Fiscal Councils

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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

- 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
<table>
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<tr>
<th>Country</th>
<th>Forecasting</th>
<th>Costing of policy initiatives</th>
<th>Ex-post evaluation of fiscal policy</th>
<th>Ex-ante evaluation of fiscal policy</th>
<th>Evaluation of fiscal sustainability</th>
<th>Normative recommendations</th>
<th>Analysis of broader issues</th>
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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
Satsa mer!
Har inga pengar.....!

FINANSPOLITISKA RÅDET
SWEDISH FISCAL POLICY COUNCIL
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 from 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