

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Working Party on Structural Adjustment  
and Trade Policy

RECORD OF DISCUSSION ON COUNTRY CONTRIBUTIONS  
RELATING TO EXPERIENCE WITH STRUCTURAL ADJUSTMENT

Sweden  
(Spec(82)6/Add.2)

1. Introducing his country's submission the representative of Sweden said that he wanted to highlight the major trends in Swedish structural adjustment after World War II and try to bring out some of the major factors behind it. He would also make an addition to the Swedish submission by commenting on recent developments both in terms of the autonomous process of adjustment and in terms of new government measures and philosophies.
2. The first post-war decades constituted a very favourable period of development for Swedish industry. Production capacity was undamaged by the war and demand for Swedish export goods rose quickly. As a result industrial output rose comparatively fast and the level of investment in industry remained high. The rapid growth of the 1950s and the 1960s was achieved by means of a radical structural transformation, with labour being transferred from declining to expanding sectors with high productivity. Liberal trade policies and a well functioning labour market were two of the driving forces behind this transformation. For the most part this was accomplished without government intervention in the form of industrial support measures. Keynesian type measures of demand creation were at play in certain fields, such as housing and defense, but had no major influence on the transformation process. Generally it could be said that the 1950s and the 1960s represented a very successful policy of structural adjustment.
3. The scene began to change in the first years of the 1970s when Sweden was hit by the first oil crisis followed in 1974-76 by extremely expensive wage settlements in parallel with decreased demand for industrial goods due to a deep world recession. It should be emphasized that the Swedish economy, with 35 per cent of GNP represented by exports and a 75 per cent dependence on imports for its energy requirements, was more sensitive than most countries to the scenario it was faced with in the mid-1970s. Shipyards and the countries traditional base industries - mining, steelmaking, and forestry products - experienced substantial impairments in their international competitive strength due to their increased cost level coupled with low demand and the emergence of new competitors.
4. To prevent a massive and socially unacceptable elimination of industrial capacity, a strategy was employed which had two critical components. Firstly, general economic policy was aimed at improving Sweden's relative costs and with them the international competitive status of Swedish industry. Secondly, there was reason to suppose that general

economic policy would not in the short run be capable of achieving sufficiently vigorous industrial growth to replace the capacity which faced elimination. The latter was, moreover, to a great extent situated in regions contending with high unemployment or in single industry communities. It was therefore considered necessary to lend support to parts of the declining sectors of industry.

5. The forms of support which were introduced were largely combined with conditions aimed at achieving structural adjustment and greater competitive strength. As indicated in the Swedish submission substantial capacity reductions followed in the traditional base industries, which had received the bulk of the support. The total volume of government support to industry in relation to GNP increased through the latter part of the 1970s.

6. At the same time research and development efforts were intensified in a bid to improve growth prospects for the viable enterprises. During the 70's the Swedish research and development efforts rose from 1.5 to almost 2 per cent of GNP. In addition firms were given better opportunities of financing high risk projects and steps were taken to improve development opportunities for small and medium sized firms. In retrospect it seemed clear that the emphasis on forward-looking measures should have been even stronger, though it was equally clear that the scope of the problems was hard to predict. Impossible to predict was the second oil supply shock following the revolution in Iran in 1979, which threw the world economy off balance once again.

7. The structural problems of Swedish industry proved to be of a more lasting nature than was envisaged in the mid-1970's. Employment in industry continued to decrease during the 1980-83 period. There was no addition to the capital stock of industry. Industries such as shipbuilding and mining were still faced with weak demand, and large non-utilized capacity. At the same time it was evident that the government would not be in a position to accept the budgetary cost that industrial support measures had incurred during the last few years. The new government had reaffirmed the goal of facilitating structural adjustment and had, through the devaluation of the Swedish currency, established a cost level for industry where it would be easier to achieve this adjustment without incurring increased budgetary costs in the form of industrial support measures. The government had taken a more restrictive approach to supports to individual companies and branches of industry. Owners and banks had increasingly been asked to take responsibility instead of putting the major responsibility for adjustment on society. It was recognized that supports, while being motivated from a short term perspective, could slow the structural adjustment process. It was the intent of the present government to re-emphasize the forward-looking industrial policies.

