

Independent Fiscal Monitoring in Sweden – Mixed Experiences

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Independent institutions with fiscal watchdog tasks

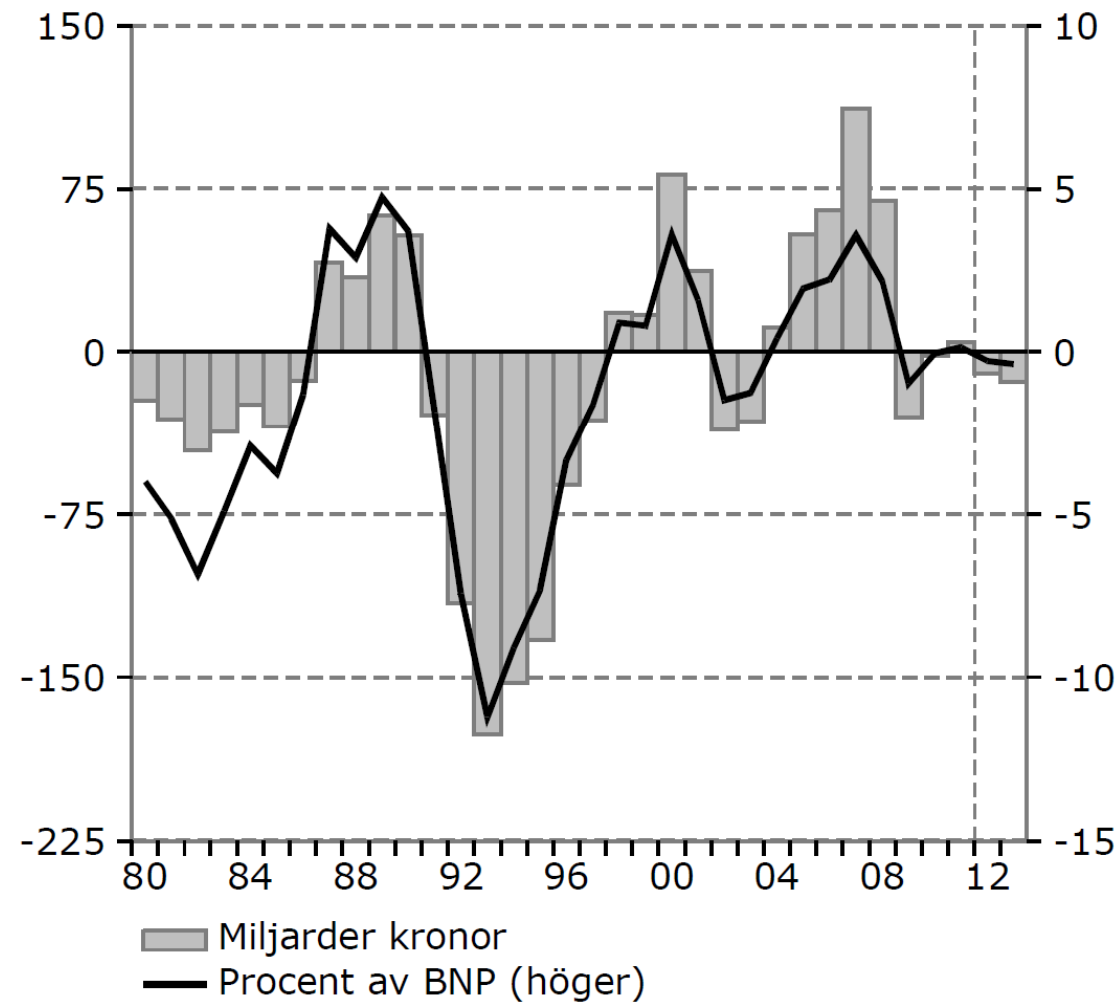
- Old institutions in the Netherlands, Denmark, the US and Belgium
- New wave from 2007/08 including Sweden, Canada, Hungary, Slovenia and the UK
- Most recently or in the near future: Ireland, Portugal, Spain and France
- Motivation for establishing fiscal watchdogs in many EU countries is part of a major overhaul of fiscal frameworks.
- This was not the case in Sweden, it was instead a late addition to an already well-functioning fiscal framework, which was put place already in the late 1990s

The Swedish fiscal framework

- Top-down budget process.
- Surplus target for government net lending of one per cent of GDP over a business cycle
- Central government expenditure ceiling determined three years in advance
- Balanced budget requirement for municipalities and regional governments
- Reformed pension system with defined contributions and an automatic balancing mechanism to guarantee long-run sustainability.

