The Swedish Fiscal Policy Council

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Institute for Government, London
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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 percent 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

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<th>2008</th>
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<th>2010</th>
<th>2011</th>
<th>2012</th>
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<td>Moving average</td>
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<td>Cyclically adjusted balance</td>
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<td>Historical average of cyclically</td>
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<tr>
<td>Moving average of cyclically adjusted balance</td>
<td>1,2</td>
<td>1,2</td>
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</table>
Long-term sustainability of public finances

S2-indicator

OECD

European Commission

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General government gross and net debt
Per cent of GDP

Gross debt
Net debt

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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
Har inga pengar...!

Satsa mer!

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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!