The LO Congress held in 2000 was basically positive towards Sweden joining EMU. The opinion was that a more effective economy and increased political influence spoke in favour of membership. On the other hand, disadvantages were also seen. In order to counteract these, three conditions were imposed for membership: stable wage formation, an economic council with representatives from the parties in the labour market and reserve funds to be used at times of economic crisis (so-called buffer funds).

On 22 April 2003 the LO General Council resolved to remain neutral towards the issue of Sweden's accession to EMU. The Council noted that the first two conditions could be regarded as having been met or at least within reach. On the other hand, the Council considered that there was nothing in existence that resembled a buffer fund either in design or purpose. This report concerns how, in the opinion of the LO economists, stabilisation policy should be designed for EMU membership.

There are three alternatives for stabilising the utilisation of resources in the economy: monetary policy, fiscal policy or variations in unemployment and workers' incomes. EMU membership for Sweden would mean that we could no longer stabilise the economy via a national monetary policy. If Sweden joins EMU the common monetary policy would only stabilise Sweden's economy when Swedish economic developments followed the average for the EMU area. The European Central Bank, the ECB, has only one interest rate for the entire currency area and must therefore steer with reference to the average.

For this reason there will be a great need for a national stabilisation policy in the event of Sweden joining EMU. This must be met via fiscal policy. When there is a fixed exchange rate it is just as easy to stabilise the economy using the government budget as using national interest rates when there is a floating exchange rate. But this is only true on condition that the government can pursue a strong fiscal policy that adjusts capacity utilisation in the economy.

Membership of EMU means that Sweden would be a full participant in an economic-political environment with considerably fewer elements of stabilisation policy of a Keynesian nature. However, we believe that Keynesian lessons are still applicable to EMU.

Consequently, the demands for secure solutions are not a way of throwing a spanner into the works of Swedish membership, but on the contrary, a way of making it possible for everyone to be able to say yes to membership. No-one should have to feel anxiety over employment and the commitments of the welfare state in the future because of EMU membership. Everyone's right to security in change is basically nothing new, it is an old LO idea. Our proposals in this direction are:

- To establish an economic council to give advice and signals both to politicians and the labour market parties to create discipline as regards cost trends and fiscal policy.

- Margins below the expenditure ceiling that may only be used for stabilisation policy. There must be margins for both the automatic and semi-automatic stabilisers as well as a discretionary margin that may only be used in the event of severe disruptions.

- Levelling out of municipal incomes over the business cycle.

- Increased public consolidation through a raised surplus target.

- A stability reserve intended to considerably strengthen the margins of action for the political system.

1 The targets of stabilisation policy

Swedish stabilisation policy is at present governed by an inflation target. What target will govern if Sweden joins EMU?

The advantage of having one single operational target rather than several is that no conflicting targets can arise. The disadvantage of one single target is that there can be no trade-off between the priorities assigned to different, perhaps mutually conflicting targets. Stabilisation policy in its entirety has in fact more than one target.

The target or targets may be nominal or real. One possible nominal target is for the price level, for example in the form of a level for unit labour costs. The decisive difference between inflation targets and price level targets is that with a price level target a period of higher unit labour costs must be followed by a period of lower unit labour costs, so that the price level is restored to its long-term path of equilibrium. With an inflation target instead, inflation shocks are ”bygones” and this does *not* work with a fixed exchange rate.

The argument that carries most weight against *one single* price level target in the form of the level of unit labour costs is that if this target is used alone then the labour/capital distribution will be locked at the same time. It is fundamentally this distribution that wage bargaining is concerned with. This distribution should therefore, in full accordance with tradition, be left to the parties concerned.

A real target could be the so-called ”output gap”. This gap describes the difference between actual and potential GDP, that is, if the economy is over- or underutilising existing resources. It is, however, difficult to achieve a clear measurement of the output gap. This is a very important factor that argues against the use of the gap as a single operational target. But the output gap could be one of a number of indicators such as the level of unit labour costs, the profit situation, employment ratio and balance of current payments, for giving a more complete assessment of the Swedish economy. The LO economists advocate such a combination.

2 Expenditure ceiling

At present Sweden has a ceiling for government expenditure that sets an ultimate limit for how high the expenditure may be in one year. If Sweden joins EMU it must be possible to stabilise the economy under normal conditions by means of a public expenditure ceiling. At present there is a budget margin under the expenditure ceiling that is to cope with cyclical fluctuations in expenditure, this is used in practice, however, as a reform margin, since there are no rules as to what it may be used for.

