

The Swedish Fiscal Policy Council

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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

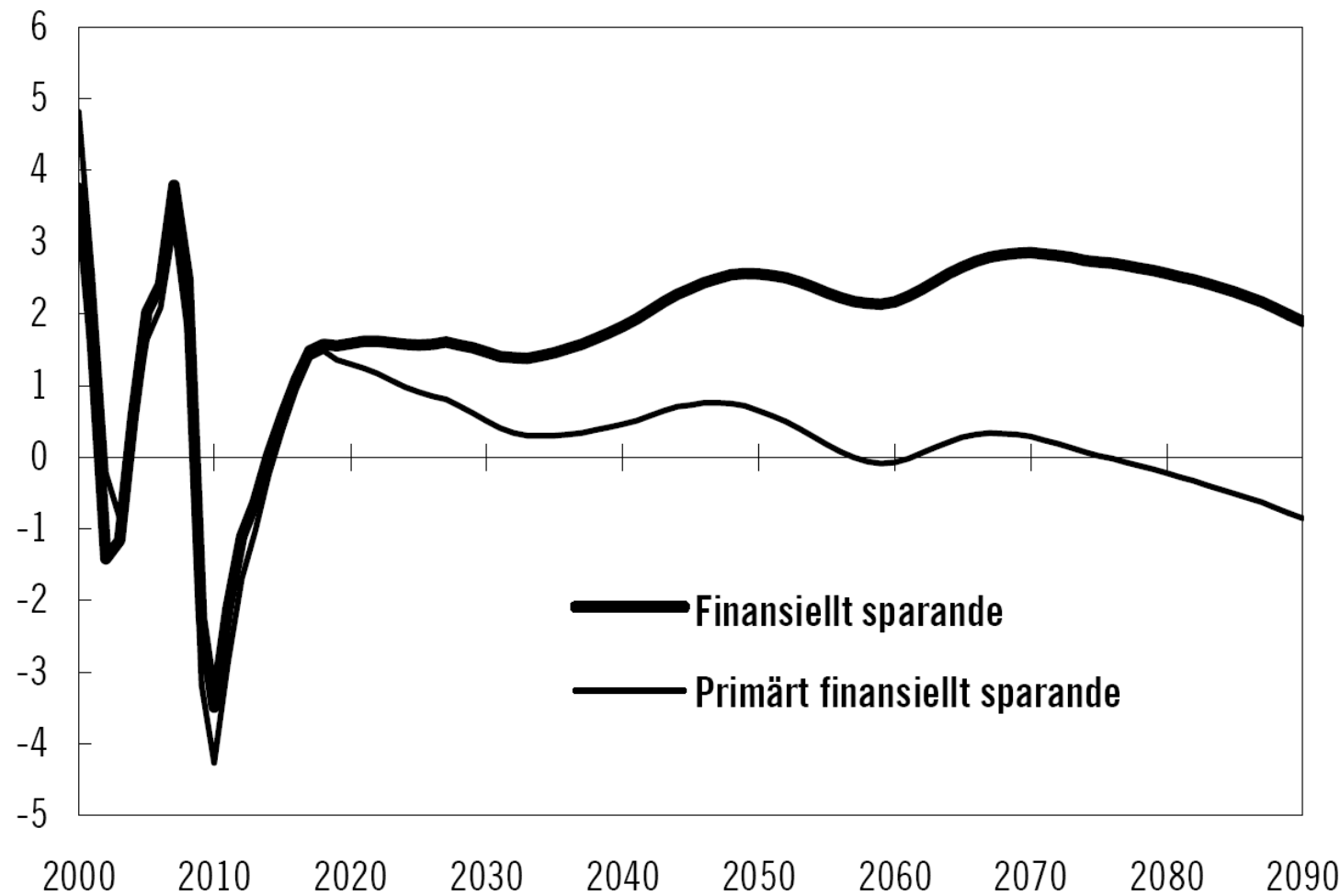
Different indicators of the surplus target

