

The Swedish Fiscal Policy Council

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15 October, 2009

The Swedish Fiscal Policy Council

- Established in 2007
- Agency under the Government
- Independent evaluation of fiscal and other economic policy
- Annual report to the Government
- Public hearing in the Parliament
- Eight members
 - six academic researchers
 - two ex-politicians
- Small secretariat

Background

- International discussion of Fiscal Policy Councils/Committees
 - advisory group giving recommendations
 - government obliged to base budget bill on forecasts of independent council
 - delegation of actual decision-making
- Proposal on Fiscal Policy Council by Government Commission on the EMU in 2002
- The earlier Social Democratic government did not like the idea
- Council established by liberal-conservative government in 2007 (Minister for Finance: Anders Borg)

The Swedish fiscal policy framework

1. Surplus target
 - fiscal surplus (net lending of public sector) of one per cent of GDP over the business cycle
2. Government expenditure ceiling
 - all central Government expenditures except interest payments
 - ceiling is decided three years in advance

The formal remit of the Council

- To evaluate how fiscal policy relates to the objectives of long-run sustainability, the surplus target and the expenditure ceiling as well as to cyclical developments
- To evaluate whether developments are in line with sustainable high growth and sustainable high employment
- To monitor the transparency of fiscal policy and budget bills as well as their analytical underpinnings
- To stimulate public discussion in general on economic policy

Differences to earlier proposals

- Broader task
 - also growth and employment
- Ex post rather than ex ante evaluation
 - but in practice difficult to make this distinction

Long-run fiscal sustainability

- Fiscal sustainability is a **primary** objective
- The surplus target and the expenditure ceiling are **intermediary** objectives
- Criticism of unclear link between sustainability requirements and surplus target
 - prefunding to address demography
 - intergenerational equity, social efficiency and/or precautionary savings?
 - trade-offs between employment (retirement age) and need for prefunding
 - unclear interpretation of the surplus target
 - problems with the Government's sustainability calculations

Five indicators for the surplus target

- Historical average since 2000
- Moving seven-year average
- Current cyclically adjusted fiscal balance
- Historical average of the cyclically adjusted fiscal balance
- Moving seven-year average of the cyclically adjusted fiscal balance

