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CASE STUDIES OF FISCAL COUNCILS—FUNCTIONS AND IMPACT

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INTRODUCTION

This supplement presents case studies of seven fiscal councils and examines how each council performs its core functions and if and how it impacts on the fiscal policy debate. The seven fiscal councils are: Belgium (Conseil Supérieur des Finances—HCF), Canada (Parliamentary Budget Officer—PBO), Hungary (Költségvetési Tanács), Korea (National Assembly Budget Office—NABO), the Netherlands (Centraal Planbureau—CPB), Sweden (Finanspolitiska rådet), and the United States (Congressional Budget Office-CBO). The main paper presents the comparative lessons and the general findings of this study based on a systematic comparison of these fiscal councils' experiences. This supplement discusses in detail each individual fiscal council's experiences.

These cases studies have been selected based on three criteria: length of existence, functions performed, and diversity of region and context. All of the fiscal councils studied have been in operation for at least three years. This allows for sufficient time and experience to draw lessons to help newer councils. Each council performs at least two of fiscal council's core functions. These include reviewing or producing forecasts; reviewing and/or monitoring government's fiscal plans, objectives, and performance; and costing of policy proposals and programs. This study incorporates fiscal councils from three regions—Asia, Europe, and Western Hemisphere—and from different political and economic contexts.

To facilitate better comparisons, the cases follow a standardized structure and both successful and unsuccessful experiences are explored. For each case study, the first section examines the political and economic context which motivated the creation of the council. There is a strong relationship between these contextual factors and the initial design of the council. The second section describes the institutional set-up of the council. This includes descriptions of the structure and membership of the council, the appointment and dismissal processes, the legal and budgetary status, the resources allocated, and the degree of legal and operational independence. The third section examines how the council performs its core functions.

The analysis goes beyond descriptions of formal processes and applies both quantitative and qualitative methods within the limits of available data to assess if and how a fiscal council influences the policy debate. The fourth section, "Analysis and Impact," examines the functions performed by the fiscal council in terms of: outputs/products, transmission mechanisms, and final outcomes or indirect impact on fiscal policy. Where data is available each case study identifies episodes of interest relevant to the functions the council performs. For the forecasting function, the government's forecasts are compared with those of the council for accuracy and for optimistic biases. For the reviewing and monitoring functions, the actions of the council during periods when fiscal policy was going off-track and periods of intense policy development are reviewed. The analysis examines whether the fiscal council was effective in using its channels of influence to impact the policy debate through the media and then considers whether it is possible to identify its impact on fiscal policy-making, albeit in most cases, this is indirect. The fifth section, "Media Coverage," reviews the council's media strategy and press coverage of the council's work from a quantitative and qualitative perspective. Given that most fiscal councils do not have a direct role in the budget process, media coverage is one of the main channels through which they communicate their message and seek to influence the policy debate. The cases finish with a summary and conclusion.

BELGIUM – THE HIGH COUNCIL OF FINANCE (HCF)—GAINING AND MAINTAINING CREDIBILITY IS KEY

A. Political and Economic Context

In Belgium, there is more than one independent fiscal body involved in the budget process. The High Council of Finance (HCF) produces normative recommendations and assessments of fiscal policy and the Federal Planning Bureau (FPB), under the umbrella of the National Accounts Institute[1], produces the macro economic forecasts used in the budget.

The HCF is the oldest Fiscal Council and dates back to the 1930s. Since its inception the HCF has been reformed several times and its influence on fiscal policy has fluctuated. An important reform took place in 1989, when the Council's role was redefined in the context of a wider constitutional reform which granted greater fiscal autonomy to sub-national governments. The Council received a new mandate to focus on promoting and coordinating fiscal discipline in the federal system and issuing recommendations on public sector borrowing requirements. At that time, the main fiscal policy challenges facing Belgium was its high budget deficit (7 percent of GDP in 1988) and general public gross debt (125 percent of GDP in 1988) (Bogaert and others, 2006). Belgium's commitment to the Maastricht criteria and joining the Euro provided another opportunity to expand the Council's normative role to include monitoring and issuing recommendations on compliance with the Stability and Growth Pact (SGT).

B. Institutional Set-up

Although formally the HCF is an advisory body to the ministry of finance and is not legally independent, over the past decades it has gained a reputation for quality independent analysis. The HCF consists of a chair (the Minister of Finance), two deputy chairs (appointed by the Minister of Finance), and 24 members appointed for five year renewable terms. The membership is selected based on a specified combination of expertise (economic and taxation) and balance of regional and linguistic diversity. Twelve members of the council are proposed by Federal ministries and 12 by governments in the regions. In practice, the nominations also reflect a balance of party political affiliations (OECD 2012). Similar to the Swedish Fiscal Council, the members are part time and have other full time employment. The Council is divided into two subsections: the Public Sector Borrowing Requirement (PSBR), and the Taxation and Social Security Contributions. In addition,

[1] The National Account Institute (NAI) was created in 1994 to ensure the independence and quality of economic forecasts and statistics. It is served by Statistic Belgium and the Federal Planning Bureau (FPB) which produces the forecasts on behalf of the NAI. See Bogaert and others 2006 for more details.

there is one study group on ageing. The council is supported by a secretariat of 12 full time staff, who are civil servants in the research department of the Federal Public Service Finance department. The cost of staff, and the HCF's limited other expenses, are covered under the budget of the Federal Public Service Finance department. Thus, the council does not have a separate line in the budget.

The Council's independence has been challenged over time. In the mid-2000s, the government was unable to reach a consensus on the composition of the PSBR with the consequence that the council could not provide fiscal recommendations (OECD, 2012 and Coene and Langenus, 2011). It took two years to reach an agreement on the new membership of the PSBR.

C. Functions

The general broad mandate of the HCF is to advise the Minister of Finance and the Minister of Budget on developments in fiscal, financial, and budgetary policy. The HCF produces normative recommendations on the government's fiscal policy (Hagemann, 2010). The remit of the HCF extends explicitly to the regions and is designed to provide whole-of-government oversight and monitoring. As part of the 1989 reform, new tasks were assigned to the HCF including monitoring the fiscal policy of the regional governments, formulating medium-term financial objectives for the federated entities, and assessing convergence with the Maastricht criteria for joining the Euro. Post-euro entry, the HCF monitors compliance with the stability program. The HCF does not produce macroeconomic forecasts. This is the role of the FPB, nor does it costs policy proposals or election platforms of political parties.

The analytical reports prepared by the Council's secretariat are the central instruments for indirect intervention into the budget process. The PSBR section produces two main reports a year. It assesses ex-ante and ex-post compliance with the Euro stability program and medium-term budgetary targets for the general government and the different subsectors, as well as providing explanations on why some targets were not met. In addition, its annual report evaluates the medium to long-term budget outlook and recommends the budget targets for the general government and its subsectors and individual federal entities. As part of its remit, the HCF provides annual advice and recommendations on the borrowing requirements of the regions. If necessary, the HCF can recommend limiting the borrowing capacity of any of the regions. Based on the HCF advice, regions borrowing can be limited for up to two years by royal decree. In practice, this power has never been used by the HCF, partly because using it would give rise to political tensions with the regions (Coene and Langenus, 2011). The study group on ageing produces long-term projections on the budgetary effects of ageing that covers a 50-year period.

D. Analysis and Impact

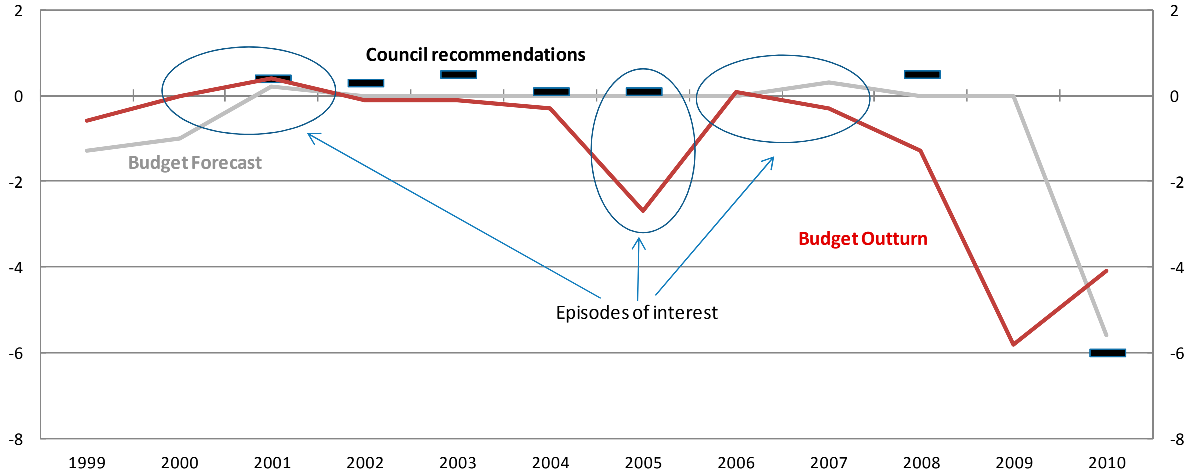
The performance of the Council can be broken down into two periods: pre and post-euro adoption, with the HCF having greater influence in the pre-euro period and declining influence after Euro adoption (Coene 2010). In the pre-euro adoption period, the Maastricht convergence criteria led to a good alignment of the Council's and policymakers' objectives and the Council's recommendations were largely followed. During that period, the structural primary surplus increased by 5 percent of GDP, public debt started falling and the budget moved towards balance. After euro adoption, the influence of convergence criteria on fiscal policy and discipline declined, and the appeal of the Council's recommendations eroded (Hagemann, 2010). The primary balance deteriorated sharply, as most of the savings on debt interest payments were used to fund tax cuts and expenditure growth (Coene and Langenus, 2011).

In the period after the adoption of the Euro, when there were deviations from fiscal objectives and targets, the role of the HCF was to raise the alarm. Figure 1 shows the Council's recommendations for the fiscal balance and are displayed in black for each budget year, the budget forecast in gray, and the actual outturn in red. A number of interesting episodes stand out:

- The first is the two years that follow the adoption of the euro in 1999, when outcomes were broadly in line with the Council's recommendations (Hagemann, 2010).
- The second episode is in 2004, when increasing divergences with the council's recommendations led to critical assessments of government policies.
- Finally, in 2005 and 2006, the Council could not produce reports or recommendations as the chair of the PSBR group was left vacant.

During periods when there are deviations from fiscal targets, the expectation is that the HCF would highlight this in their reports and in statements to the media. Since the influence of the HCF and many FCs is indirect, they depend on having a strong media presence to get their message across to the public and put pressure on politicians to act. Section E examines how effectively the HCF conveyed its message during key periods.

Figure 1. HCF Budget Balance Recommendations, Forecasts, and Outturns
(In percentage of GDP)



Sources: High Council of Finance and authors' calculations.

E. Media Coverage[2]

Having a significant media presence[3] at key times is important for the HCF to get its message out. In the initial period leading up to and during the euro adoption, there was strong and sustained press coverage of the Council's recommendations in the Belgian press. This tails off as the 2000s progress and the Council clearly begins losing its influence. In 2004, the Council became openly critical of government's policies,[4] leading to a surge in media reports. Finally, during the period when the Council had no formal chair of the PSBR group and stopped reporting, its media footprint diminished substantially, despite emerging discrepancies between plans and outcomes in 2006. Figure 2 maps these three episodes into a measure of press coverage of the HCF, and gives an insight into how the fiscal council tries to support its recommendations by getting public attention and it also shows the capability of the council to act.

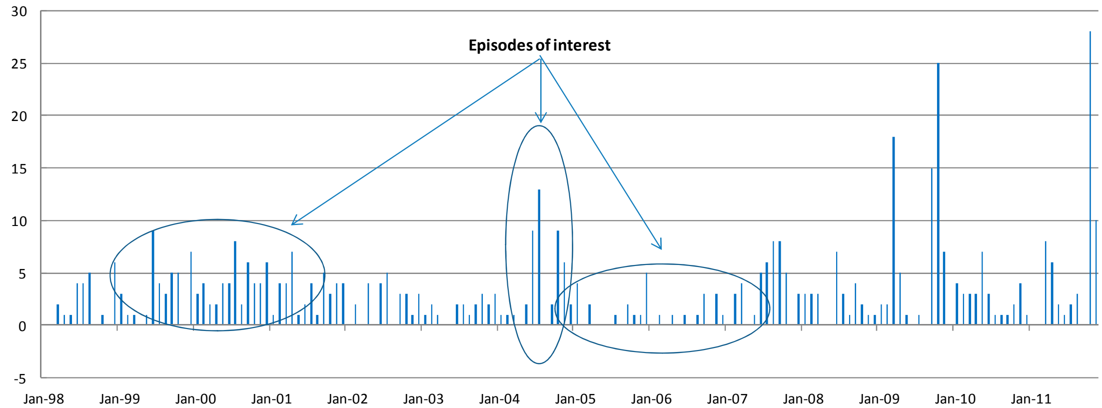
[2] This section is drawn from Debrun et al. 2012.

[3] Media activity is measured by the number of unique newspaper articles containing a combination of the name of the fiscal council and various key words (in the relevant language), such as budget, public debt or fiscal deficit. Information on the number of media articles has been obtained from the Factiva database. The same methodology is applied to all case studies.

