

Swedish Fiscal Policy 2008

Lars Calmfors
Chairman

**THE RIKSDAG
(Parliament)**

349 members

GOVERNMENT

22 Ministers

**The Committee
on Finance**

17 members

**The Swedish National
Audit Office**
310 employees

**The Riksbank
(Central Bank)**
400 employees

**Ministry
of Finance**
470 employees

**Swedish Fiscal
Policy Council**
8 members

**The Swedish National
Financial Management
Authority**
160 employees

**The National Institute
for Economic Research**
60 employees

Secretariat
2 employees

FINANSPOLITISKA RÅDET

SWEDISH FISCAL POLICY COUNCIL

The tasks of the Fiscal Policy Council

1. To evaluate whether fiscal policy meets its objectives:
 - long-run sustainability,
 - budget surplus target,
 - the expenditure ceiling,
 - stabilisation goals.
 2. To evaluate whether developments are in line with healthy sustainable growth and sustainable high employment
 3. To monitor the transparency of the government budget proposals and the motivations for various policy measures.
 4. To evaluate the government's economic forecasts and the quality of the models they are based on.
- Annual report: this year 15 May
 - *Ex post* evaluation
 - More information on www.finanspolitiskaradet.se

The Report 2008: An Overview

1. Fiscal policy and the fiscal policy framework
2. Macroeconomic forecasts by the Ministry of Finance
3. Employment policy
4. Reforms in capital and real-estate taxation
5. The government's basis for decision-making (memos, models and data)

The main conclusions

- Correct to budget large surpluses for the next few of years
- But the government should consider reformulating the surplus target
- Reducing the level of unemployment benefits and lowering the tax on earned income should increase employment in the long term
- But the financing reform of unemployment insurance and the real-estate tax reform are failures

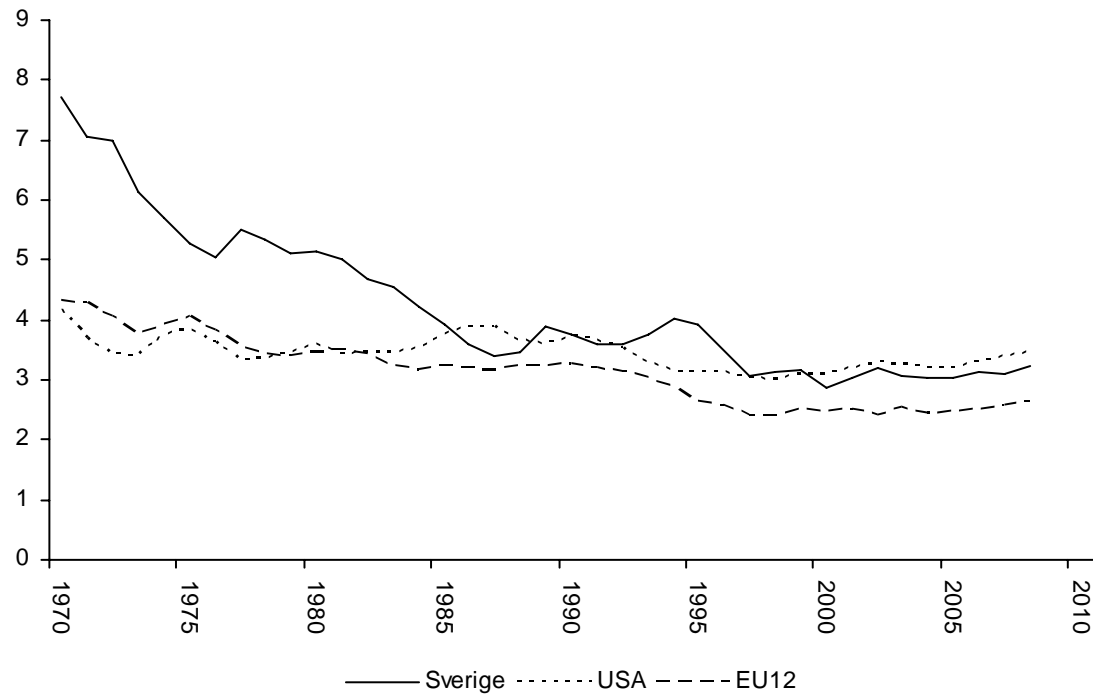
The fiscal framework in Sweden

- **Long-run sustainability of fiscal policy** is the basic objective
- **The surplus target** (1 pct over the business cycle) and the **expenditure ceiling** are operational and medium-term goals and should facilitate achieving the basic objective
- The level of the surplus target should be determined by:
 - goals for the redistribution of welfare among generations
 - goals for efficiency (tax smoothing)
 - precautionary motive
- Expenditure pressures due to the **demographic developments**