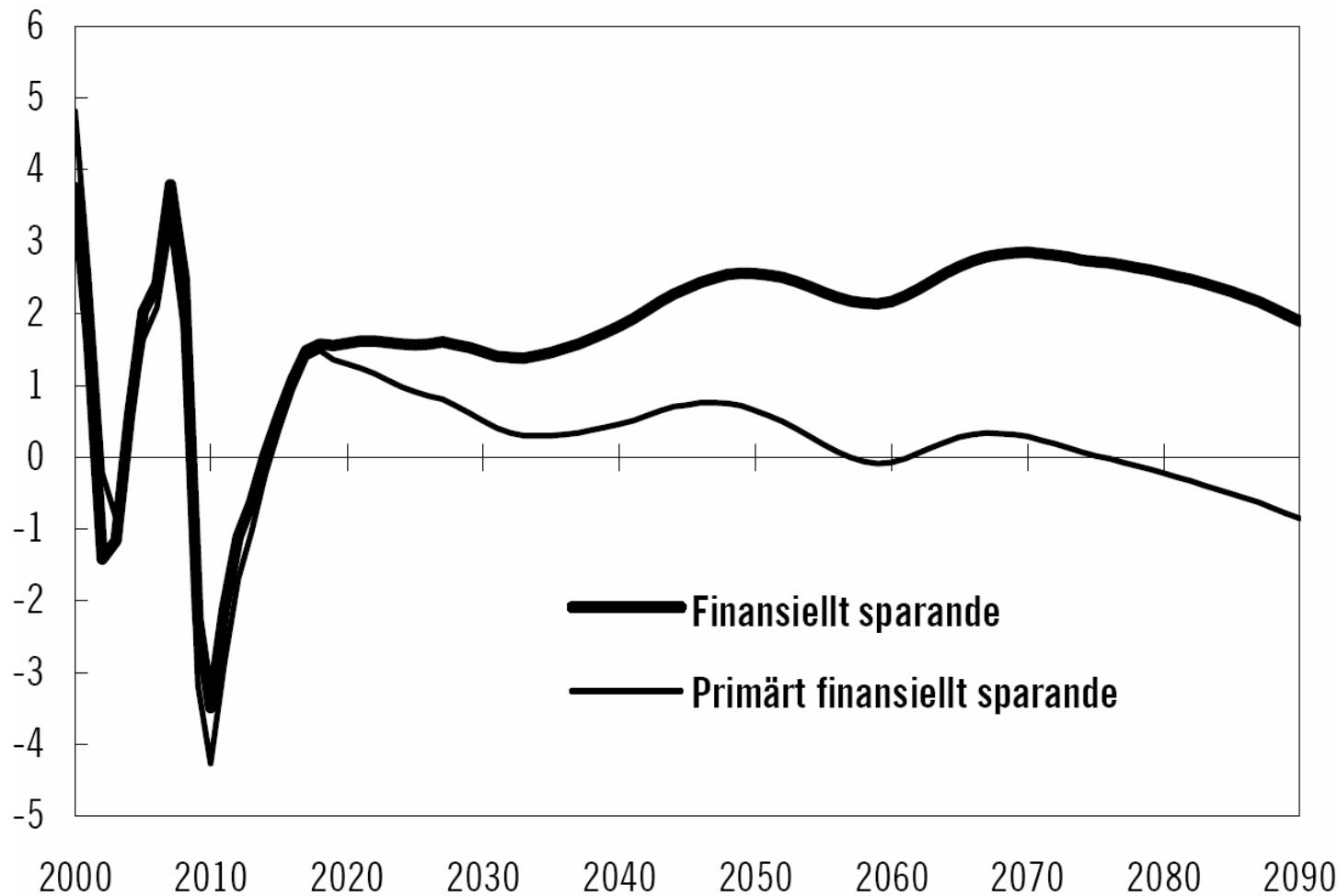
Different indicators of the surplus target

Budget Bill for 2010, per cent of GDP

	2008	2009	2010	2011	2012
Actual fiscal balance	2,5	-2,2	-3,4	-2,1	-1,1
Historical average	1,6	1,2	0,8	0,5	0,4
Moving average	0,3	-0,1			
Cyclically adjusted balance	2,3	1,4	0,2	0,7	0,6
Historical average of cyclically adjusted balance	1,2	1,2	1,1	1,1	1,0
Moving average of cyclically adjusted balance	1,2	1,2			

