

# The Swedish Fiscal Policy Council

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Seminar on reform of Ireland's budgetary framework  
Institute of public administration, Lansdowne Road, Dublin,  
Ireland, May 30, 2011.

Based on work by Lars Calmfors, Erik Höglin and Eva Oscarsson

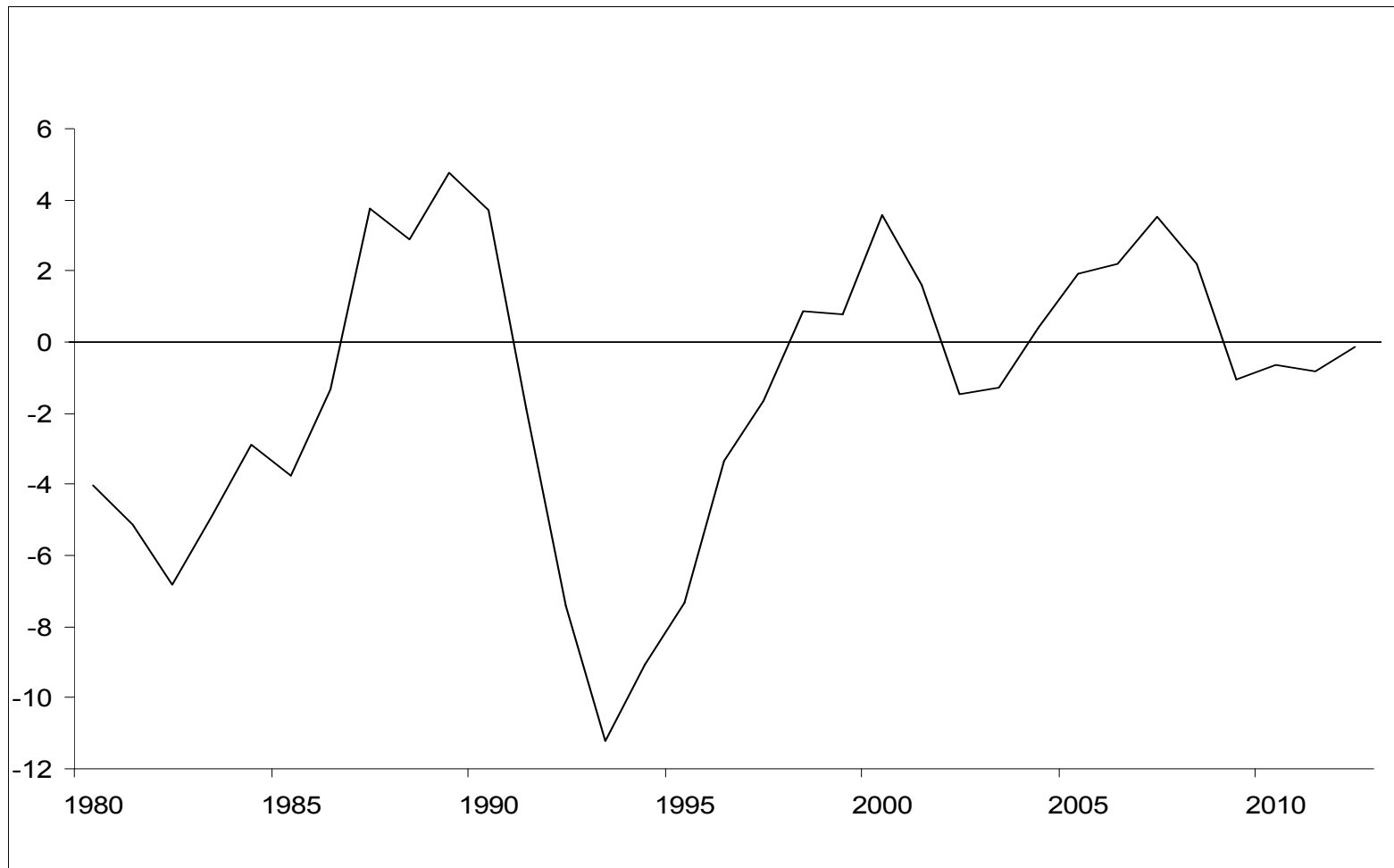
# The background of the Council

- The financial crisis of the early 1990s
- The lesson: a framework that supports fiscal discipline
- Before the crisis: discretionary fiscal strategy
- After the crisis: a rule-bound fiscal strategy

