

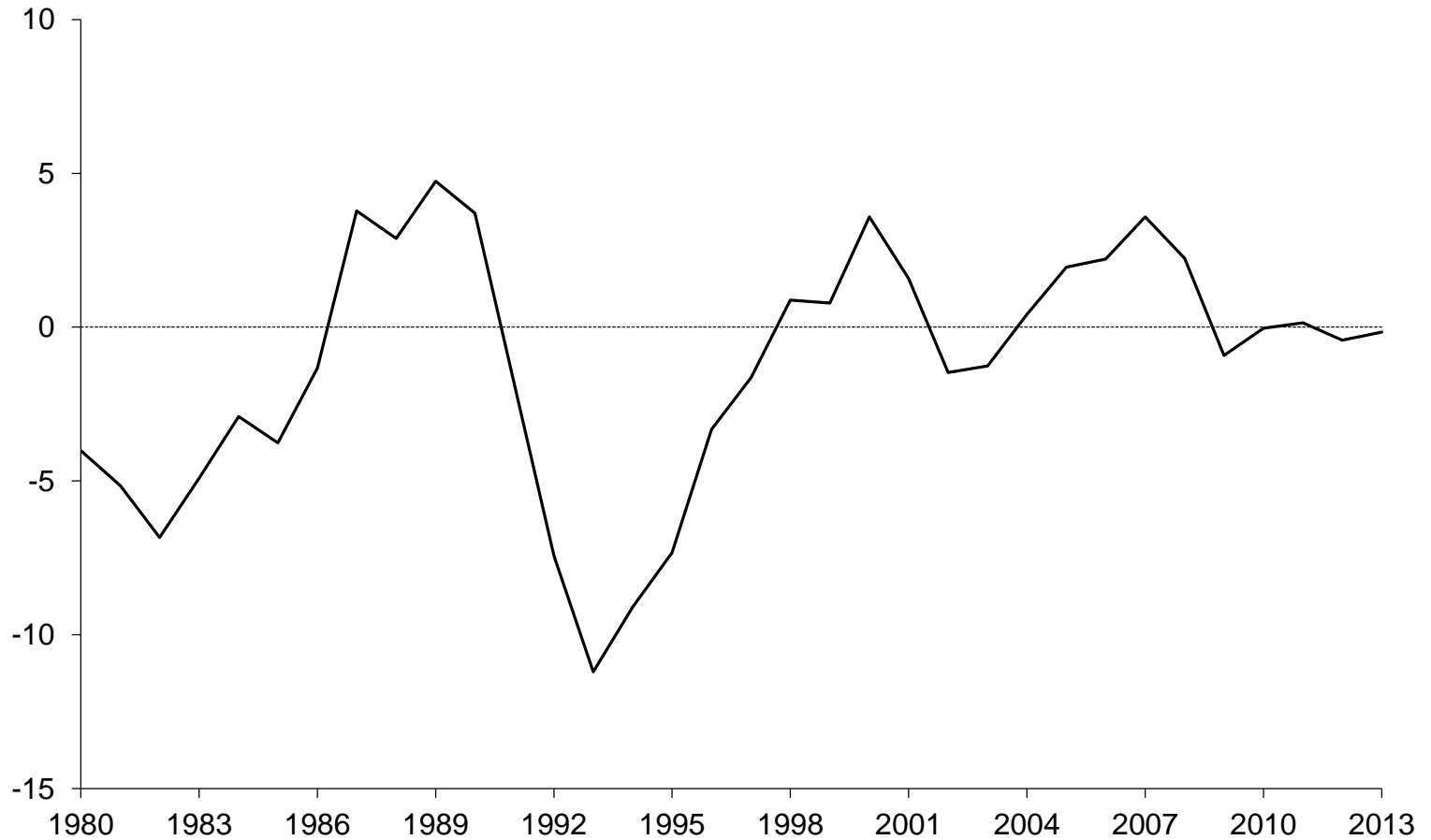
# The Swedish Fiscal Policy Council

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Meeting with the *Althingi Budget Committee*.

