

# Denmark

## **Economic Council (Økonomiske Råd)**

**Established:** 1962.

**Establishing legislation:** Law No. 302 on Economic Co-ordination (Lov om Økonomisk Samordning) of 5 September 1962; Law No. 574 on the Economic Council and the Environmental Economic Council (Lov om Det Økonomiske Råd og Det Miljøøkonomiske Råd), 6 June 2007 (amended by Law No. 167 on 12 June 2012).

**Mandate:** To monitor economic development, analyse long-term development prospects and contribute to the co-ordination of the various economic interests.

**Budget:** DKK 27.4 million (2014).

**Staff:** Four co-chairs and 21 other members; 30-35 secretariat staff (30 in full-time equivalent terms).

## 1. Context

The initial idea behind the creation of the Economic Council in 1962 was to bring together various economic interests in a forum that could be used for wage negotiations and settlements. The council never played an effective role in this regard; but its structure survived and over the years it developed into an independent voice on economic policy.

The law establishing the Economic Council was adopted with the votes of the governing parties, the Social Democrats and the Danish Social Liberal Party. The opposition voted against the legislation, except two members of the Conservative Party who voted in favour. In total, 91 parliamentarians voted in favour, 72 against and 12 abstained. The small centrist Social Liberal Party had proposed the creation of a similar institution in 1957, but at that time the Social Democrats opposed the initiative. The idea to create such a body was fostered by a parliamentary commission on co-ordination (Samordningsudvalget) in 1956. The term “co-ordination” had several meanings: co-ordination between different government agencies (ministries), between the government and the central bank, and unions and employer organisations discussing and co-ordinating cost developments.

Fiscal policy in Denmark is subject to international fiscal rules and domestic political commitments. Denmark has to comply with the 3% deficit and 60% – debt limits in the Stability and Growth Pact, and regularly produces the required convergence programmes. It has generally adhered to these rules and has so far only been in breach of the deficit limit once, in July 2010. Periodically since the 1990s, Danish governments have produced medium-term fiscal plans that set out a number of rules and commitments.

Although the impact of the global economic crisis has been less severe than in many other European countries, government policy reflects the need to respond to the crisis. The programme of the government that took office in October 2011 contains four major fiscal commitments: the structural budget balance must be at least zero by 2020, compliance with the EU recommendation of a structural improvement of the budget balance by 1.5% over the period 2011-13, a positive sustainability gap as measured by the so-called S2 indicator (European Commission, 2006) and debt levels well below the EU's 60% limit.

In addition, the coalition government of the Social Democrats, the Danish Social Liberal Party and the Socialist People's Party, which took office in October 2011, introduced statutory and binding multi-annual expenditure ceilings as part of the 2012 Danish Budget Law for the state, municipalities and regions to help ensure increased budgetary discipline.<sup>1</sup> The Budget Law also states that the structural deficit must not exceed .05% of GDP and gives direction on how to correct fiscal policy in case ceilings are breached/higher deficits. The reform also entailed a formal role for the Economic Council in monitoring adherence to the announced ceilings (Sørensen, 2011; Jensen and Davidsen, forthcoming). These ideas go back to proposals published by the previous coalition government of the Liberal Party and the Conservative People's Party in April 2011 and the initiative is expected to have broad political support in the parliament. The proposals have also been endorsed by international organisations (OECD, 2012). Reference was made to the example of the

Swedish Fiscal Policy Council in the public debate on these proposals and the formal “Remarks” that accompanied the amendment to the law on the Economic Councils.

## 2. Relationship with the executive and the legislature

The Economic Council is an independent body that advises the executive and the legislature. It was under the formal authority of the Ministry of Economic and Business Affairs until 2011, when changes to Danish government ministries gave responsibility to the Ministry of Economic and Internal Affairs (Økonomi og indenrigsministeriet), and now the Ministry of Finance. Its reports are submitted to the government, which has no legal obligation to respond. In practice, there is substantial media interest in the work of the council and its analyses are referred to in the budget documents and political debates. Since its creation in 1962, the council has existed under a number of different governments; its role is well established and it currently faces no existential threat.<sup>2</sup> It has its own offices, which are separate from those of the Ministry of Finance. The legal framework of the council also provides a formal mechanism that protects its independence. Although the Minister of Finance formally appoints the chairmanship, the incumbent co-chairs nominate the individuals.