Diagram 199 Offentliga sektorns finansiella sparande

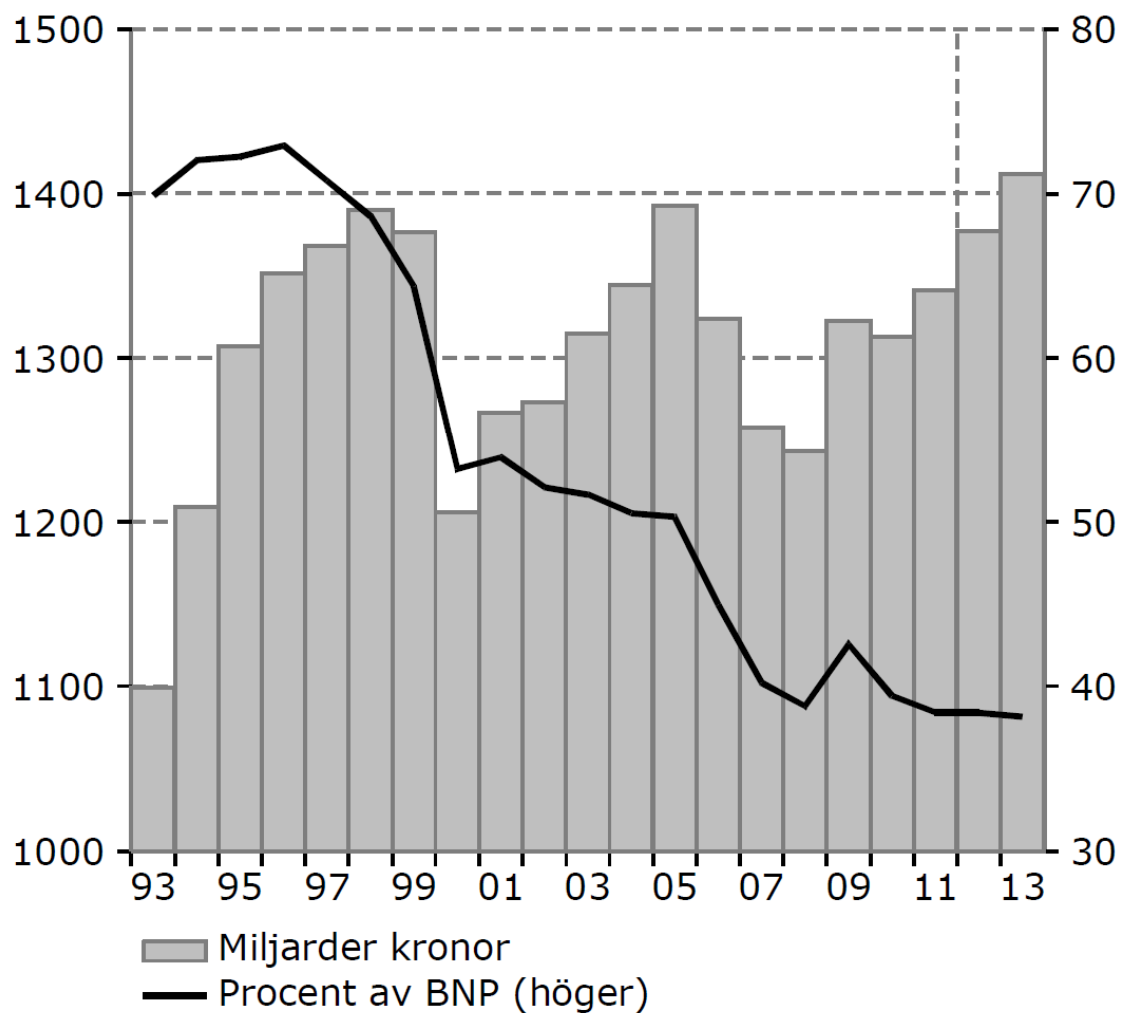
Miljarder kronor respektive procent av BNP,
löpande priser



Källor: SCB och Konjunkturinstitutet.