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 | | | |

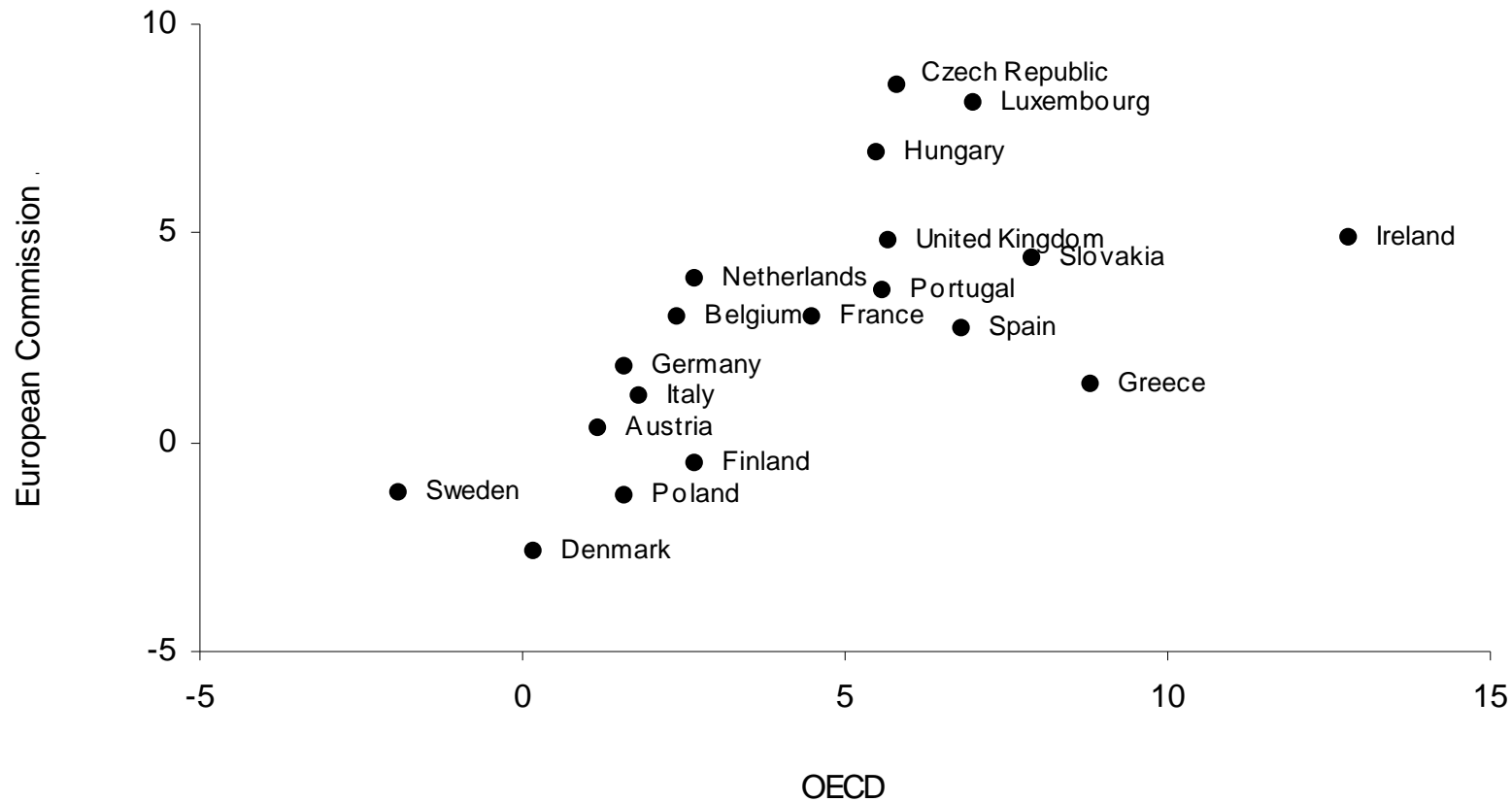
General government net lending

Per cent of GDP



