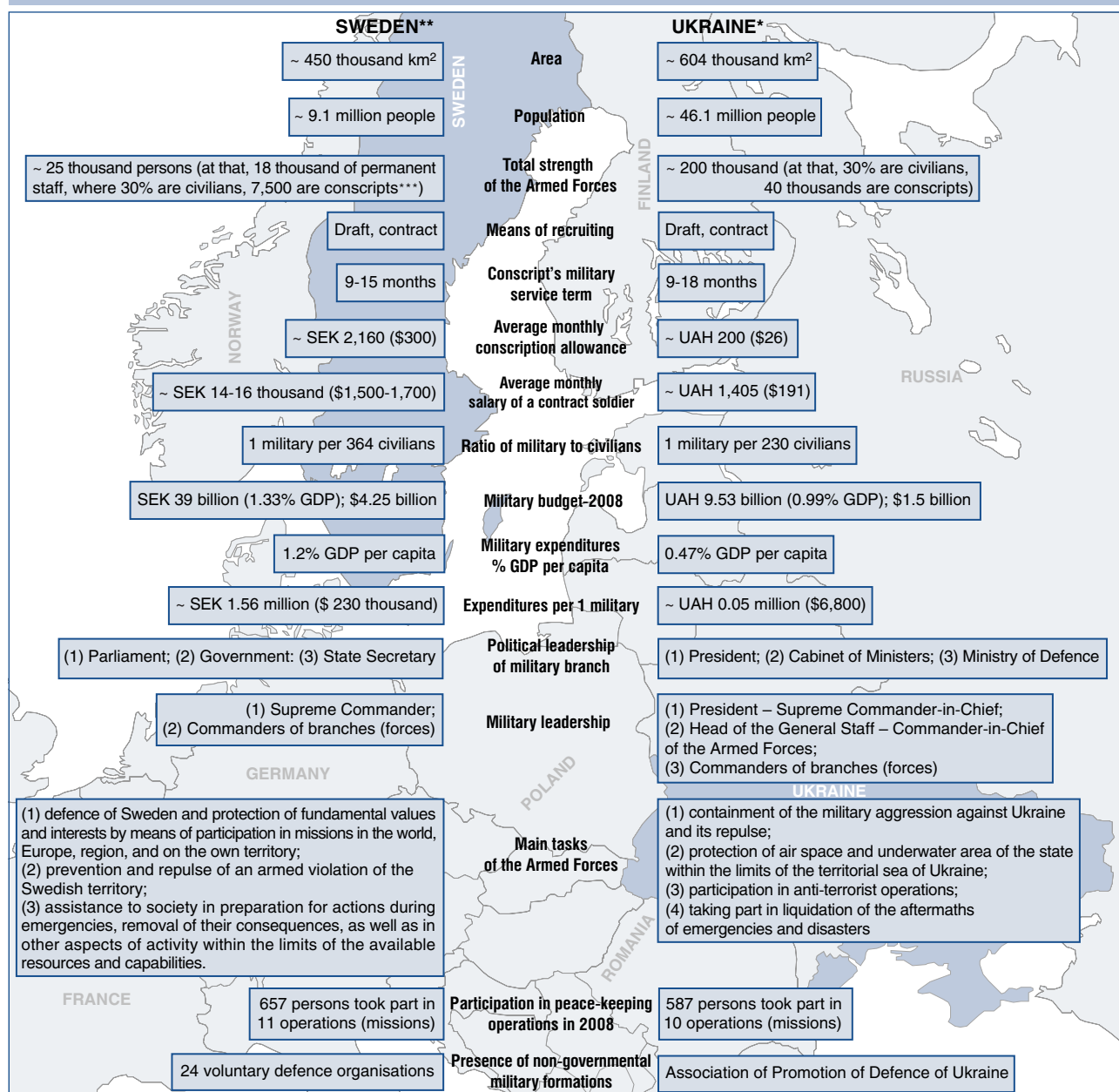
Global changes in the security situation that took place in 1990s prompted the Swedish political leadership to look for new ways to guarantee the national security in the modern world and, respectively, to fundamentally review traditional approaches to the national security and defence, namely: **to move from the concept of defence to creation of a new defence organisation that could in the first place take an active part in international operations.**

In 1998, the Security and Defence Policy Review was performed that assumed a threat of a massive armed invasion in the forthcoming ten years extremely unlikely¹.

¹ Review Bill “A changing world, a reformed defence” (1998/99:74).



UKRAINE AND SWEDEN: MAIN MILITARY INDICES



* Data as of end of 2008. Source: White Book 2008: Defence Policy of Ukraine; calculations of Razumkov Centre.

** Data as of end of 2008. Sources: official web sites of the Swedish Armed Forces – www.sweden.gov.se; www.mil.se; internet resources – *Lenta.ru*, *Novoye Izvestiya*, etc.

*** In Sweden, conscripts do not belong to the permanent staff of the Armed Forces.

Meanwhile, according to the governmental resolution “New Defence”, “this does not mean, however, that all threats have vanished for the next 10 years, and it is naturally impossible to state with any certainty what might happen in the long term... Sweden no longer faces the threat of being drawn into a war between major powers. However, there are risks associated with regional and local conflicts and with the existence of authoritarian regimes and disintegrating states with inadequate social controls”².

The two said documents outlined the main lines of the defence reform; on their basis, the Government passed

a decision of large-scale changes in the strength and structure of the defence sector. Set as the main goals of the reform were: (1) creation of military capabilities for effective performance of defence tasks and participation in international operations; (2) reduction of the defence budget on the condition of preservation of adequate defence capabilities.

To attain those goals, Sweden for ten years now has been implementing the most far-going defence reform of transition from the traditional Armed Forces intended for defence against invasion to a mobile, flexible operational

² It should be noted that Sweden is creating adaptive capabilities, proceeding from the assumption of impossibility of reliable forecast of future threats. See: The New Defence Bill (1999/2000:30). – www.sweden.gov.se



defence system that can both defend the state territory and take part in international operations³. That reform is an element of Sweden's shift from a tough policy of non-alignment and non-participation to the one based on the principles of collective security and responsibility⁴.

In particular, the Swedish Government has recently formulated a new defence policy that, according to many experts, prioritised principles of collective security, first of all – the European Security and Defence Policy (ESDP)⁵. The new defence policy makes clear emphasis on the issue of *solidarity*: “it is hard to imagine that Sweden would stay neutral in the event of an armed attack against another EU member state”. Respectively, Sweden counts on assistance of other EU members⁶.

Currently, Sweden takes an active part in NATO's “Partnership for Peace” Programme (PfP), allied operations and cooperates with NATO and EU countries for development of collective means of military security. By the way, it is noted that Sweden's participation in PfP has an extremely positive effect on its Armed Forces. Thanks to PfP, the Swedish military successfully adapted their guiding documents, doctrines, procedures and equipment to international standards, and side-by-side work in international teams gave a unique opportunity to enhance the professionalism of military servants.

From time to time, political discussions arise dealing with Sweden's possible accession to NATO, but the majority of Swedes (as well as of Ukrainians) are against the accession of their state to the Alliance. However, there is substantial difference in the attitude to NATO membership between Swedes and Ukrainians, as Swedes in their arguments in favour of the Euro-Atlantic choice make emphasis on common with the Alliance members values and security interests, and Ukrainians – on getting a “security umbrella” pursuant to Article 5 of the Washington Treaty.

National defence system

As we noted above, over the past ten years Sweden has been implementing a defence reform to create modern defence capabilities for protection of the country and decent contribution to global security and stability. Reformation of the structure, military control bodies, systems of manning and personnel training, armament and equipment, logistics, etc. is subordinated to that goal.

Ministry of Defence

The Ministry of Defence of Sweden is responsible for the defence policy, military and military-technological cooperation, military intelligence, peace-keeping and humanitarian operations, civil defence, observance of the international humanitarian law, prevention and removal

of aftermath of emergencies. The Swedish Armed Forces are just one of the structures falling within the area of responsibility of the Ministry⁷.

Immediate political leadership of the defence sector rests with the State Secretary (political figure). The duty of organisation of everyday activity of the Ministry, drafting bills on defence and other documents is vested in the Director General on administrative and legal issues (state servant).

The Ministry of Defence is responsible for operation of eight state structures (Insert “*State structures falling within the area of responsibility of the Ministry of Defence of Sweden*”).

State structures falling within the area of responsibility of the Ministry of Defence of Sweden

- **Armed Forces** (defence of territory against an armed attack, guarantee of territorial integrity, strengthening of peace and security in the world and region, assistance to the population in peacetime emergency situations).
- **Defence Materiel Administration** (development and procurement of military equipment and hardware).
- **National Service Administration** (registration, record, conscription and support for service).
- **National Defence Radio Establishment** (collection of intelligence information for the Government, Armed Forces, Defence Research Agency and Defence Materiel Administration).
- **Defence Research Agency** (scientific and technological research for the development of the national defence system).
- **Coast Guard** (surveillance and defence of the coastline from the viewpoint of security, fishing, environmental protection).
- **Swedish Civil Contingencies Agency** (responsible for interaction, coordination and support functions of preparation for action in emergency situations, and should they occur – for removal of their aftermath⁸).
- **Accident Investigation Board** (investigation of air, marine, rail and other serious accidents and incidents of military and non-military character with the purpose of security enhancement).

Judging by the structure of the Ministry and functions of the Agencies for which it is responsible, the area of responsibility of the Swedish Defence Ministry covers a much wider range of security issues than purely military security. For instance, tasks of the newly-established Civil Contingencies Agency encompass the full range of emergencies – from road accidents, fires,

³ Pursuant to the Governmental Resolution “Our future defence” of April 23, 2004.

⁴ For more detail see the article by M.Pashkov “Swedish Security Model: Peace-loving, Well-armed Neutrality”, published in this magazine.

⁵ See: Wedin L. The Impact of EU Capability Targets and Operational Demands on Defence Concepts and Planning: the Case of Sweden. In “The Nordic Countries and the European Security and Defence Policy” ed. by Bailes A. at al. – Oxford University Press, 2006, p.141.

⁶ *Ibid.*, p.144.

⁷ The Ministry of Defence in its present form exists from 1920. The total strength of the Ministry staff is **nearly 150 persons**, including political advisors, assistants, state servants and military advisors. For comparison: the total strength of the Ministry of Defence of Ukraine is **almost 1,300 persons**.

⁸ The Agency was established on the basis of three structures (Civil Contingencies Agency, Agency of Rescue Services, National Bureau of Psychological Protection) on January 1, 2009, as a single body responsible for all issues of civil security.



technical and natural accidents, failures of the energy supply system, mine clearing, fighting with epidemics, to the performance of the relevant tasks in case of an armed attack on the territory of Sweden. It will also perform functions of psychological protection: advice and directives for emergency planning, preparation of mass media for action in case of large-scale accidents in peacetime, dissemination of information on the security policy, defence system and monitoring of the public opinion on security issues.

Specific of the Swedish model of governance, the Defence Ministry and its departments have no power to immediately command the subordinate state structures. The Cabinet of Ministers as a collective body of power sets goals, lines of activity and allocates required resources for those agencies, but, as well as the Ministry, cannot interfere in the decisions on their everyday activity.

Armed Forces

The main task of the Armed Forces in peacetime, as before, is to maintain high combat readiness. But while during the cold war times their area of responsibility mainly stayed within the national territory, present-day threats made the political and military leadership of the state to fundamentally review the approaches to the defence policy and, respectively, requirements to transformation of the defence sector of the state.

The total strength of the permanent staff of the Armed Forces is some 18 thousand persons, nearly a third of them are civilians, the rest are cadre officers, NCOs and soldiers⁹. Conscript soldiers are not counted in the permanent staff of the Armed Forces (neither do cadets). Their number changes during a year, the pass military training in training units also not counted in combat duty assignments (in some periods, there may be no conscripts at all).

All men in the age of 18-47 years are liable to universal military duty, but in fact, only a small percentage of youths of 18-24 years is drafted for military service. Every year, some 7-8 thousand persons out of the 50 thousand "army" of conscripts are drafted to the Swedish Armed Forces. Youths for some reason unwilling to serve in the army may undergo alternative civil service. Women, as well as in Ukraine, may serve only voluntarily. Currently, they account for almost 14% of the conscript contingent.

Conscripts serve 11 months on average, in two stages. As well as Ukrainian, Swedish soldiers of conscript service are not deployed for operations abroad but may take part in international exercises. Afterwards, if they wish, they may (on a contractual basis) pass additional training for participation in international operations.

Currently, the total human potential that can be used for defence numbers 63,700 persons (including 38 thousand of the Home Guard), 58% of whom may be brought to combat readiness within less than a year.

In case of war, emergency or national crisis, all citizens of Sweden and foreigners living in the country in the age of 16-70 years are subject to mobilisation, that is, according to the Total Defence Service Act, may be employed for civil service or some works.

It is worth notice that the conditions of service of a Swedish soldier are unlikely to arouse the same concern of Swedish mothers as of Ukrainian: a soldier gets almost \$300 a month, may go home for the state's account for the weekend, and soldier meals – according to eye witnesses – do not differ from a Swedish restaurant. Demonstrative of the attractiveness of military service, after completion of conscript service a third of soldiers are ready to sign contracts with the Armed Forces (in Ukraine – 3%).

Home Guard

The Home Guard is the main element of the Swedish territorial defence forces. Its functions include: defence and protection of infrastructure facilities against sabotage; surveillance; escort and guarding of transport communications, etc. Its units also assist local communities during peacetime crises and emergencies.

The Home Guard is manned on a voluntary basis by the territorial principle. Only Swedish citizens above 18 years who passed not less than 85 days of military training are enrolled in the Home Guard. Its total strength is nearly 40 thousand persons. The Home Guard also manages more than 30 military orchestras and 1,500 voluntary musicians.