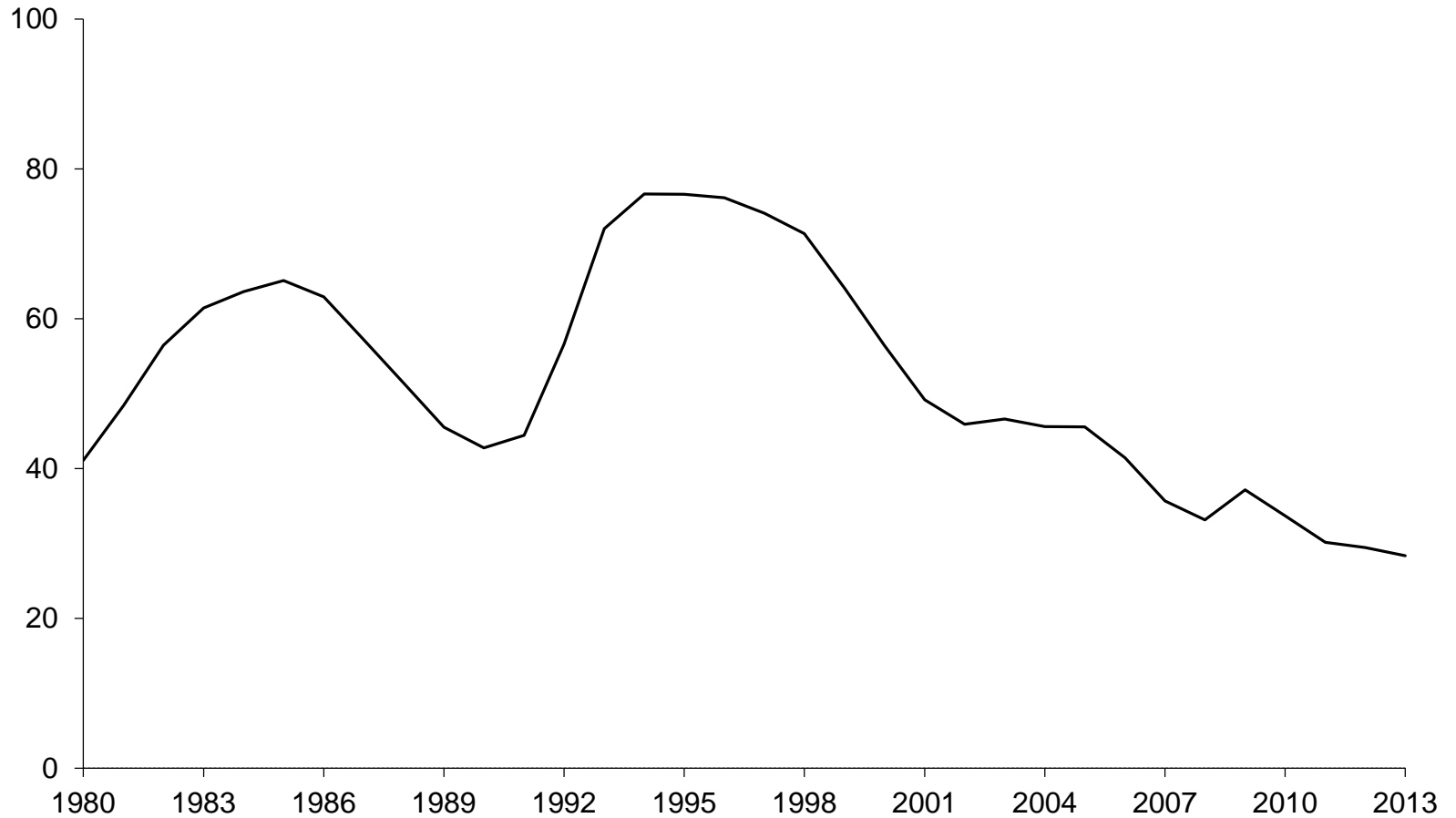
March 27, 2012

## 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.

# The Swedish fiscal framework

- Top-down budget process;
- A fiscal surplus target of 1 % of GDP on average over the business-cycle;
- Central government expenditure ceiling set 3 years in advance;
- Balanced budget requirement for local governments;
- A reformed pensions system (pay-as-you-go notionally defined contribution system);
- EU Fiscal Rules – Stability and Growth Pact;
- *Fiscal Policy Council...*

