

The Swedish Fiscal Policy Council

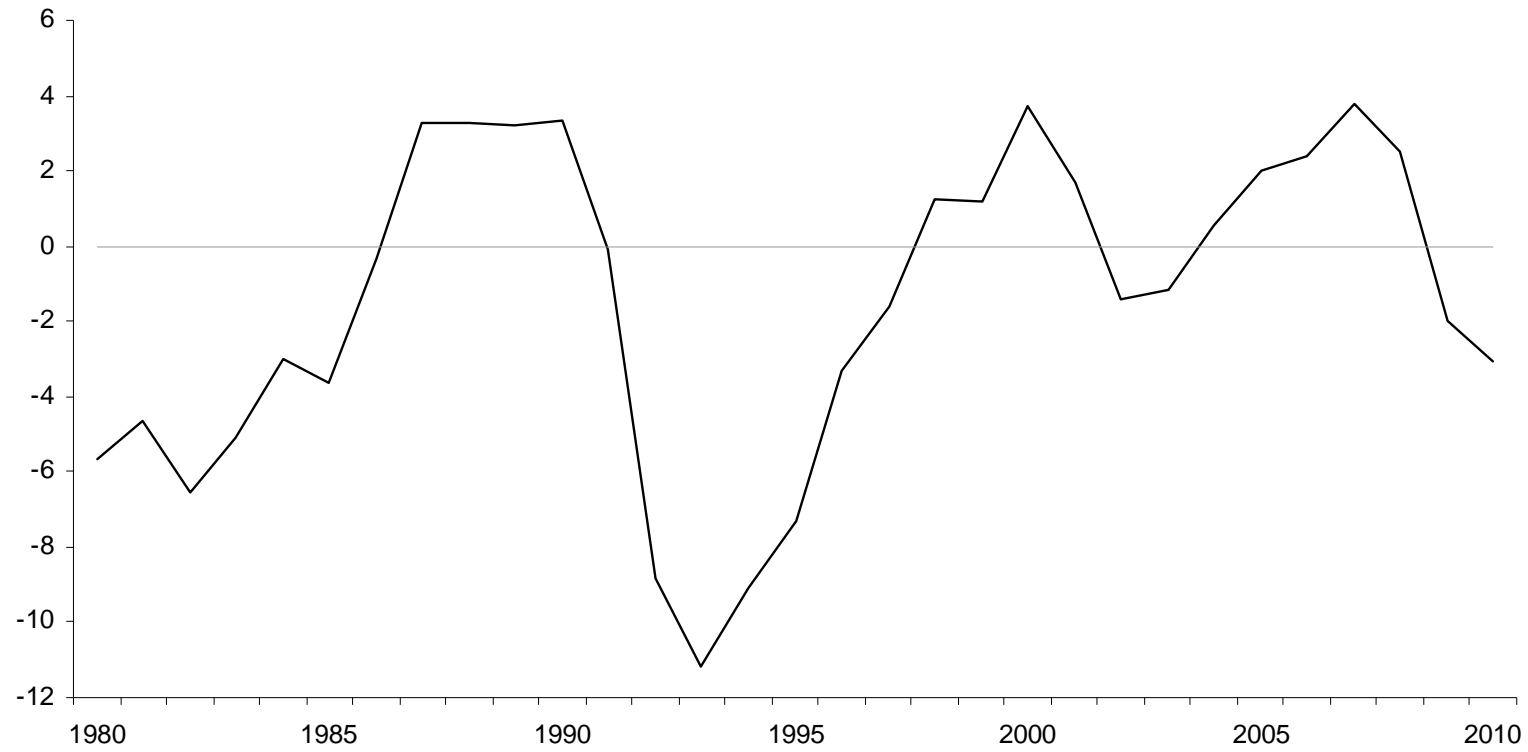
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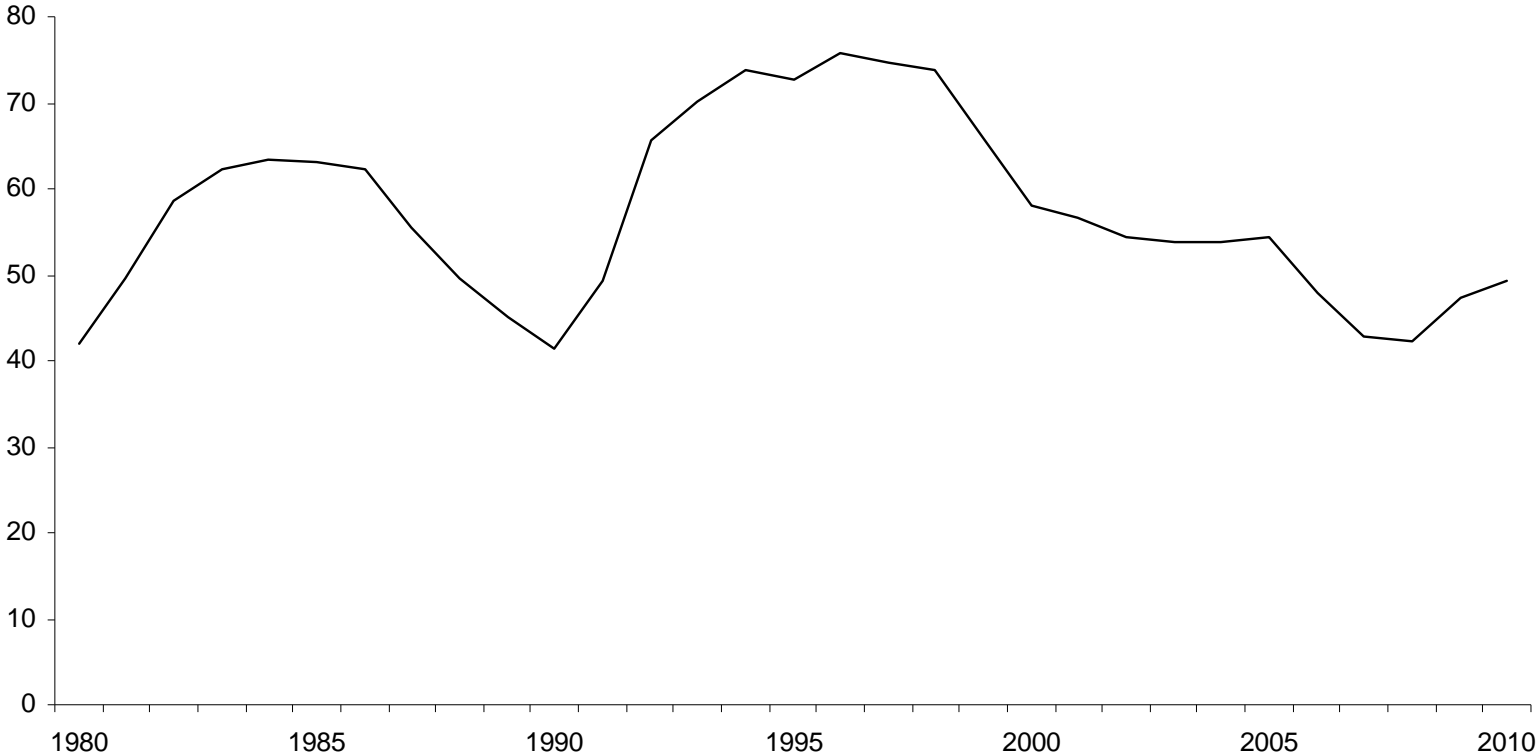
18-19 March, 2010