Eight voluntary defence organisations are engaged in personnel training. Units are trained both on the local and the state level. The command staff and specialists are trained in the National Home Guard Combat School.

Voluntary defence organisations

Sweden has almost two dozens of voluntary organisations similar to the Association of Promotion of Defence of Ukraine, making their contribution to the civil and military defence of the state¹⁰. Their activity covers next to all sectors dealing with defence and military-patriotic education.

They are non-profit public organisations independent of the Armed Forces or other state bodies. However, the Armed Forces outline the range of their combat training tasks. People are enrolled and trained to perform tasks within the general system of defence on a voluntary basis. Such organisations are funded at the expense of the state budget, some of them also rely on the system of membership fees.

Voluntary defence organisations are traditional for Sweden. In addition to initial military training and military-patriotic education, they play a significant role in employment for professional service. For instance, a third of naval officers used to be voluntary cadets.

⁹ Cadre soldiers are persons (professionals) who signed a contract and serve in the Armed Forces on a permanent basis (*full-time*). In addition to that category of professionals, there is another one – those who signed a contract and are employed only for a period of training and operations (*contracted*).

¹⁰ The Association has some 16 thousand organisations. – Official web site of the Association of Promotion of Defence of Ukraine – www.tsou.org.ua

**Voluntary defence organisations of Sweden**

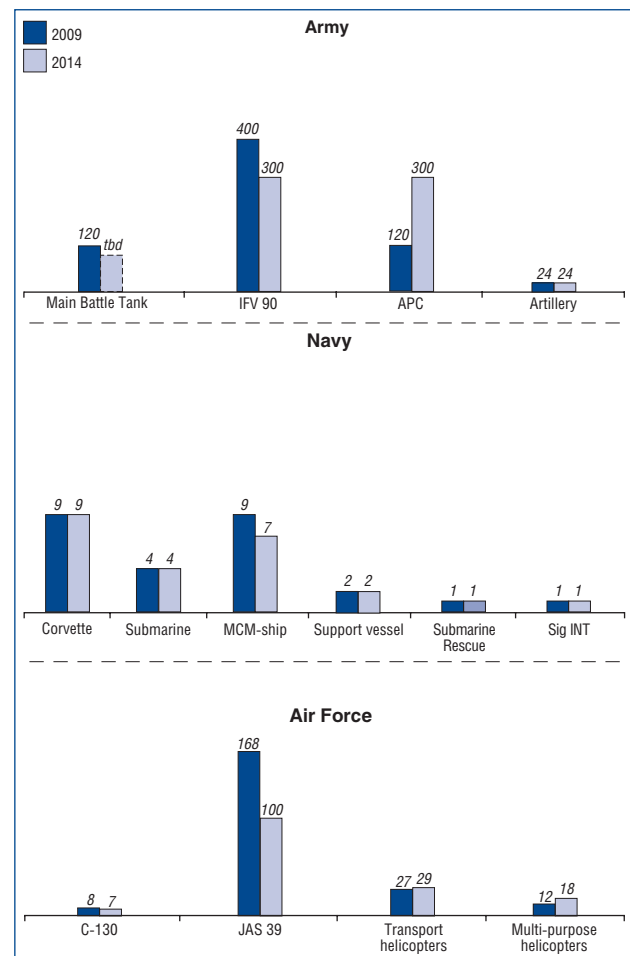
1. Swedish Civil Defence League
2. National Federation of Swedish Airfield Engineers
3. National Federation of Swedish Air Force Associations
4. National Association of Volunteer Motor Transport Corps
5. Voluntary Flying Corps
6. National Federation of Voluntary Motorcycle Corps
7. Voluntary Radio Organisation
8. Federation of Voluntary Rifle Clubs
9. National Federation of Welfare Personnel
10. National Association of Swedish Women's Voluntary Service Corps
11. National Association of Naval Volunteer Corps
12. Swedish Blue Star Voluntary Club
13. Swedish Working Dog Club
14. Swedish Parachuting Association
15. Central Federation for Voluntary Military Cadre Training
16. Swedish Pistol Shooting Association
17. Swedish Sport Shooting Association
18. Swedish Red Cross
19. National Association of Swedish Women's Voluntary Motor Transport Corps
20. Swedish Reserve Officers Association
21. Society and Defence
22. National Defence Society
23. Royal Swedish Society of Naval Science
24. Swedish Soldiers Homes Association

Armaments

The Swedish Armed Forces are armed mainly with domestically-made systems. However, most of those systems are interoperable with armaments of NATO and the EU partner states, being a precondition of participation in joint international exercises and operations. Despite serious reduction of the Armed Forces over the past decade, their combat potential – especially quality and combat readiness – might be envied not only by the Ukrainian military (Diagram “Main weapon systems of the Swedish Armed Forces”)¹¹.

The general reduction of the Armed Forces and the defence budget does not bar planned renovation and modernisation of arms and military equipment. In the forthcoming years, a new support ship, a submarine, battalion command posts, armoured personnel carriers, unmanned aerial vehicles will enter the inventory.

By 2014, the Air Force will get 18 multipurpose helicopters *NH90* developed by the *NH Industries* consortium (*Eurocopter France*, *Eurocopter Deutschland*, *Agusta* and *Fokker*), worth nearly €16 million each.

Main weapon systems of the Swedish Armed Forces

Every time a question of procurement of new weapon systems arises, the leadership of the Swedish Armed Forces examines possibilities of domestic development of such systems in partnership with other countries, or export of ready-made systems. If alternative options are comparable by their cost-effectiveness, the Armed Forces opt for the national manufacturers¹².

Sweden can almost entirely supply the Armed Forces with arms of domestic development and production. It is one of few countries of the world that develop and produce own multipurpose fighters, frigates capable of operation in skerries, submarines, long-range coastal artillery systems and other hi-tech weapon systems.

Sweden not only produces weapons for itself but also successfully exports them. For instance, *Saab JAS 39 Gripen* fighters are in the inventory of the Air Force of the Czech Republic, Hungary, South Africa, a contract

¹¹ Source: “Armed Forces’ Proposal for the long term Bill to the Government”.

¹² “Our Future Defence”, p.20.



was signed for delivery of the first six (out of 12) aircraft to Thailand¹³. The Swedish diesel-electric submarine *Gotland* impressed by its performance and skills of submariners even Americans, when during joint exercises it “sank” *Ronald Reagan* aircraft carrier. After that, the U.S. Government leased the Swedish submarine with the crew for two years to train the U.S. Navy in anti-submarine warfare¹⁴.

For comparison: Ukraine’s defence industry, despite all problems, also can produce hi-tech weapon systems (such as the *Kolchuga* radar) and theoretically could meet the basic needs of the Ukrainian Armed Forces for new and modernisation of existing weapon systems. But the scope of modernisation and procurement limited by the defence budget cannot reverse the critical situation with weapon systems¹⁵. The absence of customers at home seriously affects export capabilities of Ukraine – Ukrainian military equipment is mainly imported by Asian and African states that have to buy cheap obsolete weapons of the Soviet era.

Defence budget

The Swedish defence budget is steadily reduced. While during the cold war times the state spent 2.5-3% of the GDP on defence, over the past 20 years expenditures fell to 1.5% of the GDP. For the next three years, the Ministry of Defence’s budget is planned in the amount of SEK 39 billion (\$4.25 billion) a year.

For comparison: the defence budget of Ukraine in 2008 actually totalled UAH 9.53 billion (\$1.5 billion), which corresponds to 0.99% of the GDP. Noteworthy, the GDP percentage is only an indicator of the “military burden” on society, not of satisfaction of the defence

needs. In the absolute figures, according to rough estimates, the Ukrainian Armed Forces will need a budget 30 times higher than now to create “Swedish conditions”. Of course, the national economy does not have and it is unknown when may have such capabilities, that is why there is an urgent need of thorough assessment of ambitions of the state and search for other, non-military ways to guarantee the national security.

A Ukrainian reader may be surprised but Sweden also faces a serious problem with the military budget. However, the essence of that problem and approaches to its solution fundamentally differ from the Ukrainian. *First*, the structure of distribution of expenditures: maintenance and combat training of the Armed Forces account for only half of the budget, with the other half spent on research and development, procurement, renovation and operations. By contrast, the Ukrainian Armed Forces spend approximately 75-80% of allocated funds on maintenance and another 10-15% on combat training of personnel¹⁶.

Second, the Swedish defence budget is approved for three years in advance, the planned expenditures are funded in full volume and, as a rule, meet established needs of the Armed Forces. (In Ukraine, the budget is approved for one year, planned expenditures have never been funded – except 2005, and never met even minimum needs of the Armed Forces. Even in 2005, the planned expenditures made 84% of the minimum needs and 42% of the norm).

Third, and the main, “no single krona goes to waste, there are no black holes in the budget” – this is probably the main reason of success¹⁷.

Meanwhile, exactly the issues of correspondence of the defence budget to the tasks of transformation of the defence policy cause the greatest criticism of the Swedes and their foreign partners. In the conditions of continuous reduction of the budget funding, economy of resources at the expense of personnel cuts and optimisation of the number of military facilities proved insufficient to make up for the growing needs of the defence sector.

New tasks faced by the Armed Forces require much more funds than it was expected. In particular, the cost of active participation in international operations is much higher than “passive” training for defence of the national territory against aggressor. While previously, a military vehicle was put in storage after 150 thousand km and written off for scrap after 30 years, now, it can get totally unfit after one year of off-road use in Afghanistan. That is why the military leadership has to raise before politicians the issue of realism of simultaneous performance of the Armed Forces’ tasks in the defence sector transformation, on one hand, and active international efforts, on the other, with funds allocated by the Government¹⁸.

¹³ Source: Official web site of the Gripen company – www.gripen.com

¹⁴ US Navy to continue hunt for Swedish sub. – *The Local*, 18.04.2006.; – www.thelocal.se

¹⁵ White Book 2008: Defence Policy of Ukraine. – Kyiv, 2009, p.88.

¹⁶ White Book 2008: Defence Policy of Ukraine.

¹⁷ Record year 2008: A Headache for the Armed Forces, 25.03.2008. – Official web site of the Ministry of Defence of Sweden. – www.mil.se

¹⁸ *Ibid*.



New defence capabilities for the future

Ten years after the publication of the above-mentioned Security and Defence Policy Review, its conclusions regarding the dynamics of development of the military-strategic situation in the region proved true. In particular, Swedish military leadership is concerned about the uncertainty of Russia's future policy. According to the General Inspector of the Army, "Russia's intervention in Georgia... shows that the threshold for military power play, at least as regards to those states lying close to Russia, and that have not been tied into the Western security structure, is low"¹⁹.

In view of the new circumstances, in November 2008, the military leadership got from the Government directives of planning a new pattern of the Armed Forces for 2014. The main requirement set for the Armed Forces is to be able to perform the following tasks, jointly with other structures:

- defence of Sweden and protection of fundamental values and interests by means of participation in missions in the world, Europe, region, and on the own territory;
- prevention and repulse of an armed violation of the Swedish territory;
- assistance to society in preparation for actions during emergencies, removal of their consequences, as well as in other aspects of activity within the limits of the available resources and capabilities.

The document drawn up on the Government's request and submitted for consideration on January 31, 2009, outlines the main proposals of reformation of the structure, manning and logistic support of the national defence in the period of 2010-2014:

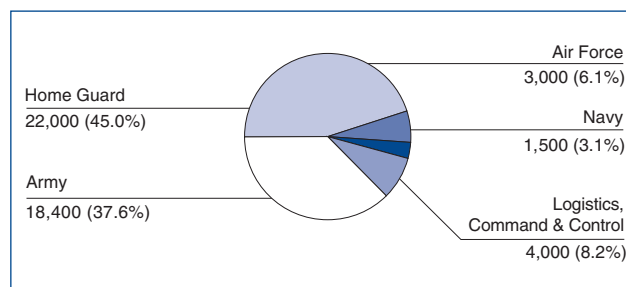
- creation of a mobile (*mission oriented*) organisation, to include units of permanent readiness, contractual units and the Home Guard;
- transition from universal military duty to contractual manning;
- creation of an effective united logistic system.

Meanwhile, the document proposes a fixed defence budget of SEK 39 billion and a moratorium on any changes in the structure or stationing of the Armed Forces till the parliamentary elections of 2010²⁰.

So, model-2014 sets the task of creation of defence capabilities with the total strength of some 49 thousand persons (including 22 thousand of the Home Guard) ready for operation within less than one year (Diagram "Armed Forces order of battle 2014"). Some 2 thousand military servants will be permanently employed for international missions (operations), another 1,600 will stay in the state of permanent readiness for operation with the Nordic Battlegroup.

The Armed Forces will shift to professional (contractual) manning²¹. Meanwhile, the legislative norm of the universal military duty will be preserved for the case of war or other large-scale emergencies.

Armed Forces order of battle 2014,
personnel



The strength of the Home Guard will be reduced to the above-mentioned 22 thousand persons, and its "territorial units" will be united in a "territorial army".

Voluntary defence organisations will be funded on new principles: instead of general grants, they will be paid for performance of specific tasks. As noted above, their core activity will include preparation for territorial defence. Evidently, the organisations unable to offer services necessary in the context of the new defence policy will have to cease their existence.

By and large, in the result of reformation, the new defence system will be adapted to present-day threats and challenges, ready for rapid change of the security situation, and Sweden will be able to provide and obtain military assistance. As the Swedish Defence Minister S.Tolgfors put it: "We will have a defence, effective here and now".

The main conclusions from the above brief analysis of Sweden's defence policy may include the following.

The traditional Swedish policy of military non-alignment in peacetime, letting it remain neutral in case of a war close to the state borders, does not meet the national interests of Sweden in present-day conditions. The slogan "Sweden only defends Sweden, and Sweden defends only Sweden" lost its relevance.

