

## The Swedish Case

Competition is not to be an end in itself. It is not to be conjured out of political reasons but out of efficiency reasons. The objective must be to achieve the most possible advantages for consumers and citizens. Sometimes several actors on the market are needed to achieve these. Sometimes the presence of only one



actor (natural monopoly) is more efficient.

Everybody, individual, production and society, benefit from efficient markets. The Swedish Trade Union Confederation (LO), as a trade union organization, is positive to the fact that inefficient markets are deregulated. There are those believing that rigidities in the economy partly depend on too advantageous social security systems which results in a rigid labor market. LO considers deregulations of product markets to be an alternative to impaired social security systems, which would result in still more far-reaching cuts in the welfare system.

When summarizing the experiences of the deregulations which have taken place with the aim of fuelling competition, we may observe that reality to a certain extent, but not totally, corresponds to theory.

Over a period of more than ten years, Sweden has carried out sev-

eral so-called deregulations in the markets for products and services in order to increase competition. A large part of public operations are subjected to competition: public procurement, public works and the so-called network services, such as gas, heating, telecom and transit of persons and goods. In these fields it is often possible to create reasonably efficient markets, and a series of regulatory reforms has been accomplished. There are however reasons to be very restrictive with regard to commercializing welfare services, such as school, nursing and health care.

Regulatory reform has resulted in increased productivity. But what we have seen hitherto is a combination of higher productivity and higher consumer prices; it is obvious that some actor has profited from the adjustments. If this were, to some extent, due to deliberate disturbances in the functioning of the economy, it would mean that some producers have reaped a part of consumers' gain from the deregulations.

However, the crucial motive of competition policy is wider than "merely" lower prices. As a small country, Sweden is to a great extent influenced by a global economy. It is therefore of major importance that our economy is characterized by a pressure for transformation and efficient use of the means of production, in order to hold our own ground in the competition and to safeguard job opportunities and welfare in Sweden.

There are many signs indicating that Sweden is about to enter a higher growth level. This does not

just signify that Sweden is temporarily “taking a great leap forward” as regards GDP, but it seems that the long-term increase in productivity is higher than before. After a change of the line of policy towards low inflation and stable public finances, the total factor productivity has increased. The raise in productivity is thus realized not only through an increase in the capital and working hours invested, but also through improved efficiency in the use of resources.

The greatest problem so far is not that the regulatory reforms have not worked out well – because they have to a certain extent. The problem is rather that consumers and citizens still have gained too small advantages of the benefits as regards regulatory reforms.

### **Competition in Private and Public Sectors Respectively**

Goods and services traditionally produced within the private sector have, in contrast to the public sector, a price which is relatively easy to value from the quality perspective. It is also a question of goods/services which are relatively similar irrespective of a producer.

In a market economy the price should reflect information on quality and quantity, but this requirement is seldom met as regards welfare services. It is for the consumer considerably more intricate to have an apprehension of price and quality in this sector compared to others. Thereby one of the conditions of an efficient competition market is dropped because the consumers must have access to sufficient information on prices, quality and supply in order to make a choice of what complies

with their expectations. Moreover, possibilities of evaluating the quality of these services occur with a considerable time delay in many cases (this applies especially to school), which is another difference between these services and the so-called network services.

Therefore, the possibility of evaluating deregulations is much more difficult within the public sector than within the private sector. The costs for failures within the welfare



services sectors are too sizeable for us to afford taking any risks. We must be careful with deregulations within these sectors. These services must of course be conducted in an efficient way: tax means must be used as rationally as possible.

At the prospect of deregulations, the profits of efficiency must be secured. The advantages for consumers and citizens must be maximized. This sometimes implies that supply and quality are more important than the price. And sometimes only one or a few suppliers of sufficient size may handle to reduce the price to make the goods/services available for enough people. This last aspect is not the least important if you take into consideration that people’s capacity to pay seldom coincide with the need to make use of the service.

A competitive market is also signified by free price determination. Different prices classify the consumers according to ability to pay. New

problems will arise, such as social segregation and grading of people according to income, thereby resulting in larger differences in health and education.

### **The Preconditions of Regulatory Reforms**

Within the European Union, the ambition is to boost competition and efficiency in the internal market regulatory reforms of the markets for goods and services. Sweden is perhaps the country which has most reformed markets in the Union. How come that we mainly have managed to effect the expressed political will of the Cardiff process? There is one decisive aspect: the “security contract” between the individual and society. The wage earners in Sweden accept changes when they are certain of a solid social structure which covers enough to make them venture increases in unemployment, at least of short duration.

If companies are exposed to increased competition and rationalize production by cutting down the number of staff, those becoming jobless are entitled to assistance. This is to say the reassignment to a new workplace, further education, retraining and unemployment benefits.

On a European level, the social security systems have not been emphasized concurrently with the liberalization of the internal market. Certainly, we have an employment strategy to create more and better jobs. It is also a positive trend that, some years ago, focus started to be put on social issues in addition to economic issues. But the situation is probably that the wage earners of Europe still experience a too great insecurity to dare risking the acceptance of changes.

There are also structural problems within the European Union which would benefit of boosted efficiency of goods and services, and also, to a certain extent, the labor market. But the main problem of Europe today is the aggregated demand. Experiences show that changes are easier to bring about in times of economic growth, and structural changes cannot replace a balanced demand.

What could be done to achieve more efficient markets? First thing should be a cost-benefit analysis, made for different groups of wage earners, as a result of increased exposure to competition.

Efficient markets need regulations and control systems. Our Swedish examples of effected reforms show that the theory of competition not totally corresponds to the practice. Violations of the competition acts imply that the economy is exposed to disruptions and that the consumers actually are cheated. Governments and parliaments therefore ought to overhaul how to frame the acts in the best way in order to, for example, outwit the formation of syndicates.

The competition authorities must also have sufficient economic resources to monitor that regulatory reforms really are to the advantage of the consumers, by extending to even more sectors the possibilities to break up cartels and other anti-consumer coalitions. The authorities should also have the possibility of international cooperating to step up the pressure on the international market on the one hand and to guarantee the national enterprises fair conditions on the international market on the other hand. 