

The Swedish Fiscal Policy Council

Roundtable on New Institutions

OECD, 23rd February 2012

Lars Jonung

Two major innovations in the institutional framework for stabilization policies in the past two decades (the monetary regime or the stabilization policy regime)

1. Independent central banks – inflation targeting

The aim is to reduce ***inflation bias***

Two major innovations in the institutional framework for stabilization policies in the past two decades (the monetary regime or the stabilization policy regime)

2. Independent fiscal institutions (fiscal policy councils) – monitoring fiscal discipline/sustainability

The aim is to reduce ***deficit bias***

Two major innovations in the institutional framework for stabilization policies in the past two decades (the monetary regime or the stabilization policy regime)

Scoreboard (2012)

1. Independent inflation targeting central banks – more than 30 cases: New Zealand, Canada, Sweden, UK, Norway, ECB
2. Independent fiscal policy institutions (fiscal policy councils) – about 15 cases but catching up (barring the problem of defining a "true" fiscal policy council).

A historical perspective

- The classical gold standard (pre-1914)
- No inflation bias – central banks were disciplined by the fixed rate to gold
- No deficit bias – ministries of finance were disciplined by the fixed rate to gold
- The gold standard – a ”seal of good house-keeping”

The future

- Are we moving to a new regime mimicking the discipline of the gold standard?
 - 1. Rule-bound monetary policy
 - 2. Rule-bound fiscal policy
- So the period 1914-2014 was a parenthesis when we were relearning the lesson of good house-keeping?

The present trend

Independent fiscal institutions are emerging all over the world – Australia, Ireland, Portugal and Slovakia

”the new kid on the block” – a process of policy learning and adjustment:

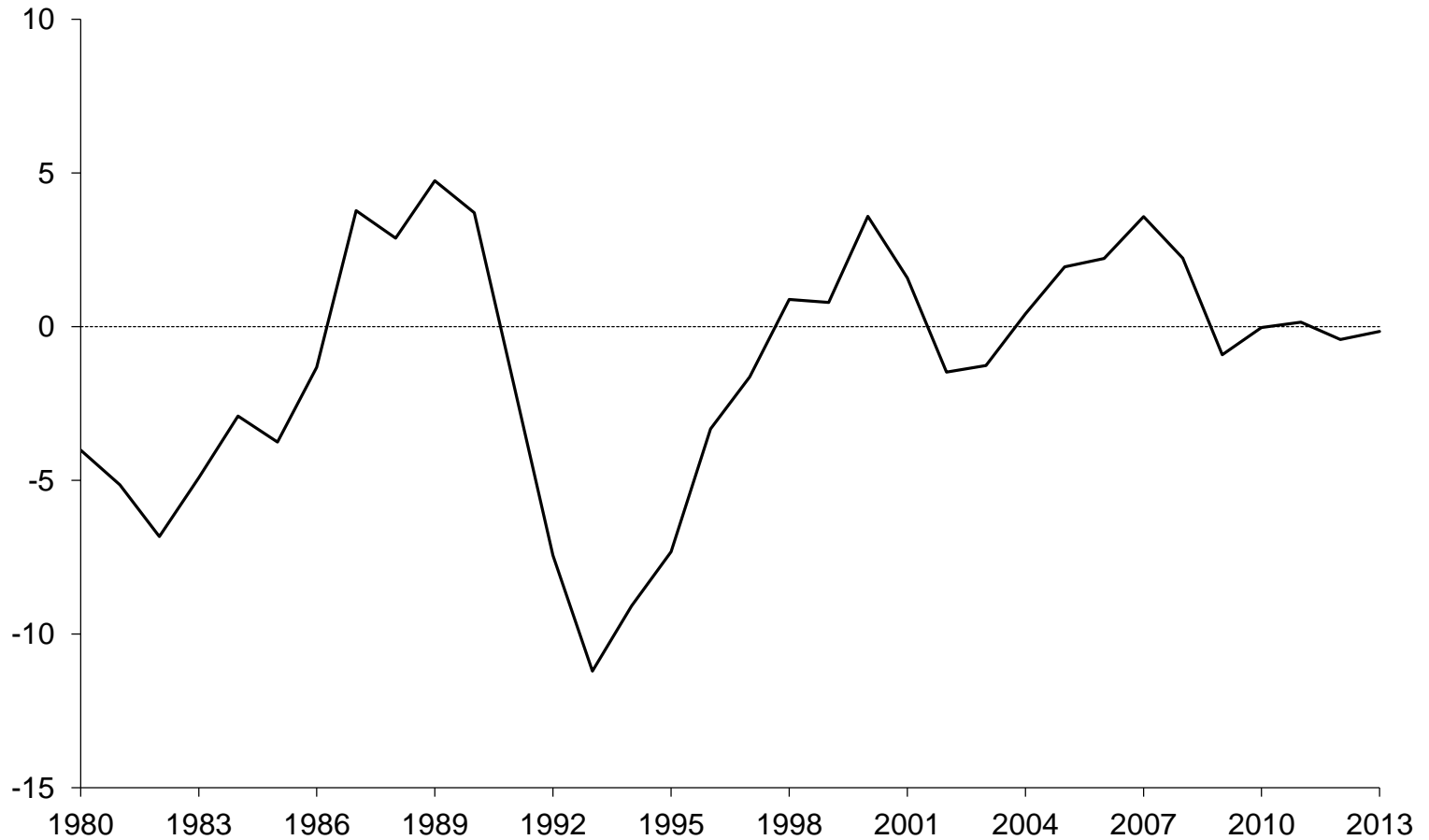
The case of Sweden

Existing independent fiscal institutions are evolving as well.