General government net lending in Sweden, per cent of GDP



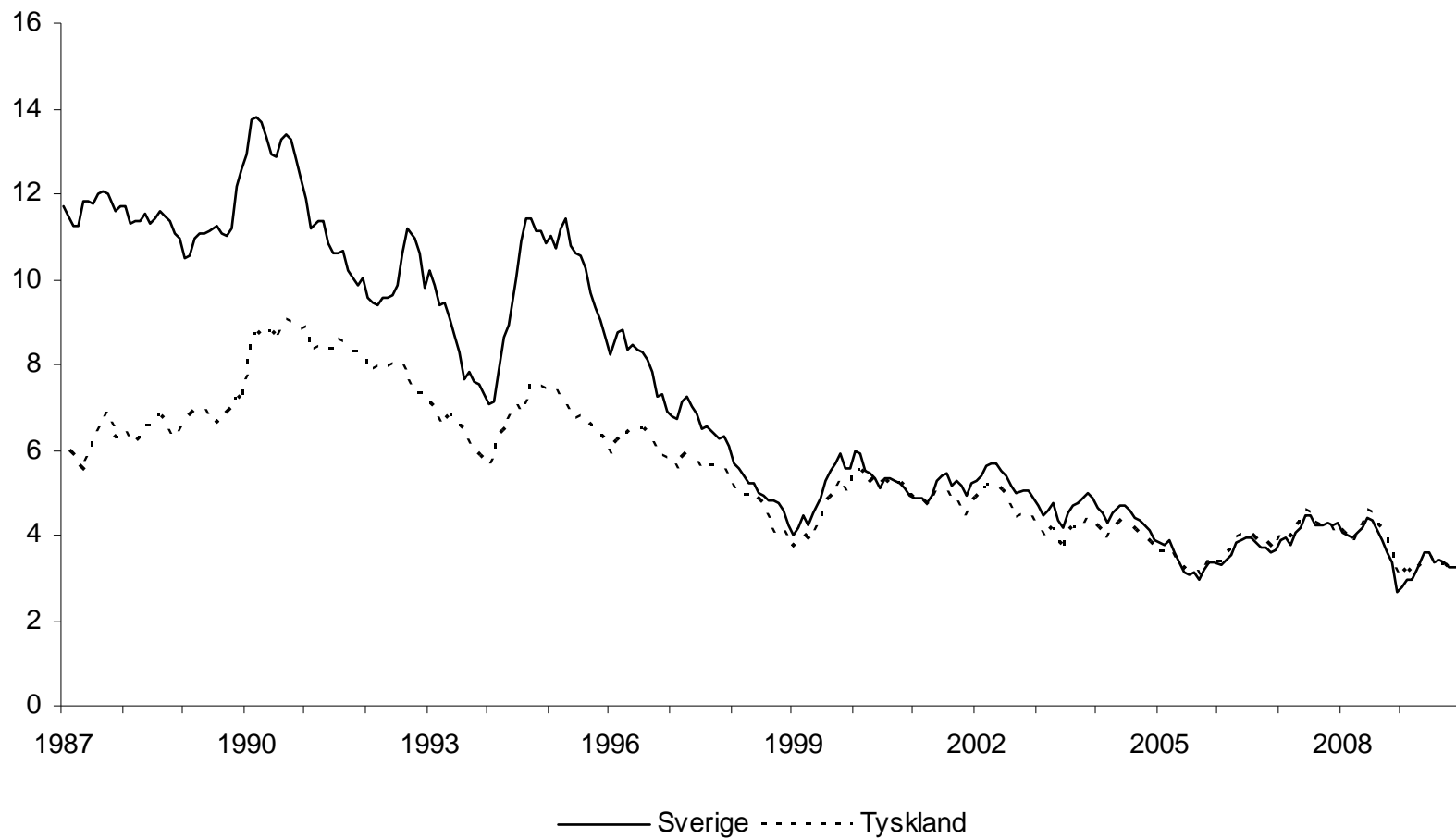
Source: OECD.

