Greater Independence for Fiscal Institutions

By
Nicholas Gruen*

1. Introduction

This paper seeks to outline the thinking behind a proposal contained in a recently released discussion paper by the Business Council of Australia (BCA). The BCA is Australia's leading business body. It comprises the chief executive officers of most of Australia's largest companies. The BCA's paper was entitled *Avoiding boom/bust: macroeconomic reform for a globalised economy* (1999). A major section of the paper was devoted to exploring the idea of "re-engineering" fiscal policy.

The proposal was to re-engineer fiscal policy institutions to make them more like monetary policy institutions. To this end, it was proposed that there be legislated some capacity to adjust tax rates across-the-board at short notice and without further reference to the legislature. Further, it was proposed that there be an independent body with a degree of control or influence over the new instrument of tax adjustment which was analogous to the control which a central bank has over the conduct of monetary policy.

The current paper is structured as follows. The next section explores some of the central characteristics of economic reform, and the way in which they have been manifest in fiscal reform in the recent past. The following section explores the central problems of fiscal policy – implementation lags and the drift to deficits. Section 4 explores the attraction of monetary policy institutions for conducting macroeconomic policy. Section 5 explores the reforms which might address the existing problems with fiscal policy. They take us closer to the monetary policy model. Section 6 illustrates what a fully articulated model of fiscal policy in the image of monetary policy might look like and what issues would need to be addressed in establishing it. The final section offers some concluding speculations and observations.

* Nicholas Gruen is former Economic Adviser to the Treasurer, Department of the Treasury, Australia. He is the author of *Avoiding boom/bust: macroeconomic reform for a globalised economy*, published by the Business Council of Australia.

The paper is intended to broadly reflect an OECD perspective. Nevertheless, examples are taken particularly, though not exclusively, from the Australian experience.

2. Fiscal Policy and the Characteristics of Economic Reform

An important theme of economic reform in the last two decades has been ensuring that decisions are made by the appropriate actors in the economy.

Where official trade barriers once influenced the way in which the private sector allocated its resources, today such decisions are made within a much more competitive market framework with firms deciding where they can make the highest return from the deployment of their resources.

This approach, initially at the heart of the GATT (General Agreement on Tariffs and Trade) and trade liberalisation in the post-war era, has been generalised further in recent decades with considerable attention being given to improving the competitiveness of domestic markets with competition policy and the corporatisation and/or privatisation of agencies which previously enjoyed statutory monopolies.

Other decisions – for example, who to tax and how much, how much to spend and what to spend it on – remain, and will always remain, with government. Where government retains a role in macroeconomic decision-making processes, there is a constant need to ensure that the institutions making these decisions are best placed and structured to carry out their desired functions.

To this end, economic reform the world over has been about adapting government institutions and re-specifying their objectives. Like every other country, Australia's reform path has sometimes been frustrating. But in a comparative sense, Australia has been an exemplar of reform in the developed countries and the rewards of past efforts have been becoming progressively more apparent over the last five years.

Two of Australia's greatest successes have come about not through the establishment of new institutions, but rather through the evolution of existing institutions.

Thus, the Productivity Commission, which has a wide remit to provide objective advice to governments on microeconomic reform across the whole economy, began as a much more circumscribed body – the Tariff Board. This body has had its charter progressively expanded since the mid-1970s when it became the Industries Assistance Commission, and later the Industry Commission.

Likewise the Reserve Bank (central bank) has seen its objectives, functions and independence evolve over time. In the case of both the Tariff Board and the Bank, a degree of independence was provided for in Acts of Parliament which took many decades to mature into real independence.

Australia's fiscal policy institutions have also evolved. Great strides have been made to promote fiscal transparency. Much more systematic use is now made of forward estimates of both revenue and outlays in the budget process. Reconciliation tables are published detailing where and why budget targets have not been met. And the budget reporting of the states has been harmonised and integrated into the National Fiscal Outlook.

Increased fiscal transparency has also now been embodied in Australia's Charter of Budget Honesty, which requires regular publication of information on the progress of fiscal policy and the fiscal outlook, including "generational" accounts to be published at least every five years. Australian Government accounts are now kept on an accruals rather than a cash-basis.

These have been considerable achievements, placing Australia at the forefront of developed countries in fiscal policy management (see *e.g.* OECD, 2001; IMF, 1999). Improved fiscal transparency has played its part in restoring Australia to more prudent fiscal policy in the last few years.

3. Modern Fiscal Management: Current Problems and Issues

Given current institutional arrangements, the normal play of democratic politics has several unfortunate effects on fiscal policy. An understanding of those problems can help us chart the short to medium-term reform priorities, and it can help us develop a vision of where we should be heading over the long-term. In this section, we explore the problems with the subsequent three sections exploring the reform agenda which the analysis suggests.

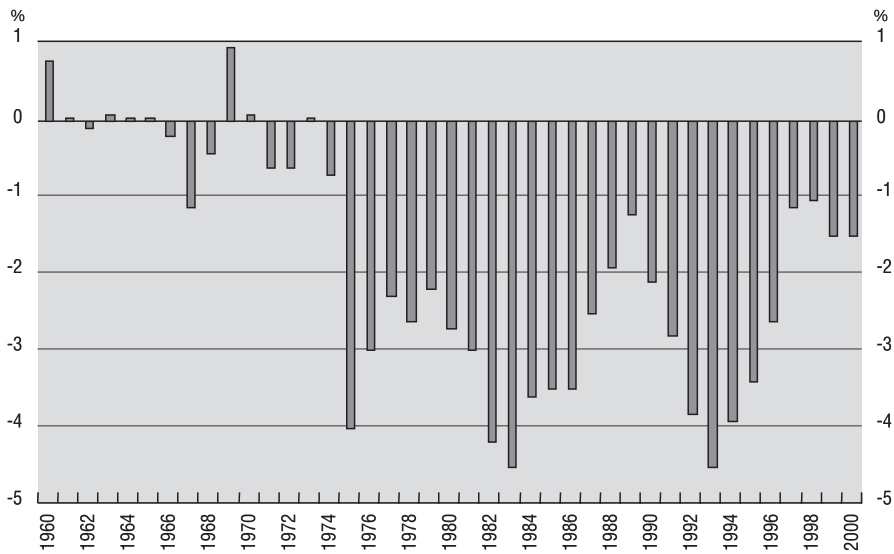
3.1. *The Problem of Fiscal Drift*

Fiscal policy changes can be unduly influenced by the electoral cycle. Thus, governments tend to feel more secure tightening policy early in a parliamentary term and loosening it towards the end of the term. Sometimes this will meet the needs of the economic cycle. But if this is the case, it will be by accident. Usually it will not.

