

Fiscal Councils

Lars Calmfors

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Fiscal watchdogs – Fiscal Councils

- Recently increased interest
- Academic idea raised in the mid-1990s
- Inspiration from independent central banking
- Proposals on both decision-making bodies and advising (monitoring) ones
- Little influence from experiences of already existing independent fiscal policy institutions
 - CPB in the Netherlands
 - Economic Council in Denmark
 - CBO in the US

Recently established institutions

- Fiscal Policy Council in Sweden (2007)
- Parliamentary Budget Office in Canada (2008)
- Fiscal Council in Hungary (2009)
- Fiscal Council in Slovenia (2009)
- Office for Budget Responsibility in the UK (2010)
- Ireland?
- Portugal?
- Australia?
- Finland?
- Norway?

Definition of fiscal councils

1. Fiscal watchdog tasks
2. Macroeconomic competence (not only auditing)
3. Independence from the political system

	Forecasting	Costing of policy initiatives	Ex-post evaluation of fiscal policy	Ex-ante evaluation of fiscal policy	Evaluation of fiscal sustainability	Normative recommendations	Analysis of broader issues
Austria	X		X	X	X	X	
Belgium			X	X	X	X	
Canada	(X)	X	X	X	X		
Denmark	X		X	X	X	X	X
Germany	(X)		(X)	(X)	(X)	(X)	X
Hungary	X	X	X	X	X		
Netherlands	X	X	X	X	X		X
Slovenia	(X)		X	X	X		(X)
Sweden	(X)		X	X	X	X	X
UK	X	?	X	X	X		
US	X	X	X	X	X		X

Observations

- All do ex-ante and ex-post evaluation of fiscal policy and fiscal sustainability analysis
- Complement to fiscal rule(s)
- Only some do forecasting, others evaluate government forecasts
- Some do only strictly positive analysis, some also give normative recommendations
- Half do only fiscal analysis, half have a broader remit
 - employment policy
 - tax policy
 - environmental policy

Main challenge

- To do truly independent analysis
- To ensure the council's survival

Typical time-inconsistency problem

- Politicians have a **long-run** interest in setting up an independent advising and monitoring institution
- But also a **short-run** temptation to interfere with the work of the council to avoid criticism
- Hungary is an illustrative example

The Swedish Fiscal Policy Council

- Increasing criticism from the government (Minister for Finance)
- Expectation that the council would act also as adviser behind closed doors
- Surprise that the council was critical of some government policies, although these were on the whole endorsed
 - fiscal stimulus in the recession
 - some tax and employment policies
- Natural to focus on what government policy can be improved
- Media logic to focus on critique of the government



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The council in the political debate

- Possible objection: the council evaluates the policy decided by elected representatives
- Yes, but the evaluation is against the objectives set by the government and the parliament
 - help for parliamentarians and voters to hold governments accountable
- The evaluation builds on economic research on how various instruments affect policy objectives
- The council identifies policy trade-offs but does not take a stand on how they should be handled

How guarantee independence and long-run viability?

- Build reputation for impartial high-quality work
- International peer evaluations
- Formal guarantees of independence
- Parliament as principal rather than government
- Sufficient funding fromn the start
- Do not blur dividing line between independent evaluation and providing direct input into Ministry of Finance work
- **Mature politicians** are required

Two possible approaches for a council

- Cautious and tactical approach
- Establish council as uncontroversial body
- Turn it later into effective watchdog
- Heads-on approach
- High profile
- Immediate establishment of reputation for tough, but impartial, analysis