Consider a Golden rule

- Consider whether the surplus target should include public sector total savings and not just net lending
 - total savings is the sum of net lending and net investment
 - the surplus target can discourage public investment
- Appoint a government commission
 - all investments or only those that provide a pecuniary return?
 - strict rules against possible abuse
 - lower bound for the public sector's **financial** wealth

Public sector gross investment i Sweden, EU12 and USA (percent of GDP)

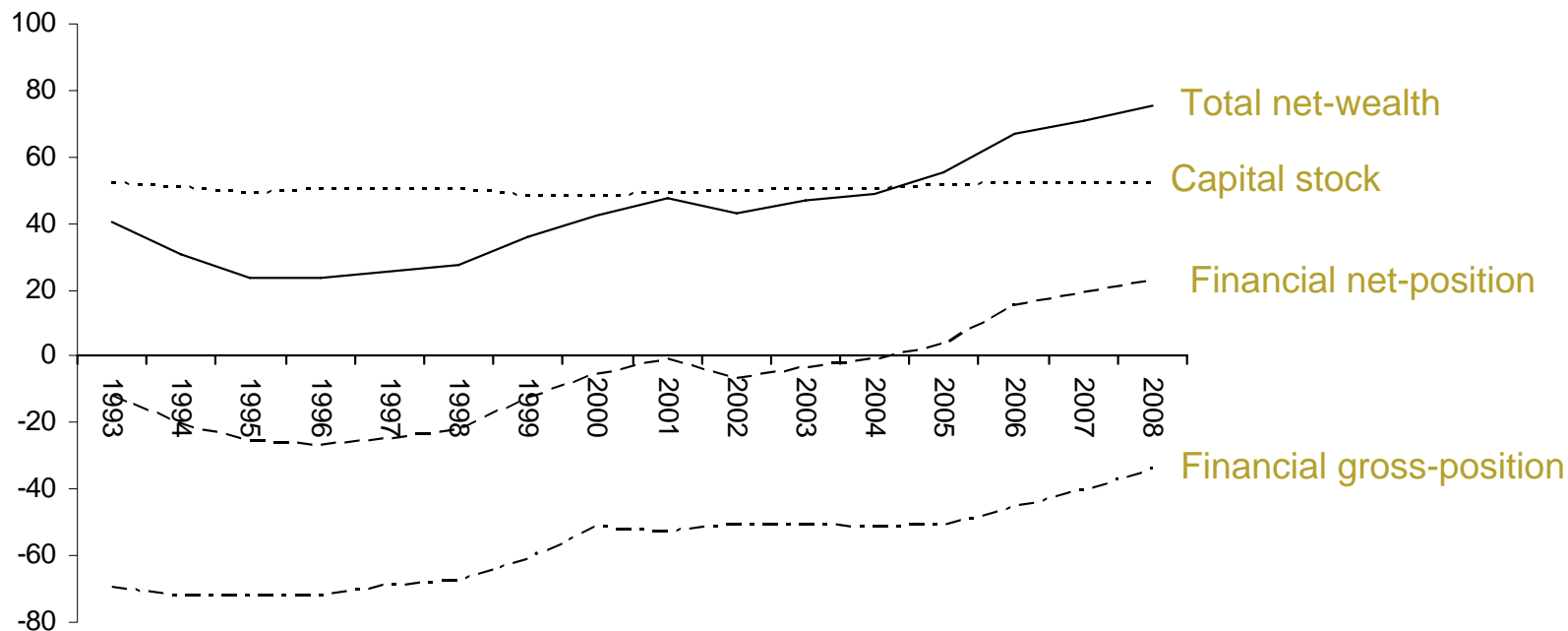


Anmär. Data för 2007-2008 är prognoser. Data för EU12 före 1991 är exklusive tidigare Östtyskland.
Källa: OECD Economic Outlook 2007/2.

Improve the accounting of the public sector economic position

- No reporting in the budget bills of public sector total wealth (including the capital stock)
- Impossible to get a complete view of the economic position of the public sector
- Wealth position reported only in the Annual accounts of the central government

Public sector financial position and wealth (percent of GDP)



Anm: Data för 2007–2008 är prognoser.

Källa: Konjunkturinstitutet.

Large positive employment effects of lower unemployment benefits and the tax credit on earned income

- Equilibrium unemployment down by up to 1 percentage point in the long term
- Good performance 2007-08 is primarily due to the business cycle, not to the reforms
- Increased unemployment in the next slump does not imply a policy failure

Reduction of the real-estate tax

- The tax had small negative side effects
- Violation of the principles of the 1990/91 tax reform
- Housing investment and business investment are no longer treated equally
- No research basis for changes to the real-estate tax
 - calculations on capital costs done afterward
- Noteworthy contrast to the government's stated ambition to base its policy on research evidence