In addition, there appears to be a bias towards fiscal expansion. This is borne out both by common-sense and by experience. As the Governor of Australia's Reserve Bank (then Deputy Governor) Ian Macfarlane commented in 1996:

> *It is easy, and usually popular, to introduce a new benefit or to make an existing one more widely available. But it is difficult to remove existing entitlements because it is always politically unpopular, and there may be large human costs as a result of dependency. This gives a bias towards increasing current expenditure and future levels of taxation, a bias that is readily apparent from the experience of all* OECD *[Member] countries over the past* 30 *years* (*Reserve Bank Bulletin*, *June* 1996).

Figure 1. **OECD general government financial balance (% of GDP)**



Source: OECD.

Indeed, as the size of government has risen over the last generation, a "funding gap" has emerged. Governments have been keener to spend than to tax.

Only in the last few years has the Australian Government moved vigorously to bridge this funding gap. In the 1990s, there were more than six years of strong and steady growth before the budget was moved into surplus. While Australian business congratulated the government on the very substantial political achievement of restoring the budget to surplus, it is not being unkind to observe that with nine years of strong economic expansion under its belt, Australia should by now be doing better. One of the main reasons it has not done better has been the pressure exerted on the government by the Australian Senate where it does not enjoy a majority.

Even given the attention to fiscal consolidation in America, Europe and the antipodes, it seems likely that fiscal consolidation is unlikely to get much beyond balancing the budget (in years of good growth) before competition in the political marketplace drives any surplus back towards break even.

If this is right, fiscal policy is condemned, as Sisyphus was, to the constant frustration of trying to roll the stone to the top of the hill, from which it rolls back down to the bottom again. Whenever there is a recession or a degree of economic sluggishness, we will continue to run substantial deficits, with balanced budgets or small surpluses in the good years. But the balanced budgets and surpluses will be inadequate to "reload the fiscal cannon" fully for the next downturn to use the expression of Larry Summers, the US Secretary of the Treasury. This is certainly what happened in Australia and several other OECD Member countries in the 1980s.

As we have all discovered in the last two decades, a world like this is in some ways a world turned upside-down. Where markets have become accustomed to fiscal drift, fiscal expansion can drive monetary contraction. As deficits grow, governments make progressively greater demands on the market for debt, and any further fiscal expansion leads markets to expect growing demands to be made into the future.

As a consequence, fiscal expansion is balanced or even outweighed by the monetary contraction implicit in rising bond yields and falling currencies. And *vice versa*. As we have seen in Australia on several occasions, where governments which have consistently run deficits have shown the backbone to repair their fiscal affairs, the market confidence which such action engenders is sufficient to offset or indeed to substantially outweigh the contractionary effect on the fiscal side. This is exactly what we would expect if loose fiscal policy were not to be an eternal free lunch – or what Australians would call a "magic pudding".

But this is a perverse, second-best world. Proper management of fiscal affairs would see an escape from it. And the path of institutional evolution which is proposed in this paper would provide us not only with the tools to escape this world, but with the best possible tools to rehabilitate the role of fiscal policy in making a contribution to helping tame the economic cycle.

3.2. *Fiscal Transparency Legislation*

Best practice fiscal transparency legislation such as New Zealand's Fiscal Responsibility Act or Australia's Charter of Budget Honesty require regular reporting of the fiscal outlook, including at election time. This mobilises the power of transparency to reduce the scope for short-term political influences to derail fiscal policy. Clause 9(1)(*f*) of Australia's Charter of Budget Honesty also seeks to impose a discipline on temporary fiscal expansion to ensure that it is in fact temporary. It requires governments to "specify fiscal policy actions taken or to be taken… that are temporary in nature, adopted for the purpose of moderating cyclical fluctuations in economic activity, and indicate the process for their reversal."

Nevertheless, fiscal transparency has only limited appeal as a constraint on democratic politics. As Ruth Richardson, a former Minister of Finance in New Zealand, has conceded (1994), New Zealand's fiscal responsibility legislation "places an onus on the government to be explicit about its fiscal strategy, but is neutral as to what that fiscal stance might be".

Most, if not all, of the most substantial fiscal blow-outs in recent history were not concealed from the public as they were occurring. The fiscal deterioration in OECD economies since the mid-1970s was widely reported at the time. Far from going unreported, the dramatic Reagan fiscal expansion in the United States was a major topic of policy debate and discussion throughout the years during which it occurred. In other words, fiscal transparency legislation may help, but there are likely to be times in the future when it is not sufficient.

3.3. *Lags in the Implementation of Fiscal Policy Changes*

There is another critical problem with fiscal policy institutions as they are currently constituted. Where economic developments suggest that the stance of fiscal policy should be changed, change is very difficult to bring about quickly.

This is even the case for fiscal expansion. Tax cuts, for instance, will generally take some months to pass through a legislature. Except on simple transfer programmes, spending changes also take time to organise. Indeed, of the discretionary fiscal expansions implemented as a response to recession in post-war United States, none were finally enacted before the recession they were intended to address had technically ended (Keech, 1995). This was also true of the fiscal stimulus applied in Australia in 1992.

But these problems of fiscal expansion – the implementation lag – pale into insignificance compared with what might be called the "consolidation lag". If a fiscal expansion is warranted, it can often be agreed upon and implemented within a few months. But if such an expansion was intended to be temporary, reversing it is usually not so easy because it is not so popular. Thus, the tendency to fiscal drift discussed above. Anticipation of such fiscal drift lies behind the market's usually quite rational anxiety about fiscal expansion, and also lies behind the opposition to fiscal pump priming by finance ministries in many countries.

4. Some Lessons From Monetary Policy

Before proceeding to explore some possible remedies to the problems of fiscal policy, it is worth considering how these problems appear to be much better dealt with by the institutions of monetary policy.

The differences in the policy environment are as follows. Firstly, monetary authorities – central banks – have a greater level of independence from governments of the day than departments of state that work to ministers. Once appointed, the governor of a central bank cannot easily be removed. There will often be a strong expectation and tradition of collaboration between the central bank and the government of the day. (This is at least the case in Australia). Nevertheless, the bank does not discharge its duty to the public interest through its service to the government of the day, but

Box 1. **How Independent Should a Central Bank Be?**

It is a matter of some controversy as to how much independence is the right amount. Australia's Reserve Bank (RBA) sets the stance of monetary policy but can be overruled by the government providing this is done publicly. Certainly the Australian model of "independence with collaboration" has worked reasonably well in the recent past notwithstanding the inevitable tensions. While much policy discussion has tended to assume that "more independence is better than less", there are potential advantages in a half-way house.

What tension exists between the government of the day and the central bank can be a dynamic one with strong mutual benefits. In Australia, although there can be public differences of view between government and the Bank, the government's ability to overrule the Bank tends to ultimately have the effect of co-opting it into basic support for the Bank's monetary policy. And by the same token, it draws the Bank into attempting to manage monetary policy in a way which takes account of the political circumstances of the day. The power to publicly overrule the Bank has never been used.

