

# Minority Governments and Budgeting

Scandinavian experiences

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# Types of governments

- Majority governments (typical Westminster tradition)
- Coalition governments (often necessary in PR-systems)
- Minority governments (if coalition negotiations fails)
- Minority coalition governments (untypical, but occurs in Scandinavia)



# Potential risks with minority and coalition governments

- Historical examples (e.g., Weimar) show that fragmented and conflictual political systems may fertilize economic crisis and undermine democracy
- Research shows that coalition governments and minority governments may be less able to manage economic crisis
  - In an economic crisis, when austerity programs must be implemented, coalition governments may not be able to act appropriately since each of the coalition parties may veto cutbacks in their respective favorite programs
  - Compromise may be difficult to achieve in parliament for retrenchments



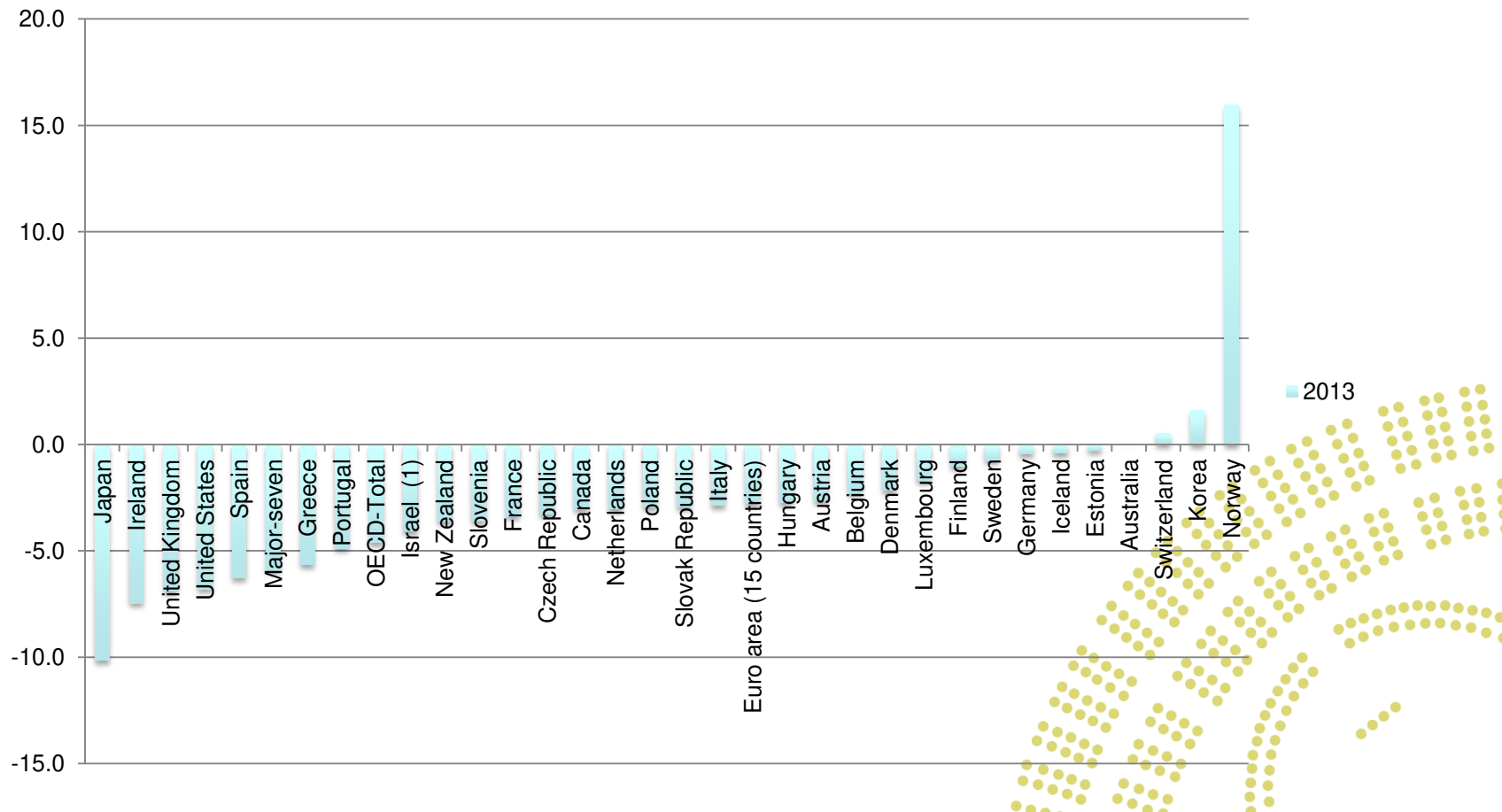
# Politics in Scandinavia

- PR systems lead to fragmented party systems
  - Many parties in parliament
  - Difficult to form majority governments
  - Coalition governments and minority governments are common
- Consensual political culture
  - Homogeneous, relatively small societies
  - Matter of factness is a virtue
  - Conflict avoidance is an informal norm
- Combination of welfare states and high competitiveness
  - Small, open economies dependent on export
  - Ambitious welfare states
- Strong public sector institutions
- Strong public finances – for the most part...



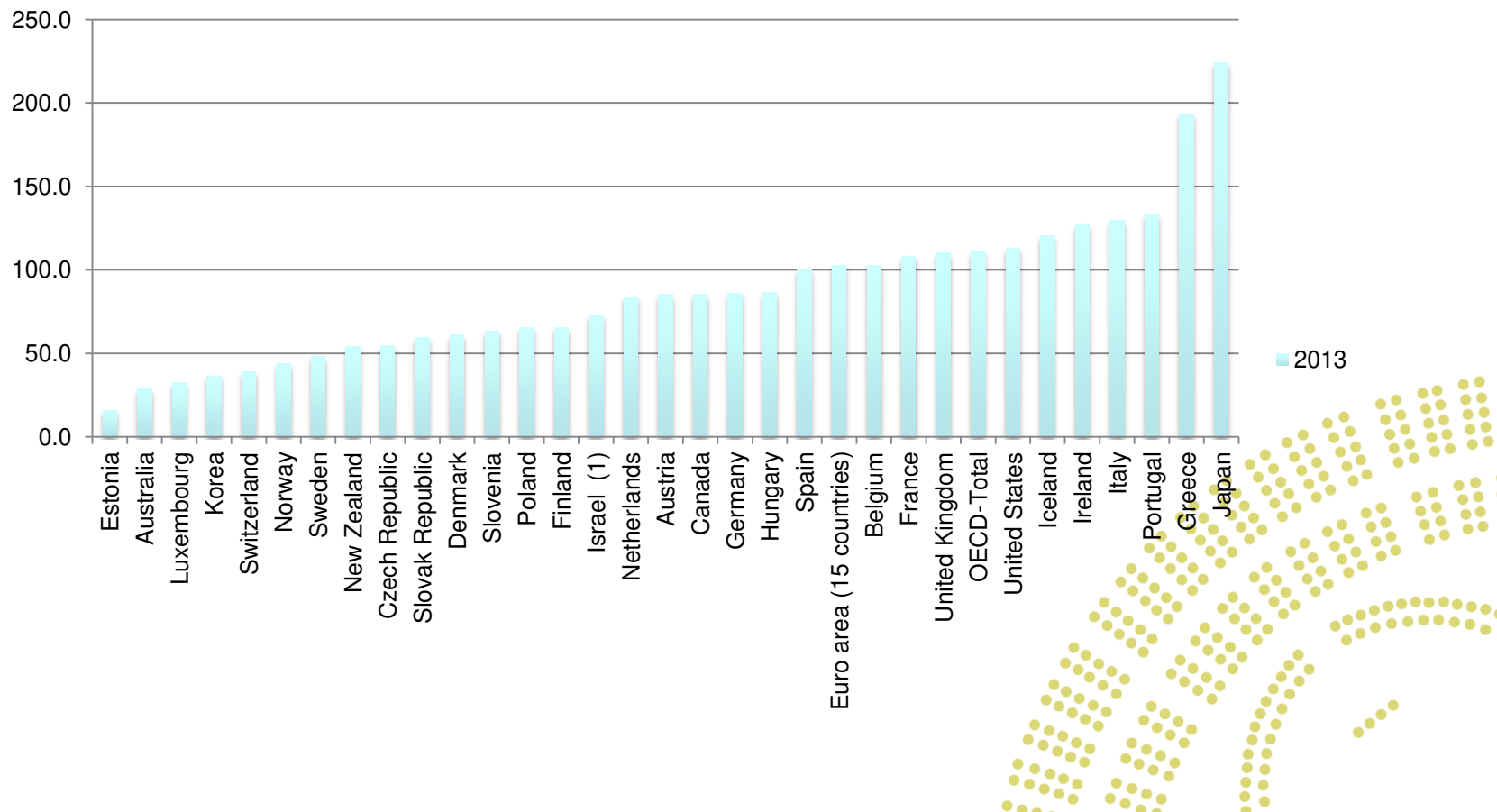
# Government deficit / surplus as a percentage of GDP