# The council's background

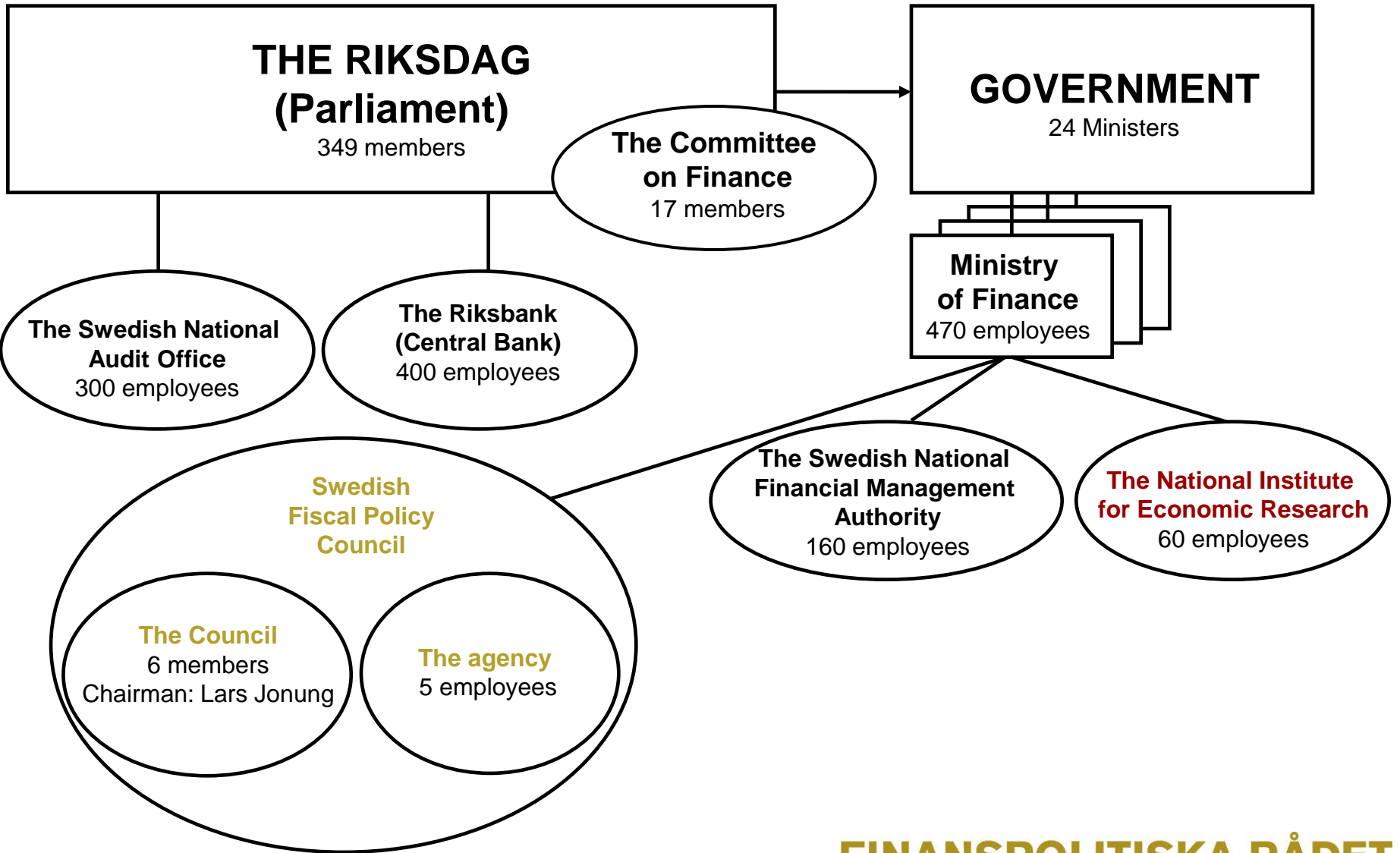
- Theoretical considerations rather than acute problems;
- Government Commission in 2002: requirements on fiscal policy in the event of euro membership;
- Positive reactions from the liberal-conservative parties (Anders Borg);
- Negative reactions from the Social Democrats, the Left and the Greens:
  - ”another body providing false scientific clothing for the government’s right-wing policy” (Left)
- However, the liberal-conservative government reached an agreement with Social Democrats, the Left and the Greens in may 2011 on the existence of the Council (including a new remit).

# The council's background, cont.

- Both budget discipline and the fiscal framework are political consequences of the economic crisis in the 1990s. The crisis forged a broad political consensus that Sweden should never end up in a similar situation;
- The Swedish system includes a high degree of transparency, which provides the basis for a well informed policy debate, thus raising the reputation costs for the government of deviating from its targets.
- The Swedish tradition with economists with a strong public standing like Wicksell, Ohlin, Myrdal, Lindbeck, etc is also an important factor.

# The set-up of the council

- Established 2007
- An agency under the government
- Six members
  - academics
  - policy making experience
- Supplementary activities to ordinary jobs (mostly academic positions)
- Small secretariat: five persons
- Annual budget 900 000 €
- Provisions to safeguard the council's independence, such as a stipulation that the council itself proposes its members to the government.





# The tasks of the Fiscal Policy Council

1. Focus on *ex post* evaluation, with some *ex ante* evaluation;
  2. Evaluate whether fiscal policy meets its objectives:
    - long-run sustainability
    - surplus target
    - the expenditure ceiling
    - stabilisation issues;
  3. Evaluate whether developments are in line with healthy sustainable growth and sustainable high employment;
  4. Monitor the transparency of the government budget proposals and the motivations for various policy measures;
  5. Analyse the effects of fiscal policy on the distribution of welfare;
  6. Contribute to a better economic policy discussion in general.
- Annual report in May (this year May, 14).
  - More information on [www.finanspolitiskaradet.se](http://www.finanspolitiskaradet.se)

# Members

Lars Jonung (chairman). Professor of Economics at Lund University

John Hassler (deputy chairman). Professor of Economics at Stockholm University

Michael Bergman. Associate Professor of Economics at University of Copenhagen

Steinar Holden. Professor of Economics at University of Oslo

Eva Lindström. Former Auditor General

Helena Svaleryd. Associate Professor of Economics at Uppsala University

# Themes in the reports

- 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

# The council's impact

- Extensive media coverage
- Formal response in the spring fiscal policy bill
- 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