

Independent Fiscal Institutions in the European Union: Is Coordination Required?

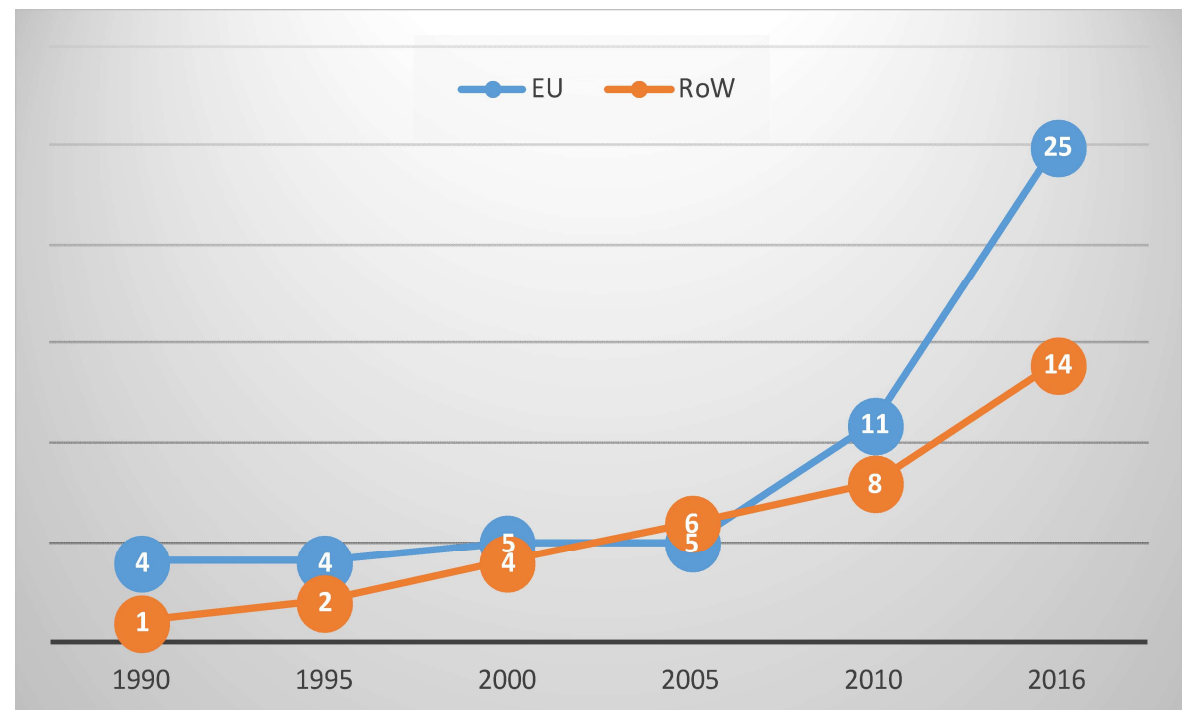
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Motivation

- EU fiscal framework going national:
 - Fiscal rules
 - Independent fiscal “bodies” (\approx independent fiscal institutions / councils).
- Consistency with EU standards of fiscal discipline:
 - Required features for national fiscal rules (in EU law + IG Treaty)
 - Need for coordination among national “bodies” ? If so, what type?
- Paper analyzes coordination issue through three questions:
 - #1 How do IFCs really influence fiscal policies? (Effectiveness)
 - #2 Does answer to #1 point to specific coordination failures?
 - #3 If so, what form of coordination and how?