The main priorities of the new defence policy of Sweden include participation in a system of collective security resting on active cooperation with international organisations, development of European and regional capabilities to counter crises on the condition of preservation of the ability to defend its territory.

Specific of the Swedish approach to collective security are the defence of common values and the idea of solidarity, without necessary formalisation of mutual obligations.

The new national security and defence policy requires fundamental transformation of the defence sector that, in view of the Swedish experience of various reforms, strong economic capabilities of the country, ability of its leadership to set realistic goals, and of Swedish society – to attain them, promises to be a success. ■

¹⁹ Bernt Grundevik, Challenges and Opportunities for the Army of the Future, – *Ibid.*

²⁰ In the fall of 2008 the Government was to submit to Parliament a new draft of the Law on Defence, but the events in the Caucasus made them drop the prepared draft. See: *Vision submitted* of February 4, 2008, official web site of the Ministry of Defence of Sweden.

²¹ It should be noted that in Sweden, the issue of cancellation of the draft, despite the great public attention to it, is less politicised than in Ukraine. Public debate mainly focuses on the expediency of such step, from the viewpoint of preservation of the universal military duty as a tool of communication between the Armed Forces and society, patriotic education of citizens, etc.

INSTITUTE OF LOCAL SELF-GOVERNMENT IN SWEDEN



Olga MIROSHNYK,
President,
Local Democracy Fund (Kharkiv)

Local self-government (local government) is one of the integral elements of the Swedish model. It has long traditions and a long history in Sweden. Today, exactly local self-government bodies ensure high standards of social services, are responsible for solution of current problems of territorial communities, defence and observance of their legitimate rights and interests.

Meanwhile, citizens have a possibility resting on the law and tradition to influence decisions of local self-government bodies and control their activity – open, transparent and responsible.

By and large, organisation and activity of Swedish local self-government, beyond doubt, are among the so-called “best practices” and as such deserve attention and employment at building and perfection of the institute of local self-government, especially of transitional countries, including Ukraine¹.

The present system of local self-government in Sweden rests on the administrative-territorial division of the country and has two levels – local (community, commune) and regional (*län*), different by the character and scope of powers. Self-governing bodies of the local level (municipalities) are not subordinated to regional (*landstings*), but actively cooperate with them, independently defining the forms and lines of such cooperation. Both levels have elected bodies (on the municipal level – councils of municipalities, on the level of *landstings* – county councils) and executive structures, whose number, strength and lines of activity are decided by councils on their own. Currently, there are 290 municipalities and 20 county councils in Sweden.

The main distinctions of local self-government in Sweden lie in the high level of autonomy and rights of local self-government bodies². In particular, they have their own sources of income, powers to establish rates of taxes on individual incomes of community members, provision of social assistance (by contrast to Ukraine, where this duty rests with state structures), and are transparent and responsible in their actions and decisions, which is ensured by the law and control, and by the general culture of democracy in Sweden.

Legislative support for local self-government

The legislative framework for the activity of local self-government bodies includes, in the first place, the Swedish Constitution, the core Law “On Local Self-Government in Sweden” (1991)³, and a number of acts of the election, tax and branch legislation regimenting separate aspects of competences, powers and responsibilities of local self-government bodies, their relations with each other and with the state authorities⁴. The basic law takes into account provisions of the European Charter of Local Self-Government, ratified by Sweden in 1989.

By contrast to Ukraine, Swedish legislation does not regiment organisation of the activity of self-government bodies (their structure, division of functions, strength, etc.) and does not specify an exhaustive list of issues falling within their competence. The legislation specifies only the powers of the state authorities, all other issues are referred to the competence of self-government bodies. In particular, the competence of the state covers issues of defence, protection of public order, employment, rail traffic, construction of national roads, etc.

At the same time, the Law specifies some “obligatory” (delegated) powers of self-governing bodies and rules

¹ This article builds on materials provided by the Swedish side: Rudebeck K. Local Government Finance in Sweden. Own Revenues, Government Grants and the Equalization System. – Razumkov Centre archives.

² Hereinafter, the terms “bodies of local self-government”, “self-government bodies” and “self-governing bodies” are used as synonyms.

³ Sweden Local Government Act 1991. Available in English at <http://www.sweden.gov.se>.

⁴ For instance, the Law on Planning and Construction (1982), the Law on Healthcare and Medical Services (1982), the Law on Education (1985), the Code of Laws on Environmental Protection (1998), the Law on Social Services (2001), etc.

of their division among self-government levels⁵. For instance, obligatory powers of municipalities encompass issues of education (except higher education), social services (care for children, elderly people and disabled persons), planning and construction, provision of proper conditions of life and activity of territorial communities (transport, water supply, street cleaning, waste disposal, etc.), as well as some tasks of environmental protection. Some idea of the tasks of municipalities and distribution of expenditures on their performance may be taken from Table “*Current expenditures of municipalities in Sweden*”).

Current expenditures of municipalities in Sweden in 2006

Elderly care	19%
Compulsory school	17%
Pre-school services and out-of-school care	13%
Care for persons with special needs	10%
Upper secondary school	8%
Business activities	6%
Individual and family care (excluding financial support)	4%
Other education	4%
Financial support	2%
Other activities	16%

Landstings are responsible for medical services (including preventive, organisation of operation of dental clinics and retirement homes). Those tasks account for up to 80-90% of *landsting* expenditures.

Self-governing bodies cannot independently terminate performance of those tasks or reduce the volume of obligatory services.

Instead, they decide their non-obligatory tasks independently, proceeding from the local needs and availability of resources.

Such tasks include promotion of culture and sports, organisation of leisure, some forms of technical services (for instance, in the field of energy conservation), etc.

Especially important in the Swedish model of local self-government is unconditional observance of the **principle of unity of powers and resources**. That is, powers are backed with appropriate funds. For instance, to perform their tasks, self-government bodies collect taxes, set duties and get governmental grants. As one may see from Table “*Local revenues in Sweden*”, the tax on individual incomes of members of the concerned community is the main source of its revenues. In particular, in 2006 tax proceeds made 68% of revenues of Swedish municipalities and 74% – of *landstings* (county councils).

Local revenues in Sweden in 2006

Revenues by type	Municipalities	County councils
Tax revenues	68%	74%
General government grants	11%	6%
Fees and charges	7%	3%
Specific government grants	5%	3%
Rents and leases	3%	-
Sales of activities and contracts	1%	-
Grant for pharmaceutical benefits	-	10%
Other revenues	5%	5%

At that, decisions on tax rates are passed by self-government bodies (the state only sets their lower and upper limits). Currently, the income tax on the average equals 30% and presents the income of the concerned municipalities. Revenues exceeding the set level are subject to an extra tax of 20-25% of the amount of excess. That tax presents the source of incomes of *landstings*.

Election rights on the local level

Swedish citizens permanently residing on the territory of some municipality or *landsting* who are 18 years old on the election date may vote at elections of municipal and county councils. In view of historic traditions, citizens of Iceland, Norway and the EU member states are also eligible to vote. Other foreign citizens are entitled to vote if they live in Sweden for not less than three years in a row by the time of elections⁶. Such loyalty to foreign citizens is an exception in the municipal election right in the world practice.

Elections are held on a proportional basis, by open party lists. Parties represented in elected bodies get subsidies from municipal or district budgets.

State power and local self-government

The central Government and local self-government bodies cooperate in different domains and in different ways for the achievement of best results in management⁷. The Government and Parliament outline the key parameters of the socio-economic development of the country and its regions. But within those parameters, self-government bodies enjoy significant freedom in support (organisational and resource) for the achievement of those goals.

Abstaining from strict regimentation of the internal activity of communities, the state controls the activity of self-governing bodies through legal, economic and administrative mechanisms⁸. The legal mechanisms include legal regulation, economic – extension of general and special grants, participation in regional investment projects, etc.⁹ Administrative mechanisms provide that specialised state agencies (e.g., the State Department of Social Security and Public Health, the Swedish National Agency for Education, etc.) supervise the relevant lines of activity of self-governing bodies. Comments and proposals of those agencies are usually recommendatory rather than directive. However, central agencies in some cases may initiate revision of decisions of local self-government bodies in court.

Noteworthy, decisions of a representative body are not directly controlled by the state even in fundamental issues, decisive for community development (identification of the goals and lines of activity, budgets, taxes, appointment of a local referendum, etc.).

Meanwhile, residents of the concerned administrative-territorial unit may appeal against a decision of a municipality or county council, if it violates their rights, with the administrative court or parliamentary ombudsman (who, by the way, has powers to supervise the legitimacy

⁵ At that, the division of functions between public authorities may be changed, too. For instance, up until recently, only state authorities dealt with education; now, this is an area of responsibility of local self-government.

⁶ For comparison: according to the Ukrainian legislation, only citizens of Ukraine are eligible to vote at local elections. See: Law of Ukraine “On Election of Members of the Verkhovna Rada of the Autonomous Republic of Crimea, Local Councils and Village, Settlement, and City Mayors”, Article 3.

⁷ By and large, local self-government bodies provide 70% of all managerial services, which witnesses the high level of decentralisation of public governance.

⁸ Haggroth S., Kronvall K., Riberdahl C., Rudebeck K. Swedish Local Government. Traditions and Reforms. – Stockholm, 2000, p.51.

⁹ For more detail see the article by V.Fedyuk and A.Bychenko “Regional Development in Sweden and Ukraine”, published in this magazine.



of administrative courts' decisions)¹⁰. Such applications may also be seen as a form of control over the activity of self-governing bodies performed by the state and by citizens.

Local self-government and citizens

The Law on Local Self-Government enables members of territorial communities to control and influence the activity of officials of self-governing bodies, decisions of municipal and county councils. **The right to appeal in court** against such decisions, acts (or inaction) of officials that result in violation of legitimate rights of citizens is the main mechanism of such control and influence.

Therefore, decisions passed by councils may be appealed against by any member of the concerned community in administrative court that must verify the correspondence of those decisions to the law.

The right to appeal in court is especially important with respect to non-obligatory powers (tasks) of self-governing bodies. In such case, the court reviews the disputed decision from the viewpoint of its legitimacy, not expediency. So, if it rules the decision unlawful, it must be cancelled (fully or in part), but – importantly – the court may not replace the disputed decision with a new one. This is a prerogative of a local self-government body.

And if a disputed decision deals with obligatory powers (tasks) of self-governing bodies or acts (inaction) of their officials that resulted in violation of legitimate rights of citizens, the administrative court reviews the disputed decision (or act of an official) from the viewpoint of not only *legitimacy* but also *expediency*. At that, the court may replace the disputed decision with a new one, restoring the violated right. That is, in such case the court more actively interferes in the process of local self-government.

Effective means of control of the activity and decisions of self-governing bodies also include **mass media** that

Right of citizens to appeal against municipal decisions in court and judicial practice

Court appeal against municipal decisions is the right of every member of a commune recognised yet by the 1862 Decree of Local Self-Government. The right to appeal is seen as a tool of democratic control of citizens over the legitimacy of decisions passed by self-government bodies.

In the process of court review of disputed decisions, legislative provisions of powers (tasks) of self-governing bodies get concrete essence, since in practice, it is sometimes very difficult to draw distinct lines between powers of the state authorities and self-government bodies and decide on the excess of their powers.

This means that instead of detailed regimentation by the law, the issues of decision of the limits of powers of a self-governing body is referred to court. It is considered that in this way, it is easier to bring the provisions of powers (tasks) in conformity with changes in society.

Specifically, exactly the judicial practice determined some principles of restriction of **self-government bodies'** powers. In particular:

- **the principle of locality**, limiting the activity of a commune by the limits of its administrative territory¹¹;
- **the principle of self-cost**, presuming that communal rates and fees for provided services by commune members should not exceed their cost (application of that principle led to the ban on establishment and activity of municipal enterprises getting quick and/or monopoly profit);
- **the principle of equal rights**, providing for the equality of all members of a commune and their uniform treatment by local self-government bodies.

By and large, many principles formed as the result of the practice of administrative courts were later introduced to the text of the Law on Local Self-Government.

consistently examine such decisions and act from the viewpoint of their correspondence to community interests. Noteworthy, Swedish self-government bodies willingly cooperate with mass media, in particular, because their activity is open and transparent. For instance, the capital municipality approved the *Policy of the Stockholm commune regarding mass media* and *Ten Information Commandments for Stockholm*. The essence of those documents, as well as of cooperation of self-governing bodies and mass media in general, lies in **the provision of responsibility of local self-government under public control**.

Summing up, it may be stated that the success and results of local self-government in the country immediately depend, *first*, on the state and society realising the undisputed fact that issues of local importance may and should be solved by local self-government bodies, not the state authorities.

Second – on unconditional observance of the principle of unity of powers and resources.

Third – on the publicity, transparency and responsibility of decisions and acts of self-governing bodies.

Organised and properly controlled local self-government enables avoidance of many contradictions and shortens the distance between citizens and the state that not always can properly and timely respond to local problems. ■

¹⁰ Sweden has a developed institute of parliamentary ombudsmen (*Justitieombudsman*). As a rule, Parliament appoints four ombudsmen who control the legitimacy of activity of all state and municipal bodies and institutions and their officials (except members of the Government, Parliament and municipal councils).

¹¹ For example, one may refer to the case of the city of Uppsala dealing with the issue of its possible acquisition of air defence systems. Considering an appeal against that decision, the Supreme Administrative Court cancelled it by two-thirds of votes. Its conclusion noted that the issues of defence lied solely within the competence of the state, despite the fact that the Government not always timely procured the required weapons. In 1980s, the same court cancelled decisions in cases dealing with home policy (another domain of bodies of state power), for instance, of import of fruits from South Africa or dispatch of gifts to Vietnam. See: Introduction to the Swedish Law. – Moscow, 1986, p.83.

