



# Post-War Planning in Sweden

## Employment, Investment and Monetary Policy

*Sweden, which was one of the first countries to plan its economic policy specifically with a view to counteracting unemployment and averting depression<sup>1</sup>, has been no less forward in preparing to meet the difficulties that will accompany the return from wartime to peacetime conditions. As early as March 1943, the Minister of Finance was authorised to initiate the necessary enquiries, and these have been making steady progress since. The results will guide the Government in its framing of post-war policy, and are being made available to the public in a series of reports, the first of which is analysed in the following pages. Particular interest attaches to those sections of the report which deal with the advance collection of information on prospective employment opportunities and the planning of programmes for industrial demobilisation and reconversion—the importance of which was emphasised by the International Labour Conference at Philadelphia<sup>2</sup>—and with the forecasting of future levels of investment. An account is also given of a report on monetary policy prepared by Bank of Sweden experts.*

When the Swedish Government decided on 11 February 1944 to appoint a Post-War Planning Commission to enquire into the problems of conversion to peacetime production, the Minister of Finance made a statement setting forth the situation with regard to the enquiries then being carried out in accordance with the authorisation he had received on 19 March 1943.<sup>3</sup> The results of the enquiries, covering such matters as monetary policy, demobilisation problems, and public investment possibilities, and of any further investigations by the agencies entrusted with them, are being co-ordinated by the new Commission with a view to the preparation of future policy.

The Ministry of Finance has now published the first volume in a series entitled "Reports on Economic Post-War Planning"<sup>4</sup>, which is to contain the results of the enquiries in question. This volume presents: (1) a statistical study of the industrial employ-

<sup>1</sup> Cf. *International Labour Review*, Vol. XXXIX, No. 2, Feb. 1939, pp. 224-233: "Swedish Employment Policy".

<sup>2</sup> In the *Employment (Transition from War to Peace) Recommendation, 1944*. Cf. *International Labour Review*, Vol. L, No. 1, July 1944: "The Twenty-sixth Session of the International Labour Conference", pp. 15-16.

<sup>3</sup> For the list of enquiries given by the Finance Minister, *idem.*, Vol. XLIX, No. 6, June 1944, p. 655.

<sup>4</sup> FINANSDEPARTEMENTET: *Uttredningar angående ekonomisk efterkrigsplanering*, I. Statens offentliga utredningar, 1944: 7 (Stockholm, 1944). 215 pp.

ment situation on 1 September 1943 as compared with 1 September 1939, prepared by the State Employment Market Commission; (2) a study of industrial employment opportunities in the years immediately following the war, prepared by the Industrial Research Institute (*industriens utredningsinstitut*<sup>1</sup>); (3) a short study, with estimates, of investment in manufacturing industry in the years 1942-1945, prepared by the Board of Trade; (4) a report of the President of the State Building Loan Office on the factors which will affect house building after an armistice. It may be noted that the second of these reports draws on the conclusions both of the first and of the third. In addition, the foreign exchange experts of the Bank of Sweden have prepared a report on post-war monetary policy, which has been published as an appendix to the 1944 budget estimates.<sup>2</sup>

Before the brief analysis of these five reports that follows, a few general observations may be called for, relating in particular to the first three studies. In the first place, the enquiries on which those reports are based were carried out in October 1943 and cover the larger undertakings in manufacturing industry—those employing as a rule 50 or more persons (in certain cases, a smaller number). The degree to which these undertakings are representative of manufacturing industry as a whole is indicated by the fact that they employed 70 (report 1) to 80 (report 3) per cent. of the total number of workers in the industries covered.

Secondly, it was decided that the estimates of the post-war situation should relate to the two years immediately following the end of the war in Europe, and certain basic assumptions were adopted, the first being that an armistice would be declared during the forthcoming winter, that is, 1943-44. Hence the post-war estimates cover the two years 1944 and 1945. However, the investment forecasts show separately the projects planned for 1944 irrespective of the ending of the war and those forming a "peace reserve" for 1944 and 1945. It was further assumed that Swedish neutrality would be maintained throughout the war, and that conditions for industry in the immediate post-war period would be favourable, with an adequate supply of raw materials and manpower.

### INDUSTRIAL EMPLOYMENT, 1939-1943

The object of the first report is to show the quantitative and local shifts in industrial employment caused by the war.<sup>3</sup> The principal conclusions reached are as follows.

