
What can Austria learn from the Dutch fiscal framework?

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- Introduction

 - The Dutch fiscal framework
 - ▶ Institutions and procedures for fiscal policy
 - ▶ Current fiscal rules

 - Which lessons for Austria?

Introduction

- IMF and OECD recommend budgetary reforms for Austria to improve:
 - ▶ sustainability of public finance (need for consolidation in view of the costs of ageing)
 - ▶ quality and cost-efficiency of public spending

- According to IMF and OECD, Dutch fiscal framework is best practice and can provide lessons for Austria

- Austria and the Netherlands have much in common:
 - ▶ small open economies with big government sector
 - ▶ member of European Monetary Union, i.e. subject to EMU-norms for general government deficit and debt
 - ▶ coalition governments
 - ▶ corporatist countries (no liberal market economies) in which consultation and consensus are important
 - ▶ independent official macro-economic forecasts
 - ▶ independent institute for economic policy analysis
 - ▶ local government mainly financed by transfers by the central government

■ But also differences:

- ▶ Austria strong legal tradition in budgeting (although Schumpeter was once Minister of Finance)
- ▶ Netherlands strong role of economic thinking, stressing rationality and efficiency in budgeting;
 - prime ministers and other major politicians often economists (Pierson, Zijlstra, den Uyl, Lubbers, Kok, Duisenberg, Zalm, Bos)
 - role of CPB in economic and fiscal decision-making (since 1945, Tinbergen was first director)
 - 1961: start of four-annual trendbased fiscal policy
 - nevertheless, no permanent success-story, much trial and error, not always progress, but also regress (e.g. a chaotic budgetary process in the seventies and eighties), taboos and big inefficiencies (e.g. a railway track to Germany)

Institutions and procedures for Dutch fiscal policy

- The road to a new medium term fiscal framework
- The annual budgetary process
- The role of the CPB
- The role of other institutions

The road to a new medium term fiscal framework

- One year before the elections:
 - ▶ CPB estimates of the Dutch economy and public finance in the medium and long term assuming no changes in policy (is there sustainability?)
 - ▶ Report by the official advisory group on budgetary principles (representatives from Ministries, CPB and Central Bank); evaluates current fiscal principles and practice and gives advice for next period of government

- Two months before the elections:
 - ▶ CPB analysis of the election platforms (on request of the political parties, interactive): what are the consequences for the Dutch economy, public finance and purchasing power?
 - ▶ After the elections:
 - CPB analysis of provisional and final coalition agreements
 - New medium term framework based on new CPB estimates for the Dutch economy

The annual budgetary process

- Based on CPB's macro-economic forecasts (economic growth, wage rates, interest, dollar, etc).
- The Ministry of Finance compiles the official budget (their estimates of public expenditure, revenue, balance and debt)

- But simultaneously also CPB's estimates are published on Dutch public finance; the latter serve as a critical benchmark and play the central role in negotiations about the budget between the Ministry of Finance and other Ministries
- For discussion in parliament, CPB analyses also the budgetary proposals of opposition parties (on request)

■ The role of the CPB:

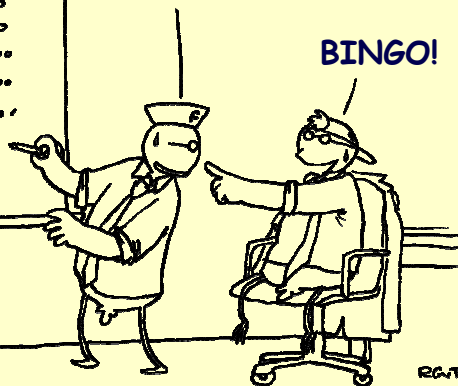
- ▶ The short term, medium term and long term estimates of the Dutch economy and public finance are backbone of budgetary process
- ▶ Analysis of election platforms, coalition agreements and budgetary proposals by opposition parties
- ▶ Strategic studies, e.g. long term scenario studies and specific studies about major/vital parts of the Dutch economy (welfare state, education, health care, innovation);
- ▶ Cost-benefit analysis of major infrastructure projects
- ▶ Member of influential advisory groups, e.g. Socio-Economic Council and Official advisory group on budgetary principles

THEY EASILY FIND THOSE
20 BLN IN SAVINGS

AND HOW ABOUT
CLOSING DOWN THE CPB?

Zinnigman	- 2.000.000.000
Handelman	- 1.500.000.000
Beun	- 1.000.000.000
De Vries	- 700.000.000
Wolfsma	- 600.000.000

BINGO!



RGV

Nerd engels



■ Other institutions:

- ▶ Court of audit for central government
- ▶ Statistics Netherlands
- ▶ Various units at the ministry of Finance
- ▶ Interdepartmental policy evaluation groups

Dutch fiscal rules

- General target for budget balance at the end of the period of government in view of sustainability
- Expenditure ceilings for the whole period of government:
 - ▶ in real terms (not nominal, no volume)
 - ▶ three different ceilings (social security, health care and other net expenditure by the central government), but no strict distinction in practice
 - ▶ cyclical windfall should not be spend, but is not explicitly defined
 - ▶ outside the ceiling: national investment fund, interest payments
 - ▶ danger: do not use temporary windfalls for increasing permanent expenditure (*Zalm's nightmare*)

- Monitoring revenue:
 - ▶ automatic stabilization: windfalls should not be spend and set backs need not be compensated
 - ▶ monitoring tax expenditure
 - ▶ monitoring the micro tax burden in bln euro (not collective tax burden)
- A signal value for budget deficit of 2% GDP: then additional measures need to be taken and expenditure ceilings do not apply any more (danger: pro-cyclical)
- One main decision making moment a year (first expenditure, then taxes): crucial for stability of decision-making and good allocation

- National investment fund (originally "financed" out of natural gas revenues): embedded in long term national investment plans and subject to cost-benefit analysis based on national guidelines and, where necessary, a second opinion of CPB

- Local government:
 - ▶ golden rule of balanced budget supervised by provinces
 - ▶ balanced budget rule may conflict with EMU-balance, e.g. spending the revenues from sale of equity stock. Therefore since 2003 monitoring and, when necessary, agreements
 - ▶ total general purpose transfer linked to total central government expenditure excluding social security, health care; distributed to individual local units by complex formulae based on objective criteria
 - ▶ social assistance benefits financed by central government linked to macro-budget calculated by CPB; very successful incentive for municipalities to reduce number of social assistance benefits

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- ▶ municipal courts of audit

Which lessons for Austria?

- Much in common with the Netherlands, so Dutch solutions could be applicable in Austria too, or help to invent Austrian solutions
- For sustainable public finance: do not rely on European calculations:
 - ▶ they may not fit well for Austria (cf. Dutch natural gas or the Dutch pensions and tax system; also gross debt can be misleading and Dutch “robust budget balance”);
 - ▶ the merits and limitations of these calculations should be well understood and communicated in Austria (tacit knowledge).

cpb

Lessons from the Netherlands

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- Institutions, procedures and rules: regular official and good quality evaluation is crucial, cf. role of official advisory group on budgetary principles, but also checks on relevance and scientific quality of CPB