8. The government had therefore foreseen a reduction of subsidies to industries facing adverse growth prospects. The reduction included export credit subsidies and supports for the shipbuilding and textile industry. At the same time incentives for the development of new techniques had been increased in such sectors as energy and communications. Funding for R and D had been increased further and a new programme on R and D would be presented next year. This policy would benefit from the capacity reductions and reorientation already made in the base industries which had been the major

recipients of supports and from the increase in world demand that now finally was in sight.

9. He emphasized that during the most recent years, where serious imbalances had characterized the Swedish economy, Sweden had upheld its liberal trade policy. The process of increasing internationalization of the Swedish economy had continued and the share of exports in industrial production had increased. The new government had reaffirmed the commitment to an open multilateral trade system in the belief that it carried important advantages for Sweden.

10. In response to a question by one member of the Working Party concerning structural adjustment in the agricultural sector the Swedish delegation stated that in 1947 the first Swedish co-ordinated agricultural policy had been formulated. Certain measures to promote the development of an efficient farm structure had been practised in varying forms since the 19th century. Now the monitoring of the structural development became an integral part of the general agricultural policy. The present guidelines for Sweden's agricultural policy had been decided by parliament in 1977. The primary goals were to secure a satisfactory supply of food in case of emergency (the production objective), to assure people engaged in agriculture in all parts of the country an economic and social standing equivalent to that of comparable groups (the income objective), and to promote efficient farming so that food could be produced at reasonable costs (the efficiency objective). Special measures had been created to promote the development of an efficient agriculture. The present Land Acquisition Act aimed at controlling the transfer of land to new owners to ensure that efficient farm units could be created. The number of producing farms in Swedish agriculture had decreased from 162,000 in 1969 to 115,000 in 1981 and the average size of farms had increased 36 per cent during the same period. The government also played an active role in the process of rationalization by purchasing and selling land through a special land fund. Rationalization in agriculture was further promoted by special credits and credit guarantees granted by the government. These measures were designed to support rationalization within the farms (i.e. mechanization, and re-orientation of production) as well as the creation of efficient production units (i.e. acquisition of farms and purchases of additional land). At present the possibilities of obtaining governmental credits for investments in animal production had been restricted due to the surplus problem. More detailed statistics on Swedish agriculture, including structural adjustment variables, would be provided in connexion with the Swedish contribution to the work of the GATT Agriculture Committee.

11. The same member asked whether more information could be obtained on the guidelines for agricultural policy adopted in 1977. Referring to the production objective, income objective and efficiency objective mentioned above he wondered how these three objectives could be achieved at the same time. He was furthermore interested in the self-sufficiency ratio of Swedish agriculture. The representative of Sweden said that his delegation would provide information on these questions in connection with the submissions under the work programme of the Committee on Agriculture.

12. The same member enquired how employment by sectors such as textiles and clothing, agriculture, steel and electronics had changed over the last fifteen years as a percentage of the total work force. He furthermore wanted to know how exports and imports by these sectors had changed over the last fifteen years as a percentage of total exports and imports respectively. The Swedish delegation provided statistical figures which are attached as Annexes 1 to 3.

13. Another member of the Working Party, referring to the last paragraph in page 19 of the Swedish submission on labour mobility wanted to know whether the social factors mentioned there were inherent in Swedish society and to what degree they reflected political decisions. The representative of Sweden replied that during the 1960's the public view was favourable to mobility and structural adjustment. The government contributed to adjustment through an active labour market policy emphasizing mobility and flexibility. The structural adjustment necessitated major geographical relocation of people and a considerable mobility between different branches of industry. The labour market policy aimed at facilitating this process. The portions of the labour force that became redundant in the ailing sectors of industry could in general be absorbed by other companies having higher productivity and better wage paying capacity. The economic developments in the beginning of the 1970's brought about changes in the prerequisites for the earlier policy. Public reaction to the social implications of increasing pressures for mobility appeared and there were increasing demands for government action to forestall high unemployment in depressed regions. The increasing employment rate for women contributed in part to an increasing reluctance to move from one place to another. The direct economic compensation to the moving individual gradually became more limited during the latter half of the 1970's. In order to reinforce labour market mobility the present government had, in several respects, improved the incentives for mobility. The level of transfer payments in compensation to individuals seeking employment in other geographical areas had been adjusted to the inflation rate and in other areas, such as compensation for losses in real estate, direct increases had been made. The different measures supporting increased mobility had been simplified and systematized. Rules had been amended to provide incentives to those seeking permanent employment on new locations rather than temporary employment.