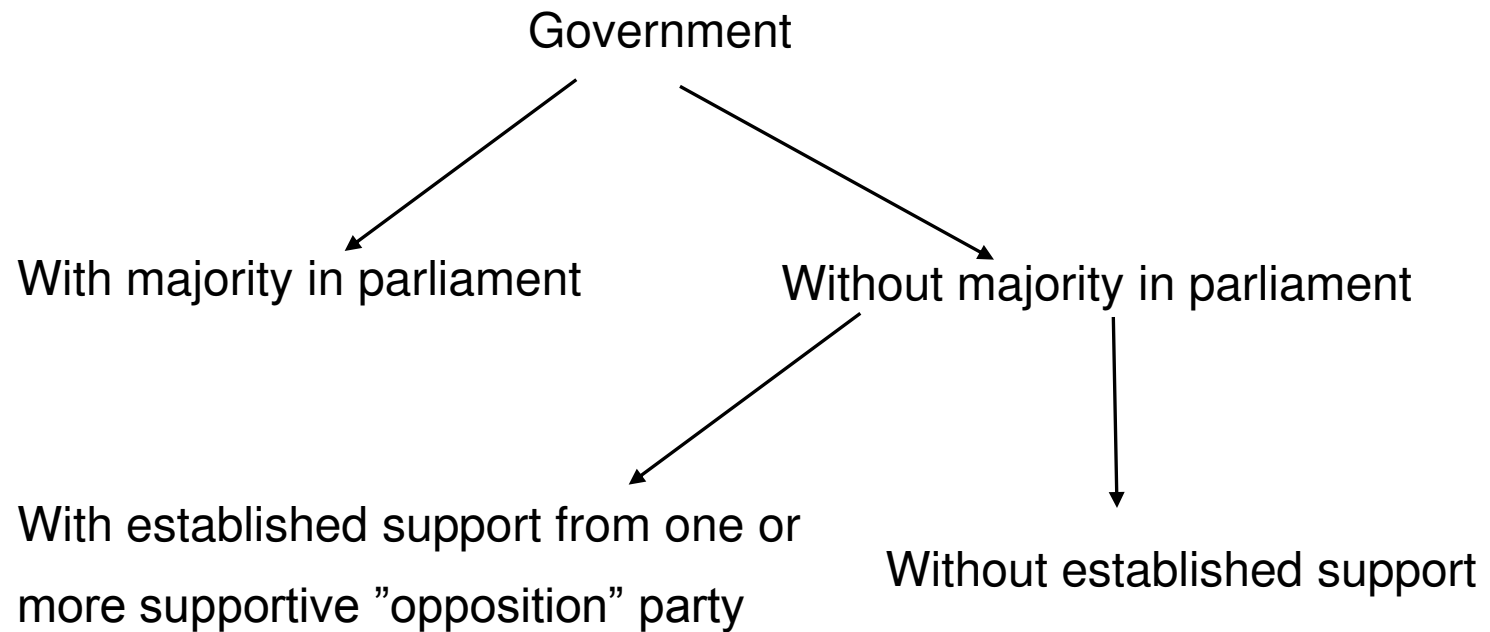
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