

In between Research and Politics: 50 Years of Public Debate

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Mellan
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Swedish inflation in the 1970s and 1980s

- A vicious circle of inflation, cost crises and exchange rate devaluations
- Root cause: unions and employers expected accommodation policies
- *SNS Konjunkturråd*: Proposal on *non-accommodation policy*
 - commitment to fixed exchange rate even if unemployment and bankruptcies
 - aim to change expectations of wage bargainers
 - then *actual* unemployment would never have to increase

The failure of the non-accommodation policy

- First strong resistance to the proposal
- Policy shift 1991 after new round of inflation
- But the fixed exchange rate had to be abandoned in late 1992
 - infamous 500 percent policy interest rate
 - the defense of the fixed exchange rate worsened the crisis
- Several lessons
 - Policy makers often react too late when policy changes are needed and then overdo the changes
 - Researchers must retain a nuanced argumentation
 - The need for an escape clause was lost
 - It can be hard for policy makers to change course when they have invested political capital

Too large labour market programmes in the 1990s

- Active labour market policy was seen as the centrepiece of the Swedish labour market model
- Huge expansion of programmes in the 1990s crisis: 5.5% of the labour force
- So large programmes cannot be conducted efficiently
- Trade-off between reducing open unemployment and preserving regular unsubsidised jobs
- Social Democrats did not want to hear about the conflict of goals

Today's labour market policy

- The pendulum has swung to the opposite extreme
- Accepted truth that the Public Employment Service does a lousy job
- But the task has become much harder
 - mainly handling of very weak groups of labour market outsiders
- Radical privatisation reform
- But liberal-conservative politicians have not wanted to take existing research into account
 - private providers not more efficient than public ones
 - rather the opposite seems to have been the case

The EMU issue

- The Calmfors commission was given the remit to analyse pros and cons of Swedish membership in the monetary union
- An ideal case of interaction between research and policy-making?
 - not pre-existing views along traditional party lines
 - genuine demand for independent analysis
- Policy recommendation or only analysis of effects
 - we chose recommendation with "sensitivity analysis"
- Not participation at the start but later
- Large weight on unemployment risk
 - double-digit unemployment at the time
 - fiscal policy incapacitated as a stabilisation tool
 - risky to forego domestic monetary policy
- Attempts from the Ministry of Finance to stop recommendation

The Fiscal Policy Council

- Established by the government in 2007 to make independent evaluations of its fiscal and employment policies
- First report 2008 praised some labour market reforms and criticised others
- Conflict with Anders Borg and the Ministry of Finance
 - pressure to tone down criticism
 - threats of budget cuts
 - personal attacks
- Why such a conflict?
 - questioning of Borg's competency?
 - natural if an expert group is tasked with evaluating a minister's policy

The Labour Market Policy Council

- Established in 2015 by the Confederation of Swedish Enterprise to make independent analyses of labour market issues
- The confederation liked our analyses of how new types of low-paid low-skilled jobs could raise employment
- But the confederation did not like our questioning of the system of pattern bargaining with the first agreements being concluded in manufacturing
 - too low wage increases to reach the *Riksbank's* inflation target
 - too low wage increases for alleviating labour shortages in publicly financed activities
- The council was abolished after three years

Five examples of the complexities of the relationship between economic research and economic policy-making

- The shift to low-inflation policy in the 1990s
- Active labour market policy then and now
- The EMU issue
- The Fiscal Policy Council
- The Labour Market Policy Council