14. The same member, referring to page 23 of the Swedish submission on textile adjustment and wage policies by trade unions, wanted to have more clarification on the principle of equal pay for workers regardless of industrial activity and productivity level. He wondered whether this was limited to the textile industry or whether it covered also other sectors. He was furthermore interested to hear more about efforts to support moves to production of high quality products as mentioned in the Swedish submission. The representative of Sweden stated that one of the main objectives of the Swedish Federation of Trade Unions, which represented the blue-collar workers, was to improve the relative wage position of low income workers irrespective of productivity considerations. This policy did create problems for certain sectors, since for instance the wage levels in the textile and other industries, e.g. steel and mining, with low growth rates moved in parallel with levels in industries having high productivity increases. As to measures aimed at increasing the share of high quality

products in the textile field he stated that there existed a special programme to support product development and design by covering consultancy costs as well as joint marketing efforts by the textile industry, e.g. participation in fairs, advertising campaigns and production of sales promotion material. In a new bill now before parliament the government proposed to concentrate such supports increasingly on competitive enterprises in the textile industry. The intention was to reduce over a period of time the absolute level of support to the textile industry.

15. Another member of the Working Party wanted to know whether apart from the sectors mentioned in the Swedish submission, i.e. textiles, steel and shipbuilding, there were other areas where specific policies were considered necessary to influence the pace of the adjustment process. He wondered also whether adjustment plans were required each time the government planned to intervene and whether there were time limits on so-called "temporary" measures. He asked also whether other than in the textile sector specific trade measures had been taken to support structural adjustment. The representative of Sweden replied that government support measures had been taken also in favour of other branches in order to facilitate the structural adjustment process and necessary capacity reductions taking into account social objectives. The government had for instance intervened in the forestry industry which was heavily hit by the recession between 1976 and 1978. Forest industries which had entered the recession with a weak capital base had been particularly hard hit. Apart from a now abolished system of government loan guarantees the government had assumed the role of part-owner in two pulp and paper industries. The National Swedish Industrial Board administered support schemes in favour of the wood working industry, the hand-made glass industry and the foundry industry. The programme for the foundry industry would be phased out on 30 June 1983. Adjustment support was extended by such means as depreciation loans, loan guarantees, educational assistance, technical consultants and marketing assistance. The state-owned mining company, LKAB, had also been supported in various ways. The mining operations which took place in the northern part of Sweden were of great importance from the point of view of regional development. The shipbuilding industry and the ordinary steel industry were the prime examples of where the assistance had been tied to the implementation of specific structural plans. Government demands for corporate measures or for contributions by the owners to the cost of adjustment had been raised also in several other instances. No specific trade measures to support structural adjustment had been taken outside the textile sector.

16. Another member of the Working Party, referring on the one hand to the measures mentioned in the Swedish submission concerning the Swedish textile industry and on the other hand to the openness of the Swedish market to imports in general, said that there existed a system of restraints under the MFA on imports of textiles from low cost developing suppliers. No such restraints existed for high cost developed suppliers which had a major share in higher value textile products. In his view this was in contradiction with the Swedish reputation of being a high technology and high wage economy and he wondered whether the present adjustment measures were adequate to respond to the situation. It would seem more in line with the nature of the Swedish economy to leave low value textile products free to international competition. The representative of Sweden replied that the measures aimed at moving the Swedish textile industry from low value to high value products should in the long run have a positive effect on the

export possibilities of developing countries to the Swedish market. Already now the overall penetration ratio of the Swedish market for textiles was 80 per cent and Sweden had also the highest per capita imports of textiles and clothing in the world. He mentioned also that the question of the compatibility of the Swedish restraints with the MFA had been discussed in the Textiles Surveillance Body.