IFCs to constrain fiscal discretion

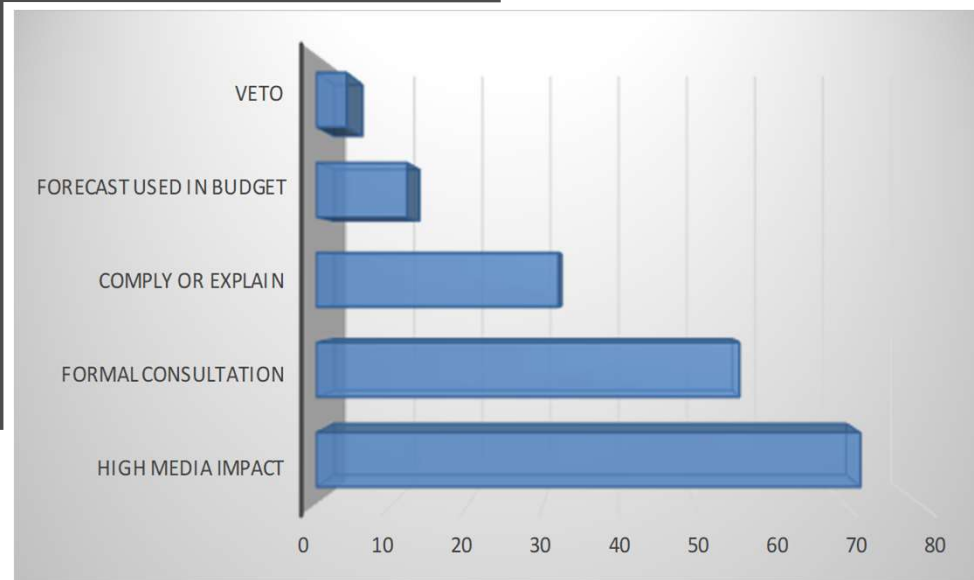
- Constrained discretion = desirable policy regime → frameworks.
- Framework = rules \cap independent institution.
- Rise of IFCs in fiscal frameworks.





How do IFCs influence
fiscal policies?