The Swedish fiscal policy council – version I (beta) 2007-2011 – headed by Lars C.

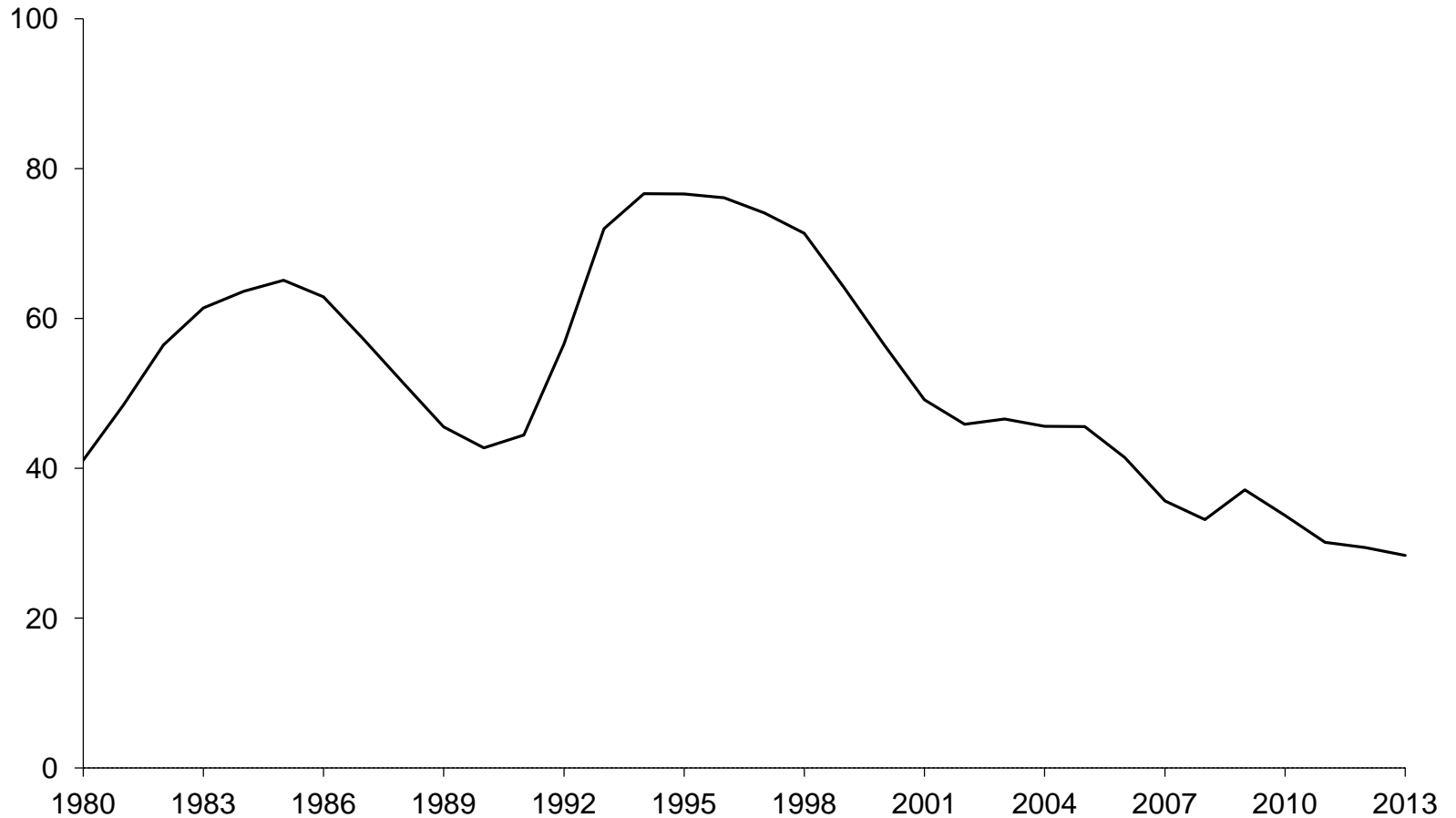
The Swedish fiscal policy council – version II 2012 – headed by Lars J.