The Finance Committee of the parliament traditionally discusses the reports of the council in a two-hour session that is not open to the public. The committee values the council as an independent, politically neutral source of expert advice.

The Economic Council has no formal relationship with other official institutions. However, there are professional interactions with institutions which work in related areas, such as the National Bank of Denmark, Statistics Denmark, researchers at universities and economists at different private institutions and organisations, including those that are members of the Economic Council. There are also several think tanks that analyse economic policy, such as Arbejderbevægelsen Erhvervsråd, Kraka, Concito and Cepos. However, most of these have a particular political stance. At the international level, the secretariat of the Economic Council participates in the Association of European Conjuncture Institutes (AIECE), which consists of about 40 forecasting institutions in 20 countries.

### Box 1. Role of the legislature in the budget process

Denmark has a parliamentary system of government and a unicameral parliament, the Folketing, with 179 members. Of these, 175 members are elected in Denmark, two in the Faroe Islands and two in Greenland. There are no constitutional restrictions on the Folketing’s authority to modify the budget, and several hundred amendments are typically proposed. In aggregate, however, the impact of any changes is modest. The budget is typically presented in the parliament at the end of August, more than four months ahead of the beginning of the new fiscal year. It is immediately referred to a 17-member cross-party Finance Committee, which holds a two-day technical review of the proposals in early September. Members of the committee are assigned different parts of the budget and formulate questions, which are put to the relevant ministers in a series of short hearings. The first reading allows the Minister of Finance to explain the budget and the different political parties to outline their views. This is followed by elaborate and less public political negotiations. The second reading of the budget takes place in the beginning of November, but this is a perfunctory event. At this time, the Finance Committee publishes a report clarifying any technical aspects of the budget and listing all significant changes between

**Box 1. Role of the legislature in the budget process (cont.)**

this budget proposal and the budget currently in effect. Sectoral committees have no formal role in the process, but some conduct hearings on relevant parts of the budget and exert informal influence. Committee meetings are held behind closed doors unless a committee decides otherwise. All changes to the budget are approved in the third reading in December. The 2012 Budget Law gave the parliament a new role in establishing spending ceilings on an annual basis.

The Finance Committee is also actively involved in approving about 200 in-year adjustments each year, often to move money between different items. A small team of researchers – currently one economist and two students – support budget-related discussions. Moreover, the Danish National Audit Office, or Rigsrevisionen, is an organisation under the Folketing with 270 staff. The Danish Auditor General assists the Public Accounts Committee in its review of the accounts and carries out examinations at its request.

**3. Legal basis for establishment**

The legal origin of the Economic Council was Law No. 302 on Economic Co-ordination (Lov om Økonomisk Samordning) of 5 September 1962. The legal framework was then updated by Law No. 574 on the Economic Council and the Environmental Economic Council (Lov om Det Økonomiske Råd og Det Miljøøkonomiske Råd) of 6 June 2007. This reform created the Environmental Economic Council and integrated it into the structure of the Economic Council. Formally, the new structure is known as The Economic Councils (De Økonomiske Råd), which is made up of the Economic Council and the Environmental Economic Council. In the following text, the singular “council” refers to the Economic Council, whereas the two bodies collectively are referred to as the “councils”. The main focus in the context of this publication is the work of the Economic Council.

The law governing the Economic Council was amended by Law No. 167 in 2012 in part to address increased demands for fiscal discipline post-crisis and to ensure that Denmark implemented its obligations under the European fiscal compact (although Denmark is not a member of the Euro zone). These changes came into force on 1 January 2014.

**4. Mandate**

The 2007 law provided a broad mandate for the Economic Council. Its mission is to monitor economic development, analyse long-term development prospects and contribute to the co-ordination of the various economic interests (Article 1). The mandate of the Environmental Economic Council is to analyse the interaction between economic performance and the environment and assess the effectiveness of environmental policies (Article 1a). The 2007 law does not spell out any more specific tasks or specific deadlines for any reports. It does require the Economic Council to meet at least twice a year, while the Environmental Economic Council has to meet at least once a year. Effectively, this leaves ample scope for the Economic Council to determine its work programme and to choose its priorities. The Council’s mandate also imposes no particular limits with regard to the institutional coverage of its work; it is not restricted to central government.

The 2012 law further expanded the Economic Council’s mandate to include an annual assessment of: the sustainability of public finances and medium-term development of the structural balance, whether expenditure ceilings are aligned with fiscal objectives and

whether expenditure ceilings have been respected in terms of planning *ex ante* and when financial statements are available *ex post*.