In a very thoughtful contribution to the debate, the Secretary of the Australian Treasury, Mr. Ted Evans, offers this defence of an independence which is forged in collaboration.

> *While it would be expected that board members be apolitical – in the party-political sense – it would equally be expected that they have political abilities*: i.e. *that they be adept at assessing facts and taking policy decisions in the national interest. This, together with the requirement of integrity, is the basis of selecting board members.*
>
> *This latter point appears to have been lost on some who see it as a weakness that the* RBA *board is not comprised solely of experts in monetary matters. I think it is fair to say that, at least at this stage of* Australia's *economic development, monetary policy has become independent partly because the bank board is not so comprised.*

Source: Evans, 2000.

rather more directly as it were, through carrying out the functions and duties prescribed in its own act.

Secondly, the institution is not just independent to be itself and provide advice, but also to play an important role in implementing policy. Arrangements differ between countries, but all OECD central banks have a critical – sometimes essentially exclusive – role to play in managing the stance of monetary policy.

A third and critical difference between monetary and fiscal policy is the speed with which action can be taken. The normal lead time in the case of monetary policy is the month or so between board meetings, although of course there is nothing to stop boards from doing as they have sometimes done in the past and either holding extraordinary meetings or delegating the power to the governor between meetings. So, in principle, there is nothing to stop action within hours of forming the intent to act.

This combination of greater independence and timeliness has underscored the attractions of using monetary policy as the principle means of "leaning against the wind" of the economic cycle.

The contrast between the credibility of the Central Bank compared with that of the government is well illustrated by comparing examples of discretionary macroeconomic expansion in Australia in the 1990s. The fiscal expansion of early-1992 was accompanied by bond market nervousness with constant skittishness leading up to the government's announcement in February.

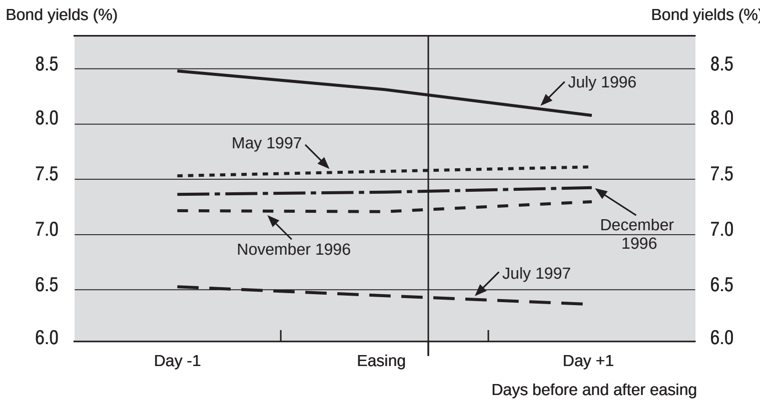
Market commentary suggested that, the fiscal stimulus was pushing up interest rates. In the event, the stimulus was kept to a very modest one-half of one per cent of GDP. When the markets did show their nervousness during this period, the yield curve shifted upwards over its entire length, suggesting a market perception that any fiscal expansion was unlikely to be temporary. In the event, the market was proven right, with fiscal consolidation having to wait until a change of government over four years later.

Contrast this with the monetary policy expansion announced by the Reserve Bank of Australia in 1996. In each case, other things being equal, policy easing could be expected to stimulate growth and so, to some extent inflation. In such circumstances, one would expect markets to price this into long-term bond yields.

In fact, when the Reserve Bank announced its first easing for some time in mid 1996, long bond yields fell by approximately half a per cent in the week of the announcement, falling by 25 basis points on the day of the easing. The Reserve Bank had sufficient credibility in mid-1996 to ease monetary policy without exacerbating inflationary expectations. Indeed, the markets indicated they had greater faith in the Reserve Bank than in their own perceptions before the easings. The Reserve Bank's easing was taken as evidence that there was room in the economy for this to occur – that is more room than the markets had expected. As the Reserve Bank eased policy, long-term bond yields – a measure of expected inflation into the future – actually fell (see Figure 2).[1]

As Alan Blinder, former Vice-chairman of America's Federal Reserve, has commented, such a model of flexibility and independence is worthy of development in policy areas other than monetary policy management – and Blinder puts forward the model of tax policy (Blinder, 1997). At about the same time, both American and Australian economists were proposing a concrete model of how one might re-engineer the institutions of fiscal policy along the lines of monetary policy (Ball, 1996; Gruen, 1997; see also Box 2).

Figure 2. **Ten year bonds and monetary easings (1996-97)**



Source: Reserve Bank of Australia.

To skip directly to propose such a model, however, might give the appearance that the proponents want to bring forth a "brave new world"; one which is naïve about the political realities of bringing it about, or indeed about the differing histories and philosophies attaching to monetary and fiscal policy. The attraction of these ideas lies precisely in the direction in which they offer to further develop existing trends in the contemporary evolution of fiscal policy.

Accordingly, the next section explores the way fiscal policy might evolve in such a way as to move closer towards the institutional model of monetary policy. While some of the steps would take more courage than others, none seem without precedent of one kind or another. As the precedents indicate, none seems politically impossible, and some steps are positively inviting for either governments or oppositions seeking to demonstrate the responsibility necessary to be taken seriously as an alternative government.

And having charted the kind of moves which might be made on the road to greater fiscal responsibility and responsiveness, we can speculate in the following section on what fiscal policy might look like as such an evolution matured.

5. Towards More Fiscal Flexibility and Independence

5.1. *Extending Fiscal Transparency – Developing the Institutions of Fiscal Independence*

The first and perhaps most obvious way of beginning to address the problems raised would be to further enhance fiscal transparency by furthering the independence of our fiscal institutions. Of course, most OECD Member countries already have one very important fiscal institution which has strong independence from executive government – the Auditors-General.

The independence accorded such agencies is the foundation upon which they provide assurance for fiscal policy in terms of "micro-integrity" – the integrity of individual transactions, agencies and policies.

Of course, simply identifying this as "micro-integrity" draws attention to the similar importance of "macro-integrity" – the integrity of the aggregate financial accounts and projections. If we think "macro-integrity" is of a similar order of importance as "micro-integrity", there is a case for developing institutions with a similar degree of independence as those which provide "micro-integrity" assurances. In most countries, the lead agency for delivering macro-integrity has the status of a department of state (ministry).

While the traditions of independence differ, in most OECD Member countries politicians can, at the very least "lean" on the senior officials. This compromises the extent to which they can operate as guardians of the integrity of politicians. In the United States, the Congressional Budget Office prepares a complete set of fiscal and economic forecasts for Congress to be considered alongside those provided by the Executive.