# The background

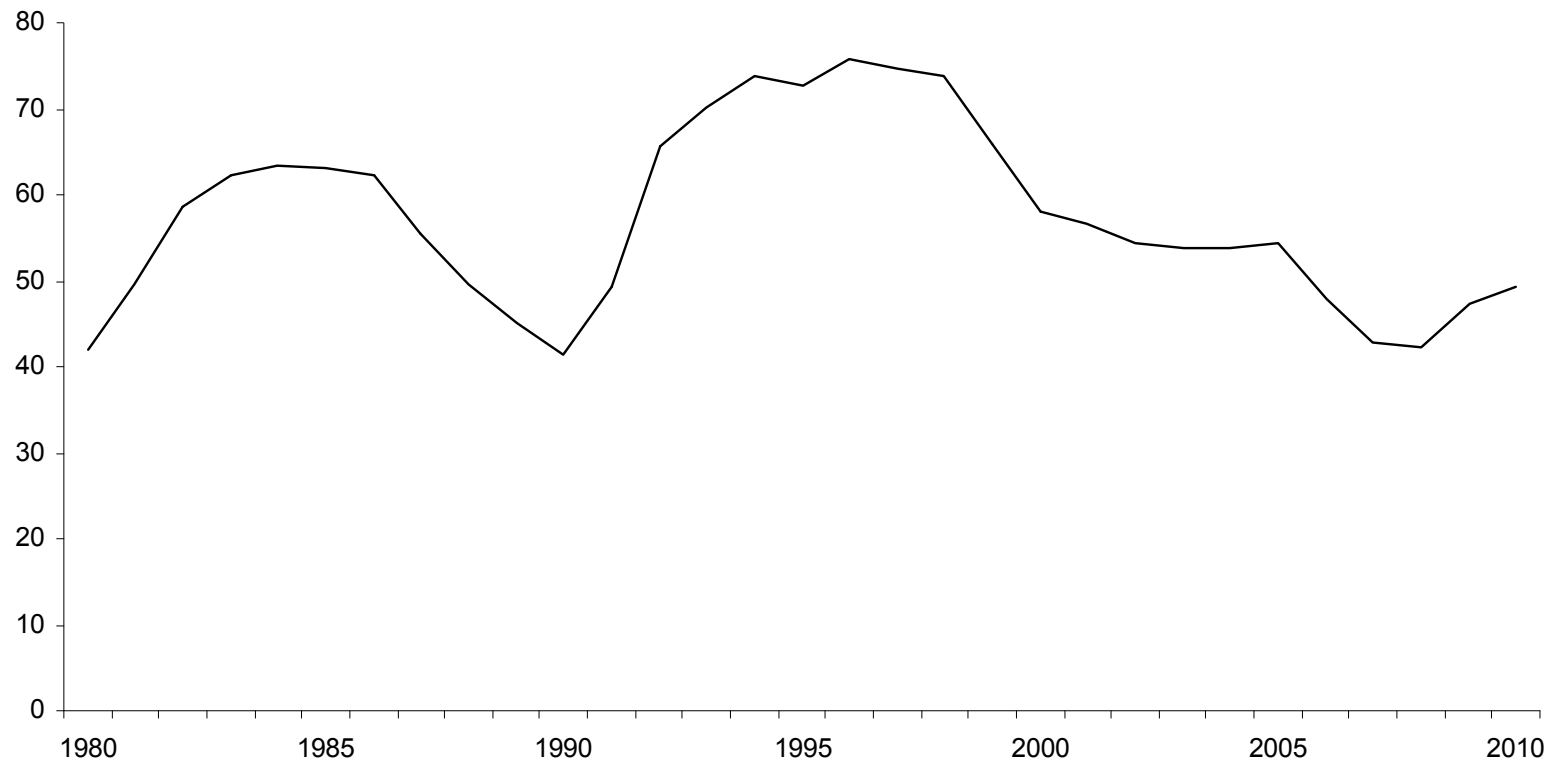
- The political economic culture: the strong position of academic economists
- They have a solid reputation of being independent and thus being respected
- A tradition from Knut Wicksell, Eli Heckscher, Gustav Cassel, Bertil Ohlin, Erik Lundberg and Assar Lindbeck
- A Fiscal Policy Council benefits from such a culture