[4] The large deficit in 2005 was almost entirely due to a one-off debt assumption, related to the restructuring of the national railway company, which was attributed after the event.

Figure 2. Press Coverage of the HCF

(Number of press articles relative to 4-year rolling-average)



Sources: Factiva and authors' calculations

The HCF raised the tone of its statements gradually in response to continuing deficit bias and lower than expected budget outturn. In the early 2000s, when public finances were on track, press articles were relatively benign and the HCF reports noted with a fairly neutral tone minor deviations with respect to recommendations. For instance, the October 1999 reports observes that "The deficit of the central government for 2000 is projected at 1 percent of GDP, which is 0.2 percent higher than recommended by the HCF." The tone of HCF reports changed drastically in 2004. In July of that year, the Council launched a stern warning in these terms: "The High Council considers these fiscal scenarios unrealistic in the medium-term" and "The High Council wants to point out that the deteriorating fiscal position is [not only] due to cyclical factors but also—and mainly—due to discretionary measures such as lowering taxes and a major growth in government spending." Of course, there is no report to quote for the last episode.

In sum, the HCF did raise the alarm but not strongly enough initially. When it did become more openly critical and issued strong normative statements against government policy, the media listened as did the government. The subsequent two-year vacancies in the PSBR group resulted in no recommendations being given (Debrun et al., 2012). This action was possible because of the limited operational independence of the HCF, and it was successful in limiting its operational capacity and diminishing its media presence for two years.

F. Conclusions

Over the last two decades, the HCF's influence on fiscal policy has fluctuated. In theory, a split of responsibilities between independent institutions, in the case of Belgium between the HCF and the FPB, allows for greater technical specialization and helps minimizing political pressure on each of the institutions (Bogaert et al., 2006). Nevertheless, the independence of the HCF has been questioned by some commentators (Kirchgässner, 2011) because it lacks legal and operational independence and has limited autonomy over its resources and staff and is chaired by the Minister of Finance.

In the pre-euro period, limitations on the HCF's legal and operational independence did not impede the council's influence. There was consensus on the objectives of fiscal policy and an alignment of the council's and government's goals. By the early to mid 2000s, post Euro adoption there was no longer a consensus and the goals and interests of the council, and the government, deviated.

After the adoption of the Euro, when a consensus no longer existed, the limitations on the council's independence strongly affected its influence and its capacity to operate. When the council raised the alarm about the government's fiscal policies, initially no one listened, until it sharply criticized the government. This was followed by the government's two-year delay in appointing the new chair of the key PSBR group, which resulted in the near suspension of council operations for two years.

Although the government's receptiveness to, and the public's interest in, the council's message changed throughout the pre and post-euro periods the HCF continues to have a good reputation for independent high quality analysis. This reputation combined with the council's long history and established institutional position has contributed to its capacity to reinvigorate itself. In the late 2000s, the council played a key role in setting targets for the government's consolidation plan and it continues to play an important role in the budgetary process by setting budgetary targets.

CANADA – PARLIAMENTARY BUDGET OFFICER (PBO)—THE CRITICAL EARLY YEARS BUILDING CREDIBILITY AND WALKING THE INDEPENDENCE TIGHT ROPE

A. Political and Economic Context

In 2006, the Canadian Conservative party came to power with a broad reform agenda promising to strengthen government accountability, transparency, and ethics. The creation of a Parliamentary Budget Officer (PBO) was part of this agenda and one of the provisions in the wide ranging 2006 Federal Accountability Act (FAA). The motivation for creating the PBO was twofold: first to provide parliamentarians with technical expertise and independent information to improve their capacity to hold the executive to account, and second to provide an objective assessment of the Department of Finance's fiscal and economic forecasts and to help improve their accuracy. The government's economic, and especially fiscal forecasts, have been criticized for consistency underestimating the deficits in the 1980s and early 1990s and for persistently underestimating surpluses from the mid-1990s to the late 2000s (Ernst & Young, 1994 and O'Neill, 2005). At the time of the creation of the PBO, concerns persisted about the credibility of the government's forecasts.

The establishment of a PBO to provide objective analysis to Members of Parliament and parliamentary committees on the state of the nation's finances received all party support in Parliament. After some delay, the first PBO Kevin Page, a senior civil servant with 30 years of experience, was appointed in March 2008.

B. Institutional Set-up

The PBO began operations in 2008 based on a provision in the Federal Accountability Act (FedAA) and subsequent amendments to the Parliament of Canada Act. The PBO is an officer of the Library of Parliament and holds office for a once renewable 5-year term (Hagemann, 2010). The selection process for the PBO is conducted by the Parliamentary Librarian and the official appointed is made by the Governor in Council based on the advice of the Prime Minister. In practice, this means the PBO is appointed and serves "at the pleasure of" the Prime Minister[5] (OECD, 2012).

[5] Comment of Bruce Campbell, April 29, 2013, http://www.policyalternatives.ca/publications/commentary/fulfilling-promise-parliamentary-budget-office-bill-c-476

The PBO has full responsibility for hiring his/her staff and their employment conditions are similar to those of the Library of Parliament staff. The council has a staff of around 15 full-time equivalents and is divided into two divisions. The Economic and Fiscal Analysis Division is responsible for analysis of economic trends and public finances. The Revenue and Expenditure Analysis Division is responsible for costing proposals and budgetary estimates. In addition, the PBO hires outside consultants. The PBO's budget is part of the Library of Parliament's budget. It does not have a separate line in the budget of Parliament.

From the outset, there have been issues surrounding the basic legal and operational design of the PBO especially concerning its location, budget, and mandate. (OECD, 2012 and Brooke, 2010). During its first five years, lack of clarity on these fundamental design issues has resulted in tensions which the PBO argued threatened his office's operational independence. The decision to locate the office in the Library of Parliament has given rise to a number of issues. As an officer of the Library of Parliament, the PBO has "fewer teeth" than Officers of Parliament, like the Auditor General who is independent from the government of the day and reports directly to Parliament (OECD 2012). Initial issues centered on who the PBO should report to and who had the power to decide its mandate–the Parliamentary Librarian or the speakers of the House (Brooke, 2010). The PBO and the Parliamentary Librarian both sought outside legal opinions. The PBO argued, and in practice operates, such that he is administratively accountable to the Parliamentary Librarian but reports to the speakers of both Houses.

Further tensions arouse over the publication of reports. The Library of Parliament provides confidential services to members of Parliament (MPs). This contrasts with the PBO's approach of publishing all reports and correspondence and actively promoting its analysis through the media. The Parliamentary Librarian criticized the PBO for publishing its first report, *The Fiscal Impacts of the Canadian Mission in Afghanistan* (PBO 2008) during an election campaign[6] (Brooke, 2010). He claimed this brought the library into disrepute. The report's analysis, which showed the cost of the war to be significantly higher than the government estimated, proved controversial.

Some commentators and the PBO argued that this report, and other criticisms of the government, resulted in an early attempt to reduce the budget and operational independence of the office (OECD, 2012 and Brooke 2010). The PBO had been promised a 2009 budget of 2.8 million for its second year of operation. Subsequently, however, the PBO was informed that the second year budget would remain at the start up provision of 1.9 million. After complaints by the PBO, MPs, letters from leading academics and economists, and a report by the Joint Committee on the Parliamentary library, the full budget was resorted to the PBO, although only in 2010.[7]

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[6] See http://www.parl.gc.ca/content/hoc/Committee/402/BILI/Reports/RP3993042/bilirp03/bilirp03-e.pdf

[7] See http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=3993042&Mode=1&Parl=40&Ses=2&File=18&Language=E

The dispute about the PBO's mandate continued throughout the first PBO's five year tenure, ending in a case before the federal court. In 2012, the leader of the opposition requested the PBO analyze the government's budget estimates to determine if planned saving cuts were achievable and/or if these planned savings had long term fiscal implications. Some departments refused to give the PBO access to information on proposed budget cuts, claiming the PBO had exceeded its mandate. The PBO went to federal court to obtain legal clarification on its mandate. In April 2013 the Federal Court of Canada ruled that it was within the mandate of the PBO to request this information.[8]

C. Functions

Similar to the fiscal councils in Korea and Mexico, the PBO was modeled on the U.S. Congressional Budget Office. Unlike these councils, the PBO operates in a parliamentary system where the prime minister and cabinet are also members of the legislature and Parliament has limited powers to amend the budget. The remit of the PBO is broad covering all functions. This includes objective analysis of the government's budget proposals and trends in the economy; reviewing the government's fiscal and economic forecasts; preparing alternative forecasts; and costing government and legislative policy proposals (Hemming and Joyce, 2013). In addition, the PBO publishes research papers. In its first two years it produced more than 20 reports covering a range of issues.

The PBO produces alternative medium term forecasts in April and an update in October. It reviews the government's forecasts and updates. In addition, it publishes on different methodology approaches to forecasting. In 2010, the PBO produced its first fiscal sustainability report including long-term projections up to 75 years ahead and continues to publish a report each year.[9] Since Canada does not have any fiscal rules, the PBO cannot monitor compliance with rules. On its own initiative, however, the office developed the Integrated Monitoring Database (IMD), a database of budgeted and in-year expenditures by federal department and agency. This allows MPs to track expenditure at a detailed level. Upon request by a committee or parliamentarian, the PBO estimates the cost of draft legislation over which the Parliament has jurisdiction. Apart from the priority accorded to various committee requests, its mandate allows for the PBO to largely undertake work at its own discretion.

The PBO has taken two noteworthy approaches to fulfill its broad remit within its resource constraints. An issue facing all legislative fiscal councils is how to manage the extensive costing

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[8] See PBO statement regarding Federal Court of Canada's Decision; http://www.pbo-dpb.gc.ca/en/news?news_id=102&myID=1.

[9] See http://www.pbo-dpb.gc.ca/files/files/Publications/FSR_2010.pdf/

requests from members and committees. For the Korean, Mexican and the U.S. Fiscal Councils, which have larger resources than the PBO, costing is their most expensive and time consuming activity. The PBO has chosen to prioritize and limit requests by applying two principles. The first is materiality potential that is if a project or request can be expected to have a substantive impact on government finances. The second is contribution potential that is if a project will contribute to increasing budget transparency or the public debate on sound finances.[10] This allows the PBO to focus on large and high profile costing proposals.

The second novel approach of the PBO, taken to support its credibility and to gain legitimacy and expert knowledge, is to have its reports peer reviewed by independent external experts (OECD 2012). It addition, it regularly collaborates with other institutions, such as universities, think tanks, other fiscal councils and international organizations.

D. Analysis and Impact

Despite the controversy that has often surrounded the PBO, the office has built up a good reputation, both domestically and internationally and gain credibility. From the outset, the PBO took a strategic decision to be front and center on the leading fiscal policy issues of the day. This strategy guided the office's work program and proactive approach to the media and informing the public. The PBO places strong emphasis on transparency: all reports and letters are published on the website. The office held regular press conferences and the PBO regularly appeared on TV and radio as well as before Parliamentary committees, especially around budget time. This approach helped the PBO gain influence and to effect the public debate on issues and gain legitimacy. The economic context of the great recession which generated a heightened concern about government's fiscal policy also helped to engender media interest in the PBO's work.

As with any fiscal council, a key question is if the PBO reacts and raises the alarm with Parliament and the Public when the government's fiscal policy is in danger of not meeting stated objectives. The PBO has raised the alarm on a number of occasions**.** In 2010, the PBO appeared before a Parliamentary committee to discuss a report which highlighted that the deficit was not just cyclical but also structural. He warned the government would face an 18.9 billion Canadian dollars structural deficit by 2013-14, if it failed to take action.[11] The report received extensive media attention.

[10] Parliamentary Budget Officers: 2008 Operation Plan: https://www.google.com/search?q=Parliamentary+Budget+Officers+2008+Operation+Plan.&sourceid=ie7&rls=com.microsoft:en-us:IE-Address&ie=&oe=.

[11] Office of the Parliamentary Budget Officer, Estimating Potential GDP and the Government's Structural Budget Balance Ottawa, Canada, January 13, 2010

In 2012, the PBO in its alternative economic forecasts warned of a slower growth rate 1.9 percent compared to the official projected growth rate of 2.2 percent in 2012.[12] Although the PBO was criticized at the time, the actual 2012 GDP rate was 1.8 percent. In addition, the PBO's fiscal sustainability report highlighted the impact of the ageing population on the workforce and potential GDP growth. In these instances, the PBO highlighted these issues and its concerns via press conferences and appearances before Parliamentary committees, and although action was not immediately taken by the government, it did promote public awareness and discussion in the media on issues like the structural balance, the predicated growth rate, and the impacts of ageing on economic growth.

A key reason for establishing the PBO was to improve the accuracy of the government's forecasts. IMF research confirms that since the mid-1990s, the Canadian government's budget projections for macroeconomic and fiscal aggregates have been more cautious than in any other G7 country (Muhleisen and others, 2005). The Department of Finance had two independent reviews of its forecasting[13] and introduced changes including using economic projections in the budget which are based on consensus of private sector forecasts. From the experiences of the 1990s economic crisis, a political and public consensus emerged on the need for sound public finances and avoiding deficits. The 2005 O'Neil review attributed the surpluses in the mid 1990s and 2000s to explicit prudency assumptions built into the forecasts to ensure that the government achieved its no-deficit policy. Despite this, the report acknowledged concerns that the underestimation of surpluses for nearly ten years could distort the budgetary decision making processes. The opposition argued that the government used this as a means to avoid discussions on policy priorities and to allocate funds for political purposes.