Diagram 205 Konsoliderad bruttoskuld (Maastrichtskuld)

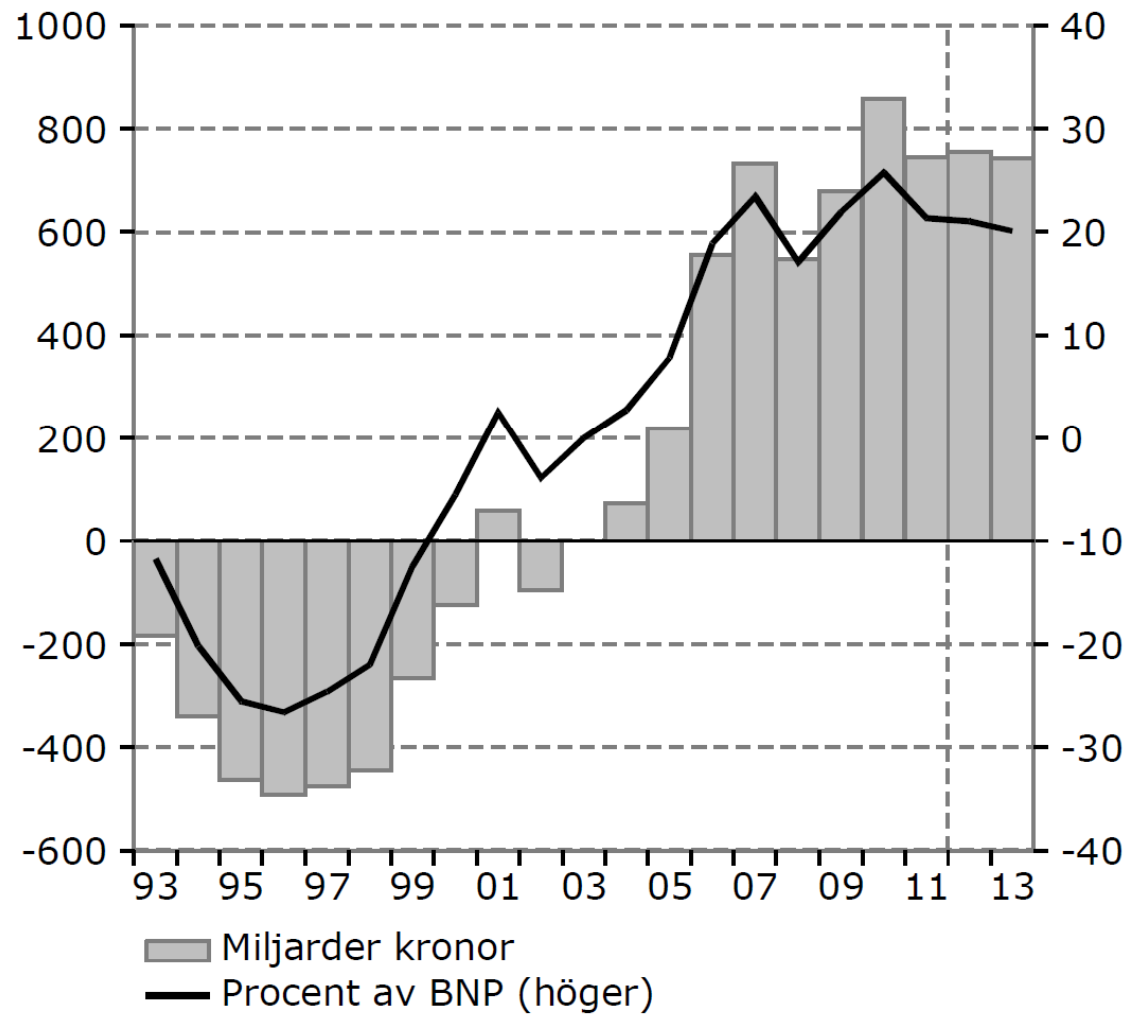
Miljarder kronor respektive procent av BNP, löpande priser



Källor: SCB och Konjunkturinstitutet.

Diagram 206 Den offentliga sektorns finansiella ställning

Miljarder kronor respektive procent av BNP, löpande priser



Källor: SCB och Konjunkturinstitutet.