## General government net lending in Sweden, per cent of GDP



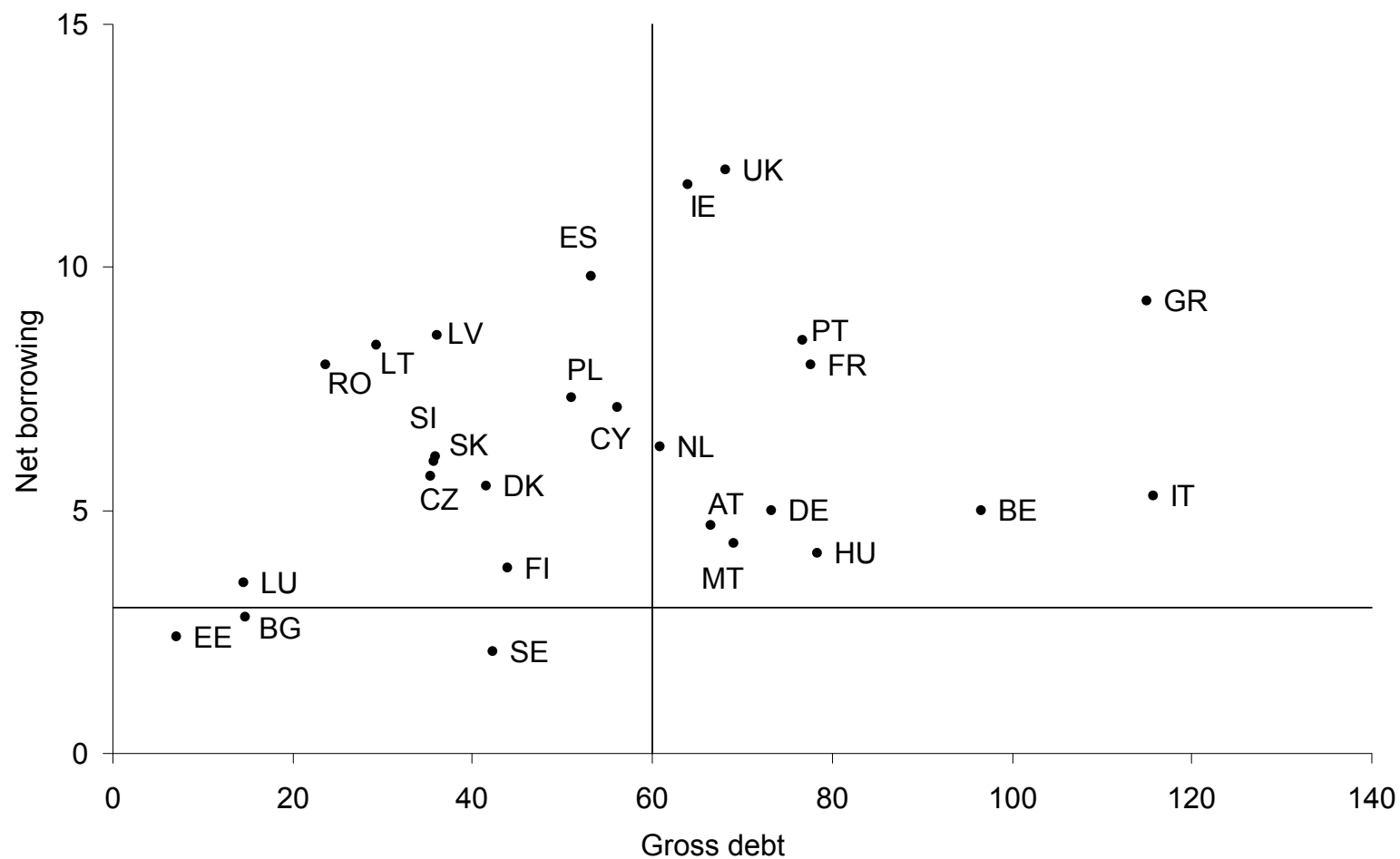
Source: National Institute for Economic Research.

