

# The Role of Independent Fiscal Agencies

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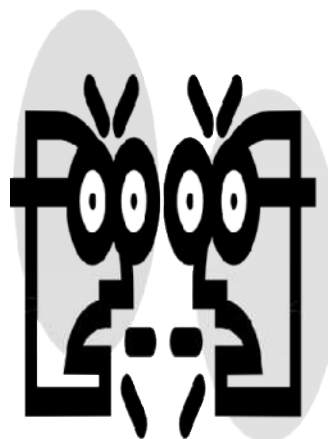
## Conclusions Drawn from Recent OECD Work in Budgeting

- \* **Spending Caps** (Including Tax Expenditures) Are Better Than Deficit-Based Fiscal Rules
- \* **Long Term Budgeting** Is Better Than Intergenerational Accounting
- \* Tax Credits Are **Spending**
- \* **Dynamic Scoring** Can't Be Done (but still shouldn't be ignored)
- \* **Performance Information** Is Better Than Performance Budgeting
- \* **Better Budget Information** for **Legislatures** Can Help

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## The Importance of Independent Budget Information

- **Institutions**
  - Coordinating roles
  - Analytic capabilities
- **Contestability**
  - Not a “monopoly-of-advice”
  - But a “market-for-advice”
- **Expertise**
  - Professional
  - Technical
  - Most importantly, independent



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## Independent Budget Offices

- Rapidly expanding in OECD (PBOs and Fiscal Councils)
  - Recently in Austria, Belgium, Canada, Hungary, Korea, Sweden, as well as the well-established ones in the Netherlands & US
- An **Institution** that can provide “balanced” **Contestability** and **Expertise**
- Also very important—perhaps necessary—for the legislature to be able to play a substantive role in the budget (and policy) process

See Anderson, B., “The Changing Role of Parliament in the Budget Process”, OECD Journal on Budgeting, Volume 2009/1.

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## **Budgetary Information Needs of the Legislature**

- Different from the Executive—more emphasis on:
  - Simplicity
  - Transparency
  - Accountability
- Needed for both Majority and Minority
- Source need not necessarily be adversarial, but it must be independent

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## **A Nonpartisan, Independent, Objective Analytic Unit**

- Issues Not Addressed
- Potential Value
  - Value can change
- Core Functions
  - Other functions
- Fundamental Characteristics
  - Additional characteristics
- Other Design Issues
- The Size of PBOs & Fiscal Councils Varies
- Conclusions

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## Issues Not Addressed

- Does an increased legislative role lead to bigger deficits?
- Does an increased legislative role lead to more “pork barrel” spending?
- Can an independent unit help either of the above?

**But I will address the benefits such a unit can have in reaching a better balance between the executive & the legislature.**

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## Potential Value

- Eliminate Executive’s information monopoly
- Simplifies complexity
- Promotes transparency
- Enhances credibility
- Promotes accountability
- Improves budget process
- Serves both majority & minority
- Provides rapid responses

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## Value Can Change

- Value At Creation
  - More Information for Legislature relative to Executive
- Value After Creation
  - More Information for Minority Parties relative to Majority

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## Core Functions

- I. Economic Forecasts
- II. Baseline Estimates
- III. Analysis of Executive's Budget Proposals
- IV. Medium Term Analysis



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## I: Economic Forecasts

- **Objective**
  - Not a function of policy proposals - not “dynamic”
  - Not based on wishful thinking - no rosy scenario
  - Not a means to an end - for example, interest rates, & oil & crop prices should be estimates, not targets
- **Conservative:** allows for better-than-forecasted performance to reduce deficits/debt
- **“Centrist”**, based on:
  - Panel of experts
  - Private forecasters
  - Central Bank

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## II: Baseline Estimates

- **Projections, not Predictions**
- “Centrist” Economic Forecast
- Current Law Basis, including
  - “Spend Out” of Enacted Legislation
  - Termination of Expiring Legislation
- Medium Term Focus
- Replaces Previous Year & Executive Baselines

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### **III: Analysis Of Executive's Budget Proposals**

