

# The Swedish Fiscal Policy Council

**Lars Calmfors**

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**Figure 1 General government net lending in Sweden, per cent of GDP**



Source: National Institute for Economic Research.

## New fiscal framework from the end of the 1990s

- Top-down approach for the government budget
  - overall expenditures are determined in a first step
  - in the second step one expenditure cannot be raised unless another one is cut
- A surplus target for government net lending of one per cent of GDP **over the business cycle**
- Central government expenditure ceiling
- Balanced budget requirement for local governments

# The Swedish debate

- Proposal from Government Commission on Stabilisation Policy in the Event of EMU Membership (2002)
- Negative reaction from Social Democratic government at the time
- Positive response from liberal-conservative opposition
  - chief economist Anders Borg in the Moderates (Swedish Tory Party)
  - when becoming Minister for Finance Anders Borg was driving force behind the establishment of the FPC in 2007
- Addition to already existing and working fiscal framework
  - not triggered by crisis but by continued determination to avoid future crises

# The FPC's remit

1. To evaluate whether fiscal policy meets its objectives
    - long-run sustainability
    - surplus target
    - the expenditure ceiling
    - consistency with cyclical situation
  2. To evaluate whether developments are in line with healthy long-run growth and sustainable high employment
  3. To examine the clarity of the government budget proposals and the motivations for various policy proposals
  4. To monitor the government's economic forecasts and the underlying models
- To “work to achieve an increased public discussion in society of economic policy”
  - Annual report

	Forecasting	Costing of policy initiatives	Ex-post evaluation of fiscal policy	Ex-ante evaluation of fiscal policy	Evaluation of fiscal sustainability	Normative recommendations	Analysis of broader issues
<b>Austria</b>	X		X	X	X	X	
<b>Belgium</b>			X	X	X	X	
<b>Canada</b>	(X)	X	X	X	X		
<b>Denmark</b>	X		X	X	X	X	X
<b>Germany</b>	(X)		(X)	(X)	(X)	(X)	X
<b>Hungary</b>	X	X	X	X	X		
<b>Netherlands</b>	X	X	X	X	X		X
<b>Slovenia</b>	(X)		X	X	X		(X)
<b>Sweden</b>	(X)		X	X	X	X	X
<b>UK</b>	X	?	X	X	X		
<b>US</b>	X	X	X	X	X		X

# Institutional set-up of the FPC

- Agency under the government
- Public hearing in the Parliament
- Eight members
  - six academics
  - two ex-politicians
- Secretariat of four persons
- Academics perform their work as side activities to their academic work

# Themes in the reports

- Need for clarifications of numerical value of surplus target
- Need for clarifications of when surplus target is achieved (“over a business cycle”)
- Calls for more transparent fiscal sustainability calculations
- Calls for more (temporary) fiscal stimulus in 2009
- Criticism of creative accounting to circumvent expenditure ceilings
- Criticism of bad explanations of EITC
- Criticism of reforms of sickness and unemployment insurance

Evaluations only vis-à-vis the objectives set by the government!



# Impact

- Fiscal stimulus in 2009/10
- Call to political parties for fiscal restraint in 2010 election campaign
- Clarifications of motives for surplus target and of follow-up procedures
- Increased transparency of fiscal sustainability calculations
- Less impact on reporting of government investment, real capital stock and ALMPs

# Initial resistance from political opposition

Left party (former communists):

“There is reason to assume that the Fiscal Policy Council will be another body providing false scientific clothing for the government’s right-wing policy”



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# Increasingly critical government attitude

Minister for Finance:

I have established the earned income tax credit and the Fiscal Policy Council. I am convinced that at least one of the two is very useful. I am very doubtful about the other.



# Why?

- A watchdog naturally focuses on what can be improved
- Critical evaluations of government policies but not of opposition proposals
- Media bias in reporting
- This problem will become smaller over time
- Evaluation of opposition parties' programmes
  - CPB in the Netherlands
  - Risky in the Swedish case with our broad remit

# Seven lessons from Sweden

1. Do not confound evaluation and (behind closed-doors) advising!
2. The majority of an FPC should be academics.
3. Formal guarantees of independence.
4. Adequate funding from the start.
5. Do not make forecasts!
6. A broad remit can promote a reputation for objectivity.
7. Procedures for peer evaluation of the council.