## General government gross debt in Sweden, per cent of GDP

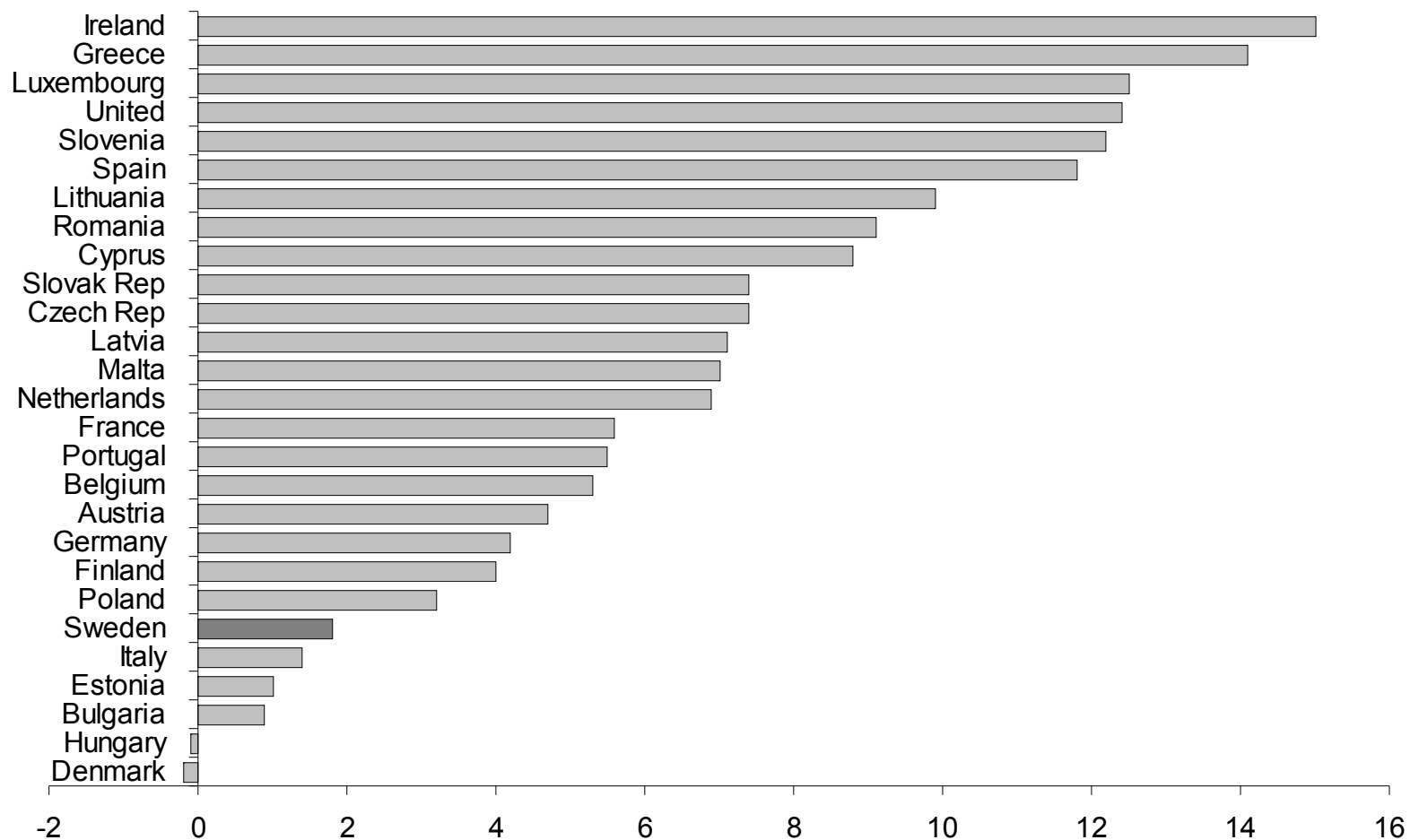


Source: National Institute for Economic Research.