## 5. Functions

Perhaps the central role of the Economic Council has been the production of independent short-term and medium-term macroeconomic forecasts, although these have no formal role in the budget process. It is well known for the development of the Simulation Model of the Economic Council, or SMEC (Andersen, 1991), which it uses for its macroeconomic forecasts. SMEC is one of the main macroeconomic models in use in Denmark, although the Ministry of Finance has used other models (Andersen and Madsen, 1992). The council also uses several other models, for example a microeconomic simulation model that allows it to study the effect of tax changes on labour supply.

Further tasks carried out by the Economic Council include analyses of the current fiscal stance, long-run fiscal sustainability and trends in income distribution. It also makes recommendations on short-term fiscal stabilisation policy as well as structural policy questions with an emphasis on labour market policy, tax policy and pension reform (Sørensen, 2011). More recent is the work of the Environmental Economic Council, which includes analyses of the economic consequences associated with reaching given energy targets, the environment or climate policy objectives. Reports are based on rigorous quantitative analysis in combination with narrative information.

The Economic Council does not play a role in evaluating or costing the fiscal component of the election platforms of political parties, nor does it cost individual pieces of legislation for the legislature or the executive. However, its work on the budget and fiscal policy has expanded in recent years. For example, the spring 2010 report of the Economic Council contained a special focus on long-term developments in public finances and the council has continued to do this in every spring report since.<sup>3</sup> The council assessed the development of the budget deficit to be worse than in the convergence programme of the government. It urged spending restraint in order to contain public consumption relative to the size of the economy. The introduction of statutory and binding multiannual expenditure ceilings has led to a further expansion of its public finance work and, for the first time, the Economic Council has a formal role in fiscal surveillance. A new division in the secretariat was created to focus on the analysis of public finances; the head of this new division commenced work in March 2012.

The council can and does make normative policy recommendations, which can have an influence on public debate. These recommendations are grounded in objective and technically competent analyses of relevant issues. According to Sørensen (2011), the council has over the years produced several policy recommendations that were rejected at first but ended up being implemented later on. For instance, it first recommended labour market reform in 1988, but actual changes occurred only from 1994 and more recently in 2010. It also recommended the introduction of an earned-income tax credit in 1998, which was implemented in 2004. It repeatedly advocated retirement reform since the mid-1990s, which followed in 1998, 2006 and 2012.

## 6. Work programme

Paragraph 3 of the 2007 law requires that the Economic Council meets at least twice a year to discuss a report prepared by the co-chairs. The Environmental Economic Council is

required to meet at least once a year. A meeting takes place at the request of the four co-chairs or a minimum of three other members. The council, specifically the co-chairs, have substantial discretion in determining the work programme and the focus of particular inquiries. Draft reports are circulated to council members in the form of a discussion document that is confidential until a formal meeting. Members' comments are included with the final report, but the report itself does not change even if some of them disagree with certain aspects.

The Economic Council publishes a report entitled "Danish Economy" (Dansk Økonomi) twice a year, in spring (May or June) and the autumn (traditionally October or November, however it will likely be October from now on so that the report can be used in the negotiations on the budget). These reports assess international economic developments and the outlook for the domestic economy. Each report also covers certain special topics. In recent years, these have covered a wide variety of subjects, such as the distribution of income, early retirement and the retirement age, tax evasion, productivity, and the long-term evolution of public finances. The Ministry of Finance has responsibility for the preparation of the economic assumptions for the budget. However, the scrutiny of the budget by Parliament's Finance Committee entails a review of the economic assumptions and a comparison against forecasts produced by other institutions such as the Economic Council and the National Bank of Denmark (Blöndal and Ruffner, 2004).

## 7. Budget

The secretariat of the Economic Council is financed mainly through the national budget. To a limited extent, it can supplement its appropriation with research grants from external sources. The allocation for the Economic Council has been part of the budget of the Ministry of Economic and Business Affairs, the Ministry of Economic and Internal Affairs, and now the Ministry of Finance, and is decided during the regular annual budget process. The Economic Council has its own sub account within the Ministerial budget. In 2014, the budget was DKK 27.4 million with actual operating expenditures of DKK 26.8 million. In its 2010 annual report, the council reported a budget of DKK 24.9 million and actual operating expenditures of DKK 23.5 million. The respective budgets for 2008 and 2009 were DKK 24.2 million and 25.2 million and actual spending totalled DKK 22.8 million (2008) and 22.9 million (2009). During these years, externally generated income never exceeded two per cent of total operating income. The Economic Council does not receive multi-annual funding commitments.

