

# How to cap mandatory spending

## Entitlements in the Swedish budget

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*OECD PBO meeting in Ottawa 2013*



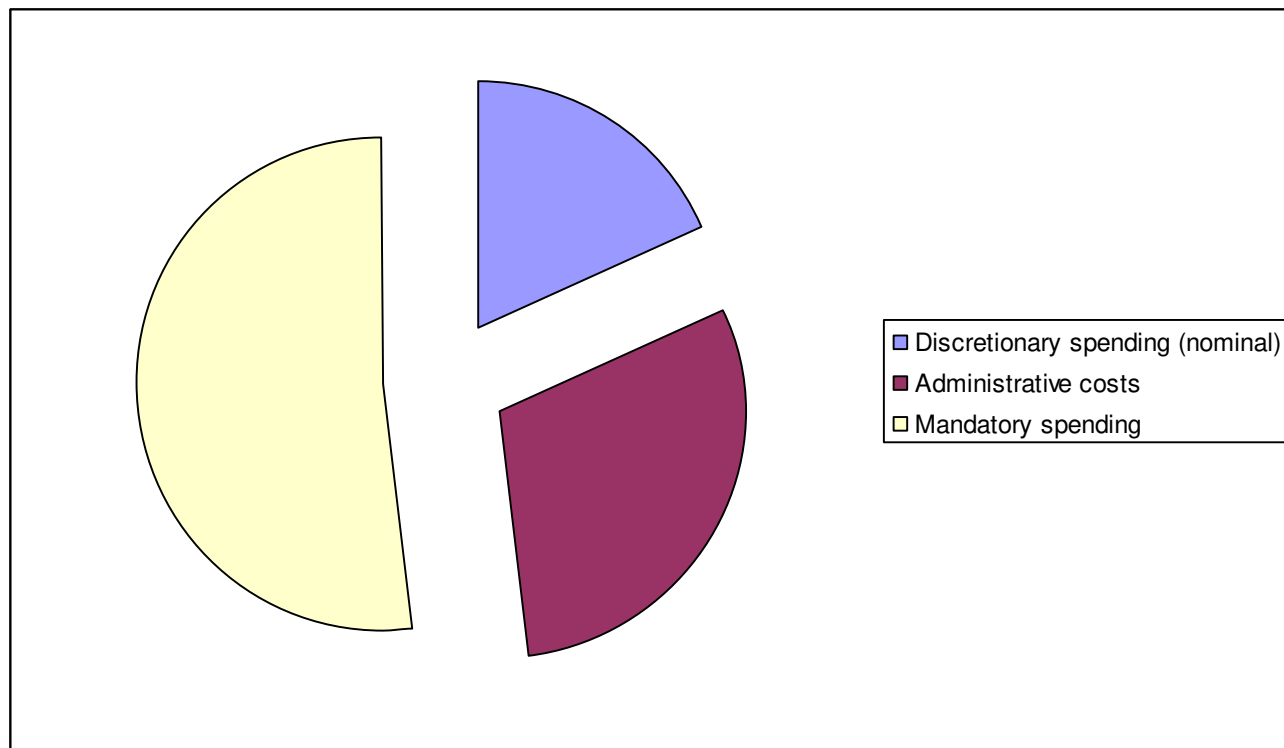
# *Entitlement spending is America's biggest long-term fiscal challenge.*



*The Economist, Over the cliff?,  
December 15th 2012*

# Mandatory spending in the Swedish Central Government Budget

Mandatory spending consists of 52 % of total expenditure.



# Appropriations with caps

All appropriations (including those for mandatory spending/entitlements) have caps (spending limits). There are no open-ended lines for expenditure.

All expenditures, also entitlement spending, must be included under the ceiling for central government expenditures.



## ... and with some flexibility

An appropriation may be temporarily exceeded by claiming the use of a **credit** corresponding to at most ten per cent (usually three per cent) of the allocated appropriation (an appropriation credit). The following year, the resources available shall be reduced by an amount corresponding to the appropriation credit claimed.


Unused appropriations (appropriation **savings**) may be used in following years. This, however, is normally not applied for entitlements.



# Amendment budgets

Since entitlements are financed by appropriations with caps, the Government needs sometimes to ask for additional funding from parliament. This is normally presented twice a year, in April and September.

An advantage for the Swedish parliament is that it is duly informed during the fiscal year when entitlements (i.e., appropriations for mandatory spending) may be overdrawn. Parliament may not, in this situation, have much of a choice than provide necessary funding, but may also consider reforms (e.g., reductions of benefits) to avoid future deficiencies. Moreover, additional spending on amendment budgets are, at least to some extent financed, by decreases in other appropriations.



# Conclusions: managing mandatory spending in short terms

In Sweden, mandatory spending is also included under the nominal total expenditure ceiling. The Government is obliged by law to take action to prevent breaking the ceiling, even if that is a consequence of higher than expected mandatory spending. All appropriations, also for entitlement spending, is capped.

Unexpected spending (and thus uncertainty) is managed by

- flexibility rules for appropriations, including those for mandatory spending,
- a buffer margin under the ceiling for total expenditure,
- amendment budgets in parliament and
- authorization to overdraw an appropriation under specified conditions if an amendment budget cannot be waited for.



# Conclusions: managing mandatory spending in medium and long terms

To manage mandatory spending in the medium (3-5 years perspective), entitlements must be forecasted for realistically and accounted for within a medium term budget framework (MTBF).

In order to obtain sustainable public finances, all transferring systems etc. must be projected for in a long term perspective and various scenarios should be analyzed and sustainability tested.