# Today: Public finances in the EU 2010 and the rules of the Stability and Growth Pact



# Today: the S2 indicator



# The Swedish fiscal framework

- Top-down approach for the central government budget
- Surplus target for government net lending
- Central government expenditure ceiling
- Balanced budget requirement for local governments
- Fiscal Policy Council



# The Budget Process

- Top-down approach (since 1997)
  - Overall expenditures and expenditures in different areas are determined in a first stage in parliament
  - Once this is done individual expenditures are decided
- The Expenditure Ceiling for central government (since 1997)
  - Determined each year by the Riksdag
  - Defines the highest level of expenditure three years ahead
  - Budget margin

# The Budget Process

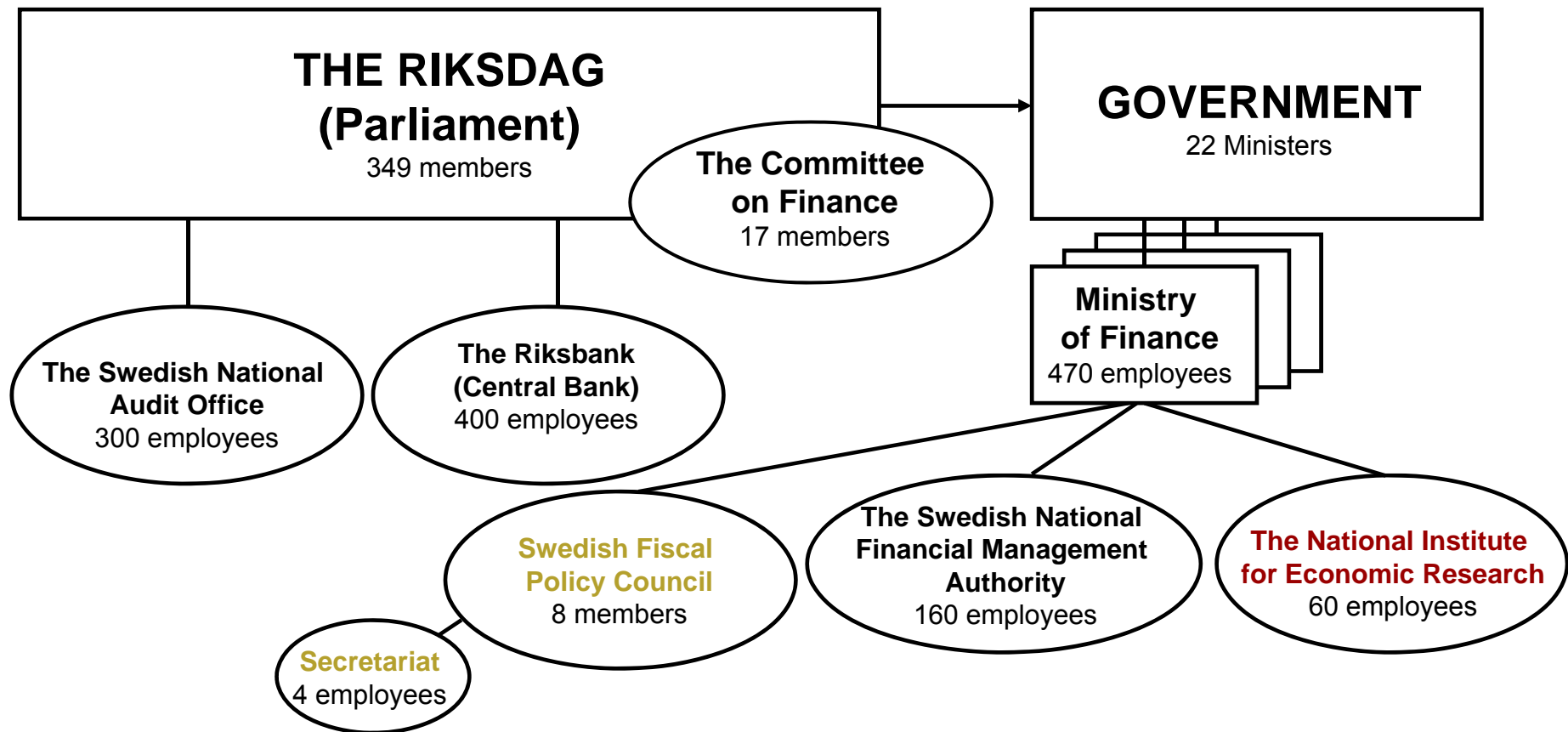
- The Local Government Balanced Budget requirement (since 2000)
  - Revenues  $\geq$  expenditures
- The Surplus Target (since 2000)
  - Public finances are required to show a surplus of 1 per cent over the course of a business cycle for the whole public sector
  - Motivation: a buffer for economic fluctuations and demographic changes
- EU Fiscal Rules – Stability and Growth Pact
  - Medium-term objective: close to balance or surplus
  - Deficit ceiling: three per cent of GDP
  - Debt ceiling: 60 per cent of GDP (or decreasing debt ratio)