Where such institutions do not exist, it is possible that existing interests within a government or its agencies would resist such a development. Nevertheless, this is the kind of thing which has already attracted one Opposition – that of the Opposition in the State of Victoria in Australia. Oppositions are frequently assailed with the cry "where's the money coming from". So, providing they do intend to be fiscally responsible, it suits them to publicly constrain themselves by promising enhanced and independent fiscal macro-integrity measures.

Having promised to do so as Opposition at the last elections, they have now done this, as the new government, by extending the existing role of the Auditor-General from reporting on micro-integrity to reporting on macro-integrity. This kind of approach provides the platform for developing fiscal institutions which have greater independence from the Executive than a traditional department of state (ministry). And it does so in a way which has been repeatedly successful in Australia – by developing further the role of an already well respected institution.

The points made in this section are very much in sympathy with the themes which emerge from recent work from both the OECD (2001) and the IMF (1999) on the importance of integrity in ensuring budgetary transparency.

5.2. Developing the Instruments

5.2.1. *Minimising Lags and Broadening the Base of Fiscal Policy*

How then can we address the problem of implementation lags? And in doing so, should we focus on the tax or the outlays side of the ledger?

In the budgets of many OECD Member countries, there are opportunities for fiscal consolidation in reducing spending, particularly on transfer payments to those who do not need them and in further extending "user pays" principles. But, however, promising such areas may be on occasions when fiscal consolidation is necessary, or in the long run battle to keep taxes as low as possible, there are strict limits to the extent to which they provide a systematic foundation for ongoing and timely adjustments to the stance of fiscal policy.[2]

As Professor Lawrence Ball summarises:

> *Fiscal policy can mean changes in taxes or changes in government spending. For purposes of macroeconomic stabilization, I think changes in taxes are best. Decisions about government spending should be determined by long-run, microeconomic considerations – by whether the benefits of public projects are worth the costs* (1996).[3]

We will return to this issue below, but let us proceed with Ball's assumption for the moment. We may also note that, at least in principle, the more broadly based the tax changes, the lower the costs they will impose on the economy. The broader the base over which taxes change, the less any given change in the fiscal stance will impose deadweight costs and tax uncertainty upon the economy. This suggests across-the-board tax changes.

There are, of course, clear precedents for the use of tax changes as a major plank in fiscal policy. Certainly in many OECD Member countries, in the economic golden age of the 1950s and 1960s, tax driven fiscal policy changes were a common place instrument of macroeconomic management with "horror" budgets to tighten policy and "give away" budgets to ease.

The use of fiscal policy as one of the arms of macroeconomic policy has waned in the last two decades. In Australia, such measures became less and less politically feasible for two reasons. Economically, they became more problematic as we failed to "reload the fiscal cannon" during periods of growth. This meant that fiscal expansion could only occur at the cost of gradually rising national debts, a policy which fortunately became progressively less acceptable.

The poor growth, chronic deficits and concomitant increases in government debt during the period threw the policy focus on fiscal consolidation, prudence and medium term consolidation and structural reform – even while the economy was not performing strongly.

Secondly, the conservative dominance of the Australian Senate from the late 1940s to the mid-1970s gave way in the late-1970s to a situation where no government could command a sympathetic majority in the Senate. This had clear implications for the extent to which a government could rely on flexibility in its handling of fiscal policy.

Nevertheless, in the 1960s, the idea of developing fiscal policy institutions to enable more rapid policy response to emerging developments was both talked about and implemented. President John F. Kennedy asked Congress for the right to cut taxes at short notice to facilitate rapid discretionary fiscal expansion to enable a rapid response if an economic slowdown developed in the future. We might smile today that the problem is not so much to ease fiscal policy rapidly as it is to enable fiscal consolidation when appropriate although that was much less of a problem at the time he sought the power.

While President Kennedy was unsuccessful in his quest, the United Kingdom in the 1960s developed the kind of institutional infrastructure which takes us half way towards the monetary policy model of fiscal policy. Parliament delegated to the Executive the authority to adjust indirect taxes up and down without further reference to it.

It would not be easy, indeed it would probably be impossible, to introduce such a system into our fiscal policy decision-making quickly. Politicians promising such a reform could be vulnerable at the next election because it would be easy to portray the reform as an executive grab for power and something which makes tax increases easier. For this reason, the most opportune time to begin to make progress would be when taxes were being cut in any event. This tends to happen every few years in most OECD Member countries as governments return the proceeds of "fiscal drag", economic growth and any spending restraint they have achieved to the electorate as tax cuts.

In such circumstances, it would be possible for a government to cut personal tax rates by an amount it considers to be well within the bounds required by prudence. At the same, time it could offer further tax cuts that are deliberately offered as a variable "buffer" and earmarked to be implemented and/or taken away as appropriate.

Another circumstance in which progress might be made would be a situation where a temporary fiscal stimulus was considered appropriate, as was the case in Australia in 1992. Any action in these circumstances could be improved if concurrent measures were taken to entrench community and market expectations that this easing was temporary. The kinds of arrangements explored here, and in the next section, could provide the appropriate institutional framework for such policies.

Another way of making progress would be long-term targeting. In Australia, superannuation (pensions) has been massively expanded through the 1980s and 1990s with the adoption by government of a long-term target of 12% of salaries going into superannuation. They are not there yet, but despite a change of govern-

Box 2. **Professor Lawrence Ball on Inflation, Monetary and Fiscal Policy**

Today, policy makers control inflation by shifting interest rates and exchange rates. Under my proposal [with an independent fiscal authority], they would also shift taxes or government spending. This would improve things for two reasons.

First, fiscal policy affects the economy more quickly than monetary policy. Using fiscal policy would allow policy makers to offset macroeconomic shocks with a shorter time lag. As a result, both inflation and output would be more stable.

Monetary policy is notorious for the "long and variable lags" in its effects, to use Milton Friedman's famous phrase. We can understand these lags by reviewing the channels through which policy affects the economy. When the Reserve Bank (central bank) raises interest rates, firms delay or cancel investment projects, and consumers buy fewer houses and cars. And higher interest rates lead to higher exchange rates. A higher exchange rate makes domestic goods more expensive relative to foreign goods, reducing net exports. Lower spending on investment and exports eventually drags down overall spending in the economy, and inflation slows.

Higher interest rates and exchange rates are always successful, eventually, at bringing down inflation. But this process can take a long time. Economists are not sure exactly how long it takes for monetary policy to affect spending. But a rough estimate is a year. It will take even longer for inflation to fall, because it takes time for lower spending to convince firms to moderate their price increases. This process may take another year.

There are some lags in the effects of fiscal policy. In particular, while fiscal policy affects spending quickly, there is still the lag between changes in spending and changes in inflation. But, overall, fiscal policy can control inflation more quickly than monetary policy. If policy makers used their fiscal tools, they would not need to forecast as far ahead, and they would make fewer mistakes. And mistakes could be corrected more quickly.

