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PRESS RELEASE

SWEDISH FISCAL POLICY 2008:

**Government both Commended and Criticised in
First Report of Swedish Fiscal Policy Council**

The Government is right to budget large surpluses for the next few years. The tax reduction on earned income and the lower level of unemployment benefits should increase employment in the longer term. But the reforms in financing unemployment benefits and in the real estate tax have been failures. These were among the comments of the Swedish Fiscal Policy Council in its first annual report.

Surplus Target Unfavourable to Investment in Infrastructure

To promote investment in infrastructure, the Government should consider reformulating the surplus target. One solution, according to the Report, might be a so-called Golden Rule that would involve a target for the overall savings, including investment of the general government. In budgeting large surpluses for the next few years, the Government is acting correctly, given the uncertainty surrounding the long-run sustainability of general government finances. But as Sweden's demography gradually becomes more burdensome, the surpluses should decrease.

Lower Unemployment Benefits and Tax Cut on Earned Income Will Raise Employment

Reducing the level of unemployment benefits and lowering the tax on earned income are warranted by the Government's goal of increasing employment. Cutting taxes on earned income is more effective than abolishing the surtax on high incomes or raising the incomethreshold for central government income tax. Further decreases in employer contributions for particular groups should be avoided as the effects are uncertain and the tax system becomes harder to understand.

Reformed Financing of Unemployment Insurance Leaves Many with No Coverage

"The financing reform of unemployment insurance is a failure. For no good reason, it reduces participation in the unemployment insurance system. In the next economic slowdown, many of the unemployed will be left without coverage," comments Lars Calmfors, Chairman of the Swedish Fiscal Policy Council. Any positive impact on employment will be minor since the financing change provides little incentive for restraint in wage formation.

Small effects of the reforms in sickness insurance

The changes in the sickness insurance system provide some added inducement to work, but the difference is minor compared to previous rules. The reforms will probably not give employers enough incentive to help sick-listed individuals return to the labour market.

Reform of the Real Estate Tax a Flop

Lowering the real estate tax is unfavourable to business investment as it makes housing investment much more attractive. The reform is remarkably inconsistent with the Government's ambition in other areas to base policy on research; this ambition should apply to all economic policy. In general, the Ministry of Finance should provide better supporting documentation, both internal and external, for its analyses.

Better Accounting for the Financial Position of the General Government Sector

Based on the Government's spring financing and budget bills, it is impossible to form an overall picture of the financial position of the general government. An accounting for the total net assets of the general government sector, including real capital assets, should be provided without delay.

Further information

The Council's report, *Swedish Fiscal Policy*, is being presented to the Government today. For further information, you are invited to contact any of the following: Chairman Lars Calmfors (tel. +46 76-13 55 814); Council Member Laura Hartman (tel. +46 730-33 79 33); Council Secretary Ann Öberg (tel. +46 76-13 55 815); Council Secretary Thomas Eisensee (tel. +46 76-13 55 816).

The Swedish Fiscal Policy Council is a new government agency charged with independently assessing the extent to which the Government's fiscal-policy objectives are being achieved. These objectives include long-run sustainability, the budget surplus target, the ceiling on central government expenditure and that fiscal policy is consistent with the cyclical situation of the economy. The council also evaluates whether the development of the economy is in line with healthy long-run growth and sustainable high employment. Additional tasks are to examine the clarity of the Government's budget proposals and to review its economic forecasts and the economic models used to generate them. Finally, the Council should try to stimulate public debate on economic policy. The Council is to achieve its objectives primarily through publishing an annual report. The annual report will be used by the Swedish Parliament in evaluating the Government's fiscal policy.