Unlike most fiscal councils, which encourage the government to produce more cautious forecasts, in case of Canada, the FC's role is to reduce a pessimistic bias. Currently, macroeconomic forecasts are obtained from a panel of private sector forecasters. There is, however, little direct involvement of outside agencies in preparing revenue and expenditure forecasts. Fiscal forecasts contain an explicit prudence factor.

The government's estimates in all three areas, revenues, expenditure, and balance have become more accurate and less pessimistic since the creation of the PBO. Table 1 compares the government's forecasting errors from before and after the creation of the PBO in 2008, for revenue, expenditure, and balance, Figure 3 shows the forecasting errors over a ten-year period.

[12] PBO Economic and Fiscal Outlook Ottawa, Canada April 24, 2012

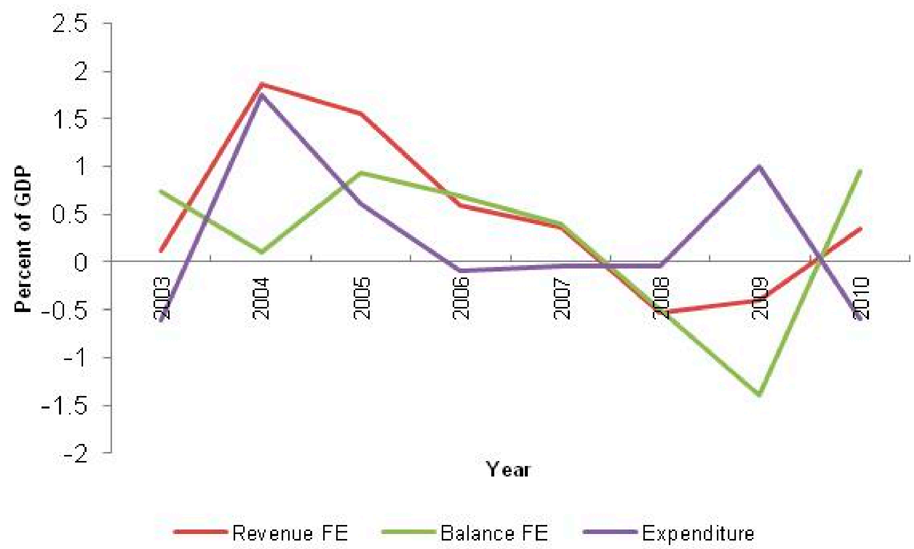
[13] Ernst & Young (1994) Review of the forecasting Accuracy and Methods of the Department of Finance and Tim O'Neill (2005) Review of Canadian Federal Fiscal Processes and Systems.

Table 1. The Government's Average Forecasting Error Before and After PBO

Expenditure	
Average Fiscal Error Before the PBO	0.3
Average Fiscal Error After the PBO	0.2
Revenue	
Average Fiscal Error Before the PBO	0.7
Average Fiscal Error After the PBO	0.0
Balance	
Average Fiscal Error Before the PBO	0.4
Average Fiscal Error After the PBO	-0.2

Sources: Canadian budget, PBO and staff calculations.

Figure 3. Forecast Errors on Government Forecasts 2003–2010



Sources: Canadian budget, PBO and staff calculations.

In general the fiscal forecasts of the government and the PBO are close. Table 2 compares the PBO's forecasting errors with that of the government's again in expenditure, revenue, and balance. These results need to be interpreted with caution given that the PBO has been in existence for a short period and only three years of data is available which is from the period of the great recession. Given this, it is difficult to reach any firm conclusions about the impact of the PBO on the government's forecasts. However, it can be argued that PBO generating forecasts has created competition for the government's fiscal forecasts and created incentives to examine methodological approaches.

Table 2. Forecast Errors for the Government of Canada and the PBO (2008–2010)

Expenditure	2008	2009	2010
Forecast Error Government	0.0	1.0	-0.6
Forecast Error PBO	1.8	2.0	1.3
Revenue	2008	2009	2010
Forecast Error Government	-0.5	-0.4	0.3
Forecast Error PBO	-0.7	-0.3	0.2
Balance	2008	2009	2010
Forecast Error Government	-0.5	-1.4	0.9
Forecast Error PBO	-0.6	-0.4	0.8

Sources: Canadian budget, PBO and staff calculations.

The PBO produces publications comparing its methodological approaches and results with those of the government. These include publications on the structural budget balance, long term fiscal sustainability, and fiscal and economic forecasts. This has generated more attention and debate on the different methodological approaches and the types of forecasts produced. In 2010, the PBO produced the first Canadian long term sustainability report. Arguable this combined with pressure from the Auditor General helped to motivate the government of Canada to fulfill its 2007 promise and to produce its own fiscal sustainability report in 2012.[14]

The costing activity of the council has received the most media attention and has also generated tension between the government and the PBO. The PBO has produced numerous costings and several have been controversial. For example, the government and the PBO clashed over its analysis of the cost of the Canadian mission in Afghanistan. The Department of Defense estimated the long-term cost of the Afghanistan war at $8-billion. The PBO stated it could be as high as $18-billion. Other controversial costings include the government's estimate of the life cycle cost of F-35 jets, which it proposed to purchase at $75-million, the PBO calculated $128 million for the life cycle cost. [15] Other clashes occurred over the costing and impact of the old age security system, criminal justice costs, and ship procurement. In many of these cases, the PBO's reports received extensive media attention and resulted in a political and public debate on these programs and their feasibility. The media has highlighted the instances when the PBO's numbers have proven to be accurate, which helped to build the PBO's reputation for producing credible and good quality analysis.[16]

[14] 2012 Fall Report of the Auditor General of Canada.

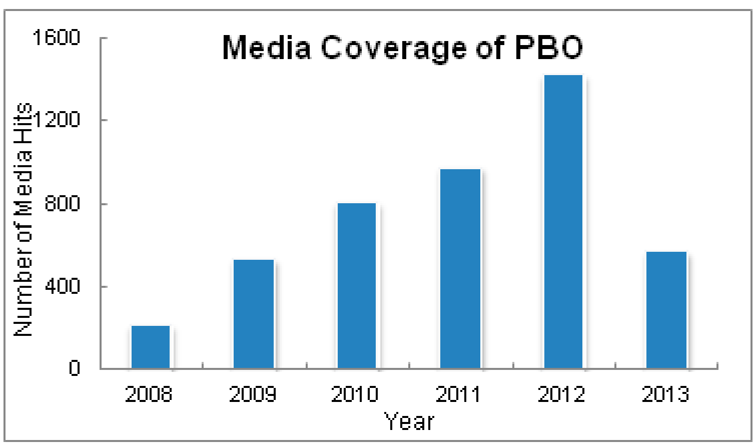
[15] For example with the costs of F35 fighters an Audit General's report confirmed the higher costs. See *2012 Spring Report of the Auditor General of Canada*.

E. Media Coverage

The PBO, and more importantly the office's work, have received substantial media coverage from the outset. Although the PBO's staff does not include a press officer, every effort is made to make the PBO's work relevant and accessible to the media. This includes training for the media on how to understand and use PBO reports. In practice, the Parliamentary Budget Officer speaks on behalf of the office during press conferences and in interviews. Kevin Page is a well-known figure in Canada and been labeled by the media the "budget watchdog."

Figure 4 below shows the media coverage pattern for the PBO. It follows that of other fiscal councils. It starts out small and increases over the years as the council gains credibility and builds up a reputation with the media. The PBO has been more successful than other newer councils in gaining press coverage. Much of the coverage in the last six months of the first PBO's term focused on the mandate of the council itself as the PBO was locked in a court case against the government. Government ministers criticized Kevin Page for exceeding his mandate. In turn, he has criticized the government for its failure to start the process to appoint his successor and undermining the independence of the office.

Figure 4. Press Coverage of the PBO



Source: Factiva.

F. Conclusions

The PBO has earned a reputation for good quality independent analysis for its research, costings, and forecasting work. The strategy of being front and center on the fiscal policy issues of the day, combined with transparent reporting, and an active media approach, has proven successful in raising the media profile and the influence of the council. It has, however, also placed the council at the center of many high profile disputes with the government resulting in the PBO turning to the courts for clarification on issues related to its institutional set up and independence.

Having a Parliamentary Budget Officer, as opposed to a council with several members, has the advantage of having a clear head and a single public face for the council. This emphasis on the individual, however, may have the disadvantage that the council can become associated with one person and when that individual leaves the influence of the council is impacted. The first transition period will have a strong influence on how the PBO stands the test of time. The outgoing PBO warned that for the PBO to maintain its independence, changes are needed in the institutional set-up including Parliament appointing the PBO and making it an independent office of Parliament, like the auditor general.[17] The new PBO will face a number of challenges as uncertainties remain about the mandate, the role, and the future of the body.

[17] In June 2013 a Private Member's bill which proposed this change was defeated in Parliament.

HUNGARY – WATCHDOGS NEED TIME TO BECOME ESTABLISHED AND BUILD CREDIBILITY

A. Political and Economic Context

During the 2007 Hungarian elections, improving public finances and fiscal policy were high on the political agenda. The country faced a deteriorating debt situation, sharply declining investor confidence, and a large deficit peaking at 10 percent of GDP in 2006 the highest among EU countries. In November 2008, the then government enacted a Fiscal Responsibility Law, which included a fiscal council as part of a wider reform package establishing a rules-based fiscal policy framework and fiscal transparency standards.

The law established the fiscal council, as a collective body with its own technical staff (Office of the Fiscal Council). At the time, two very different potential models for the council were discussed: the Swedish Fiscal Policy Council model—small with limited resources and functions—and the U.S. CBO model—large with significant resources and remit covering nearly all FCs functions. In the end the Fiscal Council was closer to the CBO model in terms of its remit and functions.

Although the new law contained a number of compromises, it failed to gain the support of the main opposition party. When the opposition came to power the Fiscal Council was not abolished, but its framework and working conditions were significantly revised.

B. Institutional Set-up and Functions: The Two Periods

Council 2009–2010

The Council's original design established it as a body consisting of three non-partisan members independent from the government and political parties. The three members were nominated by the President of the Republic, the Governor of the National Bank of Hungary, and the President of the State Audit Office. Following hearings in the Budget and Finance Committee, the members had to be elected by a simple majority in Parliament for a 9-year period on a non-renewable basis. The Council had an office of the fiscal council with over 30 economists, mainly public servants headed by the Chair of the council. The council reported to the parliament.

The fiscal council's mandate was to help restore the sustainability of fiscal policy and to promote fiscal transparency. The remit of the council was broad ranging from macro-fiscal baseline scenarios and independent fiscal impact assessment of bills, to providing methodological guidelines and making proposals to enhance sustainability and transparency. As part of this remit it costed all significant tax and expenditure proposals (Hagemann, 2010). The assessment of budget bills and mandatory laws was obligatory, while assessment of other financial acts was optional. Macroeconomic forecasts and projections included the baseline for the annual budget and a 5-year baseline. The fiscal council monitored compliance with Hungary's fiscal rules (including the pay-as-you- go rule and the debt limit requirement). On balance, the council was able to carry out its mandate, although it only existed in this form for a short period (Kopits and Romhanyi, 2010).

Council 2011

The Council had not even been in operation for two years before the newly elected government suggested significant revisions to its legal framework. This followed a period of tension between the government and the council. The council criticized the government's medium-term budgetary plan in the 2011 budget bill and other aspects of government's economic policy including temporary industry-specific taxes and the diversion of private-pension contributions to the state. Following these criticisms, several commentators have argued that the government sought to curtail the voice and influence of the council (Hemming and Joyce 2013), although the official argument for the proposed changes to the council's legal and institutional framework was budgetary saving.

This process resulted in a reform at the end of 2010 which was part of a broader political reform agenda in Hungary. The council was replaced by a new significantly reduced and much more compliant model (Hemming and Joyce 2013). It is composed of three members: a chairman of the council, appointed by the President of the Republic, who serves for six years, the governor of the central bank, and the head of the state audit office, both of them ex officio. In addition, a major cut in funding took place which reduced the council's staff from over 30 to around 3. Nevertheless, both the Central Bank and the State Audit Office prepare background documents and analysis for the Fiscal Council.