Shorter time lags are the first major advantage of using fiscal policy as a macroeconomic tool. There is a second advantage which is equally important. Monetary policy is an awkward tool not only because it works slowly, but also because its effects are spread unevenly across the economy. The entire economy benefits from the Reserve Bank's policy of controlling inflation. But the costs of this policy fall disproportionately on certain sectors. With more active fiscal policy, the costs would be shared more equally.

Source: Ball, 1996.

Box 3. **Tax Cuts and Medium-term Goal Setting**

In releasing the recent New Zealand Budget, the New Zealand Government announced that it intended to cut taxes in the future. However, it did not specify the precise cost or nature of those tax cuts because they were intended to be delivered more than two years in the future.

The government announced instead its intention to "assess the scope for further tax reductions" in the light of a range of considerations. It indicated that it would be prepared to fund the tax cuts from reduced spending on new policy initiatives, ongoing savings, tax rationalisation and "reductions in projected operating surpluses, *if subsequent fiscal projections indicate larger operating surpluses in the medium term and more rapid progress towards the net debt objective*".

Such a commitment is not unlike the mechanism being proposed above, namely the announcement of tax cuts which are contingent upon certain circumstances being met which ensure their appropriateness.

Source: New Zealand Treasury.

ment, superannuation has recently risen from 6 to 7% and is on track to rise to 9% within the next few years. Targets like this cannot guarantee undisturbed progress, but they can help focus the community and the political process on longer term economic and institutional goals.

In its discussion paper, the BCA floated the idea of having a fiscal buffer of 0.5% of GDP by 2005 and 1% by 2010. This would create fiscal flexibility but would not of itself increase the degree of fiscal independence. Fiscal independence might actually make the flexibility more attractive. Thus, the public might be more disposed to understand small movements in their tax rates (as they do with – even relatively large – changes in interest rates) if they are seen to be strongly influenced by an independent and expert body.

5.2.2. *Addressing Fiscal Drift*

Finally, we need some mechanism to deal with the bias towards fiscal drift. Here the lessons from monetary policy seem compelling. In democratic countries, monetary policy and fiscal policy are subject to almost identical problems of political economy. Both can be managed to generate short-run gains, with those gains generating long-run costs. Where monetary policy is too loose, subsequent generations of voters lose by having to bear the costs of inflation – and/or the more concentrated costs of reducing inflation. Imprudent fiscal policy can also impose inflation on future generations of voters but it also lowers government net worth (increasing net liabilities). This reduces future growth. In short, both instruments involve remarkably similar trade-offs.

Contemporary monetary policy institutions provide some counterweight to the political process. It should be possible to increase the influence of independent policy-makers in fiscal policy in a gradual and evolutionary way which builds on existing traditions and developments. The example of the State Government of Victoria in Australia has already been cited. If the government had control of some instrument such as those canvassed in the previous section, as the Government of the United Kingdom did in the 1970s, it would be possible to build the advice of an independent fiscal agency into the management of the instrument.

In the first instance, the independent agency might simply be free to, and/or required to, give the government advice on the use of the instrument. A further level of constraint would be the requirement that the advice to the government be made public. This requirement to receive public advice approximates the level of independence in the area of tariff setting in Australia. There, the relevant act requires that advice be received from an independent agency – originally the Tariff Board now the Productivity Commission – before tariff rates can be changed. The particular provision goes all the way back to the Tariff Board Act of the 1920s, although it took until the late 1960s for a courageous chairman of the Board to begin acting with the independence which lay dormant within the Board's charter.[4]

It would take time and debate to get to this stage. It seems ultimately worthwhile to proceed further towards the monetary policy model. How far is of course a matter of opinion. But the extent of formal independence in Australia might be a good place to aim for in the medium-term. Here the independent body, the Reserve Bank of Australia, is responsible for the conduct of monetary policy, but consults closely with the government. More importantly, the government has ultimate power to overrule it, providing it makes public the instrument with which it overrules the bank. As has been suggested, this offers a way of inducing engagement and collaboration between the government and the Bank.

5.3. The Importance of Credibility

Of course, as the independence of fiscal policy increased, policy would enjoy the benefits of increased credibility with the markets. In a world of free capital flows, credibility has become a fundamental precondition of policy effectiveness.

Today, budget deficits undermine market confidence. Markets take a dim view of fiscal laxity long before governments actually encounter difficulty meeting their financial obligations. This is because – not unreasonably given the history of the last few decades – fiscal laxity today is often taken as evidence that fiscal irresponsibility is becoming endemic in the political system itself.

6. What Would a Fully Evolved Model Look Like?

The previous section has outlined ways in which existing fiscal policy institutions in OECD Member countries might evolve in the direction of the monetary policy model. A wide range of questions remain, and this section sketches out possible answers to those questions, although it does so in a tentative fashion. The distance we are trying to look into the future calls for humility. And as we make the journey, we will gain more practical insights than are available today.

6.1. *Coverage of Fiscal Discretion*

What taxes should change and what would be the mechanism for their change? The BCA has proposed that the relevant instrument should be income taxes – both personal and corporate. The mechanism floated was a "fiscal parameter" which would work as follows. Imagine for the sake of illustration that all personal income above a threshold and all corporate income is taxed at 30%. Legislation could be passed specifying that all tax rates were now the tax rates specified in earlier taxation legislation *multiplied by a taxation parameter*.

The taxation parameter would initially be set at 1. Accordingly, there would be no immediate change in tax rates. Once such a system was established, a change in the fiscal parameter could be accommodated within a few pay-days for those paying withholding taxes on their income (pay-as-you-go; PAYE), and could be accounted for on a *prorata* basis by others in their annual returns and/or reconciliations where immediate changes were inconvenient. The following table illustrates how the system would work using a simplified indicative tax system in which all income (above a tax-free threshold in the case of income tax) was subject to a 30% rate. In Australia, moving the fiscal parameter between the .97 and 1.03 would deliver a fiscal buffer of over 1% of GDP.

Table 1. **Tax rates and the fiscal parameter**

Parameter Value	Tax rate on income below threshold (%)	Tax rate on income above threshold (%)	Company tax rate (%)
0.97	0.0	29.1	29.1
0.98	0.0	29.4	29.4
0.99	0.0	29.7	29.7
1	0.0	30.0	30.0
1.01	0.0	30.3	30.3
1.02	0.0	30.6	30.6
1.03	0.0	30.9	30.9

It would be possible to include indirect taxes in this mix, but the BCA concluded that the disadvantages probably outweigh the advantages. The advantage is that the base over which taxes are varied is so broad that the amount they have to be changed is minimised.