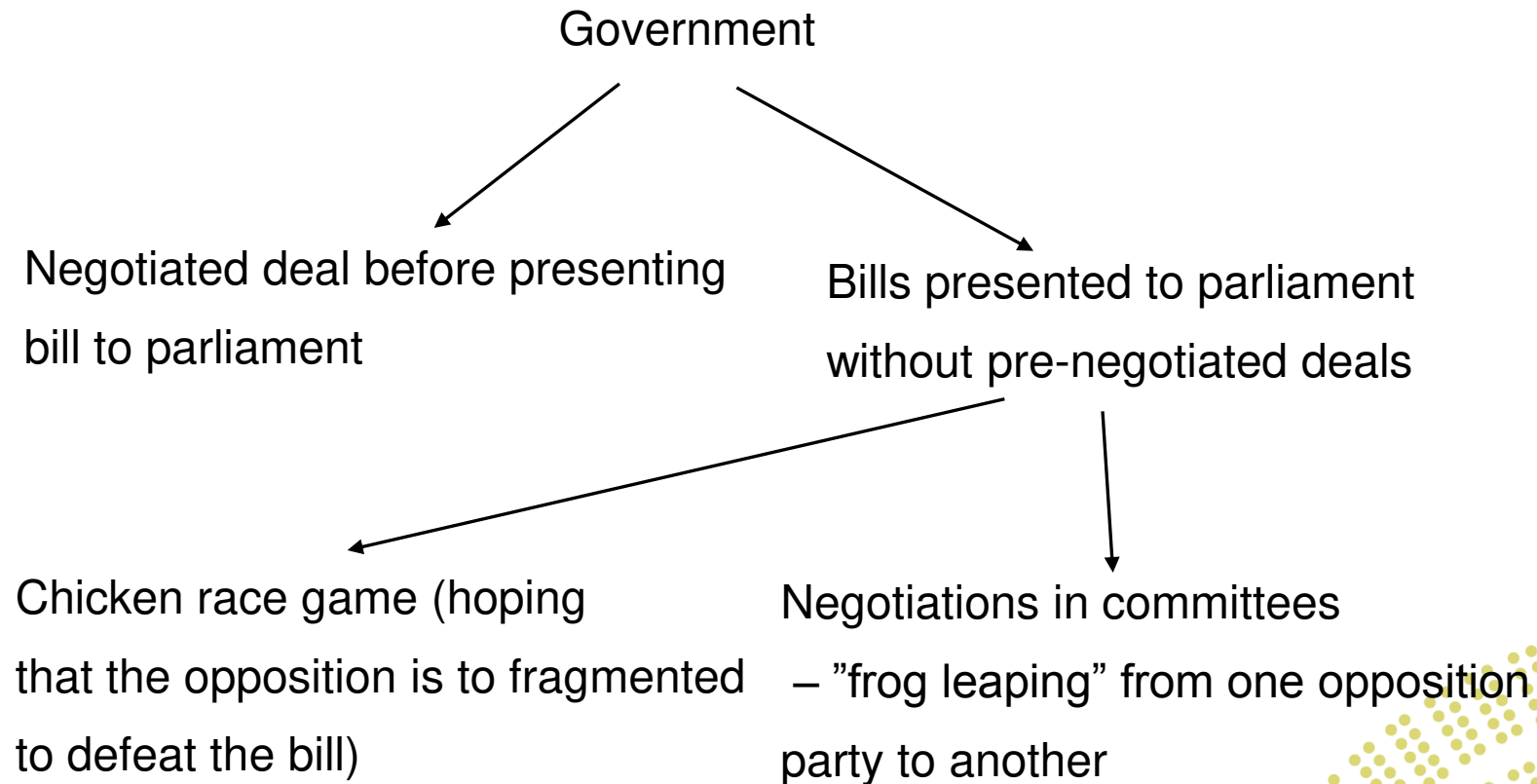