During the four years ending on 1 September 1943, the number of workers (excluding mobilised workers) in the undertakings

<sup>1</sup> A body set up jointly by the Swedish Federation of Industries and the Swedish Employers' Federation.

<sup>2</sup> *1944 års statsverksproposition*: "Inkomster å riksstaten", appendix B: "Utredning angående utgångspunkter för penningpolitiken efter kriget", by RIKSBANKENS VALUTASAKKUNNIGA (Stockholm, 1944).

<sup>3</sup> Following this report on employment in manufacturing industry, the Employment Market Commission also prepared reports on the employment situation in forestry and the peat industry and on the manpower that would be set free by demobilisation from the defence forces and from emergency administrative institutions (cf. *Sociala Meddelanden*, 1944, No. 6).

covered declined by 4 per cent., while supervisory and administrative staff increased by 16 per cent. If mobilised men are included, the figures show an increase of 9.7 per cent. for workers, 25.5 per cent. for supervisory and administrative staff. Employment in such industrial groups as ore mining and the metal and chemical industries increased; in saw mills and paper and woodpulp factories it declined.

Labour turnover was high, especially among the workers. The number taken on during the four-year period was 115 per cent. of the total at 1 September 1943 (for women workers, the corresponding figure was 150 per cent.). Not less than 40 per cent. of the workers in employment in September 1943 had been taken on or re-engaged since the outbreak of the war; 43 per cent. of these had previously had other than industrial employment or no employment; 24 per cent. were employed away from their domicile.

The total number of women working in the undertakings covered remained unchanged, but there was a substantial shift in their distribution by industries, mainly from the textile and clothing to the metal, paper, and printing industries. On the other hand, the number of women in supervisory and administrative grades increased by 39.7 per cent.

#### POST-WAR EMPLOYMENT PROSPECTS

The Industrial Research Institute was requested by the Minister of Finance to estimate for the main industrial groups the manpower that will be set free by the cessation of the commercial blockade and of the intensified production of armaments, and the extent of the new openings for industrial employment and investment that will become available with the restoration of normal peacetime conditions.

	Percentage of total value	Percentage of total man-hours
Production for home market:		
Consumers' goods:		
non-durable.....	38.8	31.1
durable.....	7.6	10.6
Building materials.....	12.2	17.2
Industrial capital goods.....	4.1	5.2
Agricultural raw materials.....	2.2	} 2.5
Agricultural capital goods.....	0.9	
Other raw materials.....	2.5	2.0
Other capital goods.....	6.3	7.8
Total.....	74.6	76.4
Exports.....	25.4	23.6
	100.0	100.0

The Institute points out in its report that the total volume of employment in industry has remained virtually unaffected by the war—the workers mobilised for the defence forces, forming about 10 per cent. of the total labour force, have been replaced by new workers. But there have been considerable changes in the relative importance of the different branches of industry. In 1939, Swedish industry was working to full capacity on ordinary peacetime pro-

duction. Three quarters of the total output was absorbed by the home market, the remainder by the export trade, as appears from the preceding table, showing the percentage distribution of industrial output by products (classified according to the market for the product), as measured by the value of production and by man-hours, the latter a rough approximation which takes into account the degree of processing undergone by the product.

During the war the volume of exports declined by about 60 per cent., thus lowering the share of exports in total employment from one quarter to one tenth. This decline was somewhat larger than the increase in defence production, which at the end of 1943 was estimated to be providing employment for 60,000 workers, or 10 per cent. of the total number of workers in industry.

The shortage of imported fuel and raw materials during the war has reduced production in certain fields, especially in several consumers' goods industries (textile, leather, rubber); in other fields the reduced competition from imports has allowed an expansion of production (typewriters, sewing machines, etc.) or a development of new lines, especially fuel production (peat, tar products, shale oil).

The report sees in the changes in industrial production during the war an indication of the nature of the post-war problems. If the pre-war level of production can be regained in the industries where there has been a decline, and if the consumers' goods industries working with Swedish raw materials can expand sufficiently to absorb their workers demobilised from the defence forces, the main problem will be that of the employment of the increased labour force in the heavy industries. The number of workers involved is about 30,000.

