

Public Financial Management and Its Emerging Architecture

Workshop

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Lars Jonung
*Swedish Fiscal Policy Council, Stockholm
Knut Wicksell Centre for Financial Studies, School of Economics and Management,
Lund University, Lund*

Public Financial Management and Its Emerging Architecture



EDITORS
Marco Cangiano, Teresa Curristine
and Michel Lazare

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General comments

This is an impressive volume of 14 chapters covering more than 400 pages, involving almost 40 authors, dealing with central issues concerning the design of fiscal policy and public finance management.

General comments

A first reflection:

IMF – International Monetary Fund

Originally, IMF focused on monetary policy

Now, why this focus on fiscal policies?

IFF – International Fiscal Fund?

General comments

A first reflection:

Financial crises during the past 20 years demonstrate the importance of fiscal policies – their design is crucial for the causes, cures and consequences of crises.

General comments

A second reflection:

The education of civil servants making them honest, competent and dedicated to their tasks deserve a special chapter in the volume.

How should such a corps be recruited, paid and trained?

This book on fiscal management and fiscal policies could serve as a textbook in such a training program.

General comments

A third reflection:

The 15th chapter (or the first chapter) should answer the question:

Which are the basic determinants for successful public financial management reform?

Let us consider the role of the economic policy culture.

The economic policy culture

The policy culture (the policy regime) is defined by:

1. The expectations held by the public/the voters concerning the behavior of policy-makers.
2. The expectations held by the policy-makers concerning the behavior of the public/the voters.

The economic policy culture

These policy expectations and thus policy behavior are influenced by a number of factors - history, religion, culture etc - summarized in the concept of “trust”.

“Trust” is the key to the understanding of the causes, evolution and cures of weak governance of the public sector.

The role of trust

Question: Which are the basic determinants for successful public financial management reform?

Answer: The role of trust in government institutions as public trust is an important aspect of *the culture of economic-policy making* in a country.

The role of the economic policy culture

If a country has a culture where the public holds a strong trust in public institutions, in government effectiveness and honesty, in the accountability of elected politicians, in the democratic process and in the rule of law, such an environment makes fiscal reforms more likely and more effective.

The role of the economic policy culture

Public trust in the government, in the parliament and in the political system differs across countries, reflecting different histories and traditions.

See the most recent Eurobarometer (fall of 2012).

See cross-country differences in a set of indicators of governance performance.

Table 1. Public attitudes towards the government, the political parties and the way democracy works in the EU, November 2012.

Country (%)	The government		The political parties		Satisfaction with the way democracy works	
	<i>Tend to trust</i>	<i>Tend not to trust</i>	<i>Tend to trust</i>	<i>Tend not to trust</i>	<i>Very/Fairly</i>	<i>Not very/Not at all</i>
Sweden	59	38	35	61	86	13
Finland	62	35	36	60	78	21
Denmark	42	56	36	61	90	9
UK	25	70	12	83	60	38
Germany	41	53	21	73	70	29
France	30	65	12	83	60	38
Spain	11	86	6	91	32	66
Portugal	22	74	17	79	25	74
Italy	17	77	8	88	27	72
Greece	7	91	5	94	11	89

Source: European Commission, Eurobarometer 78, November 2012

Table 2. Net trust in the national political system in the European Union, November 2012

	Government	Parliament	Political parties
Finland	27	35	-24
Luxembourg	21	10	-48
Sweden	21	39	-26
Austria	4	7	-28
Netherlands	-2	10	-30
Germany	-12	-1	-52
Denmark	-14	28	-25
Malta	-18	-24	-44
Belgium	-22	-16	-53
Estonia	-25	-36	-62
Slovakia	-32	-36	-58
France	-35	-26	-71
Bulgaria	-41	-56	-65
Hungary	-41	-38	-60
United Kingdom	-45	-41	-71
Poland	-49	-56	-62
Lithuania	-52	-68	-69
Portugal	-52	-50	-62
Romania	-54	-66	-76
Ireland	-58	-57	-70
Italy	-60	-71	-80
Latvia	-60	-69	-82
Cyprus	-62	-65	-79
Slovenia	-68	-75	-81
Spain	-75	-76	-85
Czech Republic	-77	-80	-82
Greece	-84	-80	-89

How can trust be created?

1. By fiscal reforms?

2. By advice and monitoring by Brussels (EU) and Washington (IMF)?

What does history tell us?