SWEDISH SECURITY MODEL: PEACE-LOVING, WELL-ARMED NEUTRALITY



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One of the main subjects of discussion on the geopolitical choice of Ukraine is that of neutrality, actively pushed by some Ukrainian politicians and insistently imposed from abroad. In this connection, it is interesting to consider the Swedish experience of neutrality, often referred to in such discussions.

The subject is similarly topical in Sweden. With global new threats appearing in the global space, neutrality and non-alignment get increasingly unfit to guarantee national security. That is why neutral and/or non-aligned countries step up search of ways and means of its guarantee in the new conditions.

In particular, they in Sweden discuss the prospects of cooperation with NATO, a greater role in the European security and defence policy, and establishment of a Scandinavian military-political alliance.

Swedish neutrality: geopolitical self-identification and self-sufficiency of defence capabilities

As we know, Sweden is one of five Western European countries that keep their neutrality¹. Since 1814, it has not taken part in wars and had not joined any military alliances. In 1834, when there was a real risk of the Baltic becoming a theatre of operations, Sweden officially proclaimed a policy of neutrality, reiterating it every time when similar situations arose or wars began².

However, the neutral status of Sweden, by contrast to that of Austria and Switzerland, is not fixed in any national and/or international official act. It is not mentioned in the

Swedish Constitution and not officially recognized by any state or international organisation. Just every year, neutrality is traditionally mentioned in foreign political declarations of the Government presented in Parliament by the head of the foreign office, which may be seen as an official proof of the neutral status by the state – proclaimed unilaterally though.

Hence, Sweden's neutrality rests solely on its self-identification on the international scene. As a result, the country has no formal international guarantees of sovereignty, and therefore, had to protect itself on its own, creating and maintaining strong defence capabilities for that purpose.

¹ Austria, Ireland and Finland have been neutral since 1950s, Switzerland – since 1815.

² Sweden's neutrality was officially proclaimed for the first time by King Gustav XIV. Sweden also made unilateral official statements of neutrality in 1853 (during the Crimean war) and in 1914, at the beginning of World War I. In 1939, when World War II was at the gate, Sweden declared a status of non-belligerency. During the Soviet-Finnish war (1939-1940) Sweden proclaimed itself "a non-warring party", but dispatched to Finland military cargoes, accepted Finnish evacuees and let Swedish volunteers join the Finnish army.



This was especially relevant during the cold war, when Sweden stayed between two world centres of influence – NATO and the Warsaw Treaty Organisation (in fact – USSR).

In that period, the status of Sweden was determined by the formula “non-alignment in peacetime, neutrality in wartime”, and its defence policy rested on the doctrine of self-defence of its territory and sovereignty (“perimetric defence”, or total defence). The country maintained a numerous army and created a strong defence industry that almost entirely met its needs for arms and equipment. In 1950s-1960s, Sweden was also implementing a programme of creation of nuclear weapons and dropped it in 1968, having joined the Non-Proliferation Treaty³.

By and large, Sweden managed to ensure self-sufficiency of its defence capabilities and therefore, independence from military blocs. However, this cost the country 2.5-3% of the GDP a year – such were its defence expenditures during the cold war⁴.

The specificity of the Swedish neutrality of that period had two more features. *First*, despite the non-aligned status of Sweden, NATO’s official doctrine saw it as a natural ally whose army would keep the Scandinavian bridgehead and serve kind of a “buffer” between the USSR and a NATO member – Norway. Respectively, Sweden had all chances to rely on the Alliance in case of any armed encroachment on its territory and sovereignty.

Second, staying neutral, Sweden nevertheless always opposed any aggression, not afraid to spoil relations with leaders of both military-political blocs. The Swedish Government consistently condemned the Soviet invasion in Hungary (1956), Czechoslovakia (1968), Afghanistan (1979), and the U.S. actions in Vietnam (1965)⁵. These were the roots of Sweden’s active peace-keeping policy, described as follows: when a “hot spot” appears on the planet, Swedes do not ask: “What shall Sweden do there?”, they ask: “Why are Swedish peace-keepers still not there?”...

Neutrality after the war

After the end of the cold war, the Swedish model of self-sufficient, “well-armed neutrality” was gradually losing sense. On one hand, the threat of global confrontation seems to have vanished. On the other, so-called “new threats” arose, including asymmetrical, network ones (international terrorism, cybercrime, etc.). No strong and self-sufficient system of national defence can entirely secure against such threats.

A global peace-keeper

In the context of the “peace-loving neutrality” of Sweden, it is worth mentioning that exactly a Swedish diplomat, D.Hammarskjöld, elected UN Secretary General after World War II, was among the first to initiate use of international peace-keeping contingents for crisis management in different regions of the world.

D.Hammarskjöld’s idea became one of the main elements of Stockholm’s foreign political doctrine. Sweden traditionally takes part in many peace-keeping missions under the UN aegis, and a pleiad of Swedish politicians (O.Palme, R.Ekéus, H.Blix, Y.Eliasson, C.Bildt) played a notable role in the establishment of peace and security in different countries by relevant missions of that and other international organisations.

Under the UN aegis, Swedish military observers, police and military contingents took part in missions in the Middle East, in African countries, in India and Pakistan, in Kosovo, in East Timor and Georgia, in special political missions of the UN and peace-building operations in Afghanistan, Iraq and Sierra Leone. Sweden plays no less important role in missions of European structures: EU operations and missions in Bosnia and Herzegovina, in Kinshasa, Congo, Aceh province and Palestine territories, in OSCE operations on the Balkans and in Tajikistan, where the Swedish civilian personnel was employed⁶.

By active participation in peace-keeping missions, Sweden deserved the title of the “global peacekeeper”, “moral superpower”, “conscious of the world”.

Threats of ethnic and “frozen” conflicts became more relevant, which involves emergence of “hot spots”, where developments hit not only the local territory but also adjacent regions. Such threats can be countered only by means of settlement of crisis situations in those “spots” and require joint multilateral efforts.

According to the Swedish Foreign Minister C.Bildt, those circumstances “laid the basis for the change of the paradigm of our foreign and security policy”⁷. The changes included, in particular, Sweden’s accession to the EU and its security policy, intensification of peace-keeping activity (including jointly with NATO) and reformation of the Armed Forces in the direction of reduction of their strength and creation of a modern, mobile and highly professional army.

Participation in the EU security policy. In 1995, Sweden joined the EU and, respectively, the process of formulation and implementation of its security policy⁸. The 1992 Maastricht Treaty of the EU envisaged the development of a common foreign and security policy, with the European Security and Defence Policy (ESDP) being its integral part⁹. Institutional structures of ESDP have been formed, and a number of operations are underway

³ Treaty of Non-Proliferation of Nuclear Weapons (NPT), drawn up and signed in 1968 on the initiative of Nuclear Powers – Great Britain, the USSR, the USA.

⁴ For more detail on Sweden’s defence policy see the article by O.Melnyk and A.Chernova “New Challenges and Threats Require New Approaches to Defence: Swedish Experience”, published in this magazine.

⁵ Now, the Swedish position is the same. In particular, official Stockholm very harshly responded to Russia’s actions during the August 2008 conflict in Georgia. In particular, it froze military contacts with the Russian Federation and made a statement that Russia, having recognised independence of Abkhazia and South Ossetia, chose the way of confrontation with the international community.

⁶ For more detail see: *SIPRI Yearbook 2007: Arms, Disarmament and International Security*. Stockholm International Peace Research Institute. – Oxford University Press, 2007, pp.129-164.

⁷ Carl Bildt, Minister for Foreign Affairs. New Policy in a New Era? Speech at Swedish Institute of International Affairs, December 21, 2006. – <http://www.sweden.gov.se>

⁸ Interestingly, Sweden twice, in 1961 and 1967, filed applications for accession to the EU. In the first case, it claimed only associated membership, since full membership in the EU was seen as incompatible with its neutrality (later, the application was revoked). In the second case, the EU found unacceptable Sweden’s reservations concerning its absolute neutrality. The final decision of accession was also uneasy and involved tough discussions – not only about a threat to Sweden’s neutrality and gradual destruction of the sovereignty of the member states by the European Union, but also about the socio-cultural difference and remoteness of continental Europe from Sweden, risks to the national uniqueness of Sweden, etc.

⁹ The provision of ESDP was introduced to the new version of the EU Treaty – the Amsterdam Treaty of 1997.



(in particular, in the Balkans), where Swedish police and military units are employed¹⁰.

Sweden joined the process of development and integration of the defence industry of the EU countries. It is in the European “six” (Great Britain, Spain, Italy, Germany, France, Sweden), whose defence ministers in 2000 concluded a Framework Agreement concerning measures for promotion of restructuring and operation of the European defence industry. In 2001, they signed a declaration, undertaking: (a) to cooperate in the field of high technologies with the purpose of creation of European capacities for production of combat aviation systems; (b) to initiate the European Technology Acquisition Programme (ETAP); (c) to encourage the European industry to provide proper financial support for those efforts¹¹.

Stockholm’s support for the European solidarity (and reliance on it in case of a real military threat) substantially increased after terrorist attacks on the USA. Then, the Swedish and Finnish Foreign Ministers said: “If an EU member state suffers a terrorist attack, Sweden and Finland will provide adequate assistance”¹².

After September 11, 2001 it became evident that the primary task of the world security structures (including European) lies in the search of adequate responses to new threats that became a reality.

In December, 2003, with the Swedish participation, the European Security Strategy was approved, intended to oppose all those new threats, create an area of security around the EU, promote security and stability in the world by settlement of crisis situations.

The concept of European battle groups (regional mini-armies of a regimental size, up to 3,000 persons each) has been developed. It is planned to set up 18 such groups led by regional leaders. In Northern Europe, it will be Sweden, as its Armed Forces form the basis of the newly-established Nordic Battlegroup, also to include military units from Estonia, Norway and Finland.

Creation of a regional military-political union. At present, it is planned to form a military-political alliance on the basis of the Nordic Council (regional organisation of five North European countries)¹³. A statement to that end was made on February 9, 2009, at a meeting of foreign ministers in Oslo, where former Foreign Minister of Norway T.Stoltenberg delivered a joint programme report “Nordic Cooperation on Foreign and Security Policy”, prepared by a five-lateral commission. The document says that “the Scandinavian countries should establish a military alliance for more successful conduct of peace-keeping operations and guarantee of security in the Arctic region”¹⁴.

In particular, it is envisaged to set up a Scandinavian rapid reaction force for participation in peace-keeping operations and a joint naval unit to patrol naval borders, and to control airspace over Iceland. It is also planned to establish a joint group for removal of the aftermath of accidents, a satellite system, a single network for fighting cyberattacks, to step up military cooperation in the fields of transport, medicine, education, logistics, etc.

Finally, it is proposed to approve the Declaration of Solidarity of North European countries, specifying that each country of the alliance “should act if its neighbour is subject to attack or influence from outside”¹⁵. This actually involves the possibility of setting up kind of “Scandinavian NATO” – which, however, does not run contrary to cooperation of Sweden (as well as other Scandinavian countries) with “greater” NATO and does not rule out its accession to the Alliance in the future.

Sweden-NATO

Sweden’s cooperation with NATO intensified in early 1990s. In 1992, it got the status of an observer in the North Atlantic Cooperation Council (reorganised into the North Atlantic Partnership Council), in 1994 – joined the Partnership for Peace programme (PfP), which substantially expanded its military and political contacts with the Alliance.

Meanwhile, after Sweden’s accession to the EU, the subject of possible accession of the country to NATO

¹⁰ For more detail see: *SIPRI Yearbook 2007...*, pp. 129-164.

¹¹ The “six” traditionally accounts for up to 90% of all European arms deliveries. The share of Sweden is traditionally close to 2.5%, while its arms exports make up to 30% of total sales on the domestic and foreign markets. See: Sköns E., Weidacher R. “Arms Production”, *SIPRI Yearbook 2002: Arms, Disarmament and International Security*. Stockholm International Peace Research Institute. – Oxford University Press, 2002, p.335. For data of the Swedish arms export see the relevant sections of *SIPRI Yearbooks 2000-2008*.

¹² Finland and Sweden present a joint initiative on action against terrorism in NATO’s Euro-Atlantic Partnership Council. 7.11.2001. – <http://www.formin.fi/english>.

¹³ Nordic Council – an inter-parliamentary and intergovernmental organisation established in 1952. The organisation united Denmark, Iceland, Norway, Finland and Sweden. The Council promotes cooperation in the socio-economic humanitarian, legal sectors, transport and communication, environmental protection, etc. In 1971, the Coordinating Council of Ministers of Nordic Countries was set up within it.

¹⁴ Scandinavian countries may set up a military alliance. – *Podrobnosti*, February 9, 2009, – <http://podrobnosti.ua>

¹⁵ Nordic Union. *Novaya Politika* Internet magazine, February 13, 2009. – <http://www.novopol.ru>



arose. In 1996, Swedish Prime Minister I.Karlsson said that accession to NATO might be seen as one of the options of the country development, and the Moderate Party leader C.Bildt said that his party entirely supported Sweden's accession to the Alliance. However, at that time, things went no further than statements.

Sweden confined itself with deeper cooperation and use of contacts with NATO to step up its participation in the provision of regional and global security, peace-keeping activity and crisis settlement.

Now, Sweden takes an active part in NATO's peace-keeping missions¹⁶. Swedish Armed Forces take part in joint exercises with military contingents of the Alliance members. Their current reformation pursues, in particular, compatibility of weapon, control, logistic systems with armies of the NATO countries. Generally, it may be argued that over the past decade Sweden has been actively building national defence system compatible with the standards of the Alliance.

However, the country made no steps to join it in that period. On the contrary, the above-mentioned foreign political declarations of the Government, as before, always reiterated the non-aligned status of Sweden¹⁷. State official repeatedly made statements to that end. For instance, in May 2005, Prime Minister G.Persson said that Sweden was not willing to join NATO, and the issue of accession to the Alliance was not on the agenda. In 2006, a similar statement was made by the Defence Minister M.Odenberg.