# The council's background

- Theoretical considerations rather than acute fiscal problems
- 
- Government Commission in 2002: requirements on fiscal policy in the event of Swedish euro membership
- Positive reactions from the liberal-conservative parties (Anders Borg)
- Negative reactions from the Social Democrats, the Left and the Greens:  
"another body providing false scientific clothing  
for the government's right-wing policy"

# The set-up of the council

- Established 2007
- An agency under the government
- Eight members
  - six academics
  - two ex-politicians
- Supplementary activities to ordinary jobs (academic positions)
- Small secretariat: four persons
- Annual budget 700 000 €
- Independence: no informal contacts with the government



# The tasks of the Fiscal Policy Council

1. To evaluate whether fiscal policy meets its objectives:
  - long-run sustainability
  - budget surplus target
  - the expenditure ceiling
  - stabilisation goals
2. To evaluate whether developments are in line with “healthy” sustainable growth and sustainable high employment
3. To monitor the transparency of the government budget proposals and the motivations for various policy measures.
4. To evaluate the government's economic forecasts and the quality of the models they are based on.

To contribute to a better economic policy discussion in general.

- Annual report handed to the Ministry of Finance: 2011 16 May.
- More information on [www.finanspolitiskaradet.se](http://www.finanspolitiskaradet.se)

# What should the Swedish Fiscal Policy Council do?

- Annual report of high quality
- English version of the report
- Publish high quality background reports on which the annual report is based
- Organise public seminars
- Participation in the public debate
  - speeches
  - lectures
  - media comments on policy proposals and economic developments
- Interaction with international bodies

# Old institutions with fiscal watchdog tasks

- Central Planning Bureau in the Netherlands (1947)
- Economic Council in Denmark (1962)
- Council of Economic Experts in Germany (1963)
- Congressional Budget Office (CBO) in the US (1975)
- Public Sector Borrowing Section of the High Council of Finance in Belgium (1989)
- Government Debt Committee in Austria (1997)



## New institutions

- Fiscal Policy Council in Sweden (2007)
- Fiscal Council in Hungary (2008)
- Parliamentary Budget Office in Canada (2008)
- Fiscal Council in Slovenia (2010)
- Office for Budget Responsibility (OBR) in the UK (2010)
- A pan-European Council?
- And now Ireland?

	Forecasting	Costing of policy initiatives	Ex-post evaluation of fiscal policy	Ex-ante evaluation of fiscal policy	Evaluation of fiscal sustainability	Normative recommendations	Analysis of broader issues
<b>Austria</b>	X		X	X	X	X	
<b>Belgium</b>			X	X	X	X	
<b>Canada</b>	(X)	X	X	X	X		
<b>Denmark</b>	X		X	X	X	X	X
<b>Germany</b>	(X)		(X)	(X)	(X)	(X)	X
<b>Hungary</b>	X	X	X	X	X		
<b>Netherlands</b>	X	X	X	X	X		X
<b>Slovenia</b>	(X)		X	X	X		(X)
<b>Sweden</b>	(X)		X	X	X	X	X
<b>UK</b>	X	?	X	X	X		
<b>US</b>	X	X	X	X	X		X