Specific comments on Chapter 6 – the role of fiscal councils

Comparing Sweden and the US:

- Sweden has a fiscal framework since the mid-1990s and a fiscal council since 2007.
- The US has the CBO since 1974

Requirements for successful fiscal councils according to Chapter 6

1. Political support

Sweden: yes with a new instruction for the fiscal council of Spring 2011.

The tension between the minister of finance and the council is gone.

Requirements for successful fiscal councils

2. An appropriate fiscal framework

Sweden: very important.

USA: no fiscal framework

The evolution of the Swedish fiscal framework

1995-2007

Since 1995: *Top-down approach* for the central government budget.

Since 2000: *Surplus target* – Public finances are required to show a surplus of 1 per cent over the course of a business cycle, for the whole public sector. A buffer for economic fluctuations and demographic changes.

Since 1997: *Central government expenditure ceiling* set in nominal terms (for the third year ahead in the Budget Bill, with a budget margin acting as a buffer).

Since 2000: *Balanced budget requirement for local governments* (since 2000).

Since 2007: *A fiscal policy council*.

Requirements for successful fiscal councils

3. A well-defined mandate

(should carry out both advisory and auditing functions)

Sweden: stress is on surveying and monitoring. No explicit auditing in the traditional sense.

The remit 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. Analyze 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, 2013). The report is used by the *Riksdag* (the Swedish Parliament) and the Riksdag Committee on Finance as a basis for evaluating government policy.
 - More information on www.finanspolitiskaradet.se

Requirements for successful fiscal councils

4. Clear legal backing - yes
5. The right location – yes?
6. Technically qualified staff - yes
7. Clear reporting requirements - yes
8. Accountability - yes

Requirements for successful fiscal councils

What is missing from this list?

1. Independence – how should independence be granted?

The independence of the Swedish Council

1. Members are independent from the Government
2. The Council recruits itself
3. Swedish tradition of open public debate
4. Swedish tradition of strong position for economists and the economics profession

The Council has to produce professional reports to build and maintain its credibility

Requirements for successful fiscal councils

What is missing from this list?

2. A deep fiscal crisis

A country gets a fiscal policy after a severe fiscal shock. The task of the council will then be to keep the memory of this fiscal chock alive in the policy debate and in the policy framing. It serves as a vaccination against future deficit financing.

Requirements for successful fiscal councils

What is missing from this list?

3. Which are the most important parts of the fiscal framework?

A fiscal framework is likely to consist of a number of quantitative fiscal targets and constraints covering various time horizons.

Here nominal government spending ceilings given on an annual basis are likely to be more efficient from a political economy point of view than over-the-business cycle defined constraints and targets

Requirements for successful fiscal councils

What is missing from this list?

4. The role of the economics profession

Consensus in society about a council is facilitated by a strong position of the economics profession in public discourse. The council will then be recruiting members who by themselves have a respected background.

Can fiscal policy council reduce the deficit bias?

Lessons from Sweden

5. Independence is fostered by recruiting a majority of the members of the council from academia, preferably also foreign members and allow for intellectual import into the domestic policy analysis. Members could also be selected from policy-makers and civil servants who have left active engagement and are expected to have no further career plans.

Can fiscal policy council reduce the deficit bias?

Lessons from Sweden

6. Consensus in society about a council is facilitated by a strong position of the economics profession in public discourse. The council will then be recruiting members who by themselves have a respected background.

Comparing the US and Sweden

- Why the US will **not** get an effective fiscal policy council?
- The US (for the moment) lacks important prerequisites for an effective fiscal policy council
 1. US has not experienced a fiscal crisis with sharply rising interest rates on government bonds, forcing a rethinking about fiscal discipline.
 2. US has no fiscal framework to combine with an effective fiscal council.
 3. The US is not a consensus society.
 4. Trust in experts running government agencies is weak in the US.
 5. Trust in the economics profession is weak in the US.

Can the Swedish Fiscal Policy Council be copied?

Sweden has a unique history:

1. Strong position of the economics profession in public debate and among voters, media and policy-makers. Wicksell, Cassel, Heckscher, Myrdal, Ohlin, Lindbeck – household names, recognized and respected.
2. High quality of government. Open and transparent society
3. Strong trust in government and in the honesty of policy-makers. Consensus society with no extreme political movements
4. Does Sweden need a council?

Can the Swedish Fiscal Policy Council be copied?

Does Sweden need a council?

In the short run we have the fiscal crisis of the early 1990s
in fresh memory

But in the long run to keep the memory of the fiscal crisis
alive and thus to serve as watchdog.

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