

TOP-DOWN BUDGETING REFORM IN SWEDEN

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Introduction

In early 1990s Swedish people face a deteriorating fiscal performance which makes Sweden having one of the largest budget deficits among the OECD countries. This worsening process has resulted with a devastating fiscal crisis causing 12 percent deficit in 1993 (Molander, 2001). The government has demonstrated a strong intention to find out the reasons of severe fiscal problem and treat them. Budget process itself blamed to contribute to the deterioration of public finance of Sweden (Blöndal, 2001). A budget reform is carried out during the second half of 1990's to solve the collective decision making problem in budgeting with a strong consensus of minority government and opposition parties. Top-down budgeting constitutes backbone of this reform. As it is stated by Blöndal, (2003), budget reforms comprise from several elements, there are other components of budget reform which are inseparable parts of top down budgeting in Sweden. With the implementation of budget reform, Sweden's budget deficits turn into surpluses, transparency in budget process increased, and number of amendments in approval process decreased. All of these indicate that fiscal discipline in budget process improved. In this study, I will handle the main components of Sweden's budgetary reform from top-down budgeting perspective. Since, a successful budget reform is an integral package; other mechanisms introduced by the budget reform will also be evaluated. Secondly, I will shortly discuss some unresolved issues of budget process after the reform. Lastly, other alternative explanation for the Sweden's fiscal success will be shortly mentioned.

Pre-Reform and Post-Reform Fiscal Circumstances in Sweden

Before budget reform, Sweden possesses a fragmented, undisciplined and un-coordinated budget process. Swedish parliament (Riksdag) approves budget item-by-item base. Un-coordinated committee structures cause the increase of ultimate budget size with the amendment proposals of legislators. Shortly, committee structure in Riksdag is characterized as 'dispersed' model (Wehner, 2007). Budget preparation process takes too much time in a reciprocal game among different actors which results in an unpredictable budget size until the approval of budget bill. Molander's (1992) calculation of the Von Hagen's structural index for Sweden summarizes quality of the budget process. According to this calculation, Sweden is ranked second-last after Italy (Molander, 2001). In this gloomy atmosphere, a comprehensive budget reform was adopted in 1996. Reform aims to force the politicians and other stakeholders of budget process to see the implications of their decisions by making trade-offs more explicit (Wehner, 2007). As result, 7.7 percent budget deficit in 1995 decreases in 3.1 percent in 1996, 1.6 percent in 1997 and in the following years it turns to budget surpluses (Kim & Park, 2006). Post reform structural index increases by 30 points and put Sweden in first three with UK and France in 1999 (Molander, 1999 cited in Molander 2001). Besides, legal clarity and transparency increased and number of amendments proposed during the approval process has sharply decreased. In short post reform budget process can be characterized with strong discipline (Wehner, 2007).

Top-down Budgeting Reform

Main component of the budget reform in Sweden is an orthodox top down budgeting process (ibid). As a first step, a binding aggregate expenditure ceiling is approved by parliament, and then in second step, allocation within the general ceilings takes place. At first, 'Spring Fiscal Policy Bill' is used for binding document for budget preparation. But with the

opposition of the Parliament, to increase Parliament's control over budgeting and flexibility of budget process, 'Budget Bill' is started to use as a binding document (Wehner, 2007).

Aggregate expenditure ceiling is comprehensive; includes all expenditures of government except interest payment in a gross way without allowing any netting practices. Social security field which is excluded before is also added the aggregate expenditure limit (Blöndal, 2001). These practices also target the transparency of budget process. (Molander, 2001). 27 'expenditure area' as sub ceilings are determined. Ministries make their allocations within these sub-limits in line with the government policy priorities. They make totally 500 appropriations (Wehner, 2007).

In addition to voting sequence of budgeting process, multi-year framework with a three year time horizon is introduced. Medium term fiscal targets were set for central government's expenditure and general government surplus and these are binding unless some unpredictable adverse shocks make the economic assumptions irrelevant.

Flexibility of budget process is a prerequisite for proper implementation of top-down budgeting. Firstly, vast amount of budgeting authority is delegated to expenditure ministries. Every ministry is now its own finance ministries. However, line ministries and agencies are expected to be accountable and responsible for their budgeting decisions. To sustain accountability, following management flexibilities are provided to the agencies. Some of these are introduced with the reform and some others originated from Sweden's historical government practices (Blöndal, 2001). These are (ibid.); budget margins as buffer against forecasting errors, removal of all restrictions on input controls (e.g. no special personal law, business oriented accommodation practices), carrying forward of unused appropriation to the following year, facility to borrow against next year's appropriation and interest bearing accounts to increase awareness of cash management.

Rearranging the functions of institutions in budget process is another milestone for top-down budgeting. Some budget theorists argue that important point is not the voting sequence but centralization of decision making. In Sweden reform, sequence of voting is reinforced with new division of functions in budget process (Wehner. 2007).