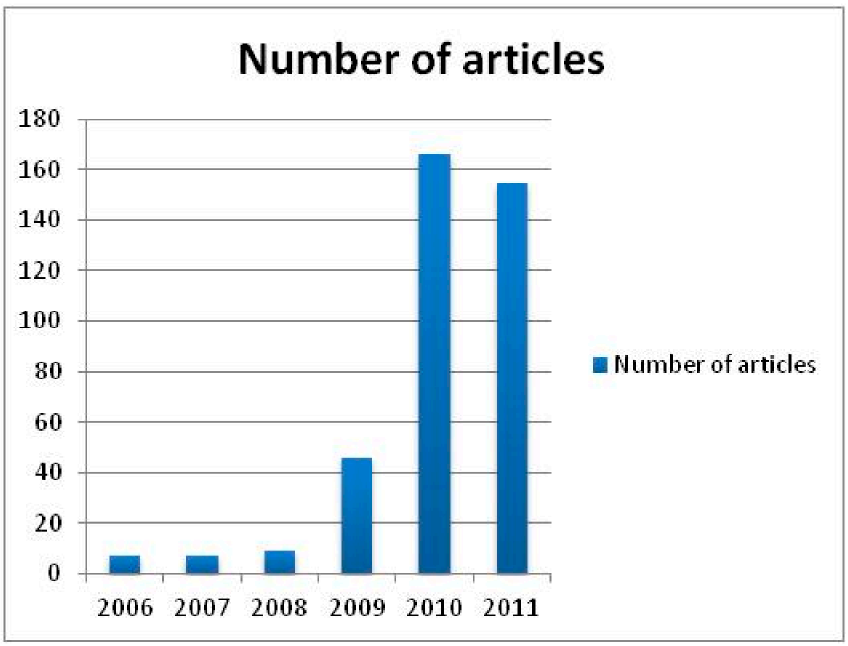
Its mandate was restricted to assessing the state budget and its execution, developments in government debt, and supporting Parliament's legislative activities. It excludes all other legislative proposals, macro-fiscal forecasting, costing of legislative proposals or commenting on fiscal transparency and sustainability. On the other hand, the council was given the right to make a recommendation to Parliament on whether to pass or reject the budget bill, thus giving it the power to veto budget laws. This opens the possibility that the President could dissolve Parliament if it fails to pass a budget by the end of March, if two out of three council members consistently reject the budget bill (Kopits, 2011). This power is very extensive although it cannot be properly exercised with a staff of only three people. It has not been used and most commentators think this nuclear option will never be used (Kopits, 2011).

C. Media Coverage

In its mission statement the council in the period 2009-2010 underlines its emphasis on informing the public: *"The Fiscal Council, created by an act of parliament, is an independent state* *institution that endeavors to ensure the responsible management of public resources. To this effect, it prepares assessments of the budgetary consequences of government and parliamentary decisions. These assessments and supporting information are made widely available to the public on a timely basis."*

The council sought to make active use of the media to get its message across. Given its short period of existence, it is not possible to conduct an in-depth analysis of its impact. Nevertheless, Figure 5 shows the number of newspaper articles which mentioned the council and its work from 2006–2011. There is some media interest in the establishment phase which increases when the council is operational in 2009 and 2010. In late 2010 and 2011, a major part of the media reports related to the reform of the council itself.

Figure 5. Press Coverage of the Fiscal Council



Source: Factiva

Despite widespread protests in the international and domestic press and in professional and academic circles, as well as adverse reaction in the financial markets, the reform and budget cuts to the council went ahead. The reform of the council's framework and the incidents leading to the reform also gained attention in the international press. The Wall Street Journal [22nd November 2010], for example, reported: *"The bill foresees the dissolution of the Fiscal Council, Hungary's main instrument for the control of public finances, which means that not only its three members but also all 40 members of staff would be dismissed. In its place, a new committee compromising the heads of the National Audit Office and the Central Bank as well as an economist appointed by the president is to be created."(*http://blogs.wsj.com/emergingeurope/2010/11/22/hungary-to-disband-fiscal-council*).*

D. Conclusions

When the council was established in 2009, it had a broad remit and was well equipped and resourced to undertake its tasks. The legitimacy it gained however, especially internationally, was not sufficient to protect it. The replacement council with its much more restricted remit and much narrower resource base is weakened (Hemming and Joyce, 2013).

Hungary's experience points to a fiscal council that failed to "launch", as its independence and effectiveness was significantly curtailed before it had an opportunity to impact policies. This episode highlights the tightrope that new councils must walk between performing their watchdog function, which often entails criticizing the government, and protecting itself from the challenges this criticism can generate to its independence.

Maintaining independence is more difficult in highly polarized political landscapes where the council's messages can more easily be cast as partisan by one side. It is crucial for councils to build up institutional credibility and trust. This is a long-term process and it "cannot be taken for granted that the role and attributes of the new institution will be readily understood, its non-partisanship trusted, or its beneficial effects recognized without proof." (Kopits, 2011).

KOREA – NATIONAL ASSEMBLY BUDGET OFFICE (NABO)—AN IMPORTANT PLAYER IN THE DEMOCRATIC SYSTEM

A. Political and Economic Context

In 2003, the Korean National Assembly Budget Office (NABO) was formally established as an independent office to provide fiscal policy advice to Parliament. The creation of the NABO was driven by political rather than economic or fiscal factors and was part of a broader democratic reform agenda. The NABO was established during the first period of divided government in Korea, when the President's party did not have a majority in the legislature. The NABO was created to provide the legislature with independent information and expertise on fiscal and budgetary issues to match that of the executive, and to provide the capacity to scrutinize the President's draft budgets. This initiative gained broad cross-party consensus. When the NABO was established, Korea already had stable public finances for sometime, general gross debt was 13.8 percent of GDP in 1990 and only increased to 18.56 percent in 2002.

B. Institutional Set-up

The duties and organizational arrangements for the NABO are laid out in the National Assembly Budget Office Act. The NABO is exclusively an organ for the National Assembly. Its Director is appointed by the Speaker of the National Assembly based on recommendations of the Recommendation Committee which is "composed of persons who have expertise concerning NABO's duties, maintain political neutrality and make fair recommendations" (NABO Act). The Director is not appointed for a fixed term and serves at the discretion of the Speaker (the impact of this rule is further discussed in the conclusions). The Director can be dismissed by the speaker with the approval of the House Steering Committee. A panel of outside advisors comprised of a chairperson and fourteen members, who are experts in public finance and economics, from universities, research institutes, government offices or the media, advise the Director of NABO (OECD 2012).

The council is well equipped with resources, and had 125 members of staff in 2011. The budget of NABO is part of the overall budget of the National Assembly, however, it has a separate line in that budget. The council is committed to four principles: independence, non-partisanship, expertise, and credibility. Its stated goal is "to work towards becoming the global-standard and the No.1 organization in budget analysis and policy evaluation."[18] The NABO is audited annually by the Board of Audit and Inspection (OECD 2012).

C. Functions

The United States' Congressional Budget Office (CBO) served as the model for the NABO, thus it has a broad remit for providing support to the national assembly. Its mission is "to support legislative activities through analysis and evaluation of national finances and policies." It performs all the main functions of a FC including monitoring and reviewing the government's fiscal policy, developing alternative forecasts, and costing of proposals and programs. The NABO provides objective, nonpartisan analysis of the annual budget drafts and evaluates general fiscal policies and national programs. The NABO's remit also covers economic and revenue forecasts and general research. Due to the requirement that the government develop medium and long-term financial plans, the council has extended its baseline fiscal projections. It now conducts analyses of long-term structural issues including pensions and has begun to develop long term projections (Hemming/Joyce, 2013). The council sends its reports to parliamentary committees and their members (Hagemann, 2010).

A unique mandate of the Korean council is evaluation. The NABO evaluates and reviews a diverse range of projects, programs and policy initiatives. These include infrastructure projects, government services, extra-budgetary funds, and the work of autonomous public institutions. These evaluations often contain recommendations for improving operational efficiency and effectiveness. In Korea, there is also an independent state audit institution, known as Board of Audit and Inspection (BAI) under the executive which focuses on financial audits of government programs. Since the NABO focuses on performance and efficiency issues and the BAI concentrates on financial audits, there is a clear division of labor between them and they do not typically co-operate on their work (OECD, 2012).

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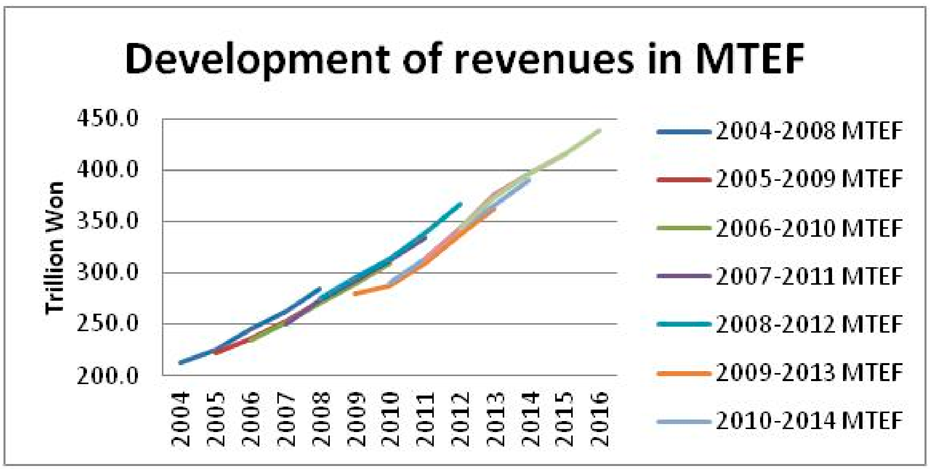
[18] http://korea.nabo.go.kr/eng/01_about/mission.page

D. Analysis and Impact

Korea's public finances were sound when the fiscal council was created and continued to be so during its first years of operation. In 2004, Public debt was 26.2 percent of GDP, the budget showed a small surplus, and expenditure amounted to 24 percent of GDP. An increase in government expenditures to 25.8 percent of GDP by 2008, however, was matched by a similar increase in revenues (Figure 6), resulting in a balanced budget for most of the period. In 2009, the Korean government reacted to the crisis with a large fiscal stimulus, which resulted in a sharp increase in expenditure, to 28.4 percent of GPD and a fiscal deficit. In light of the weakening fiscal position, and to keep expenditure growth at a sustainable level, the government aims to reduce discretionary spending from 13.7 percent of GDP in 2011 to 12 percent of GDP by 2015.

Figure 6. Development of Revenues in the MTEF

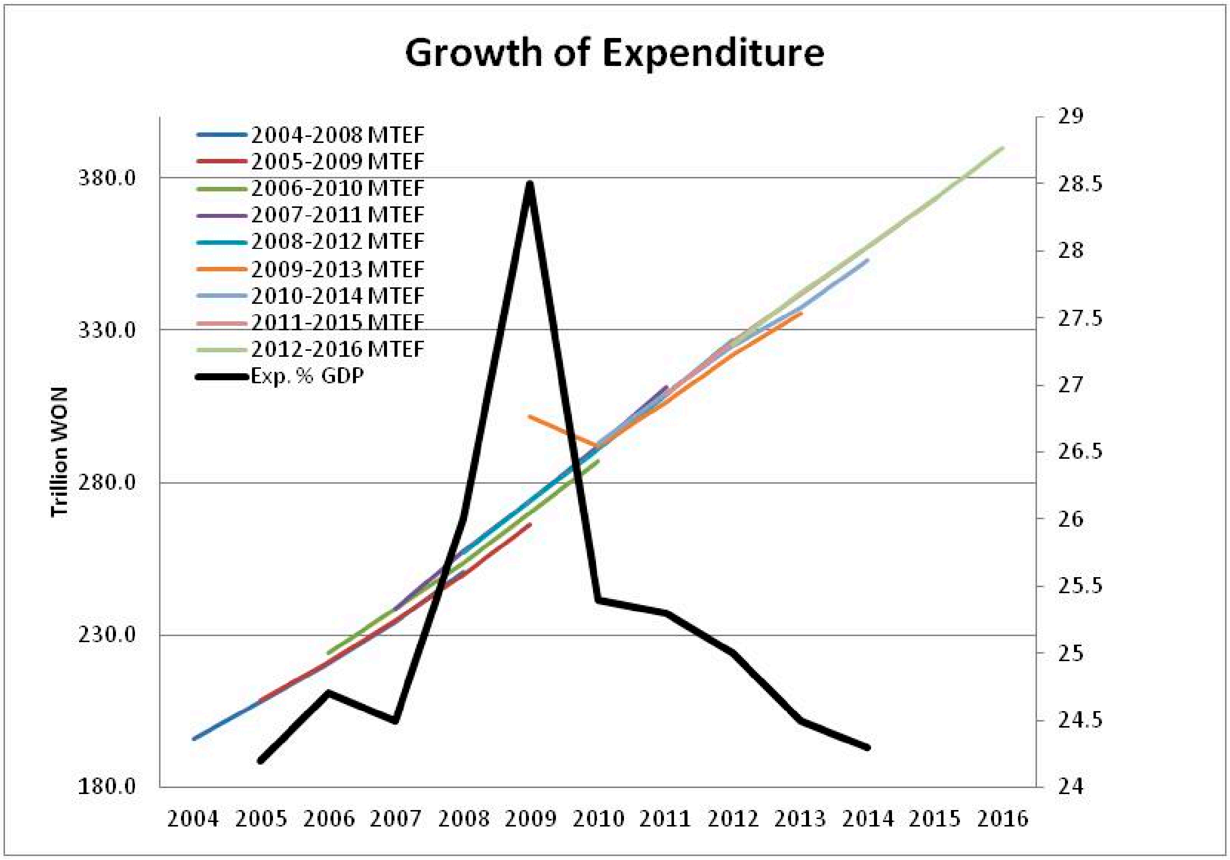


Source: Korean Ministry of Finance

Over this period of changing economic and fiscal performance, there are three episodes of interest particularly in relation to increases in expenditure which a fiscal council could be expected to highlight, as part of its watchdog role, to the legislature and the public (incidents discussed in more detail below):

- In 2006, the Medium Term Expenditure Framework (MTEF) had to be revised upwards for all years when an increase of expenditure as a percentage of GDP was evident.
- In 2009, expenditure to GDP climbed to 28.4 percent and increased by more than 2.5 percent over a short time period.
- In 2012, the steady increase in nominal expenditure growth is persistent, highlighting a more fragile fiscal position.