IFCs effectiveness

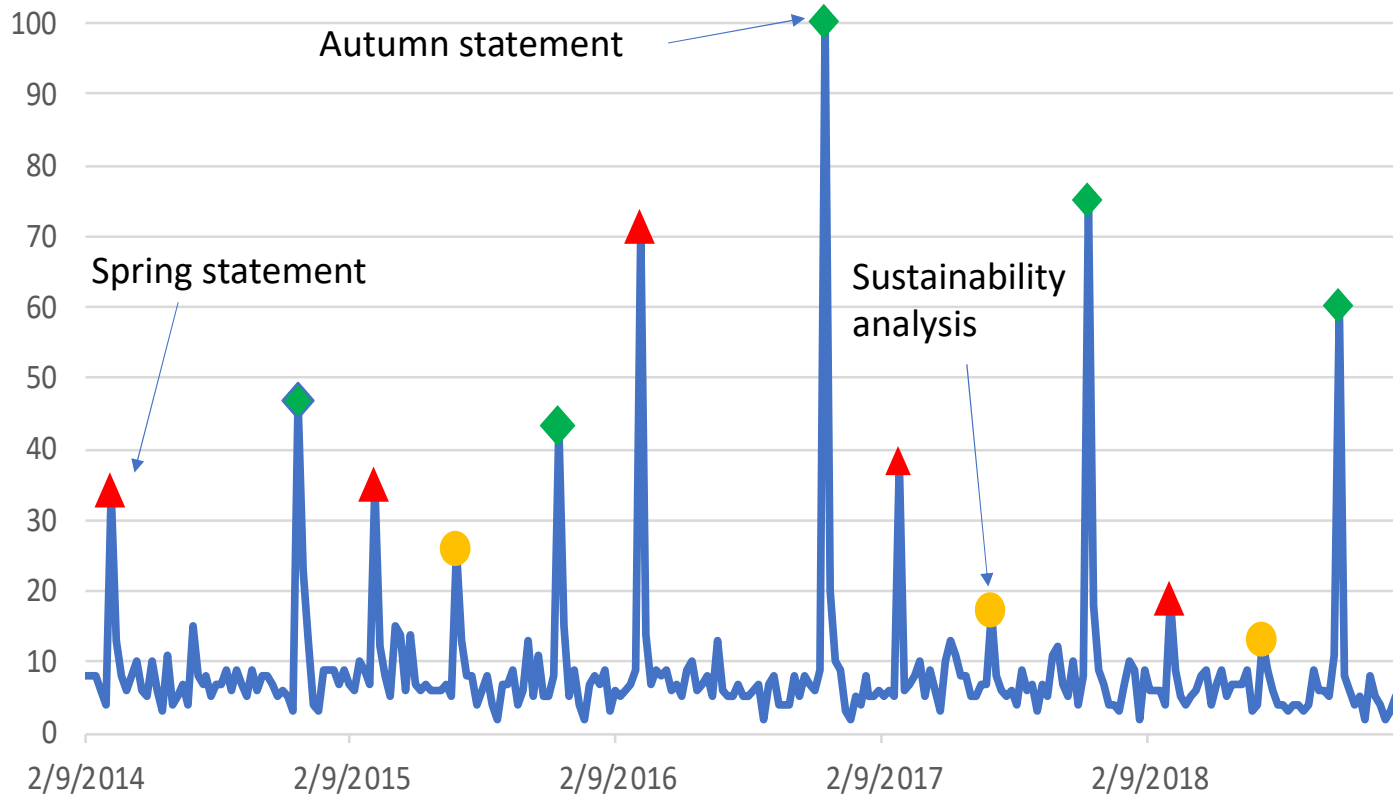


- No policy tool → IFCs can only work through:
 - Greater transparency → accountability (reputational/electoral costs)
 - Better fiscal information → more market discipline
 - Easier handling of common pool problems.
- Influence on fiscal decisions: through the public debate.

IFCs effectiveness

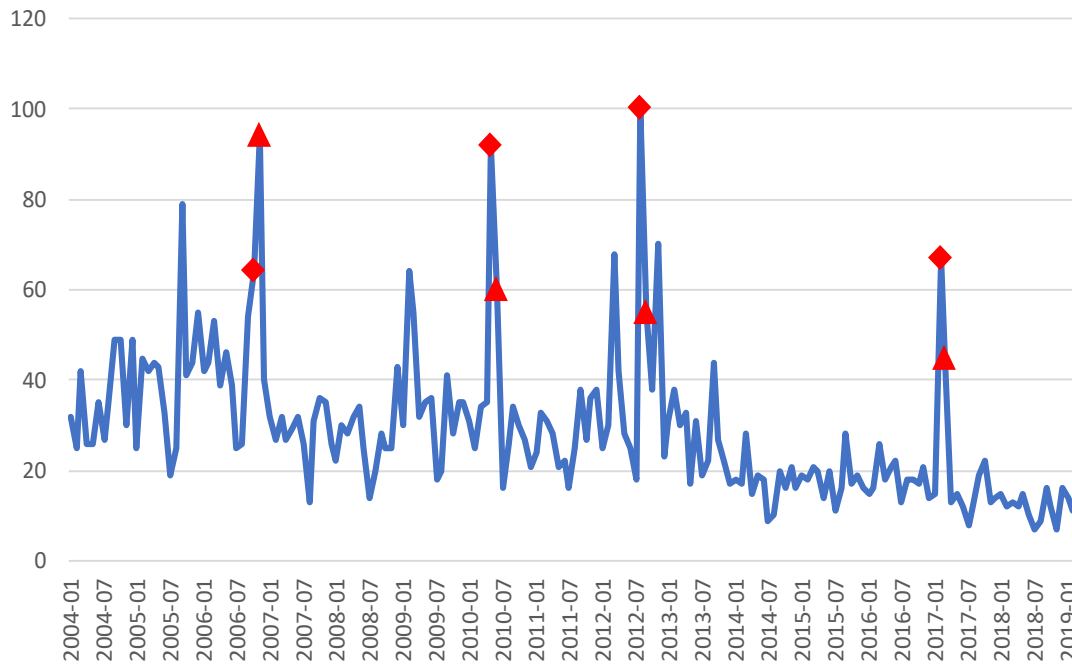
- Maximize signal/noise → presence in public debate + good COM.
- Golden rule: talk only when you must.
- Descriptive evidence on Google searches as metric for effective COM:
 - UK's Office for Budget Responsibility
 - Netherlands Bureau for Economic Policy Analysis
 - [Spain's Independent Fiscal Authority (AIReF)]

