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National Fiscal Policy Councils: Mandate, Design and Effectiveness

The financial crisis and its consequences for public finances all over the world has clearly proven the need to reform existing fiscal frameworks. This is particularly relevant for the European Union and its Stability and Growth Pact. As we all observed in different European countries existing fiscal rules did not sufficiently safeguard fiscal transparency and budgetary discipline.

The EU is clearly prepared to challenge these obvious deficiencies: The Commission has published several drafts of regulations that aim to correct macroeconomic imbalances and to strengthen both the preventive and the corrective arm of the Stability and Growth Pact. This reform will give a more prominent role to the level and evolution of debt and overall fiscal sustainability.

Additionally a council directive is discussed to define requirements for budgetary frameworks in Member States. This directive shall replenish the fiscal rules on the EU-level with stronger fiscal frameworks in each Member State to foster fiscal discipline at all levels of government. In the context of monitoring numerical fiscal rules in Member States, the draft of this council directive highlights the importance of a reliable and independent analysis carried out by bodies endowed with functional autonomy vis a vis the fiscal authorities of the Member States. It is obvious that Fiscal Policy Councils are one very important incarnation of such bodies. Therefore, the current development of fiscal rules in the EU gives a boost to Fiscal Policy Councils and their importance already in the near future.

This session deals with mandate, design and effectiveness of Fiscal Policy Councils and we have experienced very valuable input from several countries. Certainly the remit, the structure and the composition of Fiscal Councils may vary according to national characteristics with special regard to political culture. But there is one aspect that should in any case be a brand of each Fiscal Council: credibility. Credibility as a fiscal watchdog, as an advocate of fiscal sustainability is really key.

Having said this I focus on the lessons that can be drawn from the experience of Fiscal Councils which have been presented today. I will discuss several items where I agree or disagree with the respective conclusions.

Design of a Fiscal Council

Independence of a Fiscal Council is very important to fulfill the role of a credible watchdog. As Lars Calmfors points out, one important aspect is funding: The financial basis for a Fiscal Council should not rely on the government. The Austrian Fiscal Council has such an independent financial source (the National Bank). Therefore, the quality of funding in Austria is in line with good governance, if this applies for quantity too, the president of the Austrian Fiscal Council may be the adequate person to comment on that.

The composition seems to be important for the success of a Fiscal Council. Academics are indispensable and should cooperate with practitioners who have a diversified political background. This fosters a helpful mixture of academic brilliance and realism which should boost acceptance for the work of the council.

Mandate of a Fiscal Council

One of Lars Calmfors' lessons deal with the remit of a council. How broad should it be? As Günther Chaloupek describes in his presentation of the Austrian case, a rather broad remit proved to be adequate at least for this country. As budget policy is so strongly connected with other policy-clusters a broad remit prevents from the danger of a too narrow perspective on problems.

Recommendations are a very important element of a Fiscal Council's mandate. Just describing problems without giving advice how to solve them would not duly justify the existence of a council. These recommendations should – as the presentation from Belgium highlights – be well defined and time consistent. Additionally the recommendations should be anchored to the EU fiscal framework. It is crucial that these recommendations are published to exert influence on the public debate and to guarantee a maximum of transparency.

Effectiveness of a Fiscal Council

In this context I focus on one aspect where I do not agree with Lars Calmfors. In the first of his seven lessons he argues that a Fiscal Council should not do policy advising behind „closed doors“. From the perspective to maximize the effectiveness of a Fiscal Council I challenge this view.

Lars Calmfors points out that advising behind closed doors would make impartial evaluation very difficult and would not be consistent with a reputation for objectivity. Therefore, he advocates written reports and public announcements.

In my view written reports and policy advising behind the scene are both effective ways to exert influence and do not necessarily exclude each other. It is possible and can be successful to combine both strategies under the following conditions:

- * The positions expressed in reports and in internal discussions are coherent.
- * Internal discussions influence reports only as far as new arguments are convincing (even a Fiscal Council may learn in discussions).

Why can it be useful to combine both strategies ?

Discussions behind the scene may help to explain suggestions better and persuade ministers and other decision-makers that the motivation for certain recommendations is not necessarily politically biased and is based on strong empirical evidence. Ministers and other decision-makers may use the opportunity of internal discussions to reflect arguments better, to rethink their position in the absence of cameras and microphones and to get inspired by suggestions.

Contrary to the concern that such an advising behind the scene would threaten the reputation and objectivity of the council one might argue that in democratic systems it would be detected, if a Fiscal Council would change its position in discussions behind the scene, in other words if a watchdog would turn into a lap-dog.

And finally – let’s face it: Any recommendation – whether in written reports or in internal discussions – reflects to a certain extent positions, interests and values. No one stays innocent – not even a Fiscal Council.