Figure 7. Development of Expenditure



Source: NABO

In 2006, total national debt grew to 32.7 percentage of GDP from 30.7 percent in 2005 and 26.1 percent in 2004. The budget office had initially forecasted 32.2 percent. The increase is mainly traced back to a supplementary budget to finance recovery efforts for regions hit by heavy rain.

In 2009, when the budget moved into deficit, the NABO provided two forecasting scenarios for the expenditures over the MTEF period. NABO scenario 1 assumed an increase of discretionary spending at the same average rate as during the 5 years before the crisis, whereas NABO scenario 2 expected discretionary expenditure to rise at the rate of GDP growth rate. The more conservative approach of NABO is evident from comparing its forecasts with the government's estimates used in the MTEF (see Table 3). The Government's scenarios were considerably more optimistic. They underestimated expenditures. Even the more conservative NABO scenario that kept growth in discretionary expenditures limited to GDP growth showed higher values than the baseline MTEF scenario. As the MTEFs were revised over time, the NABO's scenarios were borne out, with the government's MTEF revisions converging toward the NABO scenario. This demonstrates the educative and disciplinary effect of NABO's independent forecasts.

Table 3. Comparison of NABO forecast and MTEF (2009–2013 to 2012–2016)

Forecast	2009	2010	2011	2012	2013	2014
NABO scenario 1	301.8	292.8	317.5	341.5	368.4	399.3
NABO scenario 2	301.8	292.8	309.9	325.6	342.6	361.7
MTEF 2009-2013	301.8	291.8	306.6	322.0	335.3	
MTEF 2010-2014		292.8	309.6	324.8	337.7	353.0
MTEF 2011-2015			309.1	326.1	341.9	357.5
MTEF 2012-2016				325.4	342.5	357.5

Source: NABO

In 2012, a similar situation appeared to be occurring. Even while the NABO's estimates in 2012 expect a growth of total expenditure which is below the growth rate of the GDP for 2013, the fiscal situation is expected to be tight, with the NABO sounding a cautious note regarding the government's MTEF forecasts: "*total revenues are expected to be less than the Administration forecasts due to the inclusion of implausible revenues from sales of government holding shares. Therefore, massive expansion in the budget seems difficult to carry out for the sake of fiscal soundness but implementation of cycle/responsive fiscal policy is necessary*."

E. Media Coverage

Media resonance for the NABO in the first years was low, but steadily increased overtime. This is a similar pattern to other Fiscal Councils such as Hungary and Sweden with the first years seeing low press coverage and steady increases overtime as the councils builds up a reputation with the media. In 2006, the fourth year of its existence, the NABO gained media attention with its warning about the increase in expenditure resulting in upward revisions to the MTEF. The NABO was cited in the press and warned that "*national debt is rising too fast as the government spends more than it earns due mainly to rising costs associated with a range of social welfare programs*" and emphasized that "*the debt should remain below 35 percent of GDP*" [19].

[19] The Korean Times, 08/23/06, National Debt Tops 33% of GDP.

In 2009 media attention focused on NABO's analysis and warnings about high levels of expenditure and the issues around future growth. NABO criticized the 2010 budget draft for being 4 trillion won too high. This more active approach and use of more normative statements was recognized by the press, "it is the first time the parliamentary budget research agency made a recommendation concerning the government's budget plan."[20] Finally, in 2012, there was a spike in articles on NABO's work focusing on the differences between the government's, the NABO's, and other forecasters GDP growth forecasts. The government expected the economy to grow 3.3 percent in 2012 and 4 percent 2013.[21] Again, the NABO was much less optimistic than the government: "*Asia's fourth-largest economy is forecast to grow 2.5 percent this year before its growth rate accelerates to 3.5 percent in 2013 and 4.3 percent in 2014, according to the report compiled by the National Assembly Budget Office (NABO).*"[22]

Nevertheless, the media speculated whether even NABO's forecasts were too optimistic "*But the Budget Office's figure might be still overblown, given the lower growth forecasts of the Bank of Korea and the Korea Development Institute, a state-funded think tank — 3.2 percent [2013] and 3 percent [2014], respectively. Private financial institutions and research institutes were even more pessimistic.*"[23] Also forecasts of other institutions were compared to domestic ones, such as foreign investment banks and the IMF: "*Other foreign investments banks including Morgan Stanley, Goldman Sachs and Nomura Securities also expect the domestic economy to grow at less than 3 percent. [...] The International Monetary Fund (IMF) was the latest organization to lower Korea's economic outlook….*"[24].

F. Conclusions

The NABO, over the past ten years, has grown into maturity. The organization provides valuable reports and analyses and thus increases the transparency of the government's budgetary data which was one of the motives for creating the office. After an establishing phase, the council is playing a role in public discussions on fiscal policy, and is, by and large, being received as a conservative and

[20] JOONAI, 11/04/09, Assembly office wants deeper cuts in budget.

[21] *Ibid*

[22] The Korean Times, 07/10/13, Korean economy projected to grow 3.5% through 2016: report, http://www.koreatimes.co.kr/www/news/biz/2012/10/123_121626.html.

[23] *Ibid*

[24] The Korean Herald, 27/11/13, Growth in Deficit, http://khnews.kheraldm.com/view.php?ud=20121127000183&md=20121128003438_AN.

sensible voice. It appears to be raising public concerns at times when there are large fiscal policy actions occurring, and raising alarms when government policy may not be in line with sound policy settings—even going so far as to recommend an alternative course of action in 2010. Interestingly though, the media reportage indicates that the NABO does not have a monopolist role in the provision of alternative fiscal and economic forecasts. The Korean media takes a range of other forecaster's views into account when assessing both the government's and the NABO's forecasts.

The independence of the NABO from government is laid down in the National Assembly Budget Office Act and it has a separate budget in the parliamentary budget. In practice, its independence has not been challenged during the past years and the budget has even grown. Nevertheless, the NABO's framework has one weakness. The NABO Director does not have a fixed term limit and can be dismissed by the Speaker of the National Assembly. These rules lead to the practice of NABO Directors voluntarily resigning when House Speakers change. This mechanism raises the risk that the leadership of NABO is exposed to political pressure from the Speaker and so is not fully able to work independently (OECD, 2012).

THE NETHERLANDS – BUREAU FOR ECONOMIC POLICY ANALYSIS (CPB)—AN ESTABLISHED INTEGRATED INSTITUTION WITH A STRONG REPUTATION

A. Political and Economic Context

The Netherlands' Bureau for Economic Policy Analysis (CPB) is a veteran among fiscal councils. It was established in 1945 just after the World War II as a new planning agency to provide the government with economic plans and analysis. Jan Tinbergen, a renowned economist and winner of the Nobel Prize in 1969, was appointed the first director of the council. He strongly influenced the council's evolution and helped establish its reputation for high quality independent analysis. The CPB has been preparing economic forecasts since the 1950s, publishing reports on the state of Dutch public finances since the 1960s, undertaking election platform costing since the 1980s, and preparing long-term scenario analyses since the 1990s. The CPB also has a number of other roles, including costing of ministries' programs and policy proposals, cost-benefit analysis and a broad research agenda.

B. Institutional Set-up

The CPB is formally a branch of the civil service within the Ministry of Economic Affairs (MEA) and funded from the MEA's budget. Although the CPB is mainly government funded, up to twenty percent of its annual budget may come from external assignments. This gives a small degree of financial independence. Its director is appointed for a period of seven years by the Minister, in consultation with other members of the government. There is an informal agreement between the main political parties that the director will be a well-respected economist and non-partisan. Despite its general financial dependency on the MEA and its lack of independent legal status, the CPB has established itself as fully independent in its operations and in its analysis and research. It establishes its own work agenda. Several elements contribute to the independence of the CPB (Hagemann 2010), including a supervisory committee, whose members are appointed by the cabinet for a 5 year term. In addition, there are 5 yearly independent evaluations of the CPB (usually by academics, many of whom are not Dutch nationals).

C. Functions

The CPB has a broad mandate covering the main functions of fiscal councils. It prepares the forecasts used in the budget, undertakes costing of programs and electoral proposals of political parties, and conducts various analyses and reviews of fiscal policy.

In its reviews, the CPB comments on whether expenditure ceilings and revenue targets set in the coalition agreement are being met and informs the government and the parliament. Like most FCs with a "watchdog" role, the "CPB cannot bite" (Debrun et al., 2012): it has no explicit mandate or instrument to directly influence fiscal policy. Also, it does not provide strictly normative assessments, not even against the government's own commitments and objectives.

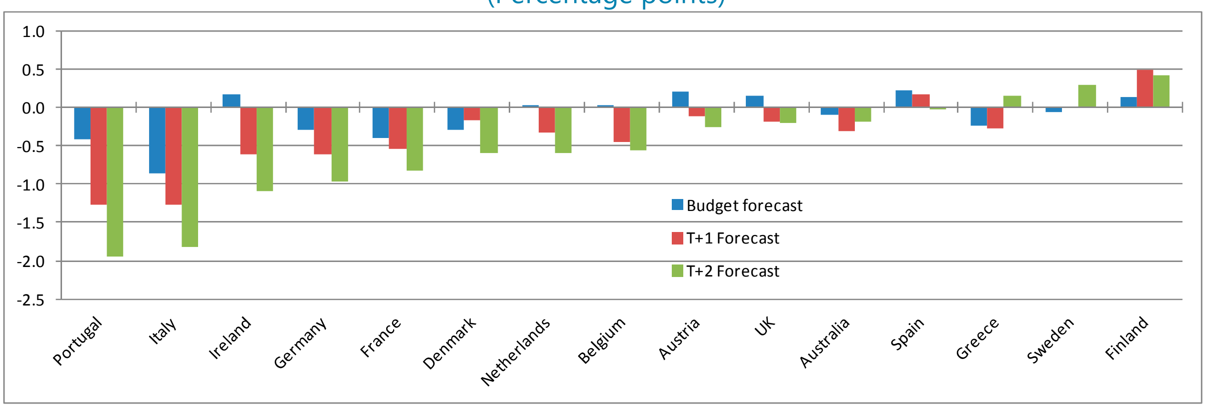
In fulfilling its specific functions, the CPB is fully integrated into the budget process according to a specific schedule. It provides the macroeconomic forecasts used for the budget. Those forecasts are produced behind closed doors, and discussed with the government (initially with the Ministry of Finance, and later with the cabinet) prior to being released. While this means that the budget relies on independent forecasts, private discussions with the cabinet give an opportunity to the latter to put pressure on the CPB (Bos and Teulings, 2011). The CPB provides public information regarding the evolution of the fiscal outlook during the year. The updates in March and September are more extensive than those provided in June and December.

In addition, the CPB has an extensive costing role. It receives requests from government ministries to estimate the cost and/or the economic impact of new policy initiatives. It also provides cost-benefit analysis of major infrastructure projects. Through its costing of electoral platforms during elections and coalition agreements after the election, CPB has arguably improved the quality of public information and influenced the debate around elections. Its costing work is encouraging parties to tighten up their commitments in advance and to avoid making commitments to unaffordable policies (see Bos and Teulings, 2011).

D. Analysis and Impact[25]

Overall, the Council's institutional attributes combined with a long history of producing well regarded analysis and forecasting have given it a considerable degree of public credibility. While the CPB's specific contribution is difficult to isolate, the Netherlands' fiscal performance over the past 15 years has been relatively sound. In particular, there has been no apparent bias in macroeconomic forecasts and ex-post compliance with ex-ante targets has been largely satisfactory. The average forecast errors for the budget year have been, if anything, pessimistic and while they appear slightly optimistic over the out-years, they remain well within the standard deviation of GDP growth in the sample shown below in Figure 8. This is consistent with earlier results from Jonung and Larch (2006) showing that independent forecasting helps to prevent an optimistic bias in GDP forecasts.