The FPC's remit: an annual report

- Evaluate the sustainability of public finances
- Evaluate the consistency of fiscal policy with the surplus target and the expenditure ceiling
- Also evaluate how the fiscal stance relates to the cyclical situation
- Also effects of fiscal policy on long-run employment, growth and welfare distribution
- Also monitor the transparency of the government's policy proposals and the grounds given for them
- It *may* evaluate the government's forecasts but not produce own forecasts
- General instruction to "work to achieve an increased public discussion in society of economic policy"

Table 4. Quantitative contents of the Swedish FPC's reports, of MPs' questions in the Parliament's public hearings regarding the reports and of press coverage (%), 2008–2010

	Council	Parliament	Press
Fiscal policy	55	35	30
Fiscal framework	17	20	11
Long-term objectives	14	11	7
Stabilization policy	4	9	4
Long-term sustainability	19	0	4
Stabilization policy	19	15	14
Forecasts	4	4	1
Employment policy	38	58	54
Employment developments	7	11	12
Unemployment insurance	6	16	17
ALMPs	9	4	7
Tax policy	11	18	14
Sickness insurance	4	5	5
Other tax policy	3	4	8
Other	1	0	7

Note: The column 'Council' shows the average percentage of the council's reports devoted to various issues. The column 'Parliament' shows the average percentage of questions from MPs devoted to various issues in the parliamentary hearings. The column 'Press' shows the average percentage of press articles on the Council's reports devoted to various issues.

Source: Own assessments.

Table 1 Distribution of the FPC’s commissioned background reports between different areas

	Number	Per cent
<i>Fiscal policy</i>	15	46.8
Fiscal framework	3	9.3
Fiscal sustainability	6	18.8
Cyclic stance	6	18.8
<i>Employment</i>	9	28.1
<i>Growth</i>	5	15.6
Education	3	9.3
Taxes	1	3.1
Industrial policy	1	3.1
<i>Income distribution</i>	3	9.3

Resources

- Budget of 1 100 000 € now (half the amount at the start)
- Secretariat of five persons
 - three senior economists
 - a research assistant
 - an administrative officer
- The Council itself
 - six members
 - 1 700 € per month for the chair
 - 1 200 € per month for an ordinary member

Issues analyzed by FPC in annual reports

- Fiscal policy
- Employment
- Economic analysis and reporting

Fiscal policy

- Government should motivate the numerical value of the surplus target
- Longer life expectancy should be met by raising the retirement age and not through pre-funding (saving through fiscal surpluses)
- Argued that fewer indicators of whether the surplus target is met should be used
- Criticism of creative accounting with respect to the expenditure ceiling in 2009/2010 (certain payments recorded in another year)
- Use more fiscal stimulus during the Great Recession 2009
- Warnings about too lax fiscal policy in 2010/11 in connection to the election 2010.

Employment policy

- Strong focus on labor market policies since raising employment is the primary objective of the government
- Endorsement of the likely employment effects of the government's labor market reforms
 - earned income tax credit
 - less generous unemployment insurance
 - more emphasis on job-search activities
 - narrower gateways to sickness insurance and early retirement
- Criticism of insufficient explanation that effects come via wage restraint
- Criticism of some other aspects
 - general reduction of employer contributions for youth
 - selective VAT cut for restaurants
 - too large reductions of labor market retraining