The general outlook for industrial employment during the first two post-war years depends, however, to a large extent on the course of events outside Sweden. For the purposes of the report it is assumed: (1) that reconstruction on the continent of Europe will begin relatively soon after the armistice and will continue during the two years, entailing a large demand for reconstruction goods while the demand for other goods, as also the capacity to import, will remain small; (2) that the conversion to peacetime production in England and the United States will be relatively rapid and the demand for goods for reconstruction and other civilian purposes will be large.

As regards the situation in Sweden itself, it is estimated that price policy will aim at preventing deflation and inflation, and that purchasing power in terms of money will remain stable, but in terms of real income will rise gradually as the cost of living falls. Such stability will depend on the maintenance of full employment at unchanged wage rates. The report then considers the contribution that each of the main industrial groups—mining, iron and steel, engineering, wood and wood products, textile and clothing, leather, and chemical—can make towards the maintenance of full employment, assuming that the shipping shortage will not create any obstacles for Swedish exports; that fuel production and imports will remain at the present level; and that the amount of raw materials produced in Sweden or imported from abroad will be sufficient to

enable the manufacturing industries to operate at a level of full employment.<sup>1</sup> For the engineering industry, which in 1939 employed 30 per cent. of the total number of workers in industry, the forecast is based on a special questionnaire addressed to undertakings employing 63 per cent. of all the workers in the industry.

If free enterprise is unable to bring about full employment, the adoption of special measures is assumed with a view to getting as high a level of employment as possible.

In conclusion the report discusses the principal factors in the post-war situation, namely, the supply of raw materials, the prospects for exports, and the volume of investment. As regards the first of these factors, a detailed study of the supplies of iron and steel goods suggests a serious risk of a shortage of piping for the building industry and of iron plate for shipbuilding, two industries that largely govern the volume of investment. The openings for export trade are considered favourable but will depend on developments in the field of commercial policy, on the capacity to pay of importing countries, and therefore also on the Swedish policy with regard to granting credits. The study of investment activity is based on the Board of Trade report (described below) and assesses the manpower and quantity of building material needed for carrying out the proposed projects.

The general conclusion is that, subject to the various assumptions made, the movement of exports and investments after the war should lead to a restoration of the pre-war level of employment in the industries that have experienced a decline and that employment will have to be found for a surplus of about 30,000 workers.

#### FORECASTS OF INVESTMENT IN INDUSTRY, 1942-1945

Since 1938 the Swedish Board of Trade has made forecasts of investment in manufacturing industry based on returns received from industrial undertakings; but for the purposes of the present enquiry certain additional questions were put. The undertakings were requested to divide their projects for 1944 and 1945 into three groups: (1) those they intended to carry out in 1944 irrespective of the continuation of the war; (2) those to be carried out in 1944 only if the war continued; (3) their "peace reserve" to be carried out in 1944 and 1945 on the assumption that an armistice would be declared in the winter of 1943-44, that the economic situation thereafter would be favourable to the undertaking, and that the supply of raw materials and manpower would be adequate.

The statistical tables compiled by the Board on the basis of the returns present these estimates together with the actual volume of investment in 1942 and 1943. The particulars under head (2) above are treated summarily and are left out of account in the main analysis.

The forecast for projects to be carried out in 1944 irrespective of the continuation of the war gives a total investment of 528 million crowns, allocated as follows: industrial buildings, 30 per cent.; other industrial construction, 21 per cent.; machinery, 43 per cent.;

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<sup>1</sup> This involves the maintenance of Swedish production of substitute raw materials. A report on the post-war import requirements of various raw materials has been prepared for the Government by the State Industrial Commission.

workers' housing, 6 per cent. This allocation is approximately the same as that actually observed in 1942 and 1943. The total represents an increase of 33 per cent. on the 1939 figure at current prices and a decline of 18 per cent. on the actual totals for 1942 and 1943. But if the figure for 1943 is limited to those undertakings which also reported in 1944, the expected decline is found to be 9 per cent. In practice it may prove less.

As an indication of the accuracy of the forecasts it may be noted that the estimate for 1943 made in November 1942 was 583 million crowns, whereas the actual figure for the same undertakings resulting from the present enquiry is 624 million crowns, or 7 per cent. more.