Figure 8. Real GDP Forecast Errors (Actual minus Forecast): 2000–2008
(Percentage points)



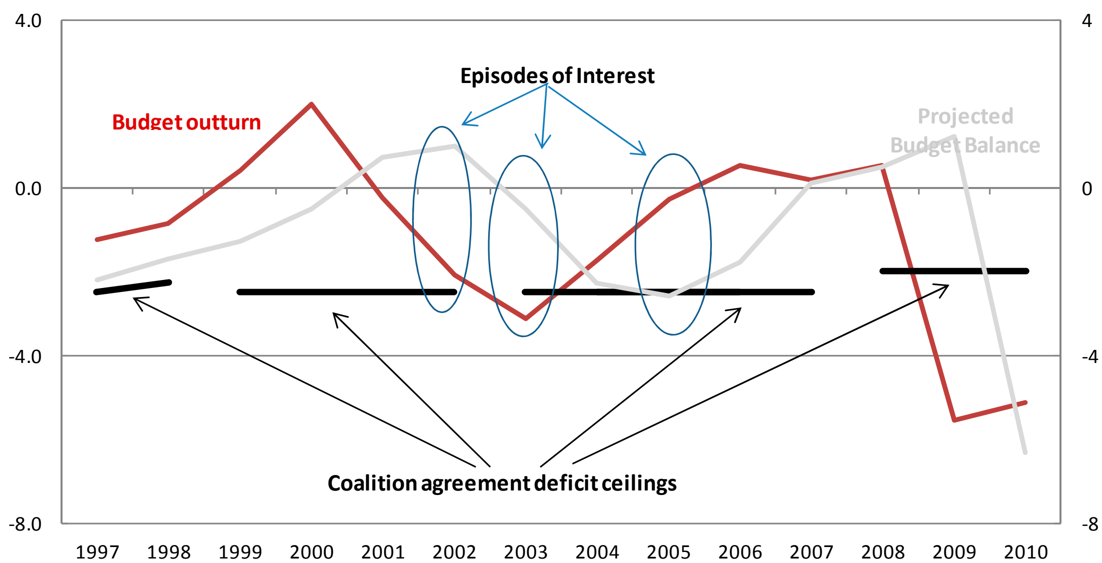
Sources: European Commission (SCPs) and authors' calculations.

Coalition agreements reached at the beginning of each parliamentary term include ex-ante fiscal targets which are set for the political cycle. These agreements specify, among other things, a deficit ceiling for the remainder of the term. The expectation is that the CPB will raise the alarm and inform the Parliament and the public if these targets are in danger of being missed.

[25]Section D and E based on Debrun et al. 2012.

Figure 9 highlights three episodes of interest when it would be expected that the CPB would raise the alarm. These episodes are characterized as follows: (1) either the budget forecast or fiscal outturn is exceeding the deficit ceiling, or (2) the fiscal outturn is significantly worse than the budget forecast. The government's deficit ceiling is highlighted in the bold black lines in Figure 9. This Figure also displays yearly forecasts for the budget balance (light grey lines), and the final budget outcome (red line).

Figure 9. The Netherlands: Fiscal Targets, Forecasts and Outcomes

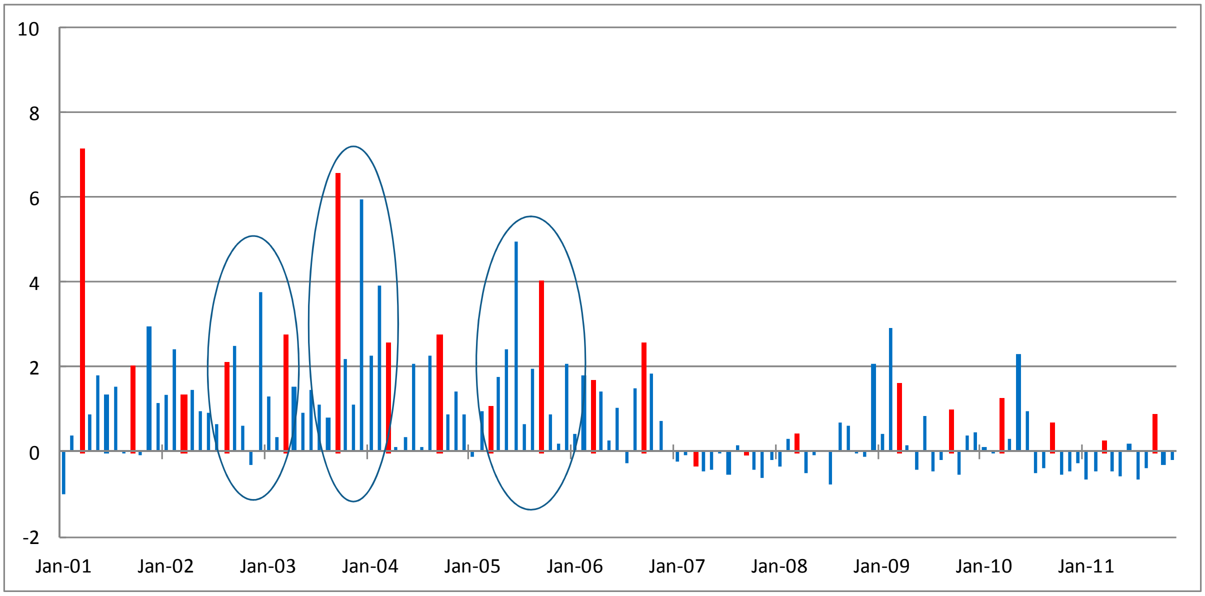


Sources: CPB and authors' calculations.

The first episode was in 2002, when the fiscal outturn came out significantly worse than the budget forecast, and was in fact approaching the deficit ceiling set in the coalition agreement. The second episode occurred in 2003, when the outturn was again significantly worse than forecasted, but this time actually breached the deficit ceiling. The third and final episode was in 2005, when the budget forecast exceeded the ceiling, even though the outturn ended up comfortably inside the ceiling. The events related to the financial crisis are excluded, because they represented a significant exogenous shock with less control available to policy makers.

Using the number of articles which appeared in the printed press which mentioned the CPB's work on a monthly basis, Figure 10 examines whether the CPB successfully raised the alarm in this three instances. It shows the events in relation to the media presence of the CPB calculated as the number of newspaper articles containing a reference to the CPB. The columns highlighted in red refers to the months were the CPB releases its public forecasts and fiscal assessments. Some of the spikes observed in the series refer to election periods, when the CPB features heavily in the news.

Figure 10. Press Coverage of the CPB
(Number of press articles relative to 4-year rolling-average)



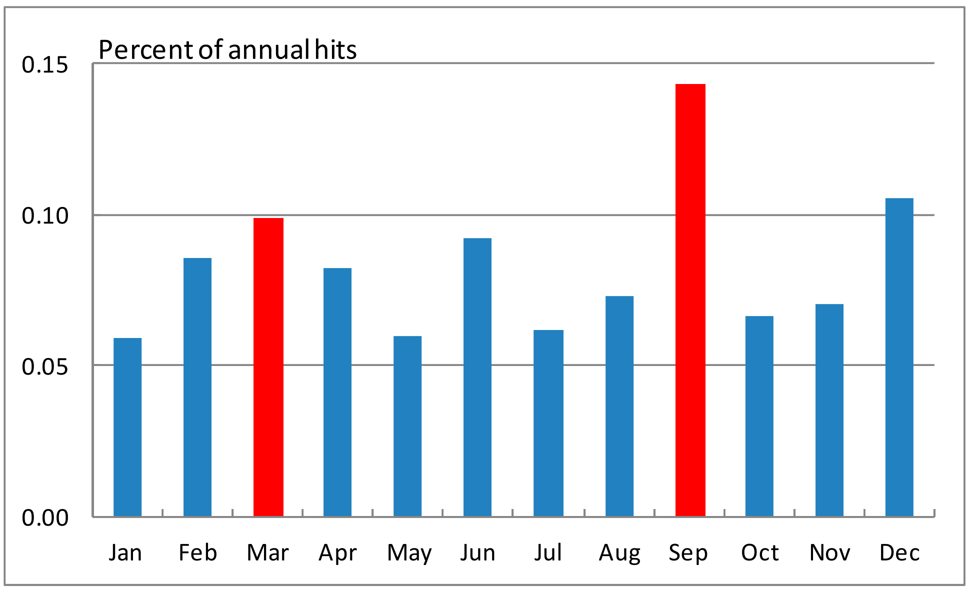
Sources: Factiva and authors' calculations.

The three episodes identified above coincide with a marked increase in press reports. It is useful to note that the major spikes, particularly in 2003 and 2005, relate to the timing when the CPB released its public assessments. An examination of the contents of CPB reports at those times confirms this interpretation. In 2002, the slippage became apparent towards the end of the year, and the CPB noted in its December report that due to the worsening economy, the small surplus achieved in 2001 would turn into a deficit of 0.8 percent of GDP in 2002. In 2003, this continued deterioration was noted in the March report, where the projections in the Central Economic Plan of that year were revised downward and the CPB noted that "additional deficit-reducing measures are necessary to comply with the rules from the SGP." In the December 2003 report, the deficit forecasts were further revised upward, with the CPB noting that "even though the 3.35 percent deficit will be just above the 3 percent SGP ceiling, this does not mean that Brussels will determine this deficit to be 'excessive.' The Netherlands will probably be able to call on exceptional economic conditions." In 2005, the forecast for the year exceeded the agreed deficit ceiling, which prompted the CPB to warn in its December 2004 report that: "Regardless of the austerity measures of the government, the [2005] deficit stays dangerously close to the 3 percent SGP deficit ceiling."

E. Media Coverage

Beyond these individual episodes, the CPB's ability to communicate to the public when it has something important to say and when it matters most during the budget process is important. Indeed, a fiscal council constantly out in the public with a running commentary, disconnected from important parliamentary budget preparation deadlines would raise doubts about its ability to contribute to the debate, when it is most needed. We can assess this "noise-to-signal" ratio by plotting the average monthly seasonal patterns of media presence of the council (Figure 11). The spikes suggests that the CPB times its media intervention in a fairly systematic way, taking full advantage of the publication of its most extensive reports in March and September to influence the public debate.

Figure 11. Average Seasonal Pattern of the CPB Media Presence



Sources: Factiva and authors' calculations.

While it is difficult to identify a robust causal link between the activities of the CPB and improved fiscal performance in the Netherlands, the CPB's media visibility supports the idea that it actively contributes to the quality of the public debate, and reduces information asymmetries between decision makers and the public. There is indeed no significant forecast bias, the messages of the council appear relevant, and they are communicated in an effective and timely manner.

F. Conclusions

In contrast to other councils, such as the Swedish Fiscal Policy Council or the U.S Congressional Budget Office, that highlight their independence from government and their formal mode of operation, the CPB is an insider working within the budget process. There are close working relations with the civil servants from the ministries of finance and economic affairs and regular contact. This allows the council to impact the policy debate through informal channels (Halffman, 2009).

While the CPB's forecasts are used in the budget, the council is very restrictive in giving direct policy advice. The CPB tries to avoid "all normative language or expressions that could be interpreted as recommendations or policy advice" (Kraan, 2005), thus securing its reputation of impartiality. Its goal is to provide "arguments derived from economic theory for how to improve economic policy" and "not to interfere with the political debate and in the competition between parties for voters" (CPB, 2009). This strategy has proved successful in gaining credibility so that the council is perceived to be impartial between the different parties. Its strong position is underlined by the fact that all parties now request its assessment of their respective electoral policy program. This case study shows how a Council can be well-integrated into the budgetary and political processes without risking its independent position, and while having a highly visible media presence.

SWEDEN – FISCAL POLICY COUNCIL—CLOSING INSTITUTIONAL GAPS WITH LIMITED RESOURCES

A. Political and Economic Context

In contrast to the fiscal councils established during the crisis, the FPC was created in a period of sound public finances. In 2007 the newly elected liberal-conservative government established the Swedish Fiscal Policy Council (FPC), without the support of the three main opposition parties. The council's main objective is to promote long-term fiscal sustainability and fiscal space for counter-cyclical measures in economic downturns. It complements and reinforces the existing fiscal framework, a surplus rule and expenditure ceiling, implemented in the 1990s.

The FPC closes a narrow gap in the Swedish institutional framework, as other independent institutions already performed some of the functions of fiscal councils. The National Institute of Economic Research, an independent government agency, is responsible for independent forecasts and projections of macroeconomic and budgetary assumptions. Two other independent agencies complement the "watchdog" framework in Sweden. The National Financial Management Authority, an independent government agency, publishes independent medium-term forecasts of central government revenue and expenditure. The National Audit Office, under Parliament, scrutinizes the sustainability of policies and the transparency of budget reports. Therefore, the remit of the council, while broad, focuses on providing independent evaluation of the Swedish government's fiscal policy.

B. Institutional Set-up

The FPC is formally a government agency: Its legal basis was established in the 2007 Ordinance and subsequently revised in a 2011 Ordinance. The Council consists of five members and is assisted by a secretariat with five full time employees. The 2011 revision reduced the number of council members from 8 to 6. The members work part-time for a monthly stipend and have other full time employment. In order to fulfill its mandate, the council also hires consultants to conduct research and help draft reports. The council's resources are limited, the budget is small (approximately one million in 2011) and is included in the Ministry of Finance's annual budget (Hemming and Joyce, 2013).

The Chair and Vice-Chair and other members are appointed by the government based on proposals from the council itself. Their appointments are for a fixed time period. The chairmanship is limited to six years and membership to three years. It is required that the composition of the council balance expertise in economics with practical experience in economic policy making as well as gender representation. Thus the membership includes former politicians as well as academics.

The council is a government agency directly accountable to the Ministry of Finance and has no formal relationship with the Parliament (the Risksdag). Nevertheless, the council has a close relationship with the Finance Committee of the Parliament and discusses its report in a public hearing of this Committee. At the time of the revision to the ordinance in 2011, some voices including the council itself, suggested that it should become an agency of Parliament in order to guarantee its independence (Hemming and Joyce 2013). Instead, the 2011 revision changed the council's remit to concentrate more on assessment of fiscal sustainability and, at the suggestion of some opposition parties, on the distributional effects of fiscal policy. This revision received the support of the main opposition parties reflecting the independent non-partisan reputation the council built up in its short life.

