

The Swedish Fiscal Policy Council

Swedish Fiscal Policy

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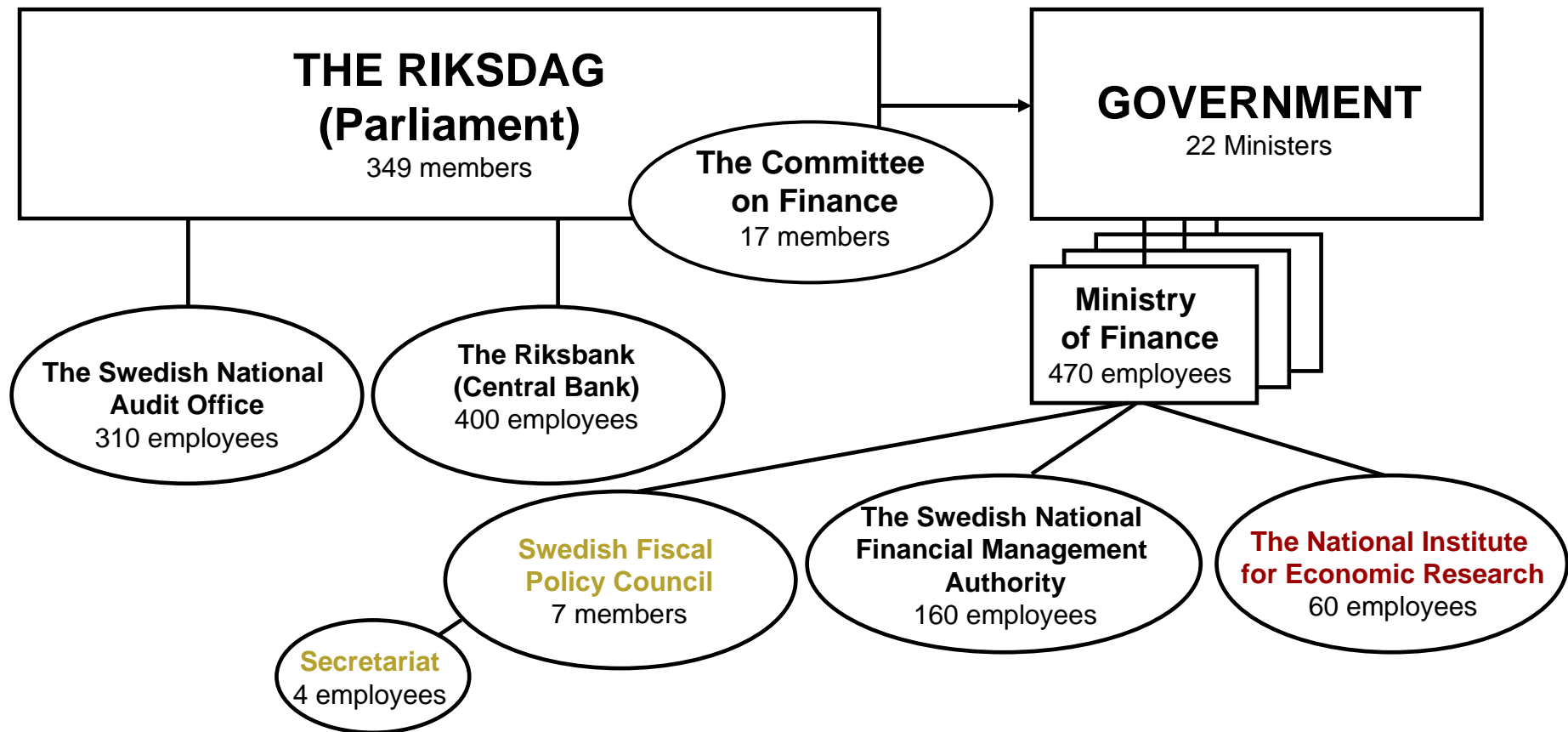
The idea of Fiscal Policy Councils (Committees)

- Offspring from the discussion, originating in the 1980s, on rules versus discretion (Kydland and Prescott).
- Monetary regime with an independent central bank.
- Can the lessons in some form be applied to fiscal policy?

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: ex post evaluation, not ex ante evaluation.



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.

To contribute to a better economic policy discussion in general.

- Annual report: this year 11 May.
- More information on www.finanspolitiskaradet.se

The Swedish Fiscal Policy Council

Lars Calmfors, Stockholm University (Chair)

Torben Andersen, University of Aarhus (Vice chair)

Martin Flodén, Stockholm School of Economics

Laura Hartman, Swedish Agency for Public Management

Ann-Sofie Kolm, Stockholm University

Lars Tobisson, former vice chairman of "moderaterna"

Erik Åsbrink, former social democratic Minister for Finance

Swedish Fiscal Policy 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

- 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.
- The financing reform of unemployment insurance and the real-estate tax reform are failures.

The current economic crisis

Forecasts of the Swedish economy 2009

	Budget bill 2009 (September 2008)	Spring bill 2009 (April 2009)
GDP growth	1.3	-4.2
Output gap	-1.7	-7.1
Inflation	2.4	-0.4
Unemployment	6.4	8.9
Public sector financial savings	1.1	-2.7

Reasons to be worried

- Global crisis.
- Forecasts are still being revised downwards.
- Crisis in the financial markets not over.
- The real effects have only partly materialised.
- Risk of feedback effects from the real economy to the financial sector.

Policy measures

- **Monetary policy**
 - Target interest rate lowered from 4.75 to 1.00 percent from September 2008 to February 2009. Further cuts are likely.
- **Fiscal policy**
 - Fiscal stimulus of 2.1 percent of GDP and strong automatic stabilisers.
 - Surprisingly small additional measures compared to Budget Bill despite large deterioration of economic outlook and strong public finances
 - Less generous benefit system than earlier.
 - Grants to local governments and targeted transfers to low-income groups are desirable

- **Active labour market policy**
 - Earlier focus on long-term unemployed now complemented with some measures for the short-term unemployed
 - According to the government large increase in ALMPs
 - But it is mainly an automatic increase of participation in the job and development guarantee when benefits expire
 - Job search activities will not have large effects in the present situation
 - Labour market training?