The "peace reserve" of investments is estimated at 252 million crowns, of which 44 per cent. would be devoted to industrial buildings, 17 per cent. to other industrial construction, 35 per cent. to machinery, and 4 per cent. to workers' housing. It should be noted that this "peace reserve" is virtually confined to private industry, since the returns of Government undertakings refer almost entirely to projects which it is proposed to carry out irrespective of the end of the war. As might be expected, the investment forecast is comparatively high for consumers' goods industries and comparatively low for export and heavy industries.

#### POST-WAR HOUSE BUILDING

The main conclusions of the report on the situation for house building after the war have been set forth by the author in an article recently published in these pages.<sup>1</sup> Detailed estimates of housing requirements and of the available resources of land, building materials, and manpower in the five years 1945 to 1949 suggest that the number of dwellings constructed each year should be about 45,000, the level attained in 1939. In some localities, however, there may be a scarcity of suitable building sites; and as regards the supply of building materials, the risk of a shortage is greatest in the case of piping and window glass. The capacity of the building industry to provide increased employment will probably be limited to the re-absorption of the 30,000 workers called up during the war or transferred to other occupations.

The rise in building costs proper (excluding the cost of the site) from the beginning of 1939 to October 1943 is estimated at 25 to 30 per cent., that in total costs of acquisition at 20 to 25 per cent. If rent levels and interest rates remain unchanged, the additional construction required will not take place unless encouraged by a fall in building costs of about 10 per cent., failing which the existing Government subsidies must be continued. Such a fall would result if the prices of building materials were to be reduced by 50 per cent. of the increase which has taken place during the war.

#### POST-WAR MONETARY POLICY

The report of the foreign exchange experts of the Bank of Sweden emphasises that the objective of the present monetary policy,

<sup>1</sup> Cf. *International Labour Review*, Vol. L, No. 3, Sept. 1944, pp. 300-315: "Swedish Housing Policy in Wartime", by Alf JOHANSSON.

namely, to stabilise the price level within limits determined by the fluctuations in the supply of goods due to variations in domestic productive capacity or in the terms of trade with foreign countries, should be kept in mind in the post-war period.

Should the shortage of goods continue as at present and should costs of production show no signs of decreasing, there will clearly be no reason for modifying the monetary policy applied during the war. In these circumstances the effects of monetary policy would be limited and would need to be supplemented by the restrictive price and wage controls which have been in effect during the war.

If the costs of imports decrease, the stated objective of monetary policy would imply that the reduced prices of imports would have to be reflected in the trend of domestic prices. The same would naturally be the case if production costs fall on the home market, thus increasing the supply of goods. There is, however, a serious risk that a reduction in prices will have a depressing effect on industrial activity and so increase the chances of general unemployment. Such a result must naturally be prevented. During the war this policy has proved only partly successful since the Swedish price level has risen above the level justified by the relative shortage of goods. The report suggests that prices should not be restored to pre-war levels, but should be reduced only to the extent justified by the increase in post-war supplies, since a restoration of the pre-war price level would lead to a deflationary decline in income which would jeopardise industrial employment.

In commenting on the report, the Directors of the Bank of Sweden emphasise the importance which a successful stabilisation of exchange rates will have on world economy. They therefore take the view that Sweden should support any efforts to achieve stability, even if the internal aims of Swedish monetary policy have to be sacrificed to some extent for this purpose. The Directors emphasise that the exchange rates fixed in the initial stage of stabilisation should reflect the cost situation in the different countries. After stabilisation, such elasticity of exchange rates should be maintained as may be necessary to prevent inflationary or deflationary tendencies in any given country or group of countries from spreading internationally.

Adjustment of the exchange value of the Swedish currency would be justified in the event of substantial reserves of purchasing power being released in a foreign country before the general supply situation has improved or in the event of a serious general depression developing in any of the countries which buy large quantities of Swedish goods. No adjustment of the exchange rates in order to increase Sweden's competitive power on the international markets should however be allowed.

The report recommends that efforts should be made to maintain stabilised interest rates on the long-term markets when hostilities cease. Should tendencies to a depression develop during the transition period immediately after the war, the interest policy applied may prove of fundamental importance in counteracting these tendencies. A rise in short-term interest rates may be permitted; but tendencies to a tightening of the capital market should not be allowed to lead to the raising of long-term interest rates.