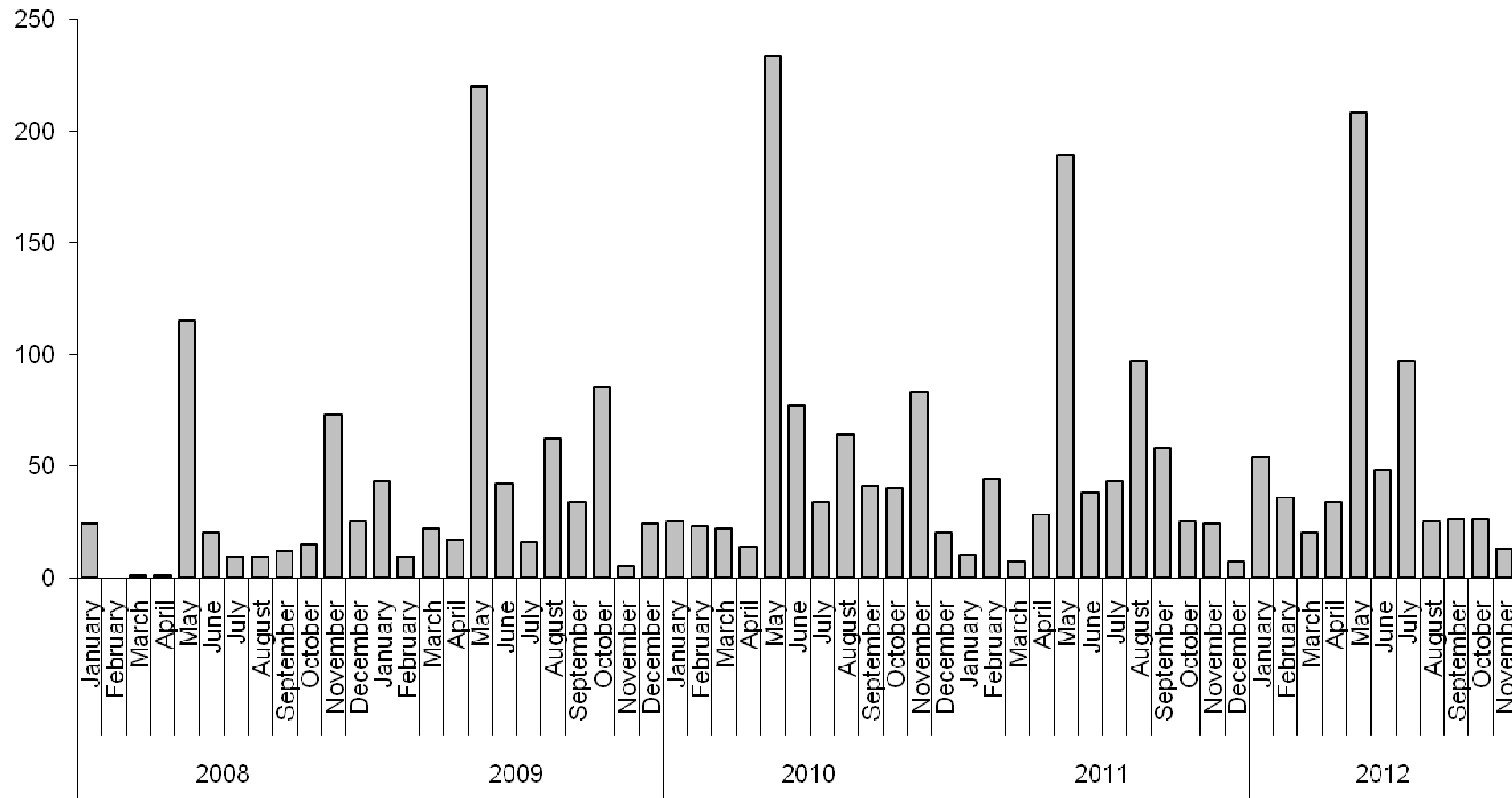
Economic analysis and reporting

- Maybe the most important contribution of the Council has been to improve analysis and reporting.
- Suggestions of improvements in fiscal sustainability calculations
- New measures of analyzing matching problems in the labor market
- Better reporting on the public sector's total net worth, capital stock and investment