The situation has somewhat changed recently – in particular, because of Russia's activity in the Arctic and the armed conflict in Georgia. Swedish liberals and some other politicians again began to raise the subject of accession. The subject is also rather actively discussed in Finland¹⁸ that, as well as Sweden, still preserves its non-aligned status.

From neutrality to a collective security system?

Hence, the security situation in the world and the European region has been rapidly changing recently.

Emergence of new threats makes neutrality, even "well-armed" and self-sufficient, highly vulnerable, since even the most powerful national security system cannot defend a country from asymmetric threats. Evidently,



modern threats to security can be effectively opposed only by means of multilateral cooperation, with active military presence in "hot spots" of the world. So, today, there is an evident trend towards neutral countries reconsidering their place and role in the modern world in general and guarantee of its security in particular. And Sweden is no exception.

The current reform of the Armed Forces of Sweden and plans of creation of the Scandinavian military-political alliance may be seen as signs of the country's departure from traditional neutrality and non-alignment that seem to have sputtered out in the modern world.

Meanwhile, different models of national security remain on the agenda: a) creation of an effective system of North European security; b) full-scale participation in the pan-European security and defence system (not as a hard alternative to traditional neutrality); c) accession to NATO.

Today, the second option looks the most rational for Sweden, but there are no sufficient grounds to rule out enhancement of the Euro-Atlantic vector in its foreign policy. ■

¹⁶ For instance, Sweden took part in rescue operations, including mine clearing in Albania and Serbia. Swedish military contingents joined the Stabilisation Force in Bosnia and Herzegovina (SFOR), Kosovo Force (KFOR), International Security Assistance Force in Afghanistan (ISAF). In 2007, Sweden also dispatched 260 soldiers to the Provincial Reconstruction Teams in Afghanistan.

¹⁷ In particular, Declaration-2005 stressed: "Sweden – beyond military blocs". Declaration-2006: "The Swedish security policy is reliable, active, solidary and rests on non-alignment to military blocs". See: Where will efforts be applied in foreign policy? – *Swedish Palm* Internet edition. – <http://www.sweden4rus.ru>

¹⁸ For instance, in 2003 Ministry of Defence conducted thorough research of the possibility of the country's accession to NATO. It is the evidence of some importance of this issue to Finland. See: Executive Summary "Effects Of A Possible Membership..." – www.defmin.fi/files/334/2589_1897_Executive_summary_2_.pdf

ENERGY POLICY OF SWEDEN: CERTAINTY OF GOALS, CONSISTENCE, ENCOURAGEMENT



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The energy sectors of Sweden and Ukraine have some common traits. First of all, those are the high shares of nuclear power engineering and insufficiency of domestic fossil fuels to cover the needs of the national economies. Therefore, the objectives and goals of the energy policy of the two countries are also similar: reduction of dependence of national economies on imports of energy resources, attainment of maximum effectiveness of energy use (energy efficiency) and wider use of alternative and renewable sources of energy (RSE).

The Swedish experience of practical achievement of those goals may be useful for Ukraine, as Sweden has reached real success in that field. For more than ten years now, steady development of the national economy is supported by actually stable volumes of energy resources, pointing to substantial reduction of the energy intensity of the Swedish industry¹; the share of RSE in the national energy balance has come close to 30%; by 2020, Sweden plans to entirely part with its dependence on fossil fuels.

Of particular interest for Ukraine may be the measures implemented by Sweden in pursuance of its energy policy, and the tools used to encourage producers and consumers of energy to take part in such measures. Practice shows that those tools are mainly economic.

Swedish energy policy and energy sector

The present energy policy of Sweden rests on governmental documents of 1997-2005 and the EU documents. Its main lines include:

- creation of conditions for effective operation of energy markets;
- reliability of power supply, while minimising negative impacts on health, environment and climate change;

- reduction of dependence on fossil fuels at the expense of replacement of petroleum products with biofuel, general reduction of energy consumption and/or enhancement of energy efficiency.

A number of governmental and non-governmental structures are responsible for implementation of the energy policy measures. For instance, the governmental Division for Sustainable Development supported by special agencies ("research groups") is responsible for the policy of energy efficiency and RSE; the Swedish Energy

¹ Over 10 years ago energy consumption in Sweden stabilised at 50 million tons of conventional fuel (oil equivalent). *For comparison:* in 2007, Ukraine consumed energy resources equivalent to 140.4 million tons of conventional fuel. See: Energy Strategy of Ukraine through 2030. Presentation of the Energy Strategy of Ukraine through 2030. Kyiv, March 23, 2006. – Information-analytical bulletin "Proceedings of the Ministry for Fuel and Energy of Ukraine", Special edition, 2008, p.37.



Agency – for implementation of programmes and measures of the energy efficiency policy in the housing sector, service sector and industry. Implementation of the policy in those sectors also involves the Swedish Environmental Protection Agency and the National Board for Housing, Building and Planning.

Hence, the Swedish energy policy focuses primarily on enhancement of the energy efficiency and wider use of renewable sources of energy (RSE) – this makes it possible to reduce dependence of the national economy on imports of energy resources, lower its energy intensity and ensure steady economic development in general. Thanks to its insistent implementation, at present, the main, almost equal, shares in the national energy balance belong not only to oil (petroleum products) but also to nuclear energy and RSE (Table “Use of energy in Sweden”²).

Use of energy in Sweden (2007)

	TWh*	% total
Crude oil and oil products	199.0	31.96
Wind power	191.0	30.67
Biofuels, peat, waste	120.0	19.27
Hydro power	66.0	10.60
Coal and coke	27.0	4.34
Natural gas, gasworks gas	11.4	1.83
Heat pumps	5.6	0.90
Wind power	1.4	0.22
Import-export of electricity**	1.3	0.21
Total	622.7	100.00

* TWh is equal to 10¹² Wh.

** Net import of electricity is added to the total energy supply.

Electricity generation mainly relies on hydro power engineering and nuclear power engineering that in 2007 accounted for some 45% and 44%, respectively³. The Swedish market of electricity is integrated into the common Scandinavian electricity market – *Nord Pool*, which significantly enhanced the competitiveness of the Swedish electricity⁴.

Nuclear power engineering

In due time, Sweden was among the world leaders in peaceful use of nuclear energy: in 1974-1985, 12 nuclear power units were commissioned. However, in March 1980, one year after an accident at *Three Mile Island* NPP in the USA, a national referendum was held where more than a half of citizens voted for curtailment of the nuclear sector. Despite the advisory character of voting, Parliament passed a law on prohibition of construction of new power units and gradual decommissioning of active NPPs.

Curtailment of the nuclear sector was also prompted by the Chernobyl NPP accident in 1986, after which (in 1988) the Government took a decision of full decommissioning of NPPs by 2010⁵. However, the Governmental Commission on Power Engineering at the end of 1995 came to the conclusion that this could be done neither economically nor environmentally. So, a long-term strategy of gradual curtailment of the sector was approved. It began in 1999 with the shutdown of the first power unit at *Barseback* NPP. Its second power unit followed in 2005⁶.

Quite naturally, loss of capacities required replacement. The Government resorted to three sources: imports of electricity, wider use of RSE and increase of the capacity of power units of operational NPPs.

In 2005, upgrade of capacities at four operational power units of *Ringhals* NPP by means of modernisation of electrical equipment began under the supervision of the Swedish Nuclear Power Inspectorate⁷. After the completion of work in 2011 the total rated capacity of that NPP is expected to rise by 400 MW, or 100 MW per power unit, on average. Similar work was performed in 2004-2008 at *Forsmarks* and *Oskarshamn* NPPs.

It should be noted that Sweden operates one of the world-best systems of disposal of radioactive waste (RAW) and spent nuclear fuel (SNF), construction of an SNF storage in deep geological formations is planned. All this was possible thanks to creation and effective administration of funds for disposal of RAW and decommissioning of NPPs, as well as inclusion of costs of disposal of RAW and SNF, capital expenditures and decommissioning of NPPs in nuclear electricity rates (1.7-2.0 eurocents/kWh).

After the parliamentary elections of 2006, discussions began concerning the development of the policy to replace capacities in case of shutdown of ten nuclear power units, as was envisaged by the above-mentioned programme of curtailment of the nuclear sector. On February 5, 2009, the Government announced that conservative parties represented in Parliament agreed to lift the ban on construction of new power units. Results of subject public opinion polls regularly held in Sweden also played a role. In particular, in June 2008, over 82% of Swedes supported the development of nuclear capacities in the country⁸.

Sweden's return to the policy of development of nuclear power engineering (with public support) is showy, since human health and environmental protection are unconditional priorities in that country. It may be assumed therefore that the nuclear “renaissance” observed or planned in many countries of the world, including Ukraine, meets not only economic but also environmental requirements.

² Energy in Sweden. Facts and Figures. 2008. – <http://www.swedishenergyagency.se>

³ *Ibid.*

⁴ Producers, suppliers and consumers of electricity got a possibility to make contracts of purchase/sale of electricity on the exchange and beyond – under bilateral contracts. See: International experience of reformation of the energy sector. Scandinavian countries. RAO “UES of Russia”. 2004, p.16.

⁵ In 1991, cancelled under the pressure of trade unions.

⁶ Compensation to the private company - owner for early decommissioning of the first unit cost Swedish taxpayers approximately SEK 5.7 billion (€593 million), of the second – SEK 5.6 billion (€583 million).

⁷ Body of state regulation of nuclear and radiation safety.

⁸ Sweden returns to the ranks of nuclear states. – Internet publication AtomInfo.ru; – <http://www.atominfo.ru/news/air5903.htm>



Energy efficiency and renewable sources of energy

As we noted above, in 1990s Sweden introduced a set of measures to finance and commence electricity generation using RSE. Specifically: provision of investment subsidies for electricity generation using biomass, wind energy (wind power stations – WPS), small hydro power stations, etc. (Insert: “*Measures and programmes of introduction of RSE and enhancement of effectiveness of energy use*”⁹).

Those measures boosted introduction of RSE, as witnessed by the data cited in Table “*Production and installed capacity...*”¹⁰. In the recent years, investment state subsidies have been going down, while purely market mechanisms are being implemented in the sector.

**Production and installed capacity,
by type of RSE production***

	2003 May- December	2004	2005	2006	2007
Number of plants (units), at that:	1 597	1 759	1 848	1 909	2 088
Hydro	966	1040	1 060	1 075	1 094
Wind	543	613	668	706	859
Biofuels, peat	87	105	118	125	131
Solar	1	1	2	3	4
Installed capacity (MW), at that:	4 049.008	4 161.008	4 471.011	4 766.036	5 065.043
Hydro	491	504	517	540	558
Wind	401	472	530	583	831
Biofuels, peat	3 157	3 185	3 424	3 643	3 676
Solar	0.008	0.008	0.011	0.036	0.043
Electricity production – renewable and peat (MWh), at that:	5 637 559	11 048 438	11 298 378	12 156 855	13 255 913
Hydro	963 637	1 968 325	1 799 446	2 018 577	2 195 320
Wind	455 642	864 546	939 125	988 340	1 431 644
Biofuels	4 218 276	7 670 770	7 925 790	8 593 538	9 049 308
Peat	-	544 791	634 012	556 380	579 622
Solar	4	6	5	20	19

* Source: The Electricity Certificate System. Swedish Energy Agency, 2008, p.44
See: [http://www.swedishenergyagency.se/web/bibshop_eng.nsf/FilAtkomst/ET2008_09w.pdf/\\$FILE/ET2008_09w.pdf?OpenElement](http://www.swedishenergyagency.se/web/bibshop_eng.nsf/FilAtkomst/ET2008_09w.pdf/$FILE/ET2008_09w.pdf?OpenElement).

Through active, consistent implementation of energy policy and energy efficiency, increased use of alternative sources of energy and RSE, Sweden has made significant progress in reducing energy intensity of the economy, despite the cold climatic conditions. Thus, in 2003, power intensity of Swedish GDP was 0.33 kg conventional fuel/\$. *For comparison:* in Ukraine, this figure was 0.89 kg conventional fuel/\$, or almost three times more¹¹.

⁹ Sources: IEA, Global Renewable Energy Policies and Measures Database. – <http://iea.org>; Deep review of policy and programmes in the field of energy efficiency. Sweden 2006. Energy Charter Secretariat. – www.encharter.org.

¹⁰ Source: The Electricity Certificate System. Swedish Energy Agency, 2008. – <http://www.swedishenergyagency.se>

¹¹ Energy Strategy of Ukraine through 2030. Presentation of the Energy Strategy of Ukraine through 2030. Kyiv, March 23, 2006. – Information-analytical bulletin “Proceedings of the Ministry for Fuel and Energy of Ukraine”, Special edition, 2008, p.34.

¹² 1 SEK = €0.11 (as of February 2009).

¹³ In particular, in 2000, the budget was amended to raise taxes: on carbon dioxide discharge – by SEK 160 /tonne; on diesel fuel – by SEK 0.117 /l; on electricity – by SEK 0.019 /kWh. Those measures gave the budget SEK 3 billion.

¹⁴ For instance, biofuel for motor vehicles is not liable to taxes, and parking for such vehicles is free.

Measures and programmes of introduction of RSE and enhancement of effectiveness of energy use

1. Research and development (R&D)

In 1975, Sweden commenced implementation of a long-term scientific research programme, later incorporated into the Energy Strategy (1997). In 2005, Parliament introduced a new long-term programme expanding the tasks of the previous one and more concentrated on conversion of research into market products. The main goal of the programme is to reduce the cost of RSE use – to make them a more viable alternative to nuclear and fossil fuels.