Talk only when you must: the OBR



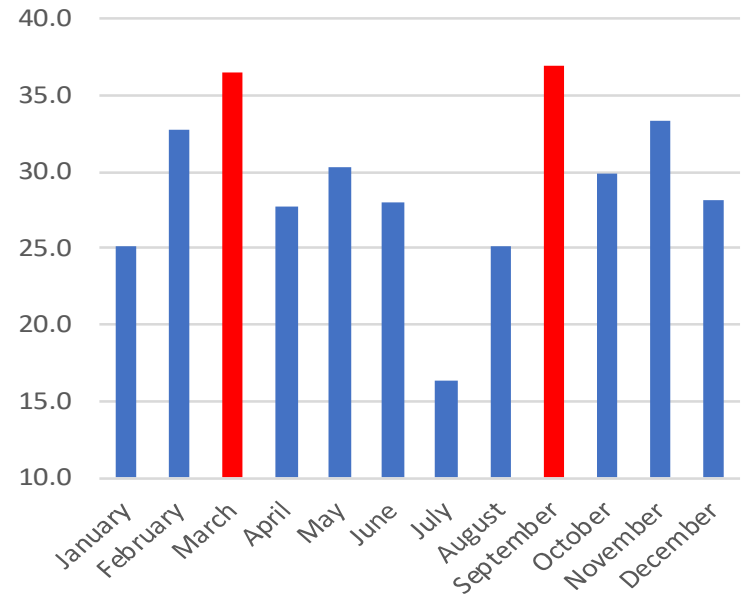
Interest in OBR strongly correlated with key dates of the budget cycle.

Talk only when you must: the CPB



Peak interest around release of assessments of electoral platforms, ahead of general elections.

Average monthly pattern of interest concentrated around key forecast releases



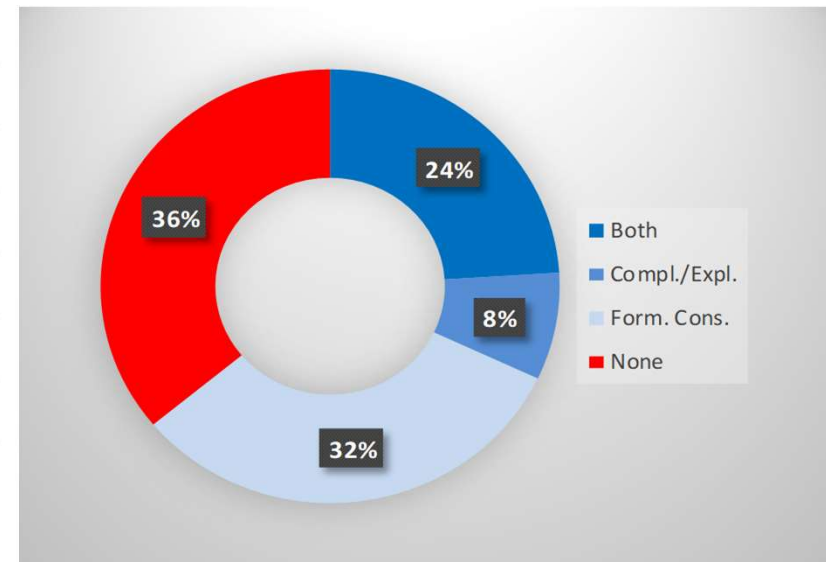
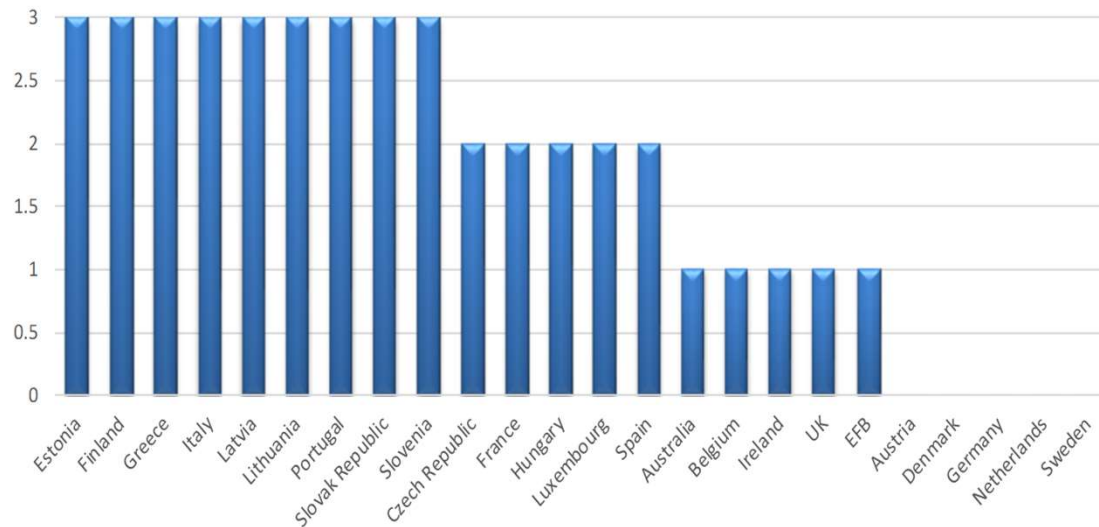