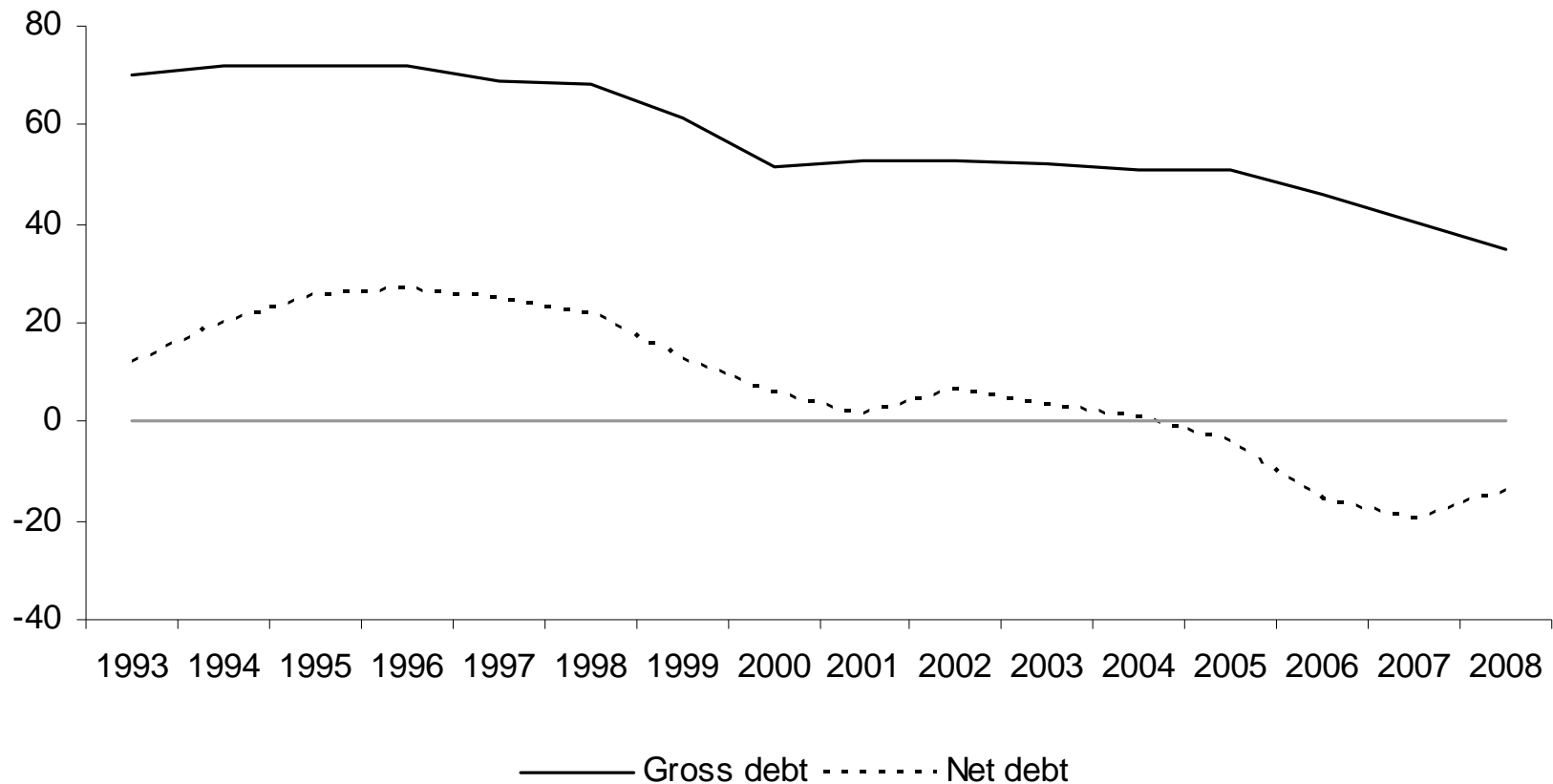
Long-term sustainability of public finances

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!