

How it's done in Sweden

From the outset the coalition failed to grasp just what gives a financial watchdog credibility



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One of the first actions of Britain's new coalition government was to set up an Office for Budget Responsibility – hailed as an independent fiscal watchdog with a remit to provide macroeconomic forecasts and evaluate the administration's fiscal goals.

The establishment of the OBR has been acclaimed as an audacious and unique move. But it is part of an international trend – similar watchdogs have recently been set up in Sweden, Canada, Hungary and Slovenia, and are long established in the Netherlands, Denmark and the United States.

Moreover, the OBR's independence has already been called into doubt and questions asked about the assumptions behind its fiscal forecasts and the timing of its release of new data, both of which appear to have benefited the government.

It is now clear that the way the OBR was established invited problems. It was not just that experiences with similar institutions elsewhere were ignored – and academic discussion of them not taken into account – but that a number of established principles for such bodies were actually violated.

Generating credibility for a fiscal watchdog means taking great care, from the outset, over its reputation. To rush things – by setting up an interim office before thinking about its role and the composition of its directing committee (the budget responsibility committee) had been completed – is the exact opposite of this. Instead, it seems to reflect the political convenience of quickly providing ammunition for swift fiscal consolidation. Even though such consolidation is necessary, the political timing of the OBR's output has compromised the role of the office.

Another obvious problem has been the close relationship with the Treasury – both the physical location of the OBR within it, and the issue of whether its staff are sufficiently detached from it. The organisation's outgoing chairman, Sir Alan Budd, has proposed a number of changes: a stronger role for parliament on the appointment of the budget responsibility committee; moving staff out of the Treasury building; and to have fewer Treasury staff seconded to the office. The Treasury has signalled that it broadly welcomes the proposals.

These proposals are steps in the right direction – but they do not go far enough. They still seem to reflect insufficient understanding of the importance of true independence. It is not enough to reduce the number of Treasury officials working within the office. There should be none. Nor is it consistent with true independence to retain the current stipulation that the OBR may "consult the chancellor in preparing documents, but is not obliged to do so". It should be explicitly forbidden to do so.

The OBR can be compared with its counterpart in Sweden – the fiscal policy council, set up in 2007. As a guarantee of its independence, the council has no behind-closed-doors contacts whatsoever with government ministers, except when handing over its annual

report. Moreover, the council has no staff seconded to it from Sweden's ministry of finance – and nor does it have any continuous exchange of views with ministry officials in addition to hearings where council staff can ask questions and request internal documentation.

But the OBR's problematic relationship with the Treasury goes further: there is a built-in flaw in its forecasting tasks. By providing a forecast and a judgment on the fiscal outlook at the same time as the budget is published, it would seem impossible to avoid behind-the-scenes "negotiations" on numbers with the Treasury. It might be better if the OBR provided a post-evaluation of the budget as an input into the work of parliament (in addition to a forecast before the budget).

An important issue concerns the composition of the budget responsibility committee. There is a strong argument for using active academics – because they risk their professional reputation if they are seen to be giving in to political pressures.

The OBR's independence must be taken more seriously. The British debate is moving in the right direction. But it needs to move more. And the debate would benefit greatly from being less national and taking more account of experiences elsewhere. And the most important lesson is this: one cannot have it both ways – the OBR cannot be both an independent watchdog and an in-house provider of input into the Treasury's work.

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