Coordination failures

“Systemic” failure: little harmony

- Lack of convergence to leading practice.
 - Capacities to deliver appear to vary across countries (EFB, 2018)
 - Major differences in aspects that shape ability to deliver (Horvath, 2017).

Access to information (de jure guarantees, OECD)



“Functional” failure: cacophony

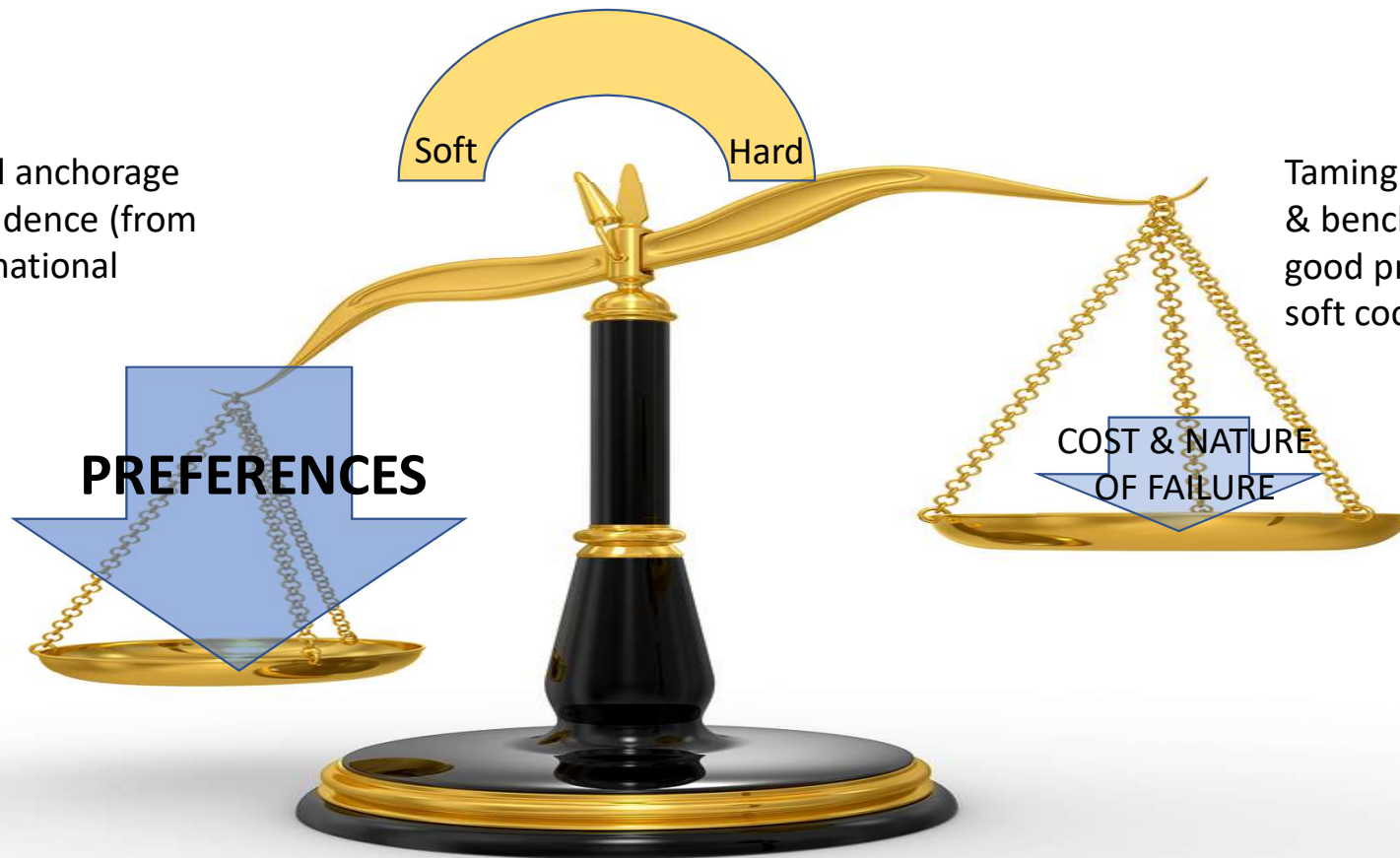
- Multiple assessments of the same fiscal position → cacophony.
- Sources of cacophony:
 - Information sets,
 - Priorities / perspectives,
 - Honest disagreements among experts (judgment and uncertainty involved).
- Effects of cacophony:
 - Undermines credibility of local IFC (agent of EC vs. dependent) → jammed signal.
 - Weakens EC traction at local level → runs against 2010 approach.
→ bad for new governance framework.
- Potential areas of conflict:
 - Forecasts, “other relevant factors,” recommendations.