In general, funding has been commensurate with the tasks of the council, and it has also not been threatened with budget cuts. In fact, there have been occasions where it was exempted from general cuts in the central government budget. The relatively benign treatment of the council's budget is reflected in the steady rise of the number of staff employed at its secretariat. This has grown from 5.5 in 1963, to 10 in 1972, 12 in 1987, approximately 15 in 1995 and about 30 full-time equivalent staff in 2007. In anticipation of the council's new role in fiscal surveillance, it was granted an increase in funding of DKK 4 million in 2012 and onwards. The explicit role as a "fiscal watchdog" is only new in a formal sense as the council has for many years assessed fiscal policy both in terms of stabilisation as well as long-term sustainability. However, an explicit mandate in fiscal surveillance requires it to devote further resources to this topic, which is reflected in this increase.

## 8. Staffing

### 8.1. Leadership

The Economic Council and the Economic Environmental Council are presided over by a common “chairmanship” consisting of four co-chairs who are academic economists – the so-called “wise men”. Formally, the Minister of Finance appoints the co-chairs for a period of up to six years, which is longer than the four-year electoral term of the government. In practice, the government always appoints the persons nominated by the incumbent co-chairs, following an informal tradition that has not been broken in at least 25 years. One of the co-chairs acts as head chair. The position does not carry any additional formal powers, but this individual acts as the primary spokesperson. This does not preclude any of the other co-chairs from also interacting with the media. It should be noted that reports and recommendations therein are the responsibility of the chairmanship; other members might agree or disagree.

The law does not rule out multiple terms and in practice some members have been appointed as members or co-chairs several times. The minister cannot dismiss a co-chair prior to the expiry of their term of office. An individual appointed as co-chair cannot hold a seat in parliament. In practice, they must also be independent of interest groups. In principle, the appointment of non-nationals is a possibility. In practice, this would also require knowledge of the Danish economic and institutional context, and foreign appointments are rare. In fact, this possibility has only been used once, when it proved important for accessing relevant expertise in environmental economics. Of four incumbents, three are Danish nationals and one is Norwegian. All of them are men. They have full-time jobs as professors in economics and exercise their function as co-chairs on a part time basis.

In addition to the four co-chairs, the Economic Council can have up to 22 other members appointed by the Minister of Finance for up to three years. One of these represents the minister, who also appoints up to three further members, one each of these upon the recommendation of the Research Council, a research funding body, and the Rectors’ Conference of Danish universities. Of the remaining 18 members, one each is nominated by: the Minister for Business and Growth, the National Bank, the Employers Confederation, the Confederation of Commercial Transportation and Service Industries, the Construction Association, the Confederation of Professional Associations, the Employees Association, the Economic Council of the Labour Movement, the Confederation of Danish Industries, the Crafts Council, the Agricultural Council, the Danish Chamber of Commerce, the Consumer Council, the Bankers Association and local government. The Confederation of Trade Unions nominates the remaining three members. There is currently a discrepancy between the total of 22 ordinary members provided for in the law and the actual total of 21. This is due to the merger, in 2008, of two of the nominating organisations: the Confederation of Commercial Transportation and Service Industries and the Confederation of Danish Industries. Similarly, the Economic Environmental Council has 20 other members to represent various interests relevant to environmental affairs. In practice, the leaders or high-ranking officials of the relevant nominating organisations attend full meetings of the Economic Council or the Economic Environmental Council.

All of the co-chairs are remunerated. The head chair receives a remuneration of around DKR 300 000, while the other co-chairs receive around DKR 200 000. None of the other members of the Economic Council or the Environmental Economic Council receive remuneration.

## 8.2. Staff

Paragraph 4 of the 2007 law requires a secretariat to support the work of the Economic Council and the Environmental Economic Council by conducting research and drafting documents. The current organisation of the secretariat reflects four main areas of analyses: macroeconomics, public finances, structural economics and environmental economics. The secretariat employs mainly professional economists, plus several administrators and a number of students. It has an overall staff total of about 30 to 35 (30 in full-time equivalent terms). It is not uncommon for staff to move from the Ministry of Finance to the Council, or *vice versa*, but not as secondments. Based upon a recommendation of the co-chairs, the Minister of Finance appoints a director who has operational responsibility for the management of the secretariat and its staff. This individual may not be a member of parliament and has to be independent of the different interest groups that are represented on the council. In practice, the incumbent is typically a professional economist. The current director (2012) worked in the secretariat of the Economic Council for about a decade and a half before his appointment to the position.