- An objective budgetary assessment
  - ✓ A technical review—**not** a programmatic evaluation
- Enhances credibility—both of government as a whole and of executive forecasts

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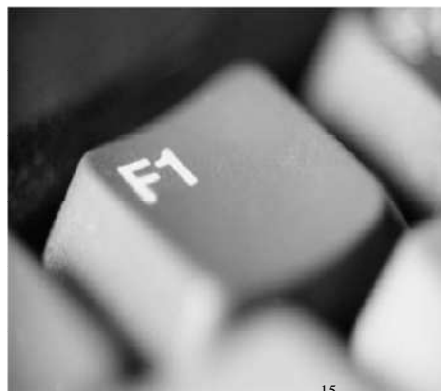
### **IV: Medium Term Analysis**

- Forces Executive to look beyond one year
- Estimates medium term economic and fiscal impacts of policy proposals
- Important to take account of Fiscal Risks:
  - Guarantees
  - Pension liabilities
  - Contingent liabilities
  - PPPs
- Provides basis for Long Term Analysis

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## Other Functions

- Analysis of proposals
- Options for spending cuts
- Analysis of mandates (regulatory analysis)
- Economic analyses
- Tax analyses
- Long term analysis
- Policy briefs



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## Fundamental Characteristics

- **Nonpartisan** (not Bipartisan)
  - Director should be more technical than political
  - Staff should be entirely technical
  - Develop an esprit de corps
- **Independent**
- **Objective**
- **Informed**
- **Serve Both** Majority & Minority
- **Transparent** (Everything on the Internet)
- **Understandable** (Subway test)



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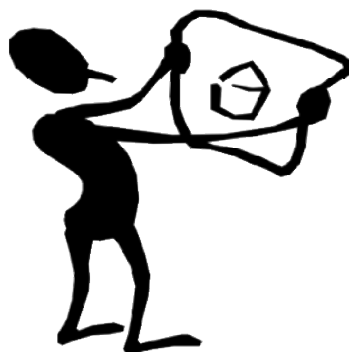
## Additional Characteristics

- Put core functions in law
- Do not make recommendations [GAO: audit, with recommendations; CBO: budget, without]
  - Note: Fiscal Councils usually make recommendations
- Brief Members first, especially if news is bad
- Serve Committees, not Members
- Meet with anyone, but be balanced
- Be physically separate from legislature
- Avoid limelight
- Be responsive and timely

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## Other Design Issues

- Location of Unit: Executive or Legislative?
- Selection of Director
  - Qualifications
  - Salary
  - Removal
- Term of Director/Staff
- Selection of Staff
- Organization of the Unit
- **Overriding Criteria: Independent & Objective**



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## The Size of PBOs & Fiscal Councils Varies

- Many new organizations have **less than 20** staff:
  - Examples: Canada's new PBO; Austria's and Sweden's new Fiscal Councils
- Two organizations have **over 100** staff: Korea and the Netherlands
- And the US Congressional Budget Office has **235** staff

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## Distribution of CBO Staff

Function	Core	Other	Total
Executive Direction	5	5	10
Macroeconomic Analysis	5	15	20
Tax Analysis	5	15	20
Budget Analysis			80
Baseline	20		
Analysis of Proposals		45	
Mandates		15	
Program Divisions		75	75
Technical & Administrative	10	20	30
Total	45	190	235

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## Staffing by Core Function for 3 US Independent Budget Organizations

Core Function	CBO	IBO (NYC)	LAO (Calif)
Executive Direction	5	6	3
Macroeconomic & Tax Analysis	10	4	5
Budget Analysis	20	12	36
Technical & Administrative	10	5	9
Total	45	27	53

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## Conclusions

- Legislatures need an **independent** source of **information & analysis** to improve their **participation** in budget preparation.
- A **nonpartisan, independent, objective analytic** unit can provide **transparent, clear, & accurate** information without polarizing relations between the Executive & the legislature.
- Successful creation of such a unit is not easy—in particular, it demands **balance** in a political environment—but it clearly can contribute to a better policy making process for both the Executive and the legislature.

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