On the other hand, fiscal policy tightening will generally be implemented with the intent of reducing inflation and/or inflationary expectations. In such circumstances, increases in indirect taxes raise prices in the economy and so are counterproductive in the short-run. This problem is also evident in the case of monetary policy – a fact highlighted in Australia when mortgage interest rates were included in the consumer price index. As policy is tightened, inflation rises as a result of the price effect of tightening. In both instances, this means there is an unfortunate lag between policy tightening and the desired result of reduced inflation.

There is also a problem with anticipation. If the economy were sluggish and there was speculation that indirect taxes might soon be lowered to ease policy, people would have an incentive to hold off on purchases until the anticipated tax cuts came through.[5] In fact, the tax cuts would be sufficiently small that it is unlikely they would have a big effect, but to the extent that this effect occurred it would detract from the efficacy of the instrument.[6]

Also, it is likely that small changes in the rate of indirect tax would involve higher transaction or "menu" costs than changing other taxes as all shops and other payers of indirect tax had to change their tax rates.

Likewise, whether or not corporate taxation should be subjected to short-term discretionary changes also involves trade-offs. On the one hand, it would somewhat increase financial planning uncertainty for firms. On the other hand, the marginal nature of any tax changes is surely important here. The uncertainty it would involve for firms' planning pales into insignificance against some of the other costs and prices which change for business like interest and exchange rates and input and output prices. Moreover, the contribution that more flexible and credible fiscal policy could make to stabilising the economy should outweigh any impact arising from marginal changes in company taxation. The BCA felt that there was symbolic appeal in the corporate sector being involved in the new arrangements, rather than simply recommending a new regime for the rest of the community.

Another option for introducing flexibility into personal income tax payments would be to allow the lowest marginal tax rate to vary. Such a system would maximise the macroeconomic efficacy of changes in the fiscal stance, as those on lower incomes are more liquidity constrained and so would respond more sharply to changes in their income. On the other hand, it might be perceived as unfair compared with across-the-board tax changes, as it imposes a disproportionately higher risk burden on those with lower incomes.

A compromise between the two approaches has some appeal in Australia because the appropriate mechanism already exists and is widely perceived as a fair tax. Over a certain (low) income Australia's "Medicare Levy" functions as a flat tax (in addition to income tax) at a uniform rate on everyone's income. At a rate of 1.5%, the Levy currently raises about 0.75% of GDP. The BCA floated the idea of moving the rate between zero and 3% to create a fiscal buffer of nearly 1.5% of GDP. Coupled with some similar degree of flexibility in corporate income tax, this approach may offer the best mix of equity and administrative simplicity.

The Australian public has recently shown themselves quite understanding of small temporary Medicare style tax surcharges where they have helped fund particular and unusual spending projects for which there was broad community support. Thus, in 1996 and again in the coming financial year levies have been imposed in the former case to fund a gun buy-back following the horrific Port Arthur Massacre and in the latter to help meet the cost of peacekeeping troops in East Timor.[7]

6.2. *What About Spending?*

A legitimate question is whether one wants fiscal policy driven by tax or spending changes. Lawrence Ball's response to this question has already been quoted. Most spending – and so spending changes – should be driven by medium to long-term assessments of the cost-benefit of different spending options. In theory, this seems reasonable. But we should not forget *the importance of the urgent* in driving fiscal responsibility. Long overdue fiscal tightening, often involving spending reductions, is often driven by the economic and budgetary crises that arise from time to time. Without this urgency, spending reductions which are warranted on equity and fiscal policy grounds often do not occur at all.

The BCA's approach was slightly different to Ball's. In designing the proposed mechanism, it was thought that across-the-board spending changes imposed from above involve numerous implementation problems. This does *not* mean that spending changes should not drive changes in the fiscal stance, only that they would remain at the discretion of the government – with the central fiscal arrangements operating in the background to discipline the government.

The proposed arrangements do not seek to preordain how fiscal policy outcomes should be engineered. They should be seen as a kind of *prudential architecture* for providing assurance for fiscal prudence and flexibility. Providing they meet the independent authority's standards of fiscal responsibility, governments are free to tax and spend as they wish. The new arrangements have the effect that *if* the independent authority considers that a change in fiscal policy is required, and the government does not wish to accommodate them, pressure is brought in the first instance to change tax rates. The government can always respond by addressing the independent authority's

Box 4. **The Politics of Independent Fiscal Policy**

Contemporary monetary policy institutions do not put an end to the political realities of macroeconomic policy, but they do provide a successful institutional means of mediating them. macroeconomic easing remains popular and politicians are likely to step forward to take credit for it. But the very fact that they have not themselves executed the easing tends to have politicians claiming responsibility for *creating circumstances conducive* to easing, rather than taking the decisions into their own hands. By the same token, at a time of tightening, politicians can take some comfort in the presence of another, independent authority which is there to take, explain and justify appropriate action.

Likewise, at elections, political parties continue to promise that they will keep interest rates low. However, political parties addressing this issue must now argue that they will deliver *the economic preconditions* of low interest rates. The political contest has shifted away from unexplained and irresponsible promises towards a focus on how particular parties can create the economic circumstances that will deliver the desired outcomes.

Something similar would occur with fiscal policy under the proposed arrangements. Political parties seeking to convince voters that theirs would be a low tax regime would need to do more than promise tax cuts. They would need to focus on the credible means by which this could be brought about *consistent with fiscal prudence*. For without such prudence, the electorate would expect an independent fiscal authority to compensate for specific tax cuts with general increases in tax rates across the board. This provides a way of introducing into a democratic policy system an appropriate premium for fiscal responsibility and market credibility.

By the same token, politicians and pressure groups proposing spending increases or revenue reducing measures would come under more immediate pressure to specify how they would address the hole their proposals would otherwise make in the budget. The fact that, in the absence of such measures, taxes would have to rise to meet the shortfall would be transparently present to the community through the independent fiscal policy arrangements. The community would then be in a much better position to choose between the costs of the additional taxes and the benefits of new proposals.

concern with a different mix of spending and tax changes than those which would ultimately be delivered by the prudential architecture.

6.3. *Extent of Independence*

It is possible to envisage greater levels of independence than those set out in the previous section, although once substantial independence is reached it is not clear that more independence will always be better.

If legislators considered it appropriate, the stance of fiscal policy could be set by an independent authority that could not be directly overruled by the Executive government (although, of course, it would be capable of being dismantled at any time by repeal of the relevant legislation).

6.4. Criteria for Policy Management

To delegate management of the fiscal stance effectively, it would be necessary for enacting legislation to specify the fiscal and economic goals the authority should pursue. The setting of such objectives would need to be carefully thought through. Short- and medium-term fiscal policy moves would have to be ultimately consistent with the long-term objectives. Budgeting should preserve or enhance government net worth over the cycle, although opinions will differ as to where the economy is in the cycle at any one time.