The staff members of the secretariat are paid according to standard collective agreements between the central government and the relevant unions. These agreements leave ample room for individual wage elements as well as different policies regarding promotions. Overall, wages are comparable with other public institutions. The secretariat does not make temporary appointments, but it does employ outside consultants for specific purposes, for example, for setting up and using an energy model, for building a model on traffic and congestion and for the analysis of biodiversity. On a regular basis, the secretariat uses the DREAM model, which is designed to analyse fiscal sustainability and other long-term demographic issues. The use of this model is very specialised and is “bundled” with consultant-like services. Total expenditure on consultants can vary greatly between years, but on average it is around DKR 500 000 annually.

## 9. Access to information

The Councils have access to all publicly accessible economic data and government information. In practice, relevant government bodies such as the Ministry of Finance or the National Bank of Denmark are usually very willing to provide any information that may be required. There are no specific statutory guarantees or memoranda of understanding, nor specific restrictions, and the Councils have not been threatened with limits on access to information by the government. At present, there is no explicit agreement on the exchange of information relating to the Economic Council’s new role as a fiscal watchdog. However there is a clear understanding that the secretariat should have access to the relevant information and data in order to fulfil the new task.

## 10. Transparency

All of the reports of the Economic Council are published in electronic form and in hard copy. The official website contains a complete archive of its reports going back to 1962, the first year of its existence. An English summary has been included with the reports since 1982. The website also contains descriptions of several economic models that are used by the council, including links to working papers that contain a description. The release of a report is accompanied by a news conference. The council publishes various supplementary materials on the website, including the submissions it received from its members, as well

as background notes and data. In addition, members of the council and the secretariat publish a number of opinion pieces and academic contributions each year; the website contains an archive of these contributions. The co-chairs of the Economic Council also frequently comment on economic developments and policy in their personal capacities.

## 11. Governance, advisory support, monitoring and evaluation

The governance of the councils relies on the guidance of the four “wise men”. This arrangement helps to create a buffer between the interest groups represented by the other members, as the co-chairs have overall responsibility for giving direction to the work and any recommendations. There is no formal process of peer review for reports. However, the projections of the Economic Council are regularly compared to those of other institutions, which creates a degree of peer pressure and competition. Moreover, the co-chairs have an incentive to ensure that the councils produce high-quality work, as substandard reports would damage their academic credentials and reputation.

## 12. Concluding remarks

The Economic Council has an institutional history of half a century, which involved a considerable evolution of its role towards becoming an economic policy watchdog. Its structure reflects an organic process and is difficult to replicate outside its particular context. Over the past decades, the council has on several occasions brought policy options into public discussions that have contributed, sometimes with considerable time lags, to actual reforms. The work of the council is widely respected as technically competent and politically neutral. Since the council has no formal powers over economic policy, its influence depends on the quality of its analysis and the independence of its chairmanship.

In recent years, the council developed into an “implicit fiscal council” (Andersen, 2010); the 2012 legislation made this explicit giving the council a formal mandate to assess fiscal policy in relation to a set of expenditure ceilings. The fact that the council is envisaged to play a key role in fiscal surveillance is evidence of its achievements. On the other hand, such a new role also has potential risks, as it brings the council much closer to political debates. A key challenge for the council will be to maintain its hard-earned reputation for political neutrality.

### Notes

1. Up until three years ago, the Danish state budget was in a surplus for many years. However, local governments – which account for considerably more than half of public spending – have, as a whole, had difficulty keeping expenditures within the limits agreed with the central government.
2. The first decade of the council’s existence was somewhat more turbulent. On several occasions, members of the council were upset with the chairmanship’s analysis and recommendations. In the winter of 1972/73 there were discussions in the parliament and the Fiscal Affairs Committee whether the council should be dissolved. Then Minister of Economic Affairs Per Hækkerup argued in favour of dissolution, but there were no formal legislative proposals to do so.
3. This topic was also analysed several times prior to 2010.

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