SEK 5.6 billion¹² a year are allocated to research in the field of renewable and alternative power engineering; SEK 400 million – to biomass research. Grants are also provided by energy companies and other industries.

The main areas of research that received financial support include: (1) technologies of burning and conversion; (2) demonstration of technologies not fully competitive at the present stage; (3) production of fuel; (4) processing of ash.

2. Tax policy in the power engineering sector

Three environmental taxes were introduced in the energy sector, payable by both enterprises and individuals: (1) on the source of energy; (2) on carbon dioxide discharge; (3) on sulphur¹³. However, producers and consumers of electricity generated from biomass are exempt from those taxes and enjoy some other preferences¹⁴. Small producers of electricity using RSE are also fully or partially exempt from environmental taxes.

3. Encouragement of wind power engineering

In 1994, the “environmental bonus” for use of wind turbines was introduced, reducing taxes on energy generated by wind power stations. For instance, in 2004, it was equal to SEK 0.181/kWh.

From 2003, wind turbines installed before January 1, 2003, are subject to transitional regulations providing support for five years, till operating for 25 thousand hours equivalent to full load. Support was gradually reduced: from SEK 150/MWh to 30 in 2007. The programme was extended for 2009.

Meanwhile, a number of projects of wind turbine installation on different sites (water, mountains) were initiated. Investments in the development and implementation of those projects will total SEK 350 million.

4. Regional investment projects

A programme of support for regional investment projects was initiated in 1997, its budget totalled SEK 400 million (for the period of 1998-2003 – raised to SEK 7,200 million). Support was provided for investment projects of local self-government bodies aimed at reduction of the environmental impact of industry, enhancement of energy efficiency, encouragement of RSE use. As of July 1, 2001, the Government allocated SEK 5,600 million to 156 projects. In 2002, the programme was replaced with a SEK 900-million programme supporting projects related to environmental protection for 2002-2005. The main goal of the programme is to reduce discharge of greenhouse gases.

5. Guarantees of procurement of electricity and support for small producers

Starting from 1997, local utility companies make contracts of procurement of electricity that guarantee support for small producers using renewable resources on the Swedish market of electricity. Local companies engaged in distribution of electricity



and utility companies are obliged to buy all electricity from producers whose capacity is below 1.5 kW, located in their region, at fixed prices. Since the end of 1998 electricity obtained from biomass and wind energy has been sold at market prices, plus SEK 0.09 /kWh paid by the state.

6. Grants for installation of solar heating systems

In 2000, the Government began implementation of a programme in support for solar heating whereby owners of private houses might file an application for a grant in the amount of SEK 2.5/thermal kWh. In 2001, the Government allocated SEK 20 million for such grants.

7. Environmental programme of municipalities

The programme was initiated in 2001 and envisaged development of local energy strategies by municipalities, measures at enhancement of energy efficiency and RSE use. In 2001, 70 municipalities filed applications to get funds for those purposes, 10 of them were selected for participation in the programme.

8. Energy strategy: "green" certificates

In 2002, the Government presented a new Strategy of promotion of independent, effective and environment-friendly sources of energy that reiterated goals of the energy policy set earlier. The Strategy envisages measures at more effective use of energy by means of rationalisation of the existing plans and spread of information on the national and local levels, and plans introduction of a new method of RSE promotion – certificates for "green" electricity and quotas for purchase of such certificates by consumers.

The system of "green" certificates was introduced by a law that entered into effect on May 1, 2003. According to that law, producers of electricity using solar, wind, biomass, geothermal energy, energy of waves or small hydro power stations (below 1.5 MW) get 1 certificate per kWh, and all consumers (except enterprises of energy-consuming industries) are obliged to buy those certificates and use them in their energy balance. In 2003, 7.4% of the need for energy resources was to be covered in that way, and by 2010, the share of "green" certificates is to reach 16.9%.

In 2003, a certificate cost SEK 60/MWh, with subsequent annual reduction. If producers cannot find buyers of their certificates, the Government must buy them out. Consumers that fail to buy the required number of certificates are subject to penalties: SEK 175/MWh in 2003 and SEK 240 in 2004.

9. National programme of removal of dependence on fossil fuels

In 2005, the Government approved a national programme of removal of dependence on fossil fuels by 2020 at the expense of: (1) gradual transition from oil to biofuel; (2) reduction of energy consumption and (3) enhancement of effectiveness of its use.

Sweden has reduced use of oil for heating of residential premises by 70% over the past 20 years. Hospitals and libraries received grants to transfer heating from oil fuel to other sources, and landlords are encouraged to save energy and shift to alternative sources by tax exemptions.

For instance, owners of private houses may get tax exemptions in the amount of 30% of the value of installation of a heating system using biomass in new buildings or energy efficient windows in existing ones. The amount of the exemption is limited by SEK 15 thousand for heating systems and SEK 10 thousand for windows.



It should be noted that renewable power engineering cannot be fully competitive on the energy market, especially now, after the sharp drop in oil prices on the world markets. Furthermore, mass spread of renewable power engineering requires appropriate infrastructure.

Meanwhile, the world biggest energy companies engaged mainly in extraction/transportation/production of equipment for extraction and use of hydrocarbons are not interested in investments in that business. So, governments and the public play the key role in creation of the infrastructure of renewable power engineering. Actions of the "green" in Sweden, as well as in Denmark, Germany and some other EU countries that enjoy strong support from public and scientific organisations are showy in this respect. Governments, on their part, provide funding for numerous programmes of economic support for renewable power engineering by means of various subsidies, donations and grants.

In Sweden, the Government supports projects and scientific research aimed primarily at enhancement of the energy safety and environmental protection, especially in the context of meeting obligations under the Kyoto Protocol.

Tools and measures of such support are mainly of the economic nature, although consultative and information measures are also used (energy marking, consultations on power engineering on the municipal and regional levels, dissemination of information, etc.).

However, capabilities of the budget and tax policy are the most effective. It includes, in particular, energy taxes and tax preferences, subsidies and grants, systems of technology purchase and state procurements, etc. Only on the condition of consistent actions of the Government and use of economic tools, the policy of encouragement of manufacturers and consumers to save energy and use RSE will be effective. ■

REGIONAL DEVELOPMENT IN SWEDEN AND UKRAINE



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The “Swedish model” basically rests on implementation of the idea of equality, whose essence lies in provision of equal conditions for development of social groups and territories of the country. So, the Swedish state policy pursues formation of solid foundations for independent development of regions, first of all relying on their advantages and own economic potential.

The main tools of said policy include equalisation of revenues and expenditures of regions, extension of subsidies to them and participation of the state in funding investment projects which promote competitiveness of regions both on the domestic and foreign markets.

Meanwhile, one should keep in mind that the effectiveness of the Swedish model of regional development mainly rests on the high degree of decentralisation of state power and, respectively, autonomy and financial independence of local self-government bodies¹. This is the fundamental difference of organisation of public governance between Sweden and present-day Ukraine, where the power remains toughly centralised, and powers and resources of local self-government – limited and scanty².

Swedish regions: some indices of development

The data cited in Table “*Some indices of development of Swedish regions*”³ show the absence of significant inter-regional disparities in the development of Swedish territories, the levels of their economic development are quite comparable (with the exception of the capital that, just as in other countries of the world, shows the highest indices). Say, in 2005, the minimum per capita regional domestic product made 80.3% of the maximum, the minimum per capita income in 2006 made 85.4% of the maximum. *For comparison:* in Ukraine, the relevant indices equalled 36.8% and 67.1%.

This means that the national production is evenly distributed across the whole territory of the country, wages and standards of social security are also similar, which promotes overall unity in society and mobility of manpower. Such results were achieved thanks to the state regional policy.

State support for development of regions

The Swedish regional policy pursues evenness of development, growth of competitiveness of regions, and provision of human well-being and proper quality of social services throughout the country. It covers all regions of Sweden and rests on regional development programmes.

The main elements of the regional policy include the policy of equalisation and participation of the state in implementation of regional investment projects.

SOME INDICES OF DEVELOPMENT OF SWEDISH REGIONS

REGION	Regional gross domestic product per capita in 2005*, SEK thousand	Income per capita in 2006**, SEK thousand
Average in Sweden	296	154
Stockholm	410	177
Uppsala	252	158
Sodermanland	235	150
Ostergotland	252	147
Jonkoping	260	146
Kronoberg	259	147
Kalmar	247	141
Gonland	233	158
Blekinge	270	152
Skane	269	151
Halland	243	158
Vastra Gotaland	290	151
Varmland	250	135
Orebro	263	141
Vastmanland	248	146
Dalarna	265	142
Gavleborg	251	144
Vasternorrland	279	148
Jamtland	254	148
Vasterbotten	259	135
Norbotten	289	140

The equalisation policy proceeds from the evident fact that regions have different socio-demographic structure, and therefore, different possibilities for collection of taxes (revenues) and different costs of social services (dependent

¹ In particular, approximately 90% of all taxes on individual incomes go to local self-government bodies (with the average tax rate of 30%). For more detail on the specificity of Swedish Local Self-government see the article by O.Miroshnyk “Institute of Local Self-government in Sweden”, published in this magazine.

² This article relies also on materials provided by the Swedish side: Rudebeck K. Local Government Finance in Sweden. Own Revenues, Government Grants and the Equalization System: Nilsson J.-E., Rudebeck K. Municipalities in Mountainous Regions of Sweden. – Razumkov Centre’s archives.

The terms “region” and “area” are used as synonyms and mean, dependent on the context, an administrative-territorial unit of Sweden (*lan*) or a part of the country with specific natural and geographic features.

³ Sources: Regional gross domestic product per capita. – Statistical Yearbook of Sweden 2008, p.435; Disposable income per inhabitant in 2006; Investments by municipalities in 2007. – <http://www.regionfakta.com/EngelskGemensamDynamisk>

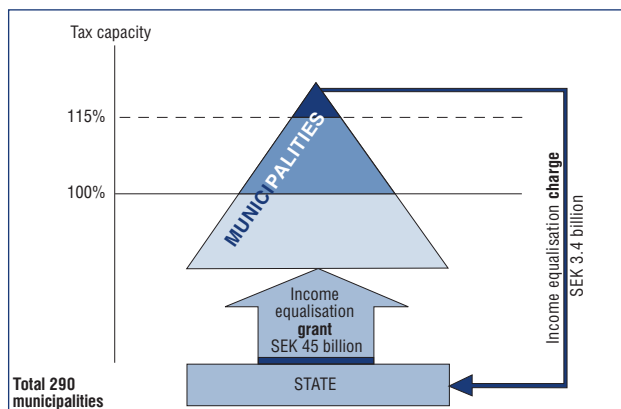


on the number of those who need such services)⁴. That is why it envisages equalisation of both revenues and expenditures of regional self-government bodies.

Income equalisation is achieved by collection of the relevant charge in areas with high incomes to the benefit of low-income areas. At that, the bulk of grants provided to the latter is funded by the state.

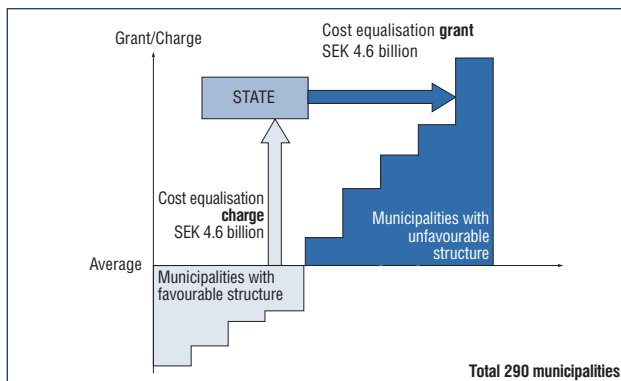
It is established that self-government bodies whose revenues exceed 115% of average pay an equalisation charge⁵. Respectively, equalisation grants go to self-government bodies whose revenues are below said index. The amount of grants is calculated as the difference between the average index and actual per capita income (Chart “Income equalisation for municipalities...”).

Income equalisation for municipalities in 2005



The system of **cost equalisation** covers only basic services and rests on redistribution of funds from local self-government bodies with low expenditures to local self-government bodies with high expenditures. Redistribution rests on calculation of standard (in fact, average) per capita expenditures on such services. Self-government bodies whose expenditures are below that standard, just as in the previous case, pay an equalisation charge. Its sum is distributed among regions where such expenditures exceed the standard. The state does not cover equalisation grants (Chart “Cost equalisation for municipalities...”).

Cost equalisation for municipalities in 2005



Since the lion's share of revenues of self-government bodies is used to provide basic services (i.e., for social needs of the local community), their own investment capabilities are somewhat limited. In particular, two-thirds of current expenditures of municipalities are allocated to preschool and school education and social assistance, up to 90% of expenditures of district councils (*landsting*) – to medical services. That is why shares of regions in total investments are comparatively small. For instance, in 2007, investment expenditures of municipalities made nearly 5.5% of total investments (SEK 33.4 billion).

Meanwhile, regions may get state investments for implementation of development projects⁶. Their provision is conditioned by, *first*, the ability of a region to independently provide 50% of funds necessary for the project implementation, *second* – a comprehensive character of the project, that is, its concentration on support not for separate enterprises but for some sectors or branches. Typical examples of regional development projects involving the state are those pursuing closer cooperation of small and medium enterprises with universities or enhancement of competitiveness of the tourism industry in a region.

Noteworthy, the equalisation policy is sometimes criticised for the alleged discouragement of development. This is true, but it may also be effective if, *first*, it is accompanied with real enhancement of social standards for all citizens of the country, *second*, combined with state assistance in implementation of development projects, that is, development of infrastructure and involvement of less developed regions in the division of labour on the national scale.

Sweden's regional policy meets those requirements, thanks to which, a uniform economic environment was formed throughout the country.