One of the symptoms of fiscal drift is that fiscal activism is constantly associated with the idea of running looser fiscal policy. As can be gathered from the emphasis on fiscal drift, the BCA discussion paper was highly *un*sympathetic towards loose fiscal policy. But it stands to reason that the delivery of much greater fiscal responsibility should enable changes in the stance of fiscal policy to take on more of the burden of managing the economy than the minimal role it currently enjoys. Providing we "reload the fiscal cannon" we should be able to fire it when appropriate to moderate the economic cycle to the extent possible.

The proposed arrangements would reassure markets that fiscal discipline is vigilant, ongoing and supported by independent institutions. As such, markets would be more willing to fund the fiscal expansions that might be desirable from time to time either to ameliorate a downturn in the business cycle, or to fund investment where benefits outweigh costs. In a world of free flows of capital, fiscal discipline and strong institutional guarantees of discipline become the foundation for flexibility.

6.5. Extent of Discretion

In introducing change such as that set out here, it might well be appropriate to constrain within fairly narrow bands, the fiscal discretion being delegated. This would reassure the community that change would be incremental rather than revolutionary. It may well be that a very large part of the gains from the change can be delivered at the same time as operating the system within tight constraints. After the community gains experience with and confidence in such arrangements, it would be appropriate to further extend the bounds of fiscal discretion. Using the example set out above of the fiscal parameter, the mechanism might be allowed to move between .99 and 1.01 for an introductory period with the band being gradually extended over time.

6.6. Co-ordination Between Macroeconomic Instruments

To optimise their joint effectiveness, fiscal policy and monetary policy must operate together in an integrated fashion, and this must be taken into account in any institutional reform. This occurs more by default than design at present. In many countries, fiscal policy is simply unavailable to share any of the weight of managing the economy and so monetary policy is left as the residual – the "swing instrument" – for managing the economy. Worse than this, monetary policy must sometimes "pick up the pieces" where fiscal policy has been politically driven or otherwise mismanaged.

The proposed arrangements offer the prospect of doing better than this. Broadly speaking, there are two choices – to integrate policy by integrating the management of two separate agencies, or to integrate policy by merging independent monetary and fiscal authorities.

Lawrence Ball (1996) proposes to do so through a "macroeconomic policy committee" that would have the power to vary tax rates and to direct the central bank. Membership of the committee would include both the senior civil servant in the Finance Ministry and the governor of the central bank and other officials chosen for their expertise.

Another possibility would be for the central bank (with its professional expertise appropriately augmented) to exercise the discretions inherent in the proposal. However, this may be seen as undermining the central bank's current focus on monetary policy.

Another point might usefully be made in this context. Where monetary policy is constrained in moderating the cycle, the importance of fiscal policy's contribution becomes even greater. In this regard, from the perspective of individual countries within Europe, the Monetary Union constrains the whole of Europe to a single monetary policy. While monetary policy itself will be targeted to the needs of Europe, by definition the monetary policy needs of Europe as a whole will not always correspond to the macroeconomic needs of particular countries. To the extent that they wish to preserve some capacity to influence macroeconomic outcomes in their domestic economies, the idea of building institutions capable of more credible and flexible fiscal policy hasclear attractions.

7. Conclusion

In conclusion, we may note that the kind of reforms being explored in this paper would give a flexibility and credibility to fiscal policy that it has not enjoyed since at least the 1960s. It would provide an additional instrument with which to fight the forces of recessions and of booms when and if they threaten. While monetary

Box 5. **Democracy and an Independent Fiscal Stance**

It might be argued that the arrangements for more independent fiscal policy would be less democratic than existing arrangements. However, as we have seen there is little in the ideas being explored in this paper for which there are not precedents elsewhere in OECD Member countries. A wide range of government bodies and authorities in our society are distanced from – but still ultimately accountable to – representative democratic institutions.

The ideas explored here would be incapable of implementation – and nor should they be capable of implementation – without the democratic sanction of legislation. The degree of independence given to any government policy-making body is itself ultimately legislated by Parliament and so accountable to the people. In this sense, Governor Ian Macfarlane of Australia's Reserve Bank, has argued, the issue of "independence" is best seen as "a discussion about the optimal degree of delegation, including the circumstances in which the delegation could be withdrawn" (1996).

In this context, it must be remembered that the kind of power to be delegated is of a precise and closely circumscribed kind. An independent fiscal authority would have none of the kinds of power of the legislature to do any favours or impose specific costs on any section of the community. It could not introduce any new taxes or tax concessions. Politicians would continue to perform their democratic duty in deciding who pays what rate of tax, what concessions there are, how much money is spent and on what.

But an independent body would have an important role in influencing the management of the total tax take. It would take the entire tax system from existing legislation and, by calibrating that system across the board, have influence over one economic variable which is critical to both long- and short-run economic performance – the relationship between outlays and revenue.

Beyond the fact that it could deliver better performance, fewer and milder recessions, and lower unemployment, the philosophical justification for fiscal policy independence is analogous to the philosophical justification for monetary policy independence.

The fact that we have an intermediary in the area of monetary policy and do not have one in the area of fiscal policy is a product of the different history of the relevant institutions rather than differing principles. But it's not hard to appreciate a very sound political philosophical justification for some independence in monetary policy management. One political generation's undermining of the value of the currency to underwrite an unsustainably high rate of economic growth for itself is not only unfair. It is undemocratic. It represents oppression of the minority.

Box 5. **Democracy and an Independent Fiscal Stance** (*cont.*)

And protecting the minority from oppression does on occasion require departures from strict representative democracy – most obviously concerning the independence of the judiciary, for instance. But such protections from oppression of the minority are, in many senses, things which are necessary to the checks and balances which constitute and protect democracy. They are building blocks of democracy rather than derogations from it.

Clearly if the government of the day set short-term interest rates it would be more democratic in the simple sense but so too would electing the Auditor General or the judges of superior appellate courts. In that light, it does not seem entirely foolish to say that current protections against debasing the currency in democratic countries are, like property rights, part of the apparatus of checks and balances that underpins democracy and makes it more rather than less secure. Precisely the same could be said of checks and balances against one generation running up government liabilities for the next generation to pay in higher taxes.

policy would retain its critical role in the macroeconomic took-kit, institutional change would enhance fiscal responsibility and the timeliness with which fiscal policy could make a contribution to macroeconomic management.

Despite the apparent boldness of the ultimate vision for fiscal policy, the steps proposed to get there appear manageable. Some will not be easy. But, on the other hand, they seem economically and politically well within the bounds of practical policy reform. And those steps make sense in their own right whether or not the final vision sketched out here is ever reached.

