



**National fiscal councils.
Learning from (recent) experiences**

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My background

I was a student of macroeconomics in the mid 1960s: What did I learn?

The ruling fiscal policy paradigm of yesterday:

To stabilize the domestic economy *maximum discretionary* power over fiscal policy should be given to the minister of finance. The minister of finance is a source of stability.

His/her room of action should be unlimited.

None of my professors talked about fiscal policy councils.

My background

The ruling fiscal policy paradigm of today:

To stabilize the domestic economy *minimum discretionary* power should be given to the minister of finance.

His/her room of action should be limited and controlled by fiscal rules including a fiscal policy council. The minister of finance is a source of instability.

This is a revolution. I want to thank the organizers of this conference for inviting me to take part in this exciting revolution.

(I will comment on the counterrevolution at the end of my presentation.)

What have we learnt by now (before this conference)?

1. Fiscal rules – that is fiscal frameworks (including fiscal policy councils) - have a significant effect on the primary balance.

They reduce the structural primary deficits at all levels of government efficiency. (27 EU countries 1990-2012 according to Bergman, Hutchison and Jensen 2015)

What have we learnt by now (before this conference)?

2. Fiscal rules – that is fiscal frameworks (including fiscal policy councils) - have a significant effect on the procyclicality of fiscal policy.

They reduce the extent of policy procyclicality. (81 countries 1985-2012 according to Bergman and Hutchison 2015).

What have we learnt by now (before this conference)?

3. Fiscal rules – that is fiscal frameworks (including fiscal policy councils) – come in many forms and varieties.

We do not know the optimal (most efficient) set of fiscal rules cum fiscal councils.

Fiscal rules seem to be path-dependent, that is country specific.

The EU fiscal framework is an attempt to import a common framework, circumventing domestic traditions. An exciting experiment from my perspective as a former advisor at DG ECFIN examining the functioning of the SGP.

What have we learnt by now (before this conference)?

4. Fiscal policy councils play a role – but which role?

We have great problems in identifying the effects of fiscal policy councils per se.

The impact of a fiscal council depend on many factors like the quality of governance, the fiscal framework, trust in the political system etc.

In due time, a fiscal council will impact on the factors determining its effectiveness.

What do the four presentations today tell us?

1. Fiscal councils/advisory councils: a new institutional innovation:

United Kingdom 2011

Portugal 2012

Austria 2013

Italy 2015

As the fiscal councils in the four countries are new institutions it is difficult to evaluate their performance and impact on public finances.

What do the four presentations today tell us?

2. Fiscal councils come in many versions. Still there are some core/common features:

- *Monitor public finances*
- *Present regularly reports on the fiscal stance*
- *Aim at influencing public opinion*
- *Independence*
- Common tasks for fiscal councils within the euro area. The UK body will be different.

What do the four presentations today tell us?

3. Fiscal councils have an important role to play:

They contribute to public knowledge and awareness of the evolution of public finances (*media attention*). In this way they raise the level of public debate and strengthen the workings of a democratic political system.

I would like to stress this role. The role is dependent on the existence of a fiscal framework.

What do the four presentations today tell us?

4. What is **not** in the four country reports (or not in all of them):
 1. The distribution of income and wealth – not discussed by any report
 2. Quality of governance – not discussed by any report
 3. Potential clash between domestic and EU rules/views on fiscal issues. Touched upon in a diplomatic way
 4. The relationship between the fiscal council and the central bank. Can monetary policy be independent from fiscal policy and vice versa? My answer is: No. Important issue not discussed by any report
 5. Accounting for financial/fiscal risks – not dealt with
 6. The role of economic models – touched upon
 7. The balance between fiscal councils and financial markets as signalling devices concerning fiscal prudence
 8. Threats towards fiscal councils – not discussed by any report

What do the four presentations today tell us about the future?

5. Fiscal councils are facing various challenges. Every country report concerns certain challenges.

Can we make a coherent story about these challenges?

Threats to rules-based fiscal policies

1. Austerity fatigue
2. Accommodative monetary policies
3. Secular stagnation
4. Badly designed rules and frameworks
5. Frequent changes in the rules
6. Political control over fiscal rules and councils
7. Weak domestic ownership of rules
8. Fading collective memory of fiscal crisis
9. Lack of quality of government
10. Changing macroeconomic paradigm

Threats to rules-based fiscal policies

The challenges presented today are minor in my view. Thus I am optimistic about the immediate future.

The true test of fiscal councils will come in the future. It is important that the present councils will have the chance to get well established and improve public debate.

The future for fiscal policy councils

ECB is independent. Fiscal policy councils are independent as well.

The four reports make me optimistic. But there are challenges that must be dealt with.

We have to keep up an active learning process to ensure the future of independent fiscal councils – like learning from the present conference.

Some (very selective) references

U. Michael Bergman and Michael M. Hutchison, Economic stabilization in the post-crisis world. Are fiscal rules the answer? *Journal of International Money and Finance*, 2015.

<http://dx.doi.org/10.1016/j.jimonfin.2014.11.014>

Promoting Sustainable Public Finances in the European Union: The Role of Fiscal Rules and Government Efficiency. U. Michael Bergman, Michael M. Hutchison and Svend E. Hougaard Jensen

https://www.researchgate.net/publication/290392348_Promoting_Sustainable_Public_Finances_in_the_European_Union_The_Role_of_Fiscal_Rules_and_Government_Efficiency

Lars Jonung “Reforming the fiscal framework: The case of Sweden 1973-2013”, chapter 8 in T. Andersen, M. Bergman and S. Hougaard Jensen, eds. *Reform Capacity and Macroeconomic Performance in the Nordic Countries*, Oxford University Press. Also available as working paper 2014:26, Department of Economics, Lund University.

<http://swopec.hhs.se/scripts/Update.pl?s=lunewp&n=2014:26&p=64349>

Lars Jonung, Iain Begg and Michael Tutty, (2015), How is the Irish Fiscal Advisory Council Performing? An Independent Evaluation of the First Years of IFAC.

http://www.fiscalcouncil.ie/wp-content/uploads/2012/01/PeerReview_Formatted_23062015.pdf



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