Support for regions with severe climatic conditions in Sweden

Sweden (as most countries of the world) has territories comparatively less attractive for human life and economic activity – northern and mountainous territories. They are addressed by the policy of special regional support. The greatest governmental support is provided to mountainous territories (special support zone A), so, it makes sense to examine the specificities of that policy by their example⁷.

Special regional support procedures were introduced for mountainous areas in 1965 and envisage both overall support for their economy and target support for separate enterprises.

Overall support is provided in two forms. *First*, all enterprises of the region get compensation for disadvantageous geographic location in the form of the **transport grant**⁸. *Second*, charges on the wages fund at regional enterprises are 10% lower than in the other regions of the country. But since that measure is intended to support mainly small and medium enterprises, the total amount of the discount is not to exceed SEK 100 thousand (€10 thousand) a year.

⁴ Calculation of expenditures takes into consideration demographic, socio-economic and geographic features of a region, including the settlement structure (sparsely or densely populated areas).

⁵ In 2008, such a charge was paid by 11 municipalities (out of 290) and one district council (out of 20).

⁶ For more detail see the article by V.Saprykin “Energy Policy of Sweden...” published in this magazine.

⁷ Mountainous areas are located in the western part of Northern Sweden and have an area of some 170 thousand km² (almost a quarter of Ukraine's territory), accommodating nearly 250 thousand people. That territory has 20 populated localities with the population from 3,000 to 60 thousand residents. The smallest municipalities are Sorsele – 2,800 residents, and Dorotea – 3,000 residents. In addition to zone A, there is also special support zone B, including territories adjacent to the mountainous region, whose development is also supported by the Government.

⁸ For instance, the transport granty for an enterprise in Dorotea makes 30% of the cost of transportation of goods to the distance over 400 km and 25% of the cost of transportation of raw materials, parts, etc., for an enterprise in Sorsele – respectively, 40% and 35%.

Target support for enterprises is mainly provided in the form of share participation of the state in their investment projects. For instance, enterprises may get a *regional investment grant* (for investing in buildings, equipment, personnel training and consulting services) or a *grant for promotion of employment* (for creation of working places in certain sectors⁹), whose value may make up to 50% of the total project cost.

There is a transparent mechanism of expert examination of applications for grants, taking into account different factors that influence decisions of approval/refusal of grants and their amount – from the enterprise size to the social effect of the investment, that is, its influence on economic growth and growth of employment in the region. Noteworthy, small and medium enterprises enjoy preferences getting grants – however, even they must meet some requirements put forward as a condition for getting a subsidy (Insert “*Grant for promotion of employment...*”)¹⁰.

Grant for promotion of employment: conditions of getting

The grant is provided only on the condition of correspondence of the investment project to certain requirements, in particular:

- the wages should be acceptable, labour conditions – safe; they should be not worse than the conditions of the collective agreement;
- the company should arrange for training or professional development of employees (not less than 125 hours over the first two years of the enterprise operation);
- the planned investment should enable employment of both women and men;
- the company should employ a qualified accountant.

The grant may be provided for three years, if employment is growing over that entire period, but its maximum amount should not exceed SEK 198 thousand (€20 thousand) per employee who worked a full year.

It should be noted that the measures in support for mountainous regions described above go together with equalisation measures common for all regions of Sweden, provision of structural grants, etc. Combination and steadfast implementation of all those measures made it possible to ensure steady economic development of mountainous regions, and even to ensure above-average economic growth in some of them¹¹.

Support for regional development in Ukraine

Despite the European trends towards decentralisation of governance, extension of powers of local self-government, active implementation of the policy of regional development and removal of inter-regional disparities, Ukraine remains a strongly centralised state with underdeveloped local self-government. Regions (*oblasts*) of the country actually cannot pass decisions on their own, lack resources not only for investment development but even for solution of current local problems and maintenance of minimum social standards¹².

The trend towards deepening inter-regional disparities that arose in the Soviet times has not been reversed, significant territorial differences remain in the division and use of resources, key economic resources are concentrated in separate more developed regions.

Economic recovery of regions is discouraged by the current budget system, in particular, inter-budget relations of the capital and regions. The financial basis of local

self-government bodies is insufficient, local budgets are funded mainly at the expense of state taxes and duties, through the system of inter-budget transfers.

Mountainous areas of the country that now may rightfully be classified as doldrums appeared in an especially tough situation. The Law “On the Status of Mountainous Populated Localities in Ukraine” passed yet in 1995 actually does not work – first of all, regarding the encouragement of development of the economic potential of mountainous areas. Measures envisaged by the Law have never been funded in full, their implementation and results are not monitored. The state has made no concrete steps to solve the most acute problem of mountainous areas – road construction. Meanwhile, the Ukrainian Parliament several times amended the Law, extending its action to new regions, which further complicates implementation of the measures provided thereby.

The Ministry of Regional Development and Building of Ukraine has drafted a new Draft Law – “On Development of Mountainous Areas in Ukraine”¹³. The main lines of the new policy of development of mountainous areas are to be:

- **economic** – encouragement of development and maintenance of the road infrastructure, support for the lines of business specific of mountainous areas, tourism, traditional trades and crafts, development of alternative sources of energy;
- **environmental** – conservation of the natural environment of mountains, restriction of industrial use of mountainous areas;
- **social** – description of specificities of remuneration of labour of employees in budget-sustained institutions, maintenance of social infrastructure.

Meanwhile, the Draft Law envisages no **concrete measures (as the case is in Sweden) intended to encourage enterprise in regions with a severe climatic and geographic conditions, which might greatly promote the development** of mountainous and highland areas of the Carpathian area.

Furthermore, it may be argued that the policy of regional development will never be effective, unless the following is provided:

- clear delimitation of powers and responsibilities between regions and the capital, as well as among intra-regional levels of power;
- financial independence, or sufficiency of local budgets for local self-government bodies to discharge their powers;
- promotion of development of backward regions and regions with severe climatic conditions by fiscal and investment support.

Only having secured the first two conditions, one may hope for effectiveness of measures intended to promote development. When considering such measures, one may make use of the successful Swedish experience briefly described above. This, however, will require a number of prior steps, first of all – introduction of the principles of transparency, openness and responsibility of public governance in Ukraine, meaning both state authorities and local self-government. ■

⁹ For instance, grants are not provided for working places in agriculture, transport and service industry servicing only the local or regional market.

¹⁰ For instance, in case of a grant for regional investment, small and medium enterprises get, respectively, 35% (in some cases – 50%) and 25% of the total amount of approved investments, big enterprises – 15%. Furthermore, big enterprises are not entitled to grants for consulting services.

¹¹ While in 1985-2001, real annual-average growth of Sweden's GDP equalled 1.6%, the relevant Sorsele index (real growth of the gross regional product) was roughly the same, and the Dorotea index was close to 2.4%. Source: The Determinants of Economic Growth in the Swedish Mountain Region – the Role of the Forest and Tourism Sector, and Protected Land. – <http://www.mistra.org>

¹² For more detail see: Competitiveness of the Regions of Ukraine: State and Problems. – National Security & Defence, 2008, No.4, pp.12-29.

¹³ See: Draft Law of Ukraine “On Development of Mountainous Areas in Ukraine”. – <http://www.minregionbud.gov.ua>

SPECIFICITY OF THE SWEDISH MONETARY POLICY



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The monetary policy of Sweden pursues the main priorities of the state – low inflation, high employment rate and incomes, enhancement of the competitiveness of the national economy. The Central Bank of the country – Riksbank – over the recent decades has flexibly, in line with the main needs of support for steady economic development and high living standards, introduced and implemented different monetary tools and exchange regulations for the national currency – krona. While before 1990s the monetary policy, including its exchange rate aspect, promoted employment and export expansion, in the recent years, maintenance of the low inflation rate as the basis for well-being and development of society has been the main priority.

Crisis trends of the recent times would affect Swedish banks and other financial institutes active beyond the country's borders (including in developing and transitional countries¹), and therefore, vulnerable to the situation on the world financial markets. However, the Riksbank in cooperation with the Government urgently implemented a number of coordinated effective measures designed to prevent development of crisis phenomena and deregulation of the domestic money, exchange and financial markets.

Institutional imperative of the monetary policy modernisation in Sweden

Institution of the “best” exchange regulations. The Swedish monetary policy, as an integral part of the state policy, pursued the priorities set by the Government. Since high incomes and well-being in a small country, especially in the period of formation and development of its economy, can be achieved only on the condition of broad export expansion, exchange policy played an important role.

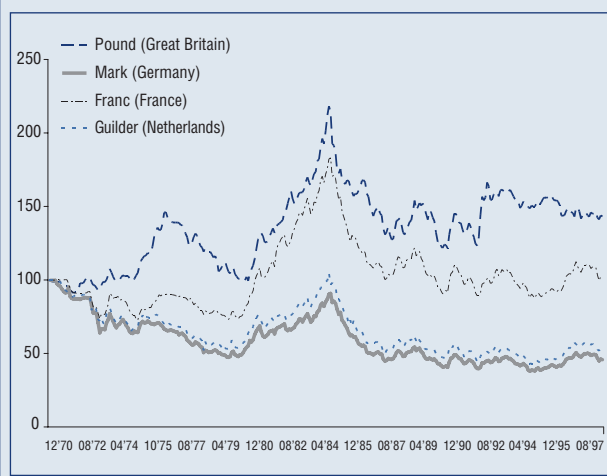
In particular, in post-war times, Sweden abided by the so-called “golden standard” or linkage to the U.S. dollar or British pound (that is, fixed exchange rate with respect to the main world currencies). This ensured rather stable foreign economic conditions, and therefore, favourable economic dynamics and high employments.

Somewhere in early 1970s, under the influence of the growing world trade and toughening competition, Sweden witnessed a **stronger trend towards exchange rate flexibility** and controlled management of the exchange

¹ Two subsidiaries of big Swedish banks – *SEB* and *Swedbank* – are active in Ukraine.

Exchange rate indices against the U.S. dollar

Mechanism of “currency snake” implied mutual exchange rate fluctuations of certain European currencies against other world currencies, first of all, against the U.S. dollar. Such mechanism, in the conditions of small inflation keeps purchasing parity and to the greater extent eliminates price disproportions among partner countries.



rate changes. Meanwhile, deepening of the European integration processes required stable conditions for trade in Western Europe. So, in March 1973, Sweden joined the arrangements of joint agreed fluctuation of the main European currencies. Such mechanism, in the conditions of moderate inflation, preserves real value and largely removes price imparities among partner countries.

However, the policy of maintenance of a high employments, incomes, social guarantees in the conditions of falling labour productivity already in late 1980s - early 1990s brought about economic difficulties, specifically:

- acceleration of inflation processes simultaneously with growth of unemployment;
- growth of external deficits;
- deregulation of public finance;
- growth of tax pressure, and resultant impairment of incentives to increase production²;
- growth of risks of a banking crisis³.

Those difficulties were accompanied with deterioration of the world economic situation in early 1990s, adding to crisis trends in the national economy.



Institutional transformations of 1990s. In view of the crisis situation of 1990-1991, the Government resorted to unpopular and rather risky reforms, namely:

- set as the strategic priority of the governmental policy was not high employments but low inflation, and therefore, the monetary policy of the national Central Bank concentrated on consistent maintenance of low inflation rate⁴;
- it was decided to resume “linkage” of the krona to the European ECU basket (from 1991).

However, those measures were not free from internal controversy, since it is extremely difficult to combine a fixed rate with free capital flow in one anti-inflation policy. So, as the next step, in the fall of 1992 Sweden refused from linkage to ECU and introduced a floating exchange rate. In January 1993, Riksbank announced its new **main priority**⁵ to be implemented since 1995: **maintenance of the annual inflation of 2% in the mid-term, with admissible deviation of not more than 1%** (that is, inflation could range within $2\% \pm 1\%$, for which, among other things, monetary tools of the floating exchange rate were to be implemented).

Enhancement of the role of the Central Bank

Ensuring the priorities. The shift of priorities was fraught with serious risks, since before 1990s, Sweden had little experience of floating rate.

² In order to increase revenues of budgets of different levels, to meet social commitments.

³ As a result of large-scale crediting of households, youths, support for housing construction, mortgage, etc. For more detail see: The U.S. Financial Crisis: Lessons From Sweden. – <http://fpc.state.gov>

⁴ As anti-inflation the policy of enhancing the energy efficiency was also considered. For more detail see the article by V.Saprykin “Energy Policy of Sweden: Certainty of Goals, Consistence, Encouragement” published in this magazine.

⁵ The law sets pricing stability as the main goal of Riksbank. Additionally, the Central Bank of the country is to promote security and effectiveness of the payment system. For more detail see: Mr Bergström reports on why Sweden has changed its stabilisation policy regime. – <http://www.bis.org>



So, while previously, emphasis was made on full employment (a cornerstone of the Swedish socio-economic model), from that time, **the low inflation rate (2%⁶) has become the priority and the main macroeconomic target for Sweden**, which promoted **economic activity, and therefore, incomes and employment**. Meanwhile, the notion of “stability” of the national currency acquired a precise meaning.

In such conditions, the exchange rate, whose dynamics no longer presents a self-sufficient goal of the Central Bank, can play the role of one of the key tools of stabilisation. In particular, in case of growth of inflation risks, Riksbank can push revaluation of the krona, and in case of deterioration of the conditions of foreign trade – take measures for its devaluation⁷.

Meanwhile, changes of the real exchange rate cause changes in the foreign trade structure and further influence the dynamics of inflation⁸. Account of that rule in forecasts of the long-term trend towards devaluation/revaluation of the national currency with respect to currencies of the main trade partners gives a tool of influence on foreign trade⁹.

