

Anti-Inflationary Measures in Sweden

Throughout the postwar period the need of counteracting inflationary tendencies in the economy has been the main concern of economic policy in Sweden. It is true that the inflationary pressure has varied in strength over this period but it has existed, openly or latently, practically all the time. A first inflationary upsurge was felt in the years 1946-47. Then, after a comparatively quiet period in the years 1948-49, the pressure was again felt very heavily during the Korean boom. After a new lull in the years 1952-53, a third inflationary boom developed in 1954 and has continued unbroken ever since.

While the basic problem confronting those responsible for the formulation of economic policy in Sweden has thus been substantially the same all through this period, the approach to its solution has changed a great deal. As the same problem (of inflation) and the need to combat inflationary tendencies has existed in practically all countries, it may be of some interest to the readers of this review to give an account of what has been done recently in Sweden by way of anti-inflationary measures and an appraisal of the success of this policy. Although we shall have occasion, on a few points, to look back to some earlier experiences, the main emphasis will be laid on the policy pursued since 1954.

Symptoms of inflation.

The symptoms of inflation in Sweden have made themselves felt chiefly in three respects, namely (a) in a rise of the price level, (b) in a strained situation on the labour market and (c) in a pressure in the balance of payments.

(a) Since 1946 wholesale prices in Sweden have risen by an average of 70% and the cost of living by about 50%. About half of this rise took place during the Korean boom, when the index of consumer prices (1949=100) rose from 101 in 1950 to 126 in 1952. From 1954 to the spring of 1956 the cost of living index has been moving gradually upwards, but the total rise so far does not exceed 7%.

(b) Throughout the postwar period the Swedish labour market has been characterized by a shortage of manpower. This shortage has given the workers' unions a very strong bargaining position, and as a consequence, wage rates have risen practically every year. In manufacturing industries the total increase in money wage rates for such workers between 1946 and 1956 is 130%, and the increase in the real wage 50%. The last two rounds of wage contract negotiations led to average increases of about 10% in 1955 and at least 4% in 1956.

(c) The adverse effect of the inflationary pressure on Sweden's balance of payments is shown by the development of the Riksbank's holdings of gold and foreign exchange reserves. This was particularly noticeable during the first postwar inflationary boom, whereas the Korean boom had a rather strengthening effect on the country's foreign exchange position. The reserves dropped from about 3,000 million kronor in June 1946 to barely 400 million kronor in June 1948, then rose gradually during the subsequent years and were replenished very substantially in 1951, when Swedish exports enjoyed particularly favorable terms of trade. At the end of 1953 the reserves stood around 2,600 million kronor, but have, since, gradually dropped to about 2,250 mil-

lion kronor. It should be observed that alongside the absolute decline in reserves during the postwar period, there has been a much steeper decline in the purchasing-power of these reserves, owing to the rise in the international price-level. This is very clearly shown by a comparison between the level of reserves and the level of imports. Present reserves correspond to about three months' imports of the present level of foreign trade, whereas the reserves available immediately before the war and immediately after, were sufficient to cover about one year's import needs.

Present anti-inflationary measures.

The measures taken to combat the inflationary tendencies have varied a great deal in scope and character during the postwar period. Generally, there has been in the later years a trend away from direct physical controls over economic activities and towards monetary and fiscal controls of a more indirect nature. This trend has been particularly noticeable since the new inflationary pressures set in after the autumn of 1954.

The present anti-inflationary policy has developed only gradually. The first measures were taken in the autumn of 1954, at first rather slowly and tentatively. Any really effective and decisive steps to counteract these tendencies did not materialize until 1955 when the symptoms of inflation had already become very evident. The various measures may be listed as follows:

(a) Main emphasis has been put on *monetary policy*. For the first time in the postwar period the monetary authorities have tried to work through both quantitative credit restrictions and interest rate policies.

A system of quantitative regulation of credit was introduced already in February 1952. An agreement was then reached between the Riskbank (Bank of Sweden) and the commercial banks, through which the latter undertook to maintain certain liquid

reserves, varying from 15% of deposits in the case of the smallest banks to 33% in the case of the large banks. These reserves consist of cash and certain liquid assets (mainly Treasury bills and Government bonds). The purpose of these prescribed ratios has been to curtail the supply of funds available in the banking system for loans to trade and industry.

The idea behind this kind of credit regulation was that it would then be possible to keep the total supply of liquid funds in the market abundant and interest rates low, while at the same time preventing these funds from serving as a basis for an overexpansion of business investments. In practice, however, the system did not work that way. The abundance of money spilled over to the business sector in spite of all restrictive measures, and it very soon became evident that credit could not be made really scarce unless interest rates were also allowed to rise. In view of the long-standing tradition of cheap money in Sweden and the strong ideological support for low interest rates among both the coalition parties in the Swedish Government (social democrats and agrarians), such a decision was very hard to take. In the end, it was taken, however. The discount rate of the Riskbank was raised from 2 3/4% to 3 3/4% in April 1955, and a corresponding upward adjustment of money rates was made all through the credit market.