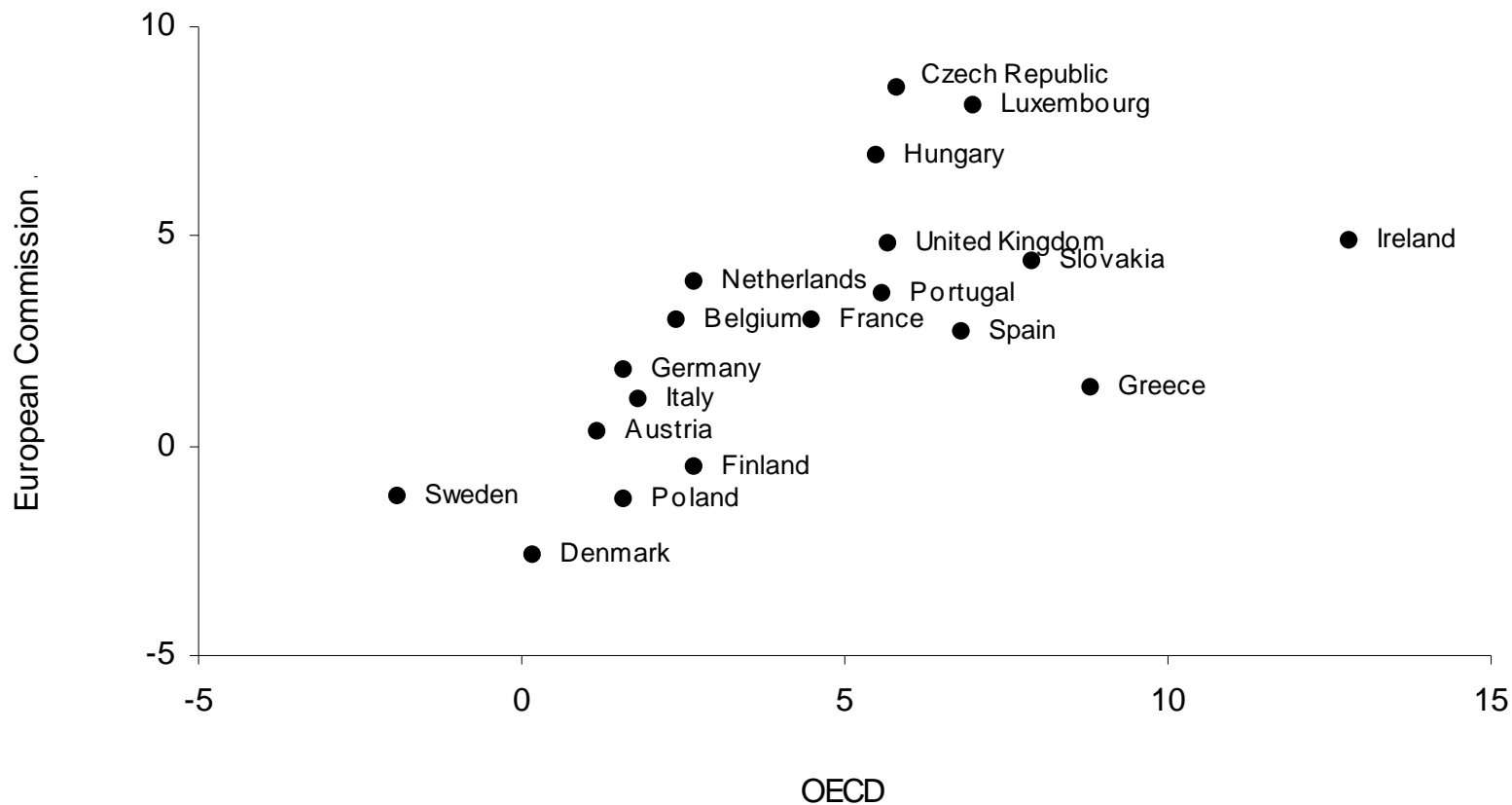
General government net lending

Per cent of GDP



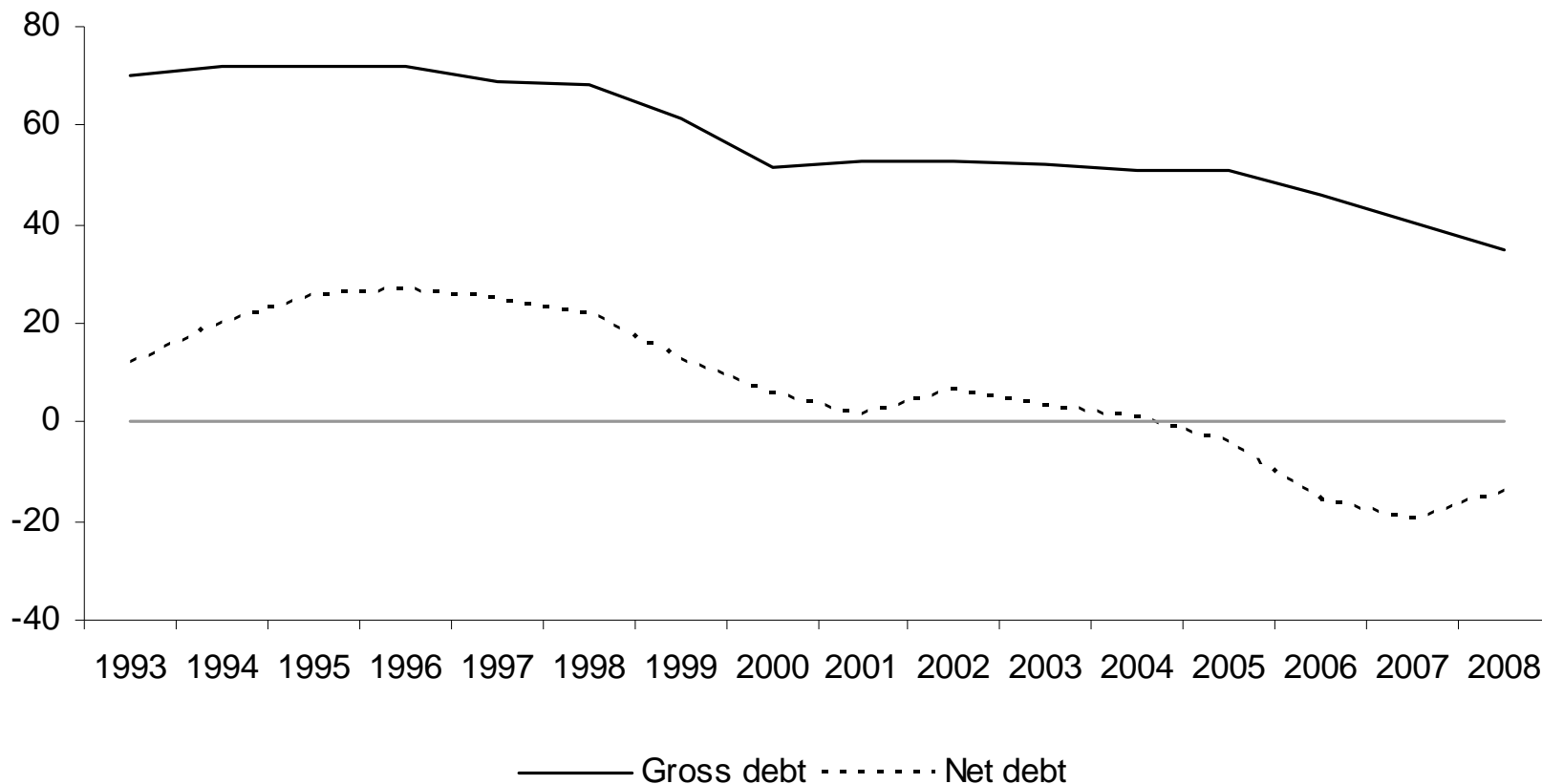
Long-term sustainability of public finances

S2-indicator



General government gross and net debt

Per cent of GDP



Other main points in our reports

- Government manipulations of the expenditure ceiling
- Evaluation of labour market reforms
 - earned income tax credits
 - reduced unemployment benefits
 - reforms of financing of unemployment insurance
- Evaluations of research basis and of the Government's motivations for various policy proposals
- Evaluations of model tools of the Ministry of Finance

How has the Council done?

- Quality of analysis
 - "stamp" as government agency is important
 - incentive for council members to have better thought through views
- Broad media coverage
 - critical evaluations of government policy is news
- Budget bills comment on the Council's proposals

How has the Council done? (Cont.)

- The Council in the economic crisis
 - more expansionary than the government until now
 - change in government policy in 2010 Budget Bill
 - but too much of **permanent** rather than **temporary** policy action
 - more natural role for the Council in the future (exit strategies)
- The Council's independence
 - agency under the Government or the Parliament?
- More criticism of the Government than of the opposition



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SWEDISH FISCAL POLICY COUNCIL

Advice for the UK

- Independent council could help fiscal consolidation
 - but the crucial thing is political resolve
- Council is more important in good times
- The Government must establish the council as an authoritative body
- The council must attract media interest
- Don't call the council a council!