General government gross debt in Sweden, per cent of GDP



Source: National Institute for Economic Research.

Interest rates on ten-year government bonds in Sweden and Germany



Source: The Riksbank.

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

The set-up of the council

- An agency under the government
- Eight members
 - six academics
 - two ex-politicians
- Supplementary activities to ordinary jobs (academic positions)
- Small secretariat: four persons

The council's remit

1. To assess if fiscal policy objectives are met
 - long-run sustainability
 - surplus target
 - expenditure ceiling
 - cyclical situation
2. To evaluate long-run employment and growth developments
3. To examine the clarity of the budget bills
 - grounds and motivations for policies
4. To evaluate the government's forecasts and the underlying models

The council "should work to achieve an increased public discussion in society of economic policy"

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)
- 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

How can the council be so small?

- Annual budget of 700 000 €
- Heavy contribution from the academic members
- Other pre-existing bodies
 - National Institute for Economic Research
 - Office for Budget Management
 - National Debt Office
 - National auditors
- Healthy overlap
 - the council provides heavier academic, less routine input taking more of an overall perspective

A broad remit

- Trade-off between breadth and depth
- Risk that fiscal policy watchdog role is weakened
- But important "supervisory" role of economic policy discussion
- Prime objective: the fundamentally democratic one of raising the standards of the economic policy debate
- Why this remit?
 - other pre-existing bodies
 - "institutionalise" strong Swedish tradition of high-profile academic participation in economic policy debate

The council's role in the fiscal policy debate

- On average a fiscal policy council should be expected to advocate more fiscal discipline than the government
- But this need not always be the case: credibility gain
- The council must make its own judgements
- Stronger fiscal framework allows more discretionary stimulus in recessions
- The government's focus on fiscal discipline and the existence of the council are explained by the same factors
- More normal role for the council before upcoming elections



The council and the standing of the finance ministry

- Unclear effect on the standing of the finance minister vs spending ministers
 - finance minister could be backed up
 - but other ministers get access to alternative analyses
- Effect within the finance ministry
 - technocrats are strengthened relative to politicians

The council in the general political debate

- Political bias against the government
 - evaluations of government policy but not of opposition proposals
 - smaller problem in the long run
- Members are free to express their own views in the economic policy debate

The council's independence

- Members appointed by the government: three-year renewable periods of office
- Risks balanced by:
 - appointments after council proposals
 - low pay
- Budget has to be negotiated with the government
- Main guarantee of independence: academic economists have their main activities in another arena
- But potential problem that everyone knows everyone in a small country

The council's survival

- Too much power to independent academics?
- Initial reaction of the opposition: "experts should not evaluate the elected representatives of the people"
- Less clear today

Conclusions

- Small resources and broad remit
- It works in an environment with other bodies with related tasks
- Overall judgements with heavier academic input
- Trade-off between fiscal policy watchdog role and role as "guardian" of the quality of the economic policy discussion
- Swedish set-up in line with Swedish traditions
- No uniform model: institutions must adapt to the specific characteristics of each country