Early fiscal consolidation and negotiated flexibility: a fair way out of the crisis?

Dominique Anxo

Adjustments in the Public Sector: Scope, Effect and Policy Issues.

21-22 June 2012

Brussels

Early Fiscal Consolidation

- In front of the dramatic crisis in the early 1990s several structural reforms in the public sector were initiated in order to reduce large budget deficits and increasing public debt.
- The structural reforms undertaken: Wave of deregulations, liberalization and privatizations (downsizing/rationalisation /outsourcing).
- Also reforms of social protection system (UB, SI) and Pension reform.
- More restrictive fiscal and monetary policy

Early Fiscal Consolidation

- A fiscal policy framework has also been gradually introduced to limit the budget deficit and improve the conditions for long-term fiscal policy sustainability. (Swedish "golden rule")
- But these reforms have been conducted, in contrast to the current recession, in a period of sustained economic and employment growth, decreasing unemployment and rising real income and tax revenue.

Swedish Public Sector

- In spite of a wave of privatizations and liberalization/deregulation of a large part of the service sector during the 1990s, Sweden remains a country with a relatively large public sector (C and I, 31% of GDP) and public employment (31 % of total employment).

- Generous and encompassing welfare/public services. Very strong public and political involvement in the provision of a wide range of services.

PUBLIC FINANCES: THE ROOM OF MANOEUVRE

- In comparison to the 1990s crisis, the room for manoeuver to conduct a more expansive macroeconomic policy was larger due to healthier public finances at the start of the economic downturn.

POLICY RECOVERY MEASURES TO MITIGATE THE IMPACT OF THE CRISIS ON PUBLIC EMPLOYMENT.

- **Expansionary macro-economic policy (Monetary and Fiscal policy):** increase of the central government grants to local authorities. Package of recovery and countercyclical measures (Active labour market and education policy). Positive effect in limiting the fall of employment in the public sector.
- **Maintaining employment in public sector** and securing the provision of welfare services by partly compensating the decrease of tax base in connection to the crisis.
- **Role of Automatic stabilizers,** absorb a part of the macro economic chock.

CONCLUSION

- Impact of the crisis on public employment relatively limited compared to other EU Member States and also compared to the decline of employment in export oriented sectors.
- **Adjustments:** Both expansionary monetary and fiscal policy helped to limit the impact of the crisis on employment.
- **Adjustments:** wage moderation

CONCLUSION

- **The Swedish experience shows clearly that:**

1. Healthy public finances and thus the possibility to conduct an expansionary macroeconomic policy are not only a good instrument for mitigating and absorbing the negative impact of external macroeconomic shocks
2. **But** also a good instrument for limiting the negative impact of a recession on the provision of welfare and public services.

CONCLUSION

- **The Swedish experience shows clearly that:**

1. The specific features of the Swedish industrial relations system, (relative balance of power between the two sides of industry and strong tradition of social dialogue) also explain why the cost of the crisis has been more evenly distributed between different socio-economic groups.
2. It also explains why Sweden still has one of the highest levels of job quality and why the current recession has not adversely affected working conditions by means of wage cuts, longer working hours, higher workloads and increased work intensity, as it has in other EU member states.