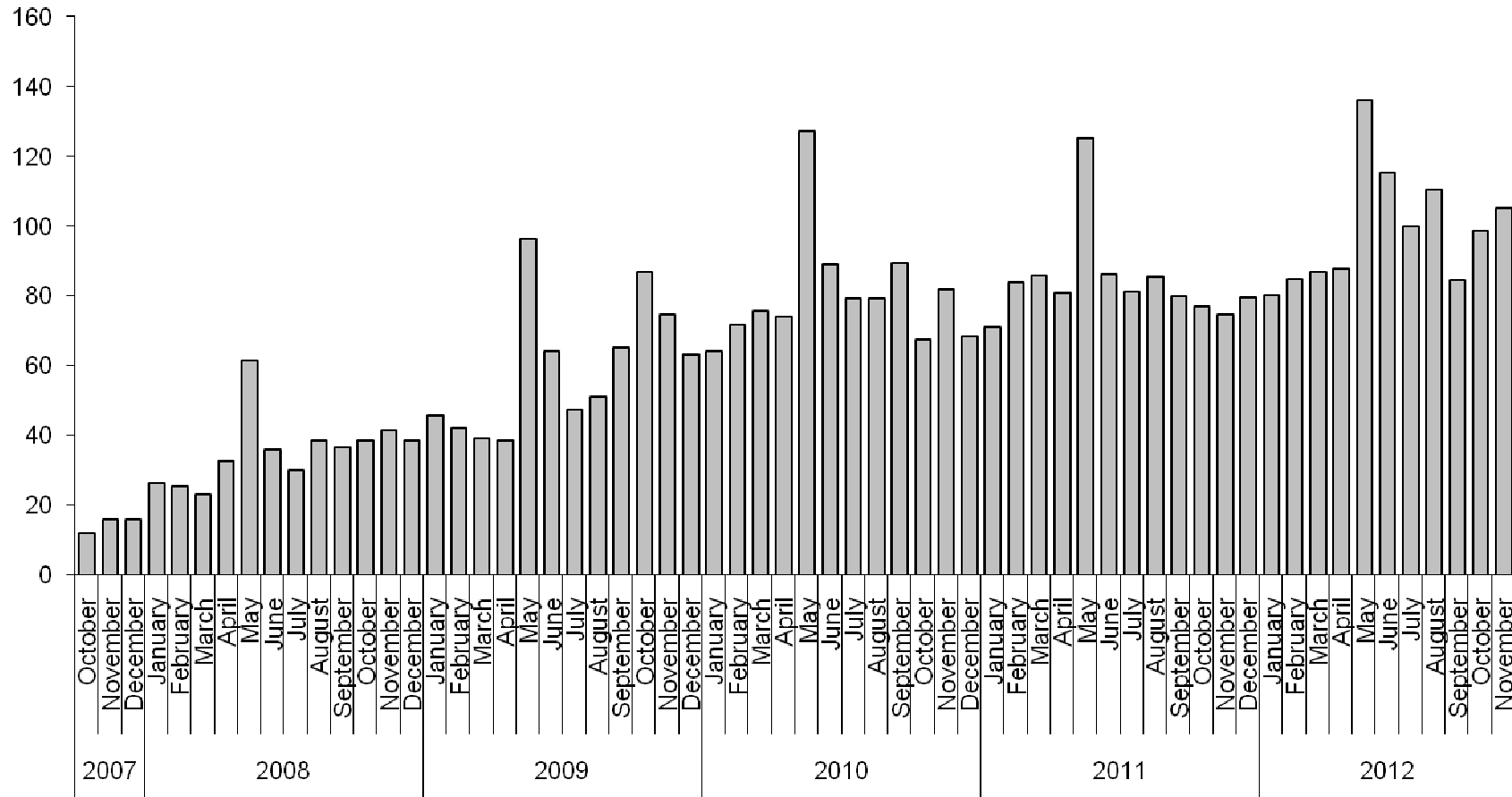
Impact of FPC

- No direct input into policy process
- Impact mainly through media in order to establish independence
- Annual report presented at a press conference covered by the main TV and radio channels.
- A public hearing in the Parliament's Finance Committee broadcasted live in one of the state TV channels.