The LO economists want clearer rules about the size of the margins under the expenditure ceiling and when they may be used. Insufficient margins counteract the automatic stabilisers.

The LO economists propose the introduction of two margins below the ceiling, *margins that are only for stabilisation policy, not for reforms:*

- An *employment margin* that is to allow the automatic stabilisers to exert their full effect in recessions – an automatic margin. The automatic margin should be in the order of SEK 20-25 billion at present monetary value (1% of GDP).[1] This margin should mainly finance increased expenditure for unemployment benefit and labour market policy programmes in times of economic downturns. The latter expenditure is not strictly speaking automatic but is usually described as semi-automatic. They should, however, be handled as though they were automatic. By guaranteeing that there are sufficient resources to enable labour market policy to cope with a medium-sized disruption of the economy, security is created for workers with a high risk of unemployment. The costs of unemployment are distributed between expenditure on unemployment benefit and labour market policy programmes. An employment margin makes it possible to cope with this expenditure without reducing the benefit levels or the quality of labour market policy programmes.

- An *action margin* that provides scope for discretionary fiscal policy on the expenditure side – a discretionary margin. It should comprise about SEK 10 billion (0.5 percent of GDP). Apart from managing to finance the increase in expenditure that takes place automatically due to higher unemployment, there should be a margin under the expenditure ceiling that can finance discretionary policy. In that way fiscal policy can play a more important role in terms of stabilisation policy.

3 Stabilisation of municipal incomes

The expenditure of the Swedish municipalities constitutes about 50 percent of total public expenditure. At present the municipalities have a balance requirement that

[1] In order for the automatic and semi-automatic stabilisers to work, according to the report of the Swedish Government Commission on Stabilisation Policy in the EMU, the STEMU Commission, 0.4 percent of government expenditure per percentage point deviation from the GDP trend is required. If the deviation from the GDP trend is 6 percentage points and the expenditure is 800 billion this would be 0.004*6*800=19 billion.

implies a risk of procyclical variations in municipal activities.[2] When there is an economic downturn leading to reduced tax revenues a municipality that at the outset was in balance may be forced to make cutbacks to fulfil the balance requirement. Alternatively the municipality must raise the tax rate. In both cases the municipality is contributing to a reduction in economic activity and thus also intensifying the downturn.

In order to reduce the procyclical effect municipal incomes should be levelled out over the business cycle. A system for stabilising municipal incomes should be rule-based, that is automatic, and not discretionary. One conceivable technique is an automatic annual adjustment of the cyclically determined part of government grants so that all or part of the municipal sector's total income, where the tax rate is unchanged, grows at a rate corresponding to the growth in taxable incomes over a five year period, for example.

Our estimation is that about a 6 percentage point deviation from the trend for 3 years would impair the municipalities' tax revenues by about SEK 5 billion per year.[3] The LO economists want the government to stabilise this variation. In the years when the municipalities need more money than is paid in as tax, this fall in revenue will be borne by the state finances.

4 The surplus target

At present the public sector in Sweden has a surplus target over the business cycle of 2 percent of GDP. This surplus is intended to facilitate the bridging of the demographic change which Sweden is facing. If Sweden joins EMU fiscal policy will take over the national stabilisation policy which at present is dealt with by monetary policy. At the same time as government expenditure increases as a consequence of demographic changes, requirements will increase for a more vigorous fiscal policy. This is why the LO economists want to raise the balance target by 0.5 percent of GDP. This entails increased consolidation of public finances. This can be done either by means of decreased debts or increased assets.

Bearing in mind the demographic trend, the LO economists want to ensure that there are funds to pursue an expansive economic policy in the event of a future economic crisis. This requirement also exists of course outside EMU, but the need for leeway in applying fiscal policy is considerably greater when inside EMU. If the state is to be guarantor (insurer) both for employment and the welfare state it will be difficult in a future deep recession to cope with both commitments without major financial margins of action.

---

[2] The municipal balance requirement means that municipal finances must be in balance in a three-year perspective.

[3] The elasticity for municipal incomes of changes in GDP is, according to the report of the STEMU Commission, about 0.25 percent. A decline in GDP of 6 percent would imply a decline in municipal revenues of 0.25*0.06*380=5.5 billion.

Demography and stabilisation policy do not really belong together. An aging population exists regardless of stabilisation policy and fiscal policy must constantly adjust the economic cycle. The demographic and stabilisation policy requirements could be described as two trains on parallel tracks. If there is an economic crisis the trains may be forced together onto the same track and one of them will have to be given lower priority. The LO economists want to prevent this from happening.