# General government gross financial liabilities as a percentage of GDP

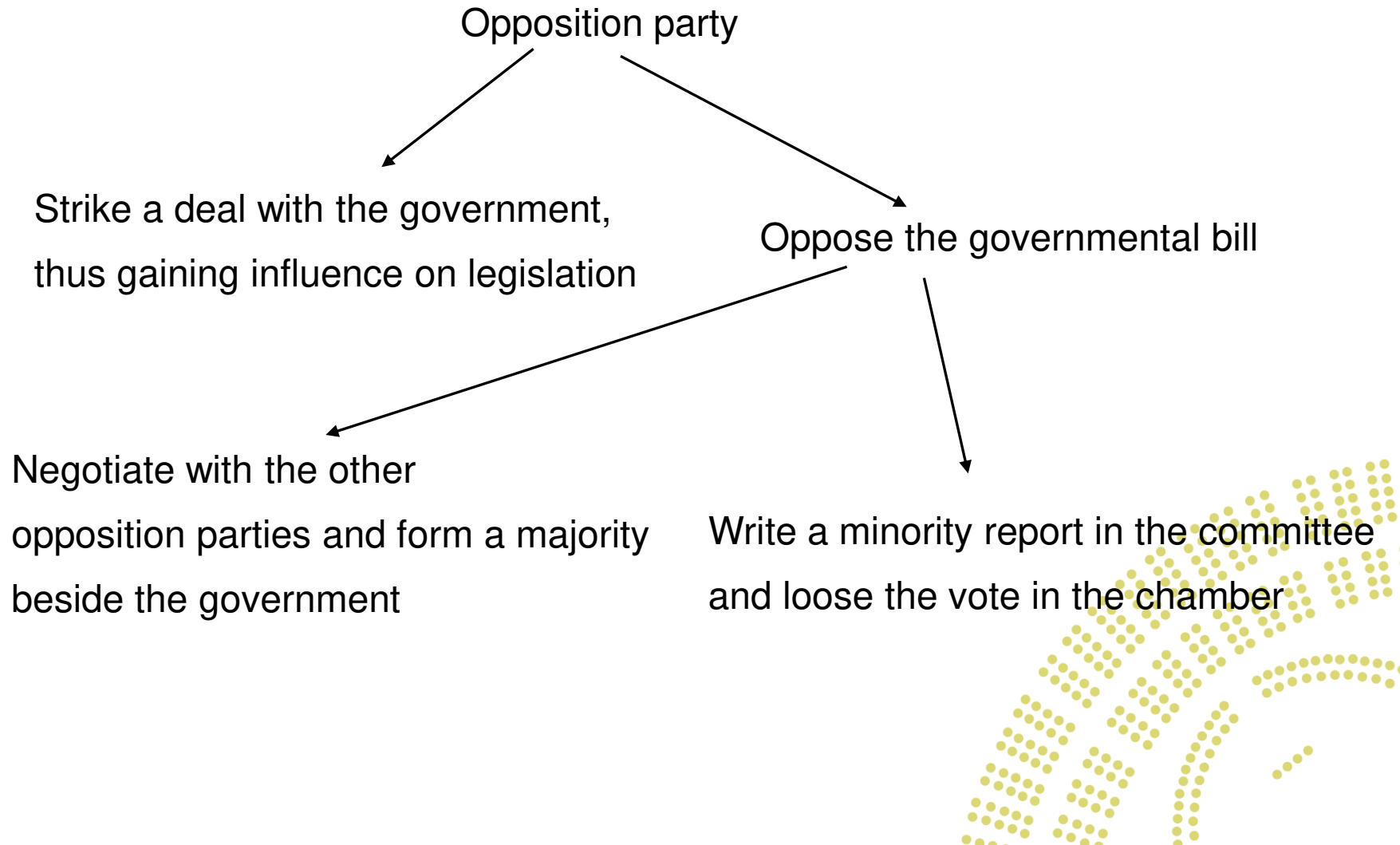
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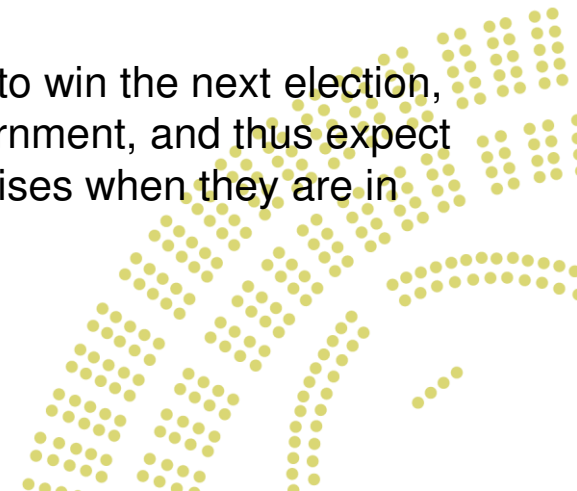






