The Swedish Fiscal Policy Council

Lars Calmfors Conference on Independent Fiscal Policy Institutions, Budapest 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 sustainabililty 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 highprofile 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