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 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 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"
- Both budget discipline and the fiscal framework are consequences of the fiscal crisis in the 1990s

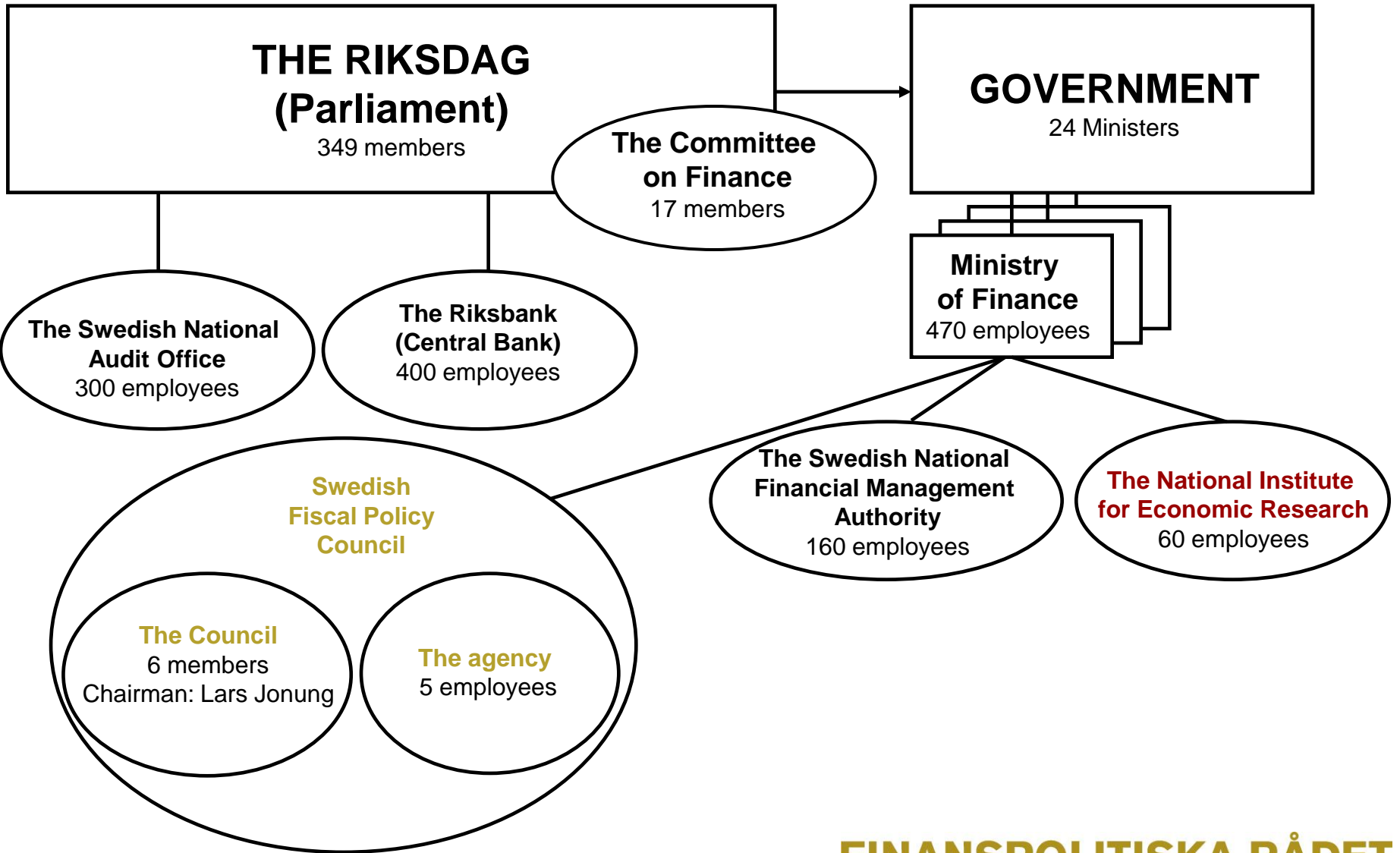
Different approaches to Fiscal Policy Councils

1. Delegation of decisions to independent Fiscal Policy Committee
 - deviation of annual budget target from medium-term budget objective.
 - the use of one or several fiscal policy instruments as stabilisation policy tool.
2. Policy recommendations from independent Fiscal Policy Council.
3. The government should base its budget on the macroeconomic forecasts of an independent Fiscal Policy Council.

Sweden: focus on *ex post* evaluation, some *ex ante* evaluation.

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 €
- Independence: no informal contacts with the government



The tasks of the Fiscal Policy Council

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

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

The council's impact

The Swedish fiscal policy council is working in a very favourable political-economic culture.

Consensus view:

Economists have a strong position in public debate – a tradition going back to Knut Wicksell, Gustav Cassel, Bertil Ohlin and Gunnar Myrdal – at least 100 years back in time

And the public understands some economics ...

The new instruction of June 2011

- Broad consensus behind the Swedish Fiscal Policy Council – the government and the opposition parties are behind the new instruction of the Council
- A broad remit – the economic policies of the government can be examined by the Council
- Distributional effects of economic policies can be examined by the Council
- Stronger secretariat (1 head; 2 economists; 2 assistants)
- The members of the Council have part-time positions