Apart from the demographic trend and the structure of public savings there are two further motives for raising the ambitions for the public sector balance.

- The first motive is the so-called *Maastricht convergence criteria*. One of the criteria is that the public sector may have a maximum deficit of 3 percent of GDP. This can also be formulated as the ”height of fall argument”, i.e. that Sweden’s relatively large public budget entails a requirement for an extra allowance to be able to meet the requirement that the budget deficit may not exceed 3 percent of GDP per year.

- The second motive follows from a guiding principle of decision-making – *the prudence principle*. Even if Sweden’s public finances are among the strongest of the EU countries there is reason to increase national freedom of action as regards fiscal policy, when the exchange rate ceases to be a national instrument, in order to ensure the fulfilment of ambitions both as regards social welfare and a high employment ratio.

5 Stability reserve

A stability reserve – what LO has also called a buffer fund – should be set up on joining the monetary union. Use of the reserve should only be allowed in severe economic situations, when extra stabilisation of jobs and production is needed. Its size should be sufficient to stabilise the labour market and reduce the need to borrow in a deep economic crisis.

Definition: State financial asset outside the current government budget.

Establishment: Established via a block-transcending agreement, prepared in advance, in which even precise criteria as to its use have been determined.

Financing: Allocation of an average of 0.5 percent of GDP per year over a business cycle.

Purpose: To reduce the government’s need to borrow in a deep recession.

Overall goals: To increase the long-term elements of fiscal policy and increase policy-making freedom in times of crisis. To contribute to stabilising output and employment.

Decision rule: May only be used when there is a major and increasing negative utilisation of resources (steeply rising unemployment). Precise criteria, determined in advance, as to when this is deemed to have occurred are required.

Use: Neutral between increase in expenditure or tax reduction. The prevalent political majority is to determine how the reserve is to be used.

Form of decision: Normal Riksdag (parliamentary) resolution.

Influence of the labour market parties: The parties' economic council is to describe twice-yearly the utilisation of resources in the economy and whether it considers use of the reserve to be justified.

Why does the public sector need such a reserve? What LO is demanding is no more remarkable than what the states of the USA already have. All the states, apart from one, are subject to the same type of rules as the Swedish municipalities in that they may not borrow nor run a deficit, they must have a balanced budget each year.[4] In order to enable them to take countercyclical action the states allow surpluses to be saved in good years for use during bad years when income is lower. These accumulated surpluses are almost always saved in an account called a "general fund". The money in these funds is not earmarked for special purposes but can be used for whatever the state government decides.

Apart from these general funds almost all states, 45 out of 50, have what is called "rainy day funds" for getting through recessions. Most of these were established at the beginning of the 1980s. The states that have such funds as a rule allocate part of any surplus from the general funds to these "rainy day funds".

What distinguishes "rainy day funds" from the general funds are the rules governing deposits and withdrawals. There is only reason to introduce a special account for countercyclical policy if this differs from the ordinary account. Sobel & Holcombe (1996) have shown that "rainy day funds" as such do not reduce the states' need for cutbacks in recessions but that the "rainy day funds", which have strict rules, have provided relatively substantial relief to these states.[5]

The conditions for the Swedish state are not the same as for the American federal states in that the sovereign state is required to hold the ultimate responsibility for all commitments – everything from insolvent banks to the costs of rising unemployment. The state is the "lender of last resort" for all parts of society – the authority that is ultimately responsible for the functioning of society. Our motives for wanting to build up state funds are the *confidence* and the *predictability* this would create.

For a private individual the interest on a loan is probably higher than the return on bank or bond savings (that is risk-free savings). Nevertheless most households have both loans and savings. Preventing liquidity problems is one reason for this, but probably not the only one. Liquidity problems do not explain, for example, why

[4] See for example Wagner (2002)
[5] Sobel & Holcombe (1996)

households have both loans (at higher interest rates) and pension savings (with lower or uncertain returns). Another fundamental explanation for individual households' behaviour is *aversion to risk.*

How do Swedish politicians function in the political mainstream[6] when it comes to risk assessment? A reasonable assessment is that in situations where public finances are rapidly deteriorating the political system is considerably more "clerical" than "Keynesian" in the sense that it wants to see a rapid improvement in public net wealth – even if this means that unemployment and its associated fall in production remains high for a long period. The Swedish experiences of the 1990s – and from Finland after the second world war – show that governments experiencing a rapid increase in national debt become clerical, i.e. act like private players, cut down on expenditure and increase incomes to retain financial strength. Governments lose the courage to pursue a Keynesian policy. The prime minister Göran Persson coined the expression "People in debt are not free".

