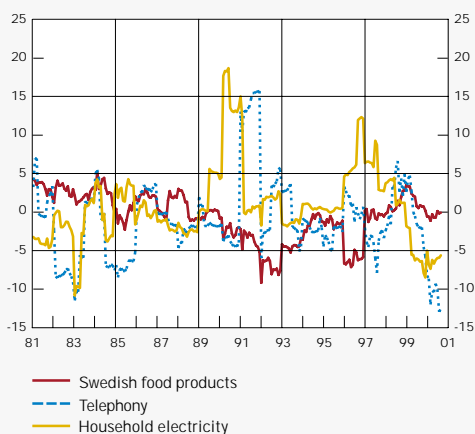


STRUCTURAL CHANGE AND PRICE FORMATION

Figure B1. Price movements relative to the CPI:
Swedish food products; telephony; electricity.
Percentage 12-month change



Sources: Statistics Sweden and the Riksbank.

Price formation in the Swedish economy has been affected by a number of major structural changes in the 1990s. The markets for electricity, telecommunications, postal services and various kinds of transportation, for example, were opened for competition. A new, tougher Competition Act came into force in 1993. EU membership and increased internationalisation have also contributed to stronger competition.

In order to examine the extent to which deregulations have influenced price formation, the development of consumer prices has been analysed in seven sectors: rail transport, taxi services, domestic air transport, postal services, domestic food products, electricity and telecom services.

Electricity and telecom services are network industries that used to be natural monopolies; they exemplify markets that have been opened for competition and undergone changes in price formation. Since the deregulation in 1993, prices for telecom services have risen more slowly than prices in general. The deregulation of the electricity market in 1996 coincided with increased electricity taxes and unfavourable weather; the relative price of electricity therefore rose initially but has subsequently fallen. In recent years the rate of price increases for electricity as well as telecom services has been considerably more subdued than the general price trend, though for electricity the relative downward tendency has become somewhat less marked in the past few months.

The market for domestic agricultural products was deregulated in 1991 with the aim of adapting agriculture and the food industry to market conditions.⁵ EU membership in 1995 did entail some re-regulation but it also enlarged the geographical market and thereby led to increased competition from imports. Although competition in agriculture was strengthened in the 1990s, barriers to competition still exist; among other things, new establishments in everyday retailing are hampered by vertical integration and a high degree of concentration. The stronger competitive pressure is mirrored in a rate of price increases for *Swedish food products* that was below the total CPI rate during most of the 1990s (Fig. B1). The rate of VAT on food products was changed (upwards as well as downwards) several times

5 See *Inflation Report 1999:4*, box on pp. 53–58.

in the 1990s, but even when tax adjustments are excluded, the relative price rise for Swedish food products has slowed.

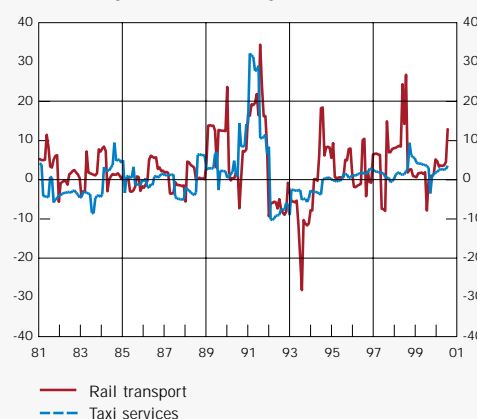
Rail transport, domestic air transport and taxi services exemplify markets that have been exposed to competition without the deregulation apparently leading to any major changes in price formation. Excluding changes in indirect taxes, prices for rail transport and taxi services have risen faster than the CPI since these markets were deregulated, while prices for domestic air transport have broadly followed the general price trend (Figs. B2 and B3). The termination of the *postal services* monopoly in 1993 does not seem to have had any downward effect on the relative price rise; the relative rate has admittedly tended to slow in the past year but in the period 1994–99 it rose markedly.

The main reason why relative prices in these four areas have not been subdued after the deregulations probably lies in the limited extent to which competition has grown. In a number of cases the problems with competition have to do with the competitive advantages that are still held by the former monopolist, for instance in the form of scale and existing capital. That makes market entry difficult. Losses incurred by price cuts in connection with a deregulation can be covered, for example, with profits on other operations (cross-subsidisation). The monopolist's initially large and comparatively immobile customer stock has no doubt hampered competition, too, as has the need for considerable investments in order to establish a presence in the market and attract customers. Another example of factors that may have limited competition is high consumer costs for transferring from one producer to another.

To sum up, it can still be said that the deregulations in the 1990s in sizeable areas such as food products, electricity and telecom services, which between them make up 17.5 per cent of household consumption, seem to have had favourable effects on the development of prices. In other sectors, such as transport, the changes in price formation have been smaller, though the deregulations may have had positive effects on the level and supply of services. The number of taxis, for example, has risen since the deregulation and waiting times have shortened. At the same time, a number of evaluations have shown that demand for taxi services has risen since the deregulation.⁶ The price for taxi travel has admittedly risen but the balance between supply and demand has improved, which was one of the deregulation's aims.

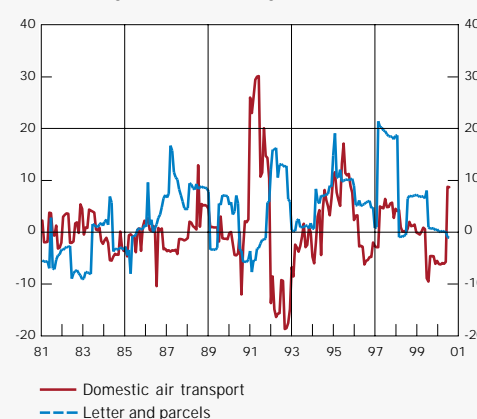
6 See NUTEK (1998), *Marknadsekonomi – inte så lätt i praktiken* (The market economy – not so easy in practice), Report 1998:11.

Figure B2. Price movements relative to the CPI: rail transport; taxi services. Percentage 12-month change



Sources: Statistics Sweden and the Riksbank.

Figure B3. Price movements relative to the CPI: domestic air transport; letters and parcels. Percentage 12-month change



Sources: Statistics Sweden and the Riksbank.