# Why compromise?

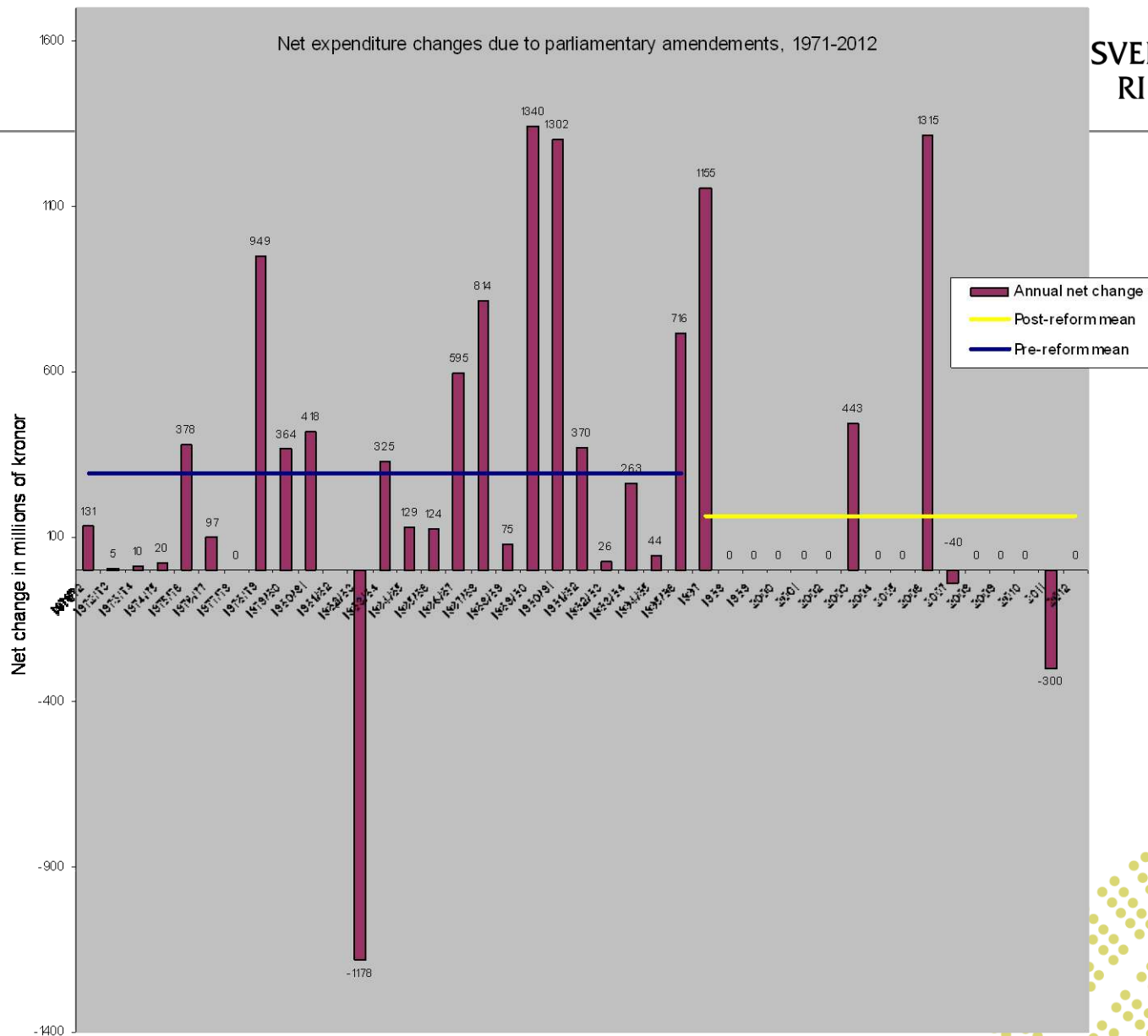
- Because it is a rational choice!
- Consensual political culture
  - Voters tend not to reward politicians that are too confrontational
- Policy influence is a strong goal for political parties
  - The political parties do not only strive for political positions
- Tit for tat
  - Opposition parties strike deals because they intend to win the next election, but do not expect to be able to form a majority government, and thus expect the present governmental parties to make compromises when they are in government



# Sweden – from crisis in the 1990s to strong public finances today

- Learned a lesson from the crisis in the 1990s!
  - Improved budget process
  - Top down budgeting
  - Medium term budget framework
  - Fiscal policy council
  - Improved projections for public finances





Sources: Mattson 1996, Wehner 2007 and the Riksdag, Finance Committee