C. Functions

The mandate of the FPC comprises mainly reviewing and monitoring tasks. It does not produce forecasts nor conduct costings of government or legislative policies. The council's duties primarily focus on assessing the extent to which the government achieves its fiscal policy objectives. The council reviews the fiscal objectives of the government, mainly the fiscal rule, designed as a surplus objective, and the expenditure ceiling. It also reviews the consistency of the fiscal policy stance with cyclical developments in the economy and assesses if economic developments are in line with long-term sustainable growth and high employment. More technically, it examines the clarity of the Government's budget bills. The council may review the quality of the government's economic forecasts and underlying models. Finally, it has an explicit mandate to work to promote and stimulate public debate on economic policies.

The council fulfils its tasks primarily through the publication of its annual report entitled "Swedish Fiscal Policy." This is presented to the government no later than May 15th each year, one month after the government issues its spring fiscal policy bill. This report serves as

Parliament’s basis for evaluating the government's policy. Dissenting opinions from any of its members has to be included in the report. Although the council does not have a mandate for costing policy proposals, the council expresses its opinion on policy initiatives in its report. In addition, the council organizes conferences and publishes studies concerning different aspects of fiscal policy

D. Analysis and Impact

When the council was established Sweden already had stable public finances. Following the experiences of the economic crisis in early 1990s, there is a widespread political and public consensus on the need to maintain sustainable public finances. The level of gross debt to GDP has been declining since 1997. In the 10 years preceding the creation of the council, the government ran a budget surplus for seven years and only had a deficit for three years, which was never more than 1.7 percent of GDP.

The FPC has offered both favorable and unfavorable assessments of the government’s fiscal policy. In 2012, the FPC endorsed the government’s policy, stating that *“In the Council’s opinion, the fiscal policy pursued in 2011 and 2012 has complied with the current fiscal framework. We think that there is little risk of expenditures exceeding the expenditure ceiling in the next few years. We take the view that the fiscal policy is compatible with long-term sustainable public finances.”* The situation changed in 2013 when the FPC’s 2013 report[26] pointed out that “the indicators reported by the government suggest that the surplus target will not be met” and that “the government should present a clear plan for meeting the surplus target during the relevant business cycle”.

The council has the opportunity to deal with more sophisticated issues beyond just compliance with rules. There is an understanding between the government and council that the surplus target should be seen as an intermediate target to help achieve more fundamental objectives. These include fair intergenerational distribution, social efficiency (tax smoothing), and building-up a precautionary buffer to deal with long-run uncertainties and to give room to use fiscal policy for stabilization purposes. The council concentrates on evaluating the long-term effects of government programs, the revenue policy of the government, and improving transparency.

[26] See http://www.finanspolitiskaradet.se/download/18.11165b2c13cf48416debd69/Summary+2013.pdf.

In 2009 in the mist of the global financial and economic crisis, the council recommended a stronger fiscal stimulus than the government due to an unexpectedly sharp deterioration in economic activity. The council suggested a temporary increase in employment benefits as well as support for local governments. The council emphasized the consequences of cyclical unemployment leading to persistent unemployment and to more limited room for maneuver in the future. This recommendation deviates from the traditional expectations of a fiscal council's role as a promoter of fiscal restraint. It is, however, in line with the council's remit (see also Calmfors, 2011). The Council was not alone in recommending stronger stimulus, with other actors, such as the National Institute for Economic Research, falling in line behind the council's recommendation. Despite this pressure, the government maintained its course, although a year later it allowed the deficit to increase, at which time the council criticized the government for taking too long to act.

Despite the initial concerns of the opposition parties, the FPC reports have proven to be critical of the government in other areas as well. These include highlighting the weaknesses in the tax system, the reform of unemployment insurance, and the economic reporting practices of the government. In addition, the FPC's reports have been used by opposition parties when developing their own economic policies.

The fiscal council's mandate does not include producing forecasts, however, it has reviewed and reported on the quality of forecasts and the underlying models used by the government. Since the creation of the fiscal council, the bias of the average forecasting error for budget balance (difference between forecast of period t made in t-1 and outturn) has clearly changed from a pessimistic deviation of 1.6 percent to a minor positive optimistic error of 0.2 percent (a negative deviation in 2009, however, is compensated by a positive one in 2010). The forecasts were cautious before the advent of the fiscal council and very close to the outcome after the FC was established. Given the limited role of the council in this area, it is difficult to directly attitude this change to the council's influence.

The fiscal council in a relative short period has established its independence and built up its reputational capital. It has achieved this through the quality of its independent analysis and its willingness to take a stance and criticize the government on key fiscal policies when needed. This normative approach has helped the council gain credibility and to win over the initially reluctant opposition parties. This approach, however, has not been without consequences. There have been tensions between Ministry of Finance and the council because of its comments. In 2010, the then Minister of Finance, threatened to reduce the council's funding when it complained that it needed more resources (OECD 2012 and Hemming and Joyce 2013). In practice, the council's budget was not cut and has in fact over time increased slightly, although, according to the commentators, it is still not sufficient to continue to fulfill its role (Hemming and Joyce 2013).

E. Media Coverage

Since the influence of the FPC is indirect and it has no formal role in the budget process, media contacts are essential for its work to be effective. This is especially because its main mode of intervention is through written reports and public discussion rather than "policy advising behind the scene" (Calmfors, 2012) and its own resources are limited. The media analysis shows a gradual increase over time in the number of newspaper articles which mention the work of the FPC. The FPC has been successful in courting the media and building its repudiation as a reliable source for credible independent economic analysis and the coverage of its work has steadily increased. Regularly throughout the year, the Swedish media report on the work of the council and members of the FPC are interviewed by the media on fiscal policy issues (Hemming and Joyce 2013).

F. Conclusions

In its short life, the FPC has influenced fiscal policy. At a key moment, it influenced the policy debate and contributed to promoting a more cyclically adjusted budgetary policy. To sum up, the council's recommendations tended to be taken into account by the government in many cases, even if reluctantly on occasion, and sometimes with a time lag.

The strategy of the FPC to gain credibility by establishing its independent status through normative analysis combined with a focus on communicating its views through formal reports, parliamentary hearings, and actively building media relations, has proved relatively successful to date. In the Swedish context, despite the limited resources of the FPC and the lack of budgetary independence, the council has managed to be an independent watchdog with an active voice. This can be explained by the widespread political and public consensus and support for fiscal sustainability. And also by the fact that the FPC is embedded into an institutional framework where other independent agencies perform tasks that in other countries are exercised by a single council. The challenge for the FPC moving ahead is to continue to fulfill this remit with its limited resources.

UNITED STATES – CONGRESSIONAL BUDGET OFFICE (CBO)—THE ROLE MODEL FOR NOVICE COUNCILS

A. Political and Economic Context

The Congressional Budget Office was created in 1974 during a period of heightened political tensions between Congress and President Richard Nixon over the budget. This dispute led to the enactment of the 1974 Congressional Budget and Impoundment Control Act. This act reasserted the Congress' role and authority in the budget process, which had previously been dominated by the Presidency. It instituted a formal process through which the Congress could develop, coordinate, and enforce its own budgetary priorities independently of the President. The House and Senate Budget Committees were established to oversee the execution of the budget process. The Congressional Budget Office (CBO) was created to provide the budget committees and the Congress with objective and impartial information about budgetary and economic issues. The agency began operations in February 1975.

B. Institutional Set-up

The CBO is the largest fiscal council with a staff of around 240 in 2012. Its size enables it to fulfill its broad mandate professionally and to provide additional services to congressional members and committees beyond its legal requirements. The CBO is an agency of the legislative branch. It is independent from the President and does not report directly to any Congressional Committee (Joyce 2011). CBO's funding is part of the budget of the legislative branch. The Director is appointed by the Speaker of the House of Representatives and the President pro-tempore of the Senate after considering recommendations from the House and the Senate Budget Committees. The Director is appointed for a four year fixed-term which is renewable. Although in theory, the Director should have no political affiliation, in practice, in the past some have had a political affiliation prior to appointment, however once in office they fulfilled their mandate in a nonpartisan manner (Joyce, 2011). All CBO employees are appointed on the basis of professional competency, without regard to political affiliation, and serve at the pleasure of the Director. The agency has a large number of staff with PhDs in economics.

The agency operates in a strictly nonpartisan manner and has built a strong reputation for producing good quality objective and impartial analysis. This is evident from its reports and the hundreds of cost estimates that its economists and policy analysts produce each year. CBO does not make normative statements or policy recommendations (Hagemann, 2010). Each report and cost estimate discloses the agency's assumptions and methodologies in order to emphasize its independence and non-partisan status.

C. Functions

The CBO has a broad remit that covers nearly all FCs' functions. It produces alternative forecasts and reviews the government's forecasts; it conducts independent analysis, review, and monitoring of government's fiscal policies; and produces costings of the President's and Congress' legislative proposals. The CBO prepares baseline budget projections and economic forecasts (for a 10-year period) that are published in its economic and budget outlook. One of CBO's core functions is to present an alternative fiscal outlook to that given in the President's annual budget proposal. CBO's budget baselines help Congress develop its own budget resolution. In addition, the CBO prepares fiscal sustainability reports with projections that span from 25 up to 75 years into the future and estimates the economic impact of alternative long-term budget policies.

The CBO also prepares an analytical report examining different options for reducing budget deficits including reductions in spending and/or increasing revenues. Its reports are analytical and descriptive rather than normative. It provides information on the pros and cons of different approaches without providing recommendations. To help follow budget execution, the CBO also issues a monthly analysis of federal spending and revenue totals for the previous month, the current month, and the fiscal year to date. In addition, the CBO prepares analytical reports that examine specific federal programs, aspects of the tax code, and budgetary and economic challenges covering policy fields like health care, education, taxes, energy, the environment, national security, infrastructure, and more. These reports evaluate options for changes without making recommendations.

The CBO has an extensive costing role. It provides costing for all appropriation bills before Congress, bills from congressional committees, and the short and medium costs of government programs and Presidential proposals. It also examines the projected cost of proposed legislative federal mandates on state and local governments and on the private sector. In addition, the CBO has a scorekeeping function that is it scores the cost of individual and cumulative legislation considered by Congress against the budget baseline and when they exist against established fiscal rules. This function was especially important when the U.S. had a pay-as-go rule in place (Joyce 2011). Beside their formal, written estimates, the CBO "costs" a considerable number of preliminary, informal estimates when asked by congressional members or committees. All of the CBO's products, apart from informal cost estimates developed privately for Members of Congress or their staffs, are available to the Congress and the public on the CBO's website.[27] Furthermore, the CBO is involved in research projects and technical working papers and tries to enhance transparency by presenting data and other technical information on its webpage.

[27] For more details on the tasks and products of the CBO: http://www.cbo.gov/about/our-products.

D. Analysis and Impact

There are a range of approaches taken in this case study to assess the effectiveness and impact of the CBO across its set of functions. The first is to examine if having alternative forecasts produced by CBO has helped to improve the executive's forecasts. This is done by looking for bias in the forecasts prepared by the President's Office of Management and Budget (OMB), both before and after the establishment of the CBO, and then comparing the CBOs forecasts against the OMB's in the period following its establishment. Second, is to examine how the CBO has fulfill its role as watchdog and if it has raised the alarmed when it should on proposed policies or when actual results are significantly off track.

Forecast Accuracy

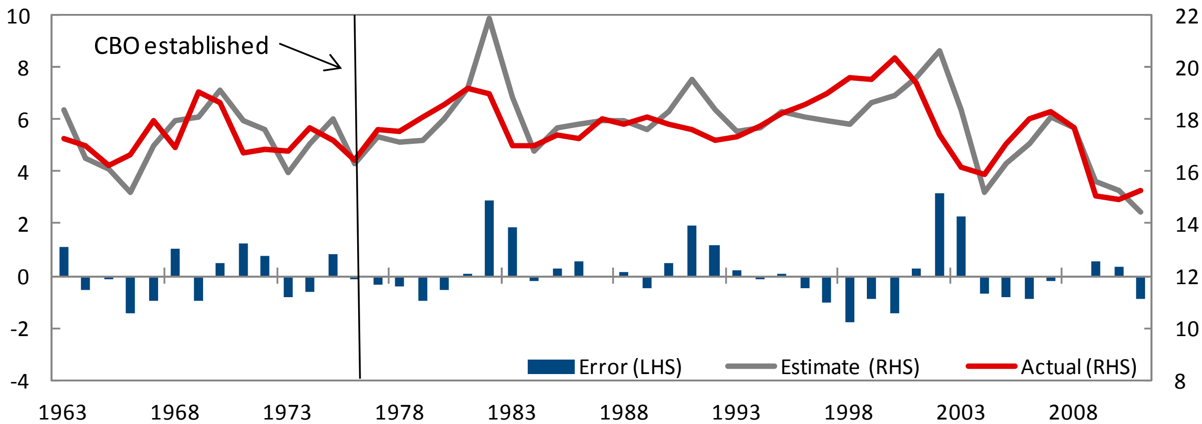
Fiscal councils are expected to have a positive effect—in the medium-run—in improving governmental forecasts and avoiding biases in their estimates. While councils whose forecasts are the basis for governmental budgets can influence the bias directly, the CBO can only review and compare its own forecast with those of OMB and therefore indirectly affect the accuracy of the administration's forecasts. There is a considerable literature looking into evidence of bias in the U.S. fiscal and macroeconomic forecasts with mixed findings such as Auerbach (1999) and McNab, Rider and Wall (2005). The findings depend on what measure is being assessed, over which period, and by what criterion. The administration's forecasts of tax revenue prior to the establishment of the CBO appear to have been unbiased. Comparing the administration's tax revenue forecasts to actual outcomes shows that while there were considerable errors from year to year (averaging 0.8 percent of GDP), these errors cancelled each other out, resulting in an unbiased (e.g. zero average error) revenue estimates for the year ahead.