Finance Ministry's (FM) has delegated the most of its traditional functions to the expenditure ministries. New role of FM is coordination and review of the budget process. FM makes macroeconomic assumptions which base the budgetary amounts by using its professional judgment (ibid.). FM guides the line ministries for technical issues but does not intervene in their decisions.

Expenditure Ministries are now their own finance ministries (ibid.). They possess large flexibility in allocation of their budget. There is no more input control in public agencies. As a typical bottom-up method, line ministries and their dependent agencies are required to provide information for new policy initiatives which will be base the government's overall allocation decisions (Blöndal, 2001). With the abolishing of input controls, importance of ex post review and performance evaluation is increased. So, public agencies are expected to produce detailed and specific performance information to the government and parliament and expenditure ministries should monitor and direct the agencies in this process. However, there are some problems in this area. I will discuss these problems later.

Cabinet has a powerful agenda setter role after the reform (Molander, 2001). Government decides policy priorities and general allocation of resources with help of program review information provided by agencies in new budget process. Budget reform embraces a special cabinet meeting for budget proposal to avoid 'leap-frogging' (Blöndal, 2001). Cabinet meetings for budget proposals take place in a face to face negotiation of ministers in a limited time frame.

Swedish Parliament no more controls the inputs of agencies. New function of the Parliament is ex-post review of budget implementation (Blöndal, 2001) As stated in previous paragraphs, voting sequence in the Parliament has changed. Moreover, centralized committee structure is adopted with the reform. New structure is a typical 'hierarchical' model of Wehner (2007). Finance Committee has overall responsibility of budget preparation and aggregate ceilings are approved by Finance Committee. Sectoral committees approve the allocations within each expenditure area (Blöndal, 2001).

Additional Supporting Reforms in Sweden's Budget Reform

In addition to top-down budgeting, some additional changes related to budget reform are adopted. These adjustments affect the accomplishment of top-down budgeting in Sweden. First, fiscal year is changed to calendar year to foster transparency. Open-ended appropriation, mostly used in social benefits program, is abolished. External audit structure is rearranged in 2003 to increase accountability in agencies and assist the Parliament's ex-post review function. Two separate audit bodies (NAO and Riksdag Revisorer) are merged in 2003 under the name of Swedish National Audit Office, which is independent from government, and head of it is appointed by Parliament. New audit body focuses on both performance and financial audit activities. Lastly, Sweden plans to change cash-base budgeting with accrual base budgeting (Blöndal, 2001).

Remaining Problems in Budget Process

If we look at the weak side of Sweden's budget reform, main issue is accountability in new regime. Removal of input control is not substituted by effective ex-post review mechanisms. Appropriations are not based on specific outcomes or outputs but rather lump sum base (Blöndal, 2001). Expenditure ministries are lack of management capacity to monitor

and guide the agencies. For example, 'Letters of Instruction', the vehicle for specifying results and policy priorities, do not provide enough guidance for the agencies and their contents vary among ministries (ibid.). In short, agencies complain about the ministries disinterest for their problems. Government agencies report about their activities and outcomes in their 'annual report's which base the performance review of the Parliament and audit body. However, Parliament is not satisfied with the quality of performance information (Wehner, 2007). Moreover, there are some problems in transmission of the audit findings to the parliament. There is also no specialized parliamentary audit committee for ex-post review.

There are some other less important problems. Economic assumption of the finance ministry is not reviewed by outside body. There is no career system and formal requirement process for senior officials who are appointed by cabinet. Negative image and weak capacity of the agency boards is another issue that adversely affect the budget process (Wehner, 2007)

Factors Affecting the Fiscal Discipline

Although impact of the budget reform to the fiscal discipline is very high, there are some other important factors that affect Sweden's fiscal victory. However, separating the effect of the top budgeting reform from the other factors is not an easy job. As Ferejohn and Krehbiel (1987) claim, political parties' consensus and their preferential similarities about fiscal discipline have strongly influence over the top-down budgeting success in Sweden.

Continuity of political leadership of government and finance ministry, favourable macroeconomic conditions after second half of 1990s and longer electoral term have also some positive effect over budget discipline (Wehner, 2007).

Conclusion

In early 1990s Sweden gets one of the weakest budgetary processes among OECD countries. However at the end of the decade Sweden achieve a success and posses one of the strongest budget structure and her budgetary process has become a benchmark for other countries' fiscal reform. The budget reform in Sweden is carried vigorously by the consensus of all parties. Top-down budgeting constitutes the core of Sweden's budget reform. However, other components of budget reform are inseparable parts of effective top down budgeting. There are also some unresolved issues after the reform in Sweden's budget process. It can be concluded that an effective accountability regime will take more time in Sweden.

It should be kept in mind that some other reasons apart from budget reform have also effect over the Sweden's fiscal triumph. Never the less distinguishing the marginal effect of the reform over budget discipline is difficult. As stated by Ferejohn and Krehbiel (2001), there is no certainty that the same budget reform (top down budgeting) does not necessarily generate the same results in other countries. As stated by Von Hagen (1995), political differences and peculiarities of each country may require different approaches for their budget reform.

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