Coordination and its forms

Hard vs. soft coordination

- National anchorage
- Independence (from EC and national politics)



Information exchange and peer pressure

- Mitigate cacophony.
- Forge consensus on aspects of best practice critical to IFCs in EU framework.
- Vertical & horizontal:
 - Vertical: EC and national IFC (methods, judgments, timing),
 - Horizontal: developing good practice, benchmarking, peer pressure/reviews,
 - Overall consistency: IFCs as a group interact with EC on cross-country issues.
- Special case of recommendations: cost of cacophony higher (fiscal policy coordination at risk) → avoiding cacophony, e.g. through preset division of labor.

Coordination must be flexible

- IFCs are country-specific for (mostly) good reasons → modalities of vertical coordination tailored to each case. See Table 1.

Fiscal illusion	Sustainability analysis	Low capacities No engagement Cacophony	Funding guarantees Effective comply/explain; hearings Sharing information (data, models, etc)	Centralized (Directive?) Horizontal dialogue (peer pressure) Vertical dialogue
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Coordination today

- Networks of IFCs: two networks / some differences in memberships.
 - Sui generis Network of EU IFIs: many aspects of horizontal information sharing (best practice, benchmarking), and elements of joint engagement with EC (fiscal governance reform, minimum standards for IFCs).
 - Official network of independent bodies: element of vertical dialogue of IFCs (as a group) with the center.
- European Fiscal Board:
 - Documents lack of harmony,
 - Identifies points of stress behind cacophony (information sets),
 - Encourages EC even-handedness → lower risk of cacophony.
- More coherence and clarity needed → proceed cautiously (independence is a sacred cow for new institutions).

Way forward

- Identify all the players in the game.
- Better align EFB on best practice IFC...
 - Independence cannot hinge too much on high-quality managerial appointments / staff.
 - Expanded role in coordination → resources + permanent managerial positions.
- Clear architecture:
 - IFC network with mandatory participation (build upon the positives of existing structures).
 - Upgraded EFB as an umpire of the network and enabler of vertical dialogue with EC.

Conclusions

- Risk of coordination failures: too little harmony, too much cacophony.
- Soft coordination is desirable: preserves IFC independence while more effectively promoting best practice in the EU context.
- Institutional architecture that remains flexible to accommodate tailoring of vertical dialogue and promotes harmony when required.
- EFB as an umpire and an enabler, but must get closer to best practice IFC to credibly play that role.