Active stand of the Central Bank. The effectiveness of the monetary policy is critically dependent on the removal of political influence of the Government. To that end, independence of Riksbank was legislatively provided starting from January 1, 1999¹⁰. Being autonomous and independent in stabilisation measures, Riksbank is accountable directly to Parliament, twice a year reporting of its activity to the Parliamentary Standing Committee on Finance. This ensures **equilibrium between the independence of the Central Bank and effective control of its activity**.

Meanwhile, independence of the Central Bank means greater responsibility and coordination of action with the Government in solution of systemic economic problems. Exactly the absence of political pressure (including in the issues of assistance to troubled banks or their liquidation), on one hand, and effective coordination of actions at the **banking sector recovery** with the Government, on the other, **enabled simultaneous successful solution of the payment and debt problems** in early 1990s¹¹.

Noteworthy, **transparency and publicity** are seen as **conditions decisive for the success and effectiveness**

How to part with “bad” assets

In late 1980s, numerous social programmes, growth of consumer and mortgage lending caused accumulation of vast “bad” assets in the Swedish banking system, which caused risks of deterioration of the solvency and reliability of the national banking system.

To solve the problem, the Central Bank divided assets of each bank into two parts: reliable and risky (“bad”). Reliable securities were circulated as before, risky – transferred to two specialised asset management companies. Both companies belonged to the Government but enjoyed broad independence and sufficient regulatory freedom. The withdrawn securities were offered on market terms and used either for attraction of new investors and recovery, or for liquidation of bankrupt companies. The process was over by 1997, and its **cost for public finance proved even lower than initially expected**.

of Riksbank’s policy. The Central Bank must publish its forecast of inflation for the next two years, giving official institutions and the public an opportunity to control timely application of specific measures for the attainment of their targets, to identify risks (internal and external) in advance, and therefore make an informed assessment of the authorities’ actions¹².

So, the important positive factors **that helped minimise the crisis development** of early 1990s included¹³:



⁶ The measures for the achievement of the target level were “symmetrical”. I.e., if the actual dynamics of prices demonstrated the inflation rate above 2% (per annum and in the middle run), the Central Bank took measures for its reduction. And if the actual dynamics of prices suggested the inflation rate below 2% per annum, measures were taken to boost it for the achievement of the target.

⁷ For more detail see: Sweden: Convergence reports (2002-2004-2006). – <http://europa.eu>

⁸ The actual rate is determined by the dynamics of the nominal rate and inflation rates in partner countries.

⁹ For more detail see: Exchange Rate Regimes and Macroeconomic Stability: The Case of Sweden. – www.nek.uu.se

¹⁰ From that time, Riksbank is managed by the Executive Board of six persons. One of them simultaneously chairs both the Executive Board and Riksbank. The Executive Board members are appointed for six years by the General Council of Riksbank, consisting of 11 members, who, in turn, are appointed by political parties represented in Parliament. The General Council cannot interfere in the activity of the Executive Board but continuously monitors its operation.

¹¹ For more detail see: The U.S. Financial Crisis: Lessons from Sweden. – <http://fpc.state.gov>

¹² See also: Bäckström: Sweden and EMU. – <http://www.riksbank.com>

¹³ For more detail see: On the resolution of financial crises: the Swedish experience. – <http://ideas.repec.org>



- transparency, timeliness and clarity of actions of the authorities;
- separation of political and financial factors and aspects of the crisis;
- strict financial discipline;
- prevention of erosion of resources in the banking system.

Exactly the accuracy and consistency of the policy implemented by Riksbank are recognised to have **secured its respect and public trust**. That is why although Sweden is the EU member and is deeply integrated into European economy, Swedes wish to have their own national monetary unit, viewing it as a guarantee of steady economic development.

Attractiveness of the national currency

The issue of the European Monetary Union (EMU) was among the most sensitive in the economic policy of Sweden in early 2000s. In 1999, Sweden refused to join the Euro zone created at that time. In March 2000, an extraordinary congress of the Social Democratic Workers' Party passed a resolution of accession to the EMU, but the final decision rested with a national referendum, results of which were to largely shape the future economic policy of the country.

The referendum appointed for September 14, 2003, was expected to produce a positive decision. However, the results were surprising. With a high turnout (82.6% of those eligible to vote), opponents of the EMU won – 55.9%, against 42% of adherents.

The results of the referendum were influenced by a number of events. *First*, at that time it was clear from the experience of other European countries that introduction of euro brought a noticeable increase in the prices of goods and services (recalculation in unified euro, as a rule, resulted in a price rise). *Second*, the European economy was in a period of recession. *Third*, Swedes associated the krona with economic stability, social security and high incomes, which psychologically complicated refusal from it. *Fourth*, the EMU management bodies were often seen as ineffective and bureaucratic.

The Government, despite its adherence to the EMU, accepted the results of the referendum. Refusal from accession to the EMU brought no negative economic consequences.

Effects of the financial crisis on Sweden

The current world financial crisis could not but bypass Sweden – a country with an economy, deeply integrated into the system of international trade and financial flows.

However, despite steady economic growth and financial risks, the financial and banking system of Sweden



remains stable and reliable. The reasons for that include, *on one hand*, limited involvement of banks in the system of unsecured credit and financial flows, *on the other* – **consistent anti-crisis measures taken from the very onset of the crisis** by the Swedish authorities.

The Central Bank identified the **main risks** – the fall of solvency and financial discipline – and, since the exchange rate is beyond its priorities, focused on the **maintenance of liquidity** (provision of the economy with reliable means of payment). Noteworthy, at that time, other countries tended to take measures to counter devaluation of national currencies (Insert “*Measures of Central Banks...*”).

To maintain liquidity, Riksbank took the following measures¹⁴:

- **extension of significant credits to commercial banks (both in kronas and in U.S. dollars)** on much better terms than proposed at financial markets. Total credits exceeded SEK 450 billion (in that, credits in U.S. dollars – equivalent of SEK 200 billion);
- **assistance to non-banking companies**. Companies that needed funds issued **securities** and sold them to commercial banks. The latter could **use such securities as collateral to get refinancing credits from Riksbank**. The volumes of such operations were insignificant, but the very possibility of their use promoted the stability and confidence of financial markets.

¹⁴ For more detail see: Oberg S. Sweden and the financial crisis. – <http://www.riksbank.se>



Measures of Central Banks aimed at prevention of devaluation of national currencies¹⁵

	Currency interventions	Sale of dollars	Currency swaps, forwards, credit lines	Control of capitals
Argentina	•	•	•	•
Brazil	•	•	•	
China	•			•
Czech Republic				•
Hong Kong	•			
Hungary				
India	•	•	•	•
Kazakhstan	•	•		
Mexico	•	•	•	
Peru	•	•	•	
Russia	•	•	•	•
South Africa				•
Taiwan	•			•
Thailand	•	•	•	•
Venezuela	•		•	•

As one may see from the Table, to prevent rapid devaluation of national currencies in the conditions of a crisis, countries in most cases resort to mass currency interventions, using their reserves. Others prefer forwards and swap operations (sale of currency with repurchase at a fixed rate within a set term), and extension of special credit facilities to meet the demand for foreign currency (first of all, U.S. dollars). Only a few countries resort to measures at stricter control of capital, in view of high corruption risks and low effectiveness.

As another anti-crisis measure, Riksbank considered **management of interest rates**, namely – their reduction, expected to **promote enterprise**.

To be sure, **credit expansion and reduction of interest rates** led to some **devaluation of the krona**, but it did not cause particular concern. Indeed, depreciation of the national currency in “normal” conditions promotes export. However, in the conditions of a global crisis, such connection is not evident due to the general decline in demand. That is why the monetary authorities in Sweden **concentrated on promotion of production, prevention of its decline and enhancement of the competitive position**, also backed with measures in support for liquidity and solvency of the banking system.

Worth notice, Riksbank, aware of the global nature of the financial crisis, took a firm **stand in international cooperation and assistance to the neighbouring countries**. For instance, yet in May 2008, the Central Banks of Sweden, Denmark and Norway provided funds to Iceland, whose financial and banking system was already sustaining great losses¹⁶.



Will Ukraine use the best experience: national practice

Against the background of the accurate and consistent monetary policy of Sweden, Ukraine’s policy and NBU (National Bank of Ukraine – *ed.*) practice look rather unconvincing. Administration of exchange markets failed to enhance the stability of the macroeconomic environment; rather, it deregulated the latter, adding to the panic and mistrust of society and business in the NBU ability to defend national currency. **The factors that conditioned instability of exchange and financial markets have not been removed**, so, the risks of deepening imparities remain high.

Institutional uncertainty. The economic, financial and exchange environment will remain uncertain unless the law clearly specifies the main goal and priority of the NBU activity. According to the effective Law on the NBU: “...*The main function of the National Bank is to ensure stability of the Ukrainian currency. In pursuance of its main function, the National Bank promotes maintenance... of stability of prices*”¹⁷.

That is, **stability of currency (in the definitions of the Law)**, evidently means something different from **stability of prices**. And neither it is the purchasing power, since another article of the Law reads that the NBU Board takes decisions on “*ensuring stability and purchasing power of the national currency*”.

Earlier linkage of hryvnya to dollar (nominal “anchor”) could mean that stability is seen as maintenance of the nominal rate. However, the refusal from linkage, administrative revaluation in the spring and shock devaluation of hryvnya in the fall of 2008 showed that

¹⁵ Source: JP Morgan. – Razumkov Centre’s archives.

¹⁶ Riksbank provided €500 million. Relevant agreements were extended in December 2008, after the IMF agreed on a programme of cooperation with Iceland and support for its macroeconomic stability. Furthermore, the Governments of Sweden and Denmark decided to provide temporary assistance to Latvia until the country agrees a programme of stabilisation with the IMF.

¹⁷ Law “On the National Bank of Ukraine” (1999).



that was not the fact. There is no trace of “stability” even in the terms of foreign balances and real exchange rate of hryvnya – due to great movements in the balance of payments and the inflation rate keeping much higher than in the developed countries (used as a reference point for estimation of the real rate of hryvnya) for years.

Therefore, **neither the Ukrainian legislation nor current NBU practice describes the essence of “stability of currency” notion.** This bars adequate assessment of actions of the Central Bank (that allowed collapse of hryvnya in the fall of 2008) and performance of its main function.

The responsibility of NBU is fact stays beyond control of the authorities and the public. Although formally, the NBU Board enjoys a high status, its proposals remain only recommendatory. Other controls are actually absent.

Controversy of practical implementation of the NBU policy. Complications on Ukraine’s financial markets in the fall of 2008 demonstrated the unreadiness or inability of NBU to cope with crisis trends. Its intentions and actions were inconsistent, controversial and ignored trends observed on internal and external financial markets.

The first steps of restriction of crediting and early withdrawal of deposits **seemed adequate to the tasks of the exchange rate stabilisation**, since similar measures brought effect in 2004. However, having announced a moratorium on the markets of deposits, NBU failed to implement effective control on credit markets and did not manage to prevent devaluation shocks.

This resulted in the **growth of panic spirits in society and business community.** People rushed to take money from deposit accounts. Withdrawal of funds from the

banking system as the result of disbelief in the NBU ability to curb crisis developments aggravated the problems of liquidity in the banking sector. Although at the beginning of 2009, NBU reported some slowdown of the drain of funds from deposits, it occurred only thanks to the exchange rate factor (devaluation of hryvnya). From the beginning of October 2008, till the end of February 2009, personal deposits in the national currency fell by UAH 27 billion (from UAH 128 to UAH 101 billion), in foreign currencies – by \$3.1 billion (or UAH 20.5 billion).

Interventionist measures of NBU did not add stability. *First*, making interventions on the interbank market, **NBU ignored the cash market**, more vulnerable to panic spirits of the population. That is why collapse of cash markets easily extended to others, adding to doubts about the NBU comprehension of the situation and ability to take the situation under control. Troubles were further aggravated by irrational administration in exchange markets¹⁸. The actions of NBU in October-November 2008, resulted only in reanimation of the “grey” exchange market and restoration of the practice of Ukrainian banks collecting fee for exchange operations.

Second, during the devaluation trends, NBU pursued a **non-transparent interventionist policy**: interventions were irregular, their terms, tentative rates and volumes of interventions were not specified, the procedure of bank access and satisfaction of their need for foreign currency funds remained uncertain, which in September-October gave grounds for criticism of the NBU actions, including by the Presidential Secretariat¹⁹.

Third, having announced restrictive and interventionist measures, **NBU did not control their implementation**, first of all, to remove risks of speculations.

Irrationality and inconsistency were seen also in the fact that a great deal of intentions and **measures either kept on changing, or were interpreted differently, or were just senseless.** For instance, in the fall of 2008 NBU more than once promised to maintain or even revalue hryvnya, neglecting developments on exchange markets and never keeping its promises.

Over actually the entire term of crisis developments of 2008-2009, NBU **remained non-public.** Isolated unconvincing, sometimes controversial explanations given by some bank officials did not add calmness to society and business. The world experience proves the **need of regular presentation of the Central Bank of the country’s position to the public.** Instead, NBU without recognising its mistakes, used to accuse experts and mass media of panic.

Therefore, it should be admitted that, unfortunately, the NBU activity during the crisis was short of the requirements and rules of “best practices” demonstrated by the Central Bank of Sweden.

¹⁸ First, banks were to sell cash foreign currency not above the official exchange rate, which was unacceptable for commercial banks. Later, NBU allowed commission surcharges.

¹⁹ The regulator spent almost \$5 billion of the national gold and currency reserves, but the market did not feel the positive effect of that colossal intervention, hryvnya exchange rate continued to fall. Evidently, the National Bank used far less than the optimal form of employment of those funds. More than that, the criteria of distribution of those huge resources are unclear not only for the public but also for other market actors. This causes reasonable suspicion about a corrupt aspect in the NBU actions¹⁹. See: NBU measures to deal with fever on the foreign exchange market so far brought no notable results. – O.Shlapak. – <http://www.president.gov.ua>, October 30, 2008.