This means, then, that the political system adapts expenditure to its current income, not that it gives priority to a future increase in income by reducing unemployment. This is a priority that leads to severe cutbacks. This choice of priority is familiar to the voters and this insight characterises how they assess the prospects for their future private financial situation and their confidence in long-term economic and political stability.

Just the fact that funds are built up and not used in a short-sighted and populist way says something about *the long-term stability of the political process.* Such a pattern of behaviour in the political system will probably *give the voters long-term confidence in the ability of the political system to handle the effects of recessions and an ageing population on public finances.* Rules could also be created for when the national debt may be increased and how it is to be paid back, but a reasonable assumption is that such a strategy would not have the same confidence-inspiring effect on the voters.

An economist taking only macroeconomic theory into account would assert that there is no difference between building up funds and repaying debt. But few voters have studied macroeconomics. A microeconomist who realises that individual players can be "near-rational" in various contexts can see that there is an important point here, not only in pedagogical terms but also as a test of the ability of the political system both to build up funds and to "keep its hands off" these funds and not use them short-sightedly or populistically. This should inspire confidence among the electorate in the capability of the political system to guarantee the welfare state.

Hence it is less a matter of pedagogy and more about credibility in building up expectations. And every economist, even the most inveterate macroeconomist, understands that expectations play a role.

[6] That is no libertaranians or other extreme groups.

It is important to point out that the stability reserve is not a new attempt by LO to introduce employee investment funds.[7] LO believes that the Riksdag is to determine where and how the money is to be used and has no interest in having any say in how these funds are to be invested. The LO economists have only one viewpoint, which is that the funds for the most part should *not* be invested in Swedish securities. Resources of this magnitude will not be possible to invest solely in the Swedish securities market without seriously disrupting it. This problem is, however, fairly easy to solve by investing most of the funds in foreign government bonds. In that way an "employee investment fund" debate can also be avoided.

The most important thing, however, is not the investment guidelines but the rules governing withdrawals, i.e. how the stability reserve may be used. These will force an increased long-term perspective in fiscal policy.

A stability reserve necessitates rules for determining when the economy is weak enough to justify a policy of stimulation. The rules can also govern what the funds may be used for and to what extent. The choice of building up funds thus entails a need to determine at least when and perhaps also for what and how much the funds are to be used.

The advantage of funds is that the regulatory code in itself creates transparency and predictability as regards stabilisation policy. It is possible to create similar rules for when, for what and how much borrowing is to take place, but this is probably considerably more difficult. A stability reserve requires stricter rules of decision-making than deficit financing and increased borrowing. The LO economists want quite simply to have more "conservative" rules and more prudent requirements as regards solvency.

Building up funds will reduce the scope for short-term thinking both on the expenditure side and the income side. Our proposal is, however, entirely neutral as regards whether a future government wishes to confront a crisis with temporary tax reductions or increased expenditure.

An argument against the need for a stability reserve is that these resources cannot be used anyway, because the public sector, according to the EU's "Stability and Growth Pact" may not stimulate the economy more than down to –3 percent of GDP per year. A withdrawal from the fund is recorded as expenditure. In twenty years, however, the present system of rules will not work since by and large all EMU countries will be facing the same type of demographic challenge as Sweden. That will make it very difficult to maintain the present design of the budget floor in the EU rules.

Another argument against a stability reserve is that it would need to be very large in order to have any effect. A stability reserve of SEK 120 billion (6 percent of GDP) would, however, be able to finance unemployment benefit and labour market training for 6 percentage points of unemployment for 3 years, i.e. about 250,000 unemployed for 3 years. In that way no cutbacks in benefit levels would be needed. It would then

[7] The idea of employee investment funds was to make public acquisition of companies possible via taxation of corporate profits.

be possible to avoid a conflict between welfare interests and unemployment benefit and labour market policy.

6 Economic council

In order to guarantee stable economic development if Sweden joins EMU a better decision-making system is needed both as regards fiscal policy and wage formation. The purpose of this section is to show that an economic council involving the labour market parties can contribute to a more effective process for developing competitiveness, cost trends and capacity utilisation.