	Staff	Number of (full) members	Composition	Principal	Periods of office (years)
Austria	N/A	14	Academics: 3 Gov adm experts: 9.5 Financial analysts: 1.5	?	4
Belgium	14	12	Academics: 3.83 Gov adm experts: 5 Financial analysts: 1.83 Ex-politicians: 1.33	Government	5
Canada	14	1	Gov adm experts: 1	Parliament	5
Denmark	35	4	Academics: 4	Government	3
Germany	20	5	Academics: 5	Government	5
Hungary	37	3	Academics: 1.66 Gov adm experts: 0.66 Financial analysts: 0.66	Parliament	9
Netherlands	>170	1 (3)	Academics: 1 (2.5) Gov adm experts: 0 (0.5)	Government	7
Slovenia	0	7	Academics: 4 Gov adm experts: 1 Financial analysts: 2	Government	5
Sweden	4	8	Academics: 6 Ex-politicians: 2	Government	3 (1)
UK	(20)	3	Academics: 2 Gov adm experts: 1	Government but parliamentary Oversight	5
US	250	1	Academics: 0.5 Gov adm experts: 0.5	Congress	4

# Themes in the reports of the Council

- Increase the clarity of the surplus target: net lending of one percent of GDP over a business cycle
  - underlying fundamental objectives
  - too many indicators
- Criticism of circumventions of expenditure ceiling
- Critical evaluation of fiscal sustainability calculations
- More discretionary fiscal stimulus in the current recession (but less of permanent measures)
- Critical evaluation of the government's labour market reforms
- The economic reporting of the government

# Themes in the report of 2011

- Warning against expansionary fiscal policy in 2012-2014
- Request for a major systemic overhaul of the tax system
- Recommendations concerning macroprudential policies
- Recommendations concerning the “space for reforms”
- And much more ...

# The council's impact

- Extensive media coverage (media bias?)
- The Council is a household word
- Formal response in the spring fiscal policy bill
- Impact on actual policy?
- Impact on actual policy
  - what is the counterfactual?
  - fiscal stimulus in 2010
  - less effect on "budget tricks"
  - more transparent sustainability calculations
  - some effect on surplus target
  - some effect on economic reporting

Long impact lags ....

# The future of the Council

- Changes in the Council's composition
- - The Council was to consist of a **maximum of eight members**. One of the members chairs the Council and another is the deputy chair.
- - As of 1 July 2011, maximum has been lowered to **six members**.

# The future of the Council

- Changes in the Council's duties from July 1st 2011:
  - - From being one out of several duties, the Council shall now **foremost**, review whether the basic objectives of fiscal policy are being achieved, including long-term sustainable public finances, the budget surplus target, and the expenditure ceiling.
  - - Other duties have seemingly been demoted in priority.
  - - However, an addition has been made in the tasks that the Council can set it self out to do: **The council shall analyse the effects of fiscal policy on welfare distribution (the distribution of income and wealth) in the short and long run.**
- **This change is a carte blanche for the Council?**



# The future of the Council

- Much debate in 2010-2011
- Political unity and support behind the Council in April 2011

# Conclusions

- Independent fiscal watchdogs are an international trend
- Direct disciplining effect as well as complement to fiscal rules by increasing fiscal transparency
- Exact remits vary
- Key questions:
  - Should they provide forecasts? **No!**
  - Should they provide normative recommendations in addition to doing positive analysis? **Yes**
  - Should the remit be broader than just monitoring of fiscal policy? Yes – **if the Council likes it**

# Summing up

- Sweden was early in establishing an independent fiscal policy evaluation
- The respect and acceptance of the Council is a function of time and hard work
- The future of the Council in Sweden is bright – if we can find a new chairman after Lars Calmfors

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# **Appendix: Comments on the Swedish Fiscal Policy Council**

By non-economists

# The Fiscal Policy Council = A Frankenstein's monster?

- Brave initiative – gives quick political benefits
- Dangerous strategy
- No politician wants to be criticized by experts
- Now the council is accepted by all parties
- A happy ending?

(Slide partially translated from Karin Petterson, chief political editor of Aftonbladet (labour), commenting on the Council's report on May 17 2011)



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