Apart from these measures the banks have also been required during certain periods to cut down their loans and discounts. Thus in the summer of 1955 the banks undertook to reduce their total lendings to the business sector by 1%, and in the spring of 1956 a further cut of 5% — to be achieved by the end of August — has been recommended by the Riskbank. The credit restrictions are also supplemented by a very tight control of the capital market. No new bond issues may be floated without a Riskbank permit (which has in practice not been given to business enterprises other than electric power installations and in their case also very sparingly). Further, the loans and investments of the insurance

companies have also been submitted to Risk-bank control with a view to preventing an outflow of funds to business enterprise from this sector of the capital market.

(b) General *fiscal policy* has become increasingly restrictive. The Swedish Budget is divided into two sections, current and capital. The guiding principle of budgetary policy is that the current budget should normally balance, whereas productive capital investments (such as investments in the railway system and the Government-owned public utilities) should normally be financed by borrowing on the capital market. However, since the fiscal year 1954-55, the current Budget has been substantially overbalanced, and for the year 1956-57 the budget surplus even exceeds the amount of the Government's capital investments by some 500 million kronor. To that extent the Budget serves as an anti-inflationary instrument, reducing the available purchasing power of the economy.

The Government's borrowing policy has also been adapted to serve as an anti-inflationary measure. Thus, both in the autumn of 1954 and in the spring of 1955, the authorities, while restricting the access of other prospective borrowers to the capital market, offered Government issues of long term bonds at a very attractive interest rate, with a view to mopping up as much as possible of the liquid funds then available on the market.

(c) Special *tax measures* have been introduced with a view to curtailing private investment. Through new taxes on business, passed by the Parliament in the spring of 1955, the very liberal rules for depreciation on machinery and equipment and for the valuation of inventories, which have traditionally been characteristic of Swedish business taxation, were restricted in order to make it more difficult for industry to finance its investments from internal sources. Further the rate of the Government tax on corporations was increased in 1955 from 40 to 50%, which, in addition to the local taxes, brings the total taxload to nearly 60%. Finally, a 12% investment tax was introduced in January 1955 to be paid

on all investments in plant, machinery and equipment.

(d) In January 1955 a tax was imposed on all *sales of automobiles*, new or second-hand. The tax-rate works out around 10%. In fact, there has been a very rapid increase in the sales of automobiles in Sweden in recent years, and as this increase puts a very heavy strain on the balance of payments and on investment resources within the country, the Government has been anxious to restrict the increase. It would seem that the tax so far has very little effect. The number of automobiles in use in Sweden increased by 71,000 in 1953, by 104,000 in 1954 and by 115,000 in 1955. Apart from the tax, measures have also been taken to curtail instalment sales in the automobile trade. This has been achieved through a voluntary undertaking on the part of the autodealers.

(e) To stimulate *private savings* a special kind of savings account was introduced in the spring of 1955. For funds paid to these accounts up to a limit of 1,000 kronor a year during 1955 and 1956 and left untouched for five years, the Government will pay a bonus amounting to 20% in 1955 and 15% in 1956.

(f) *Building operations* have been under close Government control all through the postwar period, and this control has been tightened during the past two years. The tightening particularly refers to the building needs of industry and trade, but the amount of housing construction has also been adjusted. Building permits for the manufacturing industry in 1954 were given for a total of 375 million kronor, but for 1955 and also for 1956 the volume was reduced to about 200 million kronor. The total housing programme was reduced from 58,000 dwelling units in 1954 to 56,000 in 1955. The figure for 1956 has been planned at 53,000 but will in fact probably be somewhat higher.

(g) The Government has all through the postwar period retained certain *price controls* but it has not been used lately as a major weapon against inflationary trends. It has

remained in the background, however, and the Government has been prepared to use it should speculative tendencies threaten to jeopardize price stability.

Appraisal of the anti-inflationary policy.

It is perhaps still too early to make an appraisal of Sweden's anti-inflationary policy during the last two years, as the full effect of the measures introduced in 1955 cannot yet be judged. However, certain effects are already apparent. Thus, the rate of increase in industrial production has slowed down considerably, and the situation on the labour market is at present much easier than it was a year ago. The pressure on the balance of payments, however, has not yet been relieved, and a further reduction of Sweden's foreign exchange reserves this year seems unavoidable.

The general approach of the authorities to the solution of the inflationary problem in recent years has had the support of all political parties. The business community has regarded the recent emphasis on general measures of a monetary and fiscal nature as a decided improvement after the earlier failure to correct the inflationary situation by direct controls and regulations. The need for a restrictive economic policy is not disputed by

responsible spokesmen of any group of the Swedish people.

This does not mean that the anti-inflationary policy has not been criticised. Far from it. The policies pursued by the Government have been criticised very severely and mainly on two scores. One is the fact the authorities were so slow to take effective action so that inflation got well under way before anything of a decisive nature was done to stem the tide. The other has to do with the obvious onesidedness of Government action. Practically all the measures taken by the Government have been directed against private investments, mainly the investments of the business sector of the economy, while very little has been done to curtail public investments, housing and private consumption. It is feared that such a policy may severely retard the growth of production and thus make it more difficult to meet the inflationary pressures through an increased supply of goods. The various restrictions on investments will also make it difficult for industry to offset by increased mechanisation of industrial operations the adverse effect of wage inflation on the cost level. This is the more deplorable since the competition on foreign markets has lately become very severe and there are signs that the competitive position of Swedish exporters has deteriorated lately.

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