The alternative to a functioning wage formation is lower ambitions regarding employment, which is something that LO does not accept. On the contrary, wage formation must be improved so that a higher employment ratio is possible. The consequences of an economy in disequilibrium affect LO members more than white-collar workers since blue-collar workers' risk of unemployment is 2-3 times higher.

Both the labour market parties and the political system would benefit from the establishment of an economic council, since there are several reasons against having dual control either of fiscal policy or wage formation:

With a fixed exchange rate wage formation will determine the cost trend. The cost level that is reasonable affects the distribution between the production factors labour and capital. The profit level in turn governs investments and employment. It should be the task of the labour market parties to negotiate an agreement on the distribution between labour and capital. The government should not have anything to say concerning wage differentials between different groups. These should be determined by the market forces and by the parties in negotiations. The negotiating parties should, thus, have a "wage formation box" that is autonomous in relation to the normative process taking place via an economic council. The work of the council should not actively affect the distribution of pay between different groups or sectors.

The council we propose would not entail decision-making corporatism in the sense that the state and the labour market parties will be sitting in the same institution and making decisions. This is to avoid incomes policy (interests of the labour market parties) and to avoid dual control of fiscal policy (interests of the government and Riksdag). We are instead striving for increased clarity of roles.

The function of the Riksbank (Swedish Central Bank) today is as an authority under the Riksdag - though independent – to function as a legitimate and credible standard-setter and disciplinary body in wage formation, that is as the "villain of wage formation". This villain uses the interest rate as a weapon to collectively penalise the labour market parties if wage formation results in wages that are outside (read "above") the framework set by the domestic inflation target.

Experiences of recent years mean imply that the Riksbank has the necessary qualities such a villain needs to function, namely:

- *legitimacy*, the Riksbank holds power – having power in itself gives some form of raw legitimacy, people listen to those who hold power – but Sweden's Riksdag is their principal, which also gives democratic legitimacy,
- the assignment comes from an authority that can *control and evaluate* how well it has been carried out,
- institutionalised *independence*,
- a *relevant, clear and operable target,* the inflation target for the Swedish economy,
- a *signalling function*, the Riksbank gives signals, partly via its inflation reports and partly through its publications of the Executive Board's decision-making process and resolutions, when they consider that the inflation target is at risk of not being met,
- a *credible* threat that everyone knows about in advance – if the inflation target is threatened the Riksbank will raise the interest rate, no-one is any longer in doubt over that,
- *balanced forces in the decision-making process*, this can be seen in the composition of the Riksbank's Executive Board and General Council. This quality is also significant for *legitimacy*.
- *transparency in the decision-making process*, minutes of resolutions and the decision-making processes (=the discussions of the Executive Board) are published after a relatively short period. Transparency is also significant for the qualities of *legitimacy* and *the potential for control and evaluation*.
- *knowledge of business intelligence analysis* and *the possibility of evaluating the policy pursued*. The Riksbank has access to a qualified staff for preparing decision-making data. So have the Ministry of Finance and other ministries, but the important difference here is that an elected body that has a "villain function", such as a government, may find it difficult to justify a correct analysis that implies criticism of the policy it has itself pursued. This is true regardless of political colour.

All the above-mentioned qualities are necessary – but none of them is sufficient in themselves – for the Riksbank (or any other body) to be able to function as a villain for wage formation. Together, however, they are sufficient. These qualities together also provide better conditions for the parties to obtain a *harmonised picture of what is needed from wage formation* that lies within the framework set up by the national economy.

The ECB does not have all the qualities necessary to function as a legitimate and credible standard-setter and disciplinary body in the labour market, i.e. as the villain of wage formation. This is mainly because it cannot punish those who determine wages in a particular country as it sets the interest rate with reference to the average.

Can Swedish wage formation cope then with the absence of such a wage formation villain? This is highly doubtful, particularly considering that variability in inflation will probably increase if Sweden joins the monetary union. Too high a wage trend could continue over a long period, as the ECB will not allow the inflation trend just in Sweden influence interest rates. In due course a cost crisis will occur, which could have dramatic effects on employment and unemployment.

But what about the labour market parties? Can they and should they not shoulder the absolutely major share of responsibility? Here there is a conflict of goals between on the one hand a political objective of a high employment ratio and low unemployment, and on the other hand high wage increases. The better the situation is in the labour market, the more difficult it is for the parties to maintain a high level of discipline in wage negotiations.