I. Number of employees in certain sectors of industry

Year	Food processing industry			Textiles industry			Clothing industry excl. shoe industry			Iron and steel industry and similar		
	Import mkr	Export mkr	Emp- loy- ees	Import mkr	Export mkr	Emp- loy- ees	Import mkr	Export mkr	Emp- loy- ees	Import mkr	Export mkr	Emp- loy- ees
1969	1702	625	64830	2037	584	15400	701	251	35539	1365	2455	56168
1970	2052	645	66115	2224	696	17653	765	262	37959	1905	2929	56581
1971	2154	731	64845	2207	770	19505	715	267	29366	1617	2687	55660
1972	2258	958	63413	2457	844	26757	945	303	27588	1748	2967	54041
1973	2742	1069	63431	2609	1062	28493	1003	402	26936	2315	3078	54808
1974	3492	1215	63907	3491	1347	27050	1353	475	25835	3549	5429	56804
1975	3560	1108	65045	3481	1344	25920	1732	518	24535	3760	5081	58203
1976	3921	1314	66442	4053	1495	25609	2281	559	22290	3398	4922	57857
1977	4539	1465	65674	4302	1596	23692	2521	599	19187	2733	5694	54700
1978	4056	1650	66167	4403	1795	21384	2400	633	16552	3083	6974	51048
1979	5599	1948	65832	5420	2100	20794	3114	684	15314	4266	8400	51708
1980	5780	2112	66052	6095	2412	19846	3427	737	14137	4361	8745	51103
1981	5973	2496	..	6049	2603	..	3478	727	..	3802	8245	..

II. Share of Sweden's total import and export for same sectors of industry

Year	Food processing industry		Textiles industry		Clothing industry excl. shoe industry		Iron and steel industry and similar	
	%	%	%	%	%	%	%	%
1969	5.6	2.1	6.7	2.0	2.3	0.9	4.5	8.3
1970	5.7	1.8	6.1	2.0	2.1	0.7	5.3	8.1
1971	6.0	1.9	6.1	2.0	2.0	0.7	4.5	7.0
1972	5.8	2.2	6.4	2.0	2.4	0.7	4.5	7.1
1973	5.2	2.0	5.8	2.0	2.3	0.8	5.0	7.2
1974	5.2	1.7	5.0	1.9	1.9	0.7	5.1	7.7
1975	4.8	1.5	4.6	1.9	2.3	0.7	5.0	7.1
1976	4.7	1.6	4.9	1.9	2.7	0.7	4.1	6.1
1977	5.0	1.7	4.8	1.9	2.8	0.7	3.0	6.6
1978	5.2	1.7	4.8	1.8	2.7	0.6	3.3	7.1
1979	4.5	1.6	4.4	1.8	2.5	0.6	3.5	7.1
1980	4.1	1.6	4.3	1.8	3.5	0.6	3.1	6.7
1981	4.1	1.7	4.1	1.8	2.4	0.5	2.6	5.7

ANNEX 2

EMPLOYED IN CERTAIN SECTORS OF INDUSTRY AS A PERCENTAGE OF  
TOTAL WORK FORCE ACCORDING TO NATIONAL INCOME STATISTICS:

Sector/branch Stat. No	Year			
	1966	1971	1976	1981
1100 Agriculture and hunting	8,3	5,8	4,6	3,8
3200 Textiles and leather	3,2	2,1	1,5	1,0
3700 Iron, steel and metal	1,9	1,7	1,7	1,4
3710 Iron and steel	-	1,4	1,4	1,1
3830 Electrical industry	2,0	2,0	2,1	2,0
3843 Shipyards	0,9	0,8	0,9	0,6
2000 Mining and minerals	0,6	0,5	0,4	0,4
2100 Iron ore mining	-	0,2	0,2	0,2
2200 Non ferrous mining	-	0,1	0,1	0,1

ANNEX 3

Agriculture - Employment as a percentage of the total active workforce  
- Imports and exports as a percentage of total imports and exports respectively

<u>Year</u>	<u>Employment<sup>1)</sup></u>	<u>Imports<sup>2)</sup></u>	<u>Exports<sup>2)</sup></u>
1969	8.9	9.5	2.9
1970	8.6	9.7	2.3
1971	8.1	9.5	2.8
1972	7.7	9.1	3.0
1973	7.5	9.1	2.6
1974	6.7	7.4	2.9
1975	6.7	7.1	2.9
1976	6.5	7.7	2.6
1977	6.4	8.1	2.4
1978	6.2	8.4	2.3
1979	5.7	6.9	2.3
1980	3)	6.4	2.3
1981	3)	6.4	2.5
1982	3)	6.3 <sup>4)</sup>	2.9 <sup>4)</sup>

1) Employment in agriculture, forestry etc as a percentage of total active workforce

2) Statistics include chapters (CCC) 1-5, 7-12, 15-21 and 23

3) Not available

4) Preliminary