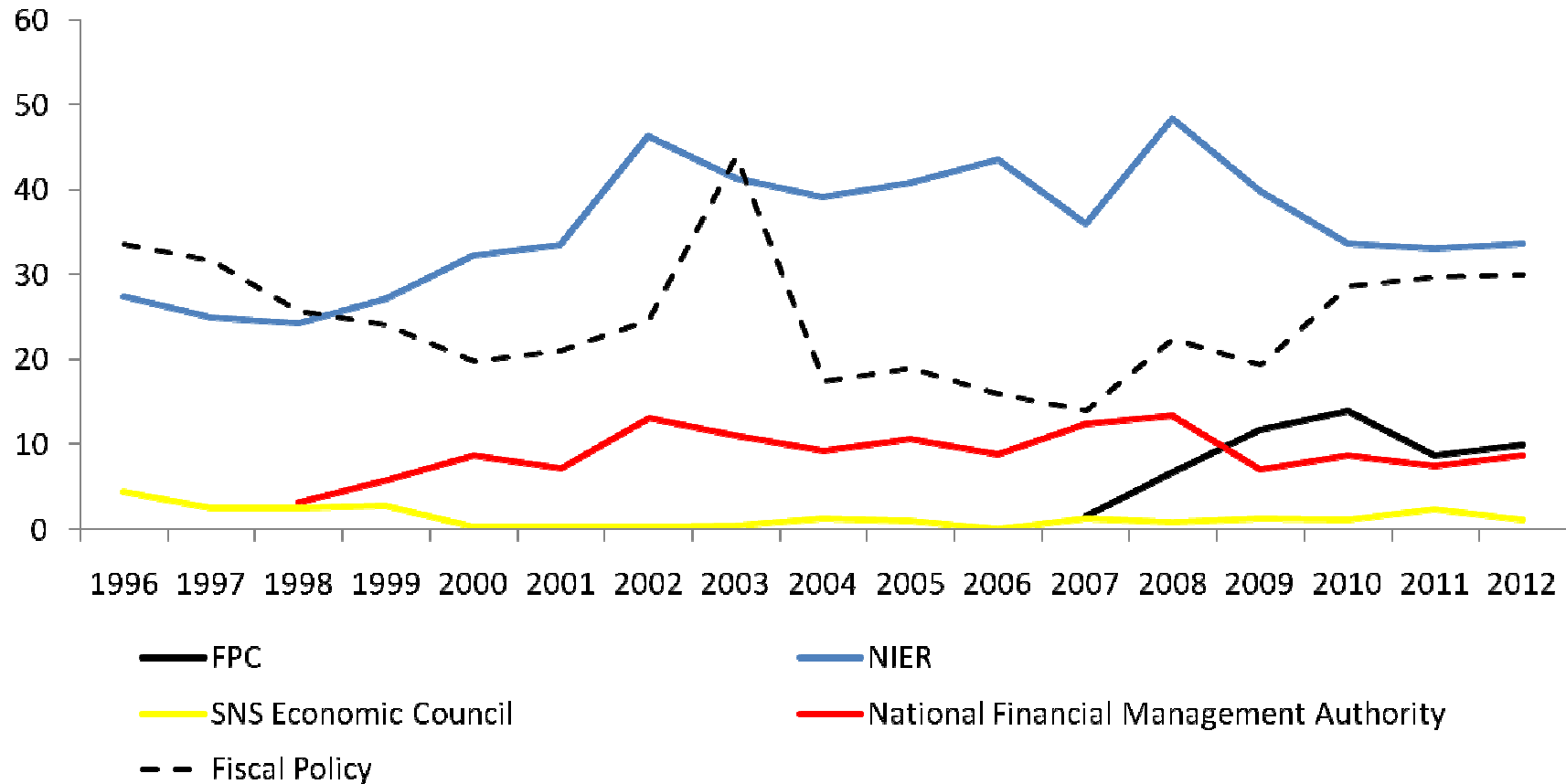
Number of articles mentioning FPC



Unique average daily website visitors

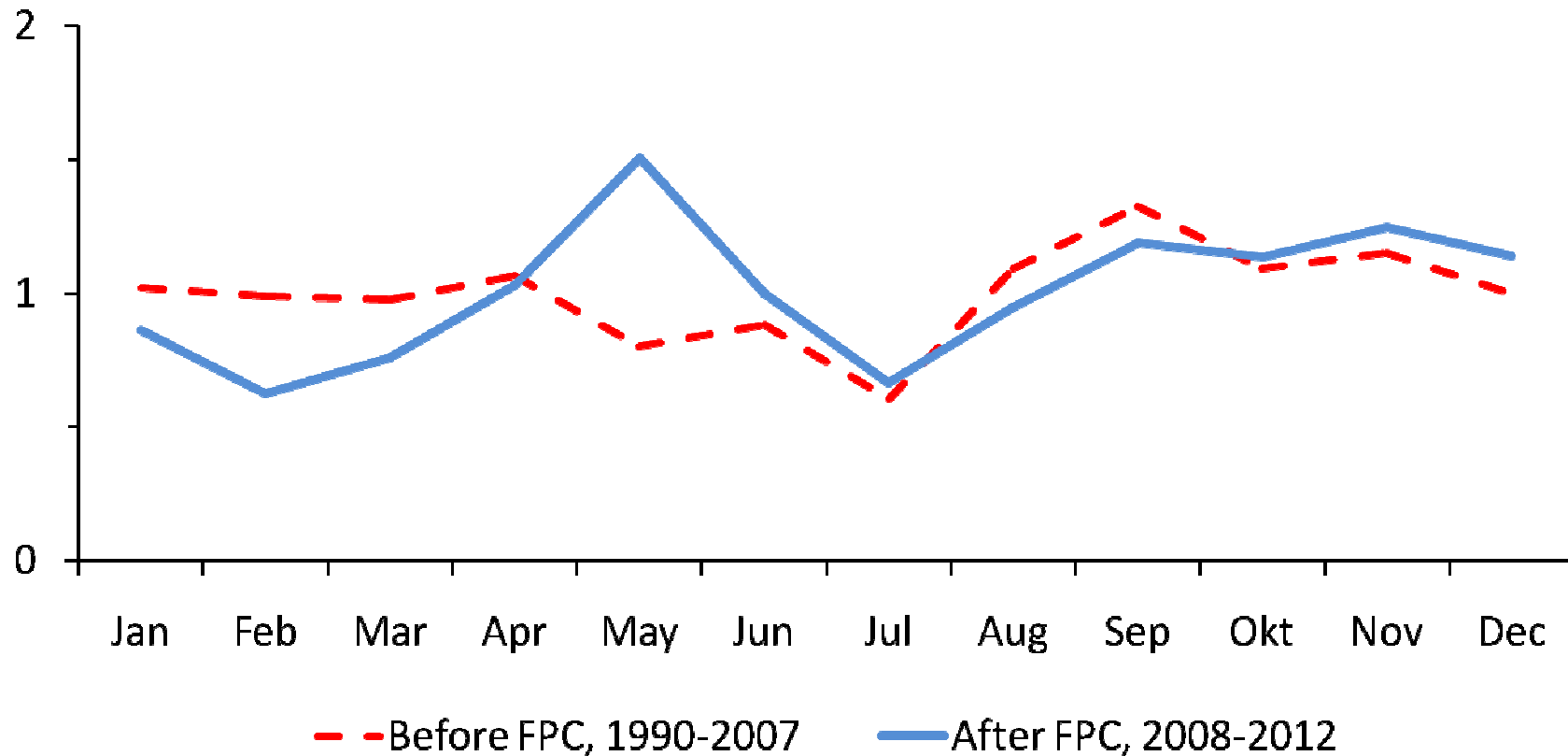


Monthly average articles mentioning various institutions/councils



Note: As the media archive has increased in size since 1996 only the larger Swedish newspapers are taken into account.

Articles mentioning “Fiscal Policy”



Note: Articles per month relative to year average.

Source: Mediarkviet.

General lessons

- The preconditions for establishing a fiscal watchdog
- The need for political consensus
- The inherent time-inconsistency problem
- The survival of the watchdog
- The breadth of the remit

Preconditions for establishment of a fiscal watchdog

- The same forces that explain deficit bias should be a disincentive for establishing institutions designed to strengthen fiscal discipline
- But fiscal crisis shows the costs of fiscal irresponsibility and can act as a trigger for fiscal reforms
- The Swedish case is unclear
 - the consensus on fiscal responsibility can explain both the absence of deficits and the establishment of the FPC
 - but also a need for a Liberal-Conservative government to signal fiscal responsibility
- More special factors
 - a desire to make economic policy more research-based
 - an expectation that a fiscal council would endorse planned policies

The need for political consensus

- No political consensus on the establishment of the FPC in 2007
 - opposition parties voted against
 - "elected politicians should not be monitored by unelected experts"
 - "scientific motivations for ideologically motivated government policies"
- The opposition changed its view in 2011 and entered a cross-party agreement on the Council
 - natural that evaluation of government policy emphasizes possible improvements
 - the opposition has to rely more than the government on independent expertise