In Sweden the labour market parties have the task of keeping wage trends within reasonable macroeconomic bounds with a labour market that is usually more restrictive than in most of the present members of the monetary union. Political targets for a high employment ratio and low unemployment therefore mean that the labour market parties sometimes need the help of a legitimate and credible villain.

It is important to see that the function of the Riksbank as the villain of democracy or wage formation cannot be fully replaced by a new independent institution if the Riksdag is to retain power over fiscal policy. Part of the Riksbank's legitimacy, the reason why people listen to the Bank's directions and analysis, is that it has the power to make decisions on the basis of its analyses. The Riksbank's analyses will be less interesting when they no longer form the basis for decision-making. If Sweden joins EMU both the government and the labour market parties must assume that the logic of the present institutions will become out of date and need to be replaced by new forms.

The power to tax the population lies with the Riksdag. The fact that fiscal policy will become more important when there is a fixed exchange rate means that the government and the Riksdag will become stronger but also more vulnerable. The Riksdag and the government will need both to adjust demand and labour costs to create full employment (an accommodating policy) but sometimes also pursue a restrictive policy. In practice no other authority than the government and the Riksdag can act as villain and impose what will be seen as sanctions by their own voters.

Therefore it is important to design decision-making systems that strengthen the government's capacity for action and capacity to pursue a non-opportunist policy. Political parties wishing to be re-elected would find it difficult to produce analyses criticising their own policies. The Ministry of Finance forecasts have the weakness of being assumed to be coloured by government power. There are good reasons for also having an analysis of the cost position, capacity utilisation and competitiveness as a basis for fiscal policy decisions from a source that is independent of party politics as well as of the executive and decision-making political powers. A pre-condition is that this maintains the highest national standard of analysis.

The institutions of political democracy also have an interest in having certain conflicts settled outside the political system. This is also a reason for needing a council that is independent of party politics. We shall show here that the council we are proposing will solve several problems in a new situation with a fixed exchange rate. The system we are proposing will deliver:

- Expectations among the contracting parties of sanctions against inflationary wage costs.
- Increased legitimacy for the government to pursue a restrictive policy.
- A council independent of party policy that does not have an authoritarian/meritocratic base.
- A clear boundary line between the labour market parties and the government.

An economic council that is independent of party politics but based on interest organisations and independent academic economic expertise could send out signals as to what economic policy is needed to ensure appropriate capacity utilisation. It is then the responsibility of the Riksdag and the government to interpret these signals and on the basis of their analyses and values to make the necessary decisions. Our proposal is that the council should consist of representatives of the labour market parties and independent economists mainly from the world of research.

Through the composition of the council with employees and employers as well as independent economists a balance will be made so that the chances of reaching a sustainable cost trend will increase. This means at the same time that fiscal policy will, when necessary, have a more legitimate basis for pursuing a restrictive economic policy that will reduce employment.

The Riksbank's interest rate weapon should not be overestimated. In normal conditions an interest rate adjustment of 0.25 to 1 percent only has a minor effect on the real economy. It is probable that the effect on expectations is more important than the actual interest rate change. What we will be outlining here is therefore the effect of the expectations of the contracting parties as an important element.

The clarity of the signals and the quality of analysis are crucial to the credibility of the council. The council should signal the direction of the measures to be taken, i.e. if fiscal policy should be tightened up or be more expansive. It is not the intention that the council should have any viewpoints on which measures are implemented.

The council is to send signals both to the labour market parties and the political system. There should be a clear boundary between the labour market parties and the political system. This is to make it clear that the parties do not accept incomes policy, i.e. that the political system determines the margin for wage rises. There must also be a clear boundary to the wage bargaining system. The intention is not that the council should regulate the pay trend.

It is in the interest of the parties to co-operate with the Riksdag and government to create a long-term perspective regardless of which party is in office. The purpose of submitting the council's analyses to the Riksdag and not to the government is to emphasise that the work is addressed to the state authority regardless of which party holds office. Furthermore that the opposition should participate and have the same access as the government parties to the basis of economic policy. The Standing Committee on Finance should arrange a hearing twice yearly with the council's analyses as a basis.

The work of the council must be clearly delimited from the Riksdag's and the government's decision-making on economic policy. The council should not have any formal role but exert influence by means of independent analyses and strong signals concerning inflation, wages and demand in the economy.

The council should not be involved in matters that traditionally separate left and right or employers and employees such as taxes, social insurance or labour market legislation. The council's duties are thus strictly directed towards analysing the macroeconomic balance but not towards proposing what measures should be taken – that is the responsibility of the state authorities.