In the ultimate vision, politicians would continue to discharge their democratic duties in deciding the detail of all tax and spending policy. Only the *stance* of fiscal policy – the relationship of revenues to outlays – would be influenced by the new arrangements.

Finally, can such reform be made attractive to the politicians who must ultimately legislate it if it is to become a reality? Like much reform, it depends upon the clarity which reformers bring to the task of articulating the case for change and the interests which might be brought to bear in supporting change. However, something else is also generally critical to successful reform.

Often politicians come to see that a proposed reform may entail short-term discomfort and risk, but that it is ultimately in their own enlightened self-interest. The widespread support of politicians for independence of monetary policy is ultimately the fact that most politicians who considered the matter would not want the power back. They recognise it for the poisoned chalice that it is.

The politicians' world is one of short-term drama; one in which grassfires are forever having to be put out. Under such pressure, it stands to reason that introducing constraints to power is a risky thing to do. But as the political science literature and common-sense and experience illustrate, recessions are much more than a grassfire for governments. They are one of the surest avenues to political disaster and even destruction. Good macroeconomic policy provides the best way of avoiding or ameliorating a recession.

A former Australian Prime Minister who floated the Australian dollar when he was Treasurer, used to talk of "wearing the hair shirt" of a floating exchange rate – allowing the market to pass judgement on the economic policy of the government each and every day. This was one of the critical disciplines on that government and, despite the plethora of grass-fires which are the stuff of being in government, helped constrain the government to stick to the "straight and narrow" of policies which were broadly acceptable to the market place. And let's not forget that politicians sometimes find constraints attractive when they help them manage internal political pressures within their own parties. This was very much the case with the previous Australian Government.

Likewise, today, monetary policy independence has become one of the "hair shirts" that governments wear. It helps them govern well and so preserve their longevity.

Another way of dramatising what is at stake – of appealing to the idea of the enlightened self-interest of politicians – is to contrast the experiences of Australia and some of its neighbours over the last four years. In Australia, an independent Central Bank was able to withstand considerable market pressure to raise interest rates in response to the falling Australian currency in the wake of the Asian financial crisis. Whether by bad luck or bad management, few other countries in the region were so lucky. And it is remarkable how many of them – both democratic and less so – have changed their governments since then.

Of course, some of the countries which experienced recession had independent central banks so a good deal of the explanation for the difference in policy lies in the superior judgement – or luck – of one bank over the other and in the existence of other factors. Nevertheless, one critical ingredient of Australia's success was the independence of Australia's Reserve Bank.

If monetary policy had been in the hands of the politicians of the day, it would have been very much harder to stand against the market in resisting the pressure to raise short-term interest rates. Rising interest rates might well have induced a recession, or at the very least an economic slowdown. Central bank independence was, therefore, probably a necessary, but certainly not sufficient condition of avoiding economic slowdown during the Asian financial crisis.

Australia's GDP is now an astonishing 7% higher than it would have been if it had experienced even a mild recession in 1997-98. That illustrates the size of the economic prize for improvements in macroeconomic management. And it also underpins the claim that further fiscal policy reform is well and truly in the enlightened self-interest of the politicians who must embrace it if it is to become a reality. The Australian politicians who were the beneficiaries of Australia's Reserve Bank (and, of course, their own good work in repairing the fiscal accounts early on in their period of office) remain in office. The politicians in some neighbouring countries have not been so lucky.

Having suggested earlier that fiscal policy-makers today bear an unfortunate resemblance to Sisyphus, we may conclude that what we are after is for our political masters to borrow instead from the wily Odysseus. For it was Odysseus who had himself lashed to the mast to overcome the temptation of the sirens. And as we know, in his embrace of self-constraint he saved himself. He lived to fight another day.

Notes

1. See also the Reserve Bank of Australia's Deputy Governor comparing the monetary easings of 1996-7 with the monetary policy easings of the early 1990s when markets had much less faith in the Reserve Bank's independence, *Reserve Bank Bulletin*, May 1999, p. 52.
2. At least in principle, there are opportunities to develop the wherewithal for fiscal expansion when appropriate by ensuring that public sector infrastructure projects are ready for implementation if suddenly their benefits rise and their opportunity costs fall during an economic downturn. But there are limits to the extent to which this can be systematised.
3. Ball does not address himself to transfer payments here. However, transfer payments – at least where they are justified by social security considerations and the alleviation of poverty – do not lend themselves well to changes up and down as economic circumstances may require.
4. Australia's Reserve Bank also came to its independence long after its independence was formally provided for in its Act.
5. One can make the same point about income taxes. Some people would have an incentive to work more (less) hours when they anticipated income taxes would marginally increase (decrease). But it seems much less important. Most people have much less flexibility about their workflow than they do about when they buy goods and services.
6. This is an additional constraint in Australia. In addressing community fears about the new value-added tax to be introduced in July, the government made a firm commitment not to increase the rate of the tax without the support of all the state governments.
7. In the latter case, while the Levy was spoken of as if it were in the style of Medicare, it was altered in a way which reduced its impact on the bulk of the population and focused it more on higher income earners.

Bibliography

Ball, L. (1996),
"A Proposal for the Next Macroeconomic Reform", Victoria University of Wellington Foundation, Wellington, mimeo, 11 November.

Blinder, A. 1997),
"Is Government too Political", *Foreign Affairs*, November/December, p. 126.

Business Council of Australia (1999),
Avoiding boom/bust: Macroeconomic reform for a globalised economy, Melbourne.

Evans, E. (2000),
"Some aspects of economic governance", Address to the Sydney Institute, Sydney, Tuesday 14 March.

Gruen, N. (1997),
"Making Fiscal Policy Flexibly Independent of Government", *Agenda*, Vol. 4, No. 3, pp. 297-307.

IMF, International Monetary Fund (1999),
Code of Good Practice on Fiscal Transparency, Washington.

Keech, W. (1995),
Economic Politics: The Costs of Democracy, Cambridge University Press, Cambridge.

Macfarlane, I. (1996),
"Making Monetary Policy: Perceptions and Reality", Paper presented to 25th Conference of Economists, Canberra, 25 September.

OECD 2001 (forthcoming),
OECD Best Practices for Budget Transparency. Paris.

Reserve Bank Bulletin, Reserve Bank of Australia, (Various dates).

Richardson, R. (1994),
"Comment on the Fiscal Responsibility Bill", *Public Sector* 17(1): 10-11.

Table of contents

Introduction
By Geert van Maanen 7

The Changing Role of the Central Budget Office
By Allen Schick 9

Budgeting in Sweden
By Jón R. Blöndal 27

Voucher Programmes and their Role in Distributing Public Services
By Martin Cave 59

Greater Independence for Fiscal Institutions
By Nicholas Gruen 89

The Chilean Pension System
By Joaquin Vial Ruiz-Tagle and Francisca Castro 117