- Initial consensus is not needed – it can be reached over time

Time inconsistency

- A government may have an *ex ante* incentive to set up a fiscal watchdog, but an *ex post* incentive to dismantle or restrain it
- Sweden provides such an example
 - difficulties to obtain resources to fulfill the remit
 - threat of budget cut
- Political pressures despite a political cost

Lines of defense for a watchdog

- Reputation with media
- Reputation with international organizations (IMF, OECD, European Commission)
- This is not enough – independence and effectiveness of FPC has been reduced in more covert ways
 - chair is no longer head of secretariat and cannot decide on how the budget should be used and on staff hiring
 - separate head of the secretariat appointed by the government
 - no longer possible to buy out Council members from their ordinary employers

Desirable changes

- More formal safeguards for independence
- Need for a long-term budget under the Council's control
- The Council itself should be responsible for hiring of staff
- Move the Council under Parliament
 - this would eliminate the current "agency dialogue" with the government which can be used to put pressure on the Council

Pros and cons of a broad remit

Pros

- Interactions between many policy areas
- Easier for media and citizens to identify one authoritative body than a multitude of bodies
- Smaller risk of perceived political bias

Cons

- Resources are spread too thinly
- Interest in fiscal policy is crowded out

Conclusions

- The FPC has swiftly acquired a reputation for independent and high-quality analysis
- The experiences point to the risk of undue pressures
- Reputation with media and international organizations is a good defense line
- But formal guarantees for independence are also required
- The FPC's set-up is not optimal
- But politicians probably do not want an optimal set-up

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