Following the establishment of the CBO, the administrations' forecasting record remained relatively good. While the average forecast error increased from 0 to positive 0.1 percent of GDP, indicating an optimistic bias, this is relatively low, compared with that recorded in other economies, and to the standard deviation of revenues of 1.3 percent of GDP. Thus, there remains no evidence of bias in the administration's revenue forecasts over the period to 2003. Similarly, there was no change in the accuracy of the year-ahead forecasts, with the average absolute error remaining at 0.8 percent of GDP. The post-CBO period was characterized by an increase in revenue volatility, which means that maintaining the same degree of forecast accuracy could be considered an improvement.

Overall, it does not appear that the introduction of the CBO had any noticeable impact on the bias or accuracy of the administration's revenue forecasts (see Figure 12). However, given that there was no bias in the first place, this is not particularly surprising. It is possible that the existence of the CBO's alternative forecasts prevented the continued use of deliberately over-optimistic revenue forecasts by the administration, such as the widely documented rosy-scenario forecasts of the early 1980s, which can be seen by the unusually optimistic revenue forecasts, both relative to history and actual outturns in 1981 and 1982. In this sense, by acting as a preventative agent, rather than a cure for a non-existent problem, the CBO can be considered to have had some success.

Figure 12. The U.S. Federal Receipts Forecast versus Actual

(Percent of GDP)



Sources: CBO

The fiscal forecasts of CBO and OMB are undertaken on a different basis, with differing policy assumptions underlying them, meaning they are not directly comparable, however the macroeconomic forecasts can be directly compared. The CBO regularly publishes an assessment of its forecasts compared to both the OMB and private sector (blue chip consensus) forecasts. The latest assessment was published in January 2013, with the key findings presented in Table 4.

Table 4. Average Real GDP Forecast Error 1982–2010

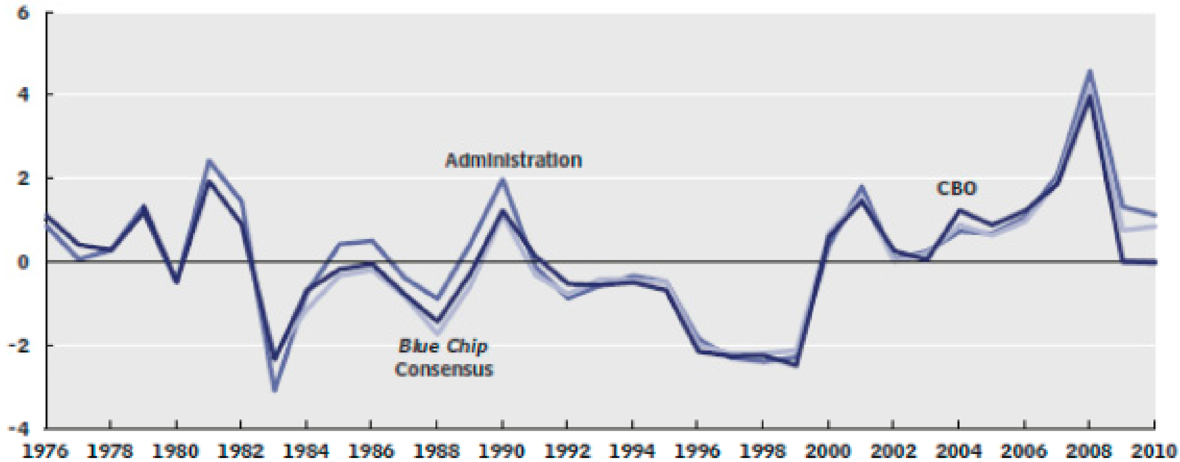
Percent of GDP (positive indicate optimistic forecasts)

	Average		Absolute Error	
	2-year	5-year	2-year	5-year
CBO	-0.1	0.1	1.1	0.9
OMB	0.1	0.3	1.2	1
Blue Chip Consensus	-0.1	0	1.1	0.9

Sources: CBO Economic Forecasting Record 2013.

Over a two-year ahead forecasting horizon for real GDP, the CBO has a slightly pessimistic bias, compared to a slightly optimistic bias for the administration, with the CBO's forecasts proving marginally more accurate, and in line with the private sector forecasts. However, the degree of optimism in the administration's forecasts are relatively small compared to other advanced economies, and are largely limited to a period in the 1980s, when the forecasts were consistently overoptimistic (Figure 13). Over a longer-term forecasting horizon, the administration's bias is more pronounced, but this is also evident, albeit to a lesser extent, in the CBO's numbers.

Figure 13. Comparison of U.S. Real GDP Forecast Errors
(Percent of GDP (positive indicates optimistic forecasts)



Source: CBO Economic Forecasting Record 2013

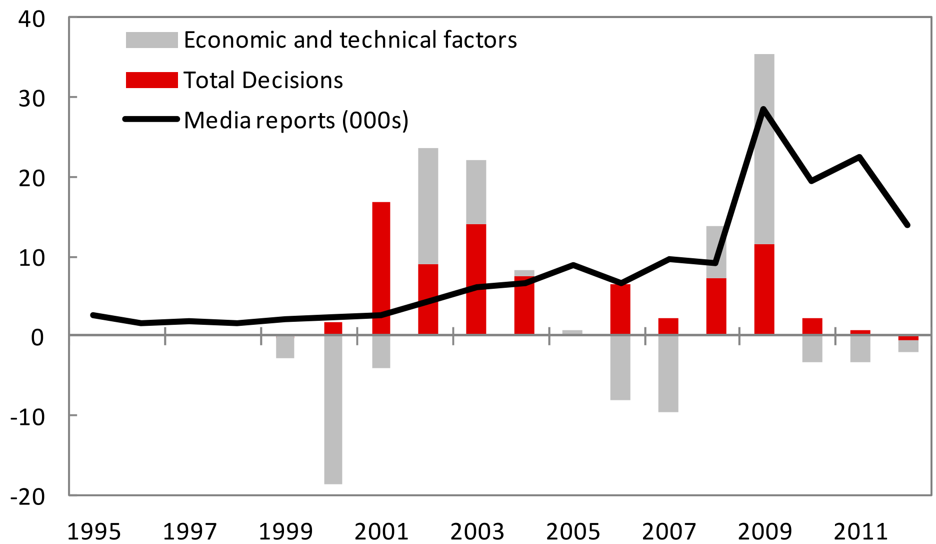
Fiscal Activity

The second area to examine in assessing the effectiveness of the CBO is to compare its media activity to periods of fiscal activity, to see whether it has been particularly active and raised alarms publicly during periods where the fiscal situation has deteriorated. These periods can easily be identified in the U.S. due to the high quality of reporting by the CBO. In each of its economic and fiscal updates, it breaks down the changes in its 10-year ahead fiscal forecasts to economic, technical and legislative factors. Thus, as a policy decision is taken and legislated, its impact on the deficit and debt over the next decade can be quantified. Similarly, if there are changes in the economic outlook, due to lower GDP forecasts, the impact on debt and deficit can be separated out from any policy decisions.

Figure 14 shows the cumulative impact on projected public debt over the following decade due to events in each year, split between policy, economic, and technical factors. For example, in 2009, policy decisions taken in that year increased public debt by 11 percent over the following decade, while economic and technical variations increased public debt by 24 percent of GDP, leading to an upward revision of projected public debt in 2019 of 35 percent of GDP. This measure of fiscal activity is plotted against the number of media articles mentioning both the CBO and a range of other key terms (such as budget, deficit and debt) to give an indication of the volume of media activity in each year.

Figure 14. The U.S. Fiscal Activity: 10-year Increase in Debt Due to Events in Each Year versus CBO Media Reports

(Percent of GDP and 000's of Reports)



Sources: Factiva and CBO

There have been a number of periods of intense and fiscally expensive policy making, for example the 2001 Bush era tax cuts and a major increase in Medicare entitlements in 2004, both of which would have major impacts on the public finances, not just in the coming decade, but well into the future. While the CBO published reports highlighting the issues at the time, its media presence did not increase noticeably, despite full public disclosure of the cost of policy decisions. One possibility is that in the absence of an agreed fiscal rule or benchmark, there was no benchmark against which the public could judge the fiscal costs against. Arguable another possibility is that in guarding its non-partisan status by deciding not to make strong normative statements, the CBO has been reluctant to strongly criticize the government and/or congress and to give more forceful policy advice to prod politicians into action (Hemming and Joyce 2013).

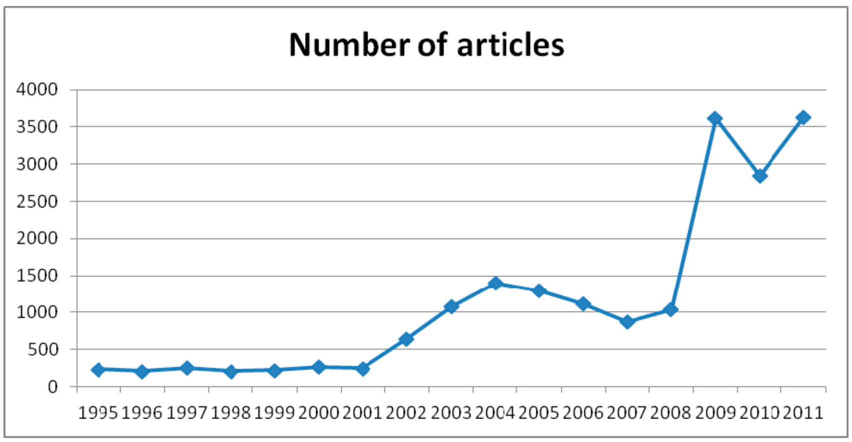
Costing of proposals

This is seen by many as an area in which the CBO has been particularly effective in influencing the policy debate both indirectly and directly. Overtime the CBO's scoring of congressional committees' and members' legislative proposals has resulted in greater attention being paid to the costs of legislation, and even indirectly, members adjusting proposed legislation to reduce costs and lower their CBO score (Joyce 2011). The CBO has also costed some politically controversial proposed legislation placing it at the center of partisan debates including President Carter's Energy legislation, President Clinton's proposed health care reform, and President Obama's health care reform (Hemming and Joyce 2013). In these cases, the CBO has produced, in a highly partisan environment, independent quality analysis which has influenced the policy debate, while maintaining its own non-partisan reputation.

E. Media Coverage

The CBO has a large media presence which has increased over the years. This reflects the value placed on the quality of its independent analysis and CBO's active media strategy. Since 2009, a combination of the financial crisis which led to a major deterioration in the fiscal outlook, combined with the fiscal stimulus has resulted in a sharp surge in CBO media activity (see figure 15). Reflecting its media strategy, and CBO's interventions are timed to have an impact when most needed and much focus is around press briefings twice a year in February and August, when the budget and economic outlook updates are released.

Figure 15. Press Coverage of the CBO



Sources: Factiva.

Throughout the year the CBO also has an active media presence. Its Director gives TV and radio interviews which focus not just on the CBO's forecasts but also on its costing of key policy proposals. For example, the CBO's costing of President Obama's health care reform received extensive media coverage and helped provide more objectivity to the policy debate. To ensure that journalists understand its work, the CBO provides access to its staff and background briefings.

F. Conclusions

The U.S. CBO is the largest and most well-funded fiscal council with the broadest remit. It has a highly skilled, professional staff, and has been headed by directors that have successfully balanced the need to provide independent input into the policy process, while maintaining a non-partisan line (Hemming/Joyce 2013). It has a proven track record of credible, non-partisan fiscal analysis, and provides key inputs into the legislative budget process. In terms of its effectiveness in forecasting, under the period of its existence there has been no consistent evidence of bias in the government's revenue forecasts, and its own forecasting record compares favorably to the government's and to the private sector.

It has developed a credible and very successful role in costing that helps members of Congress become more aware of the costs of legislative proposals and to adjust them accordingly. It has also influenced the debate on key Presidential policy proposals. The CBO manages its day to day communications with the public effectively. It has, however, arguable been less successful over the years in influencing politicians and the public to constrain the increases in deficit and debt. Although this is more difficult to achieve in a partisan environment, especially over the last decade, where there is a lack of political and public consensus on the direction of fiscal policy and on the actions needed to promote sustainable public finances.

The CBO remains among the most successful examples of a fiscal council and has served as a role model for others. It is important to note, however, that its success reflects many of the unique characteristics of the U.S. government, including the strong role played by the U.S. legislature in the budget process. This highlights the need for countries establishing new fiscal councils to adapt their model to their own institutional and political context.

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