



CPB Netherlands Bureau for Economic
Policy Analysis



CPB
The world's oldest fiscal
watchdog

Coen Teulings

- Copenhagen
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Formal position

- Just a department within Ministry of Economic Affairs
 - Not an *agency* or *independent body*
 - Director = civil servant, appointed by the cabinet
 - Both different from OBR
- Staff of 100-150
 - Large compared to other countries
 - ... but useful
 - Combines tasks of OBR, IFS and NIESR



Public reputation / rules of conduct

- Generally accepted as independent source
- Day to day in the press
- Evaluation of election platforms
- Works also for opposition parties
- Recently: accessible for parliament (maybe dangerous)
- I never experience any pressure on our forecast
- We try to be ahead of the policy debate
- Leave convincing voters to political parties
- Only arbitrator on request (actually, quite often)



Even then

- Regular attempts to influence our stance
- By ministers
 - ... or civil servants
- On behalf of their political bosses
 - ... or on their own behalf
- Gaming our models
 - E.g.: impact assessment of last consolidation package
- Poses demands on
 - Corporate culture of CPB
 - Being director is a tough job



Election cycle (4 years)

- Mid term forecast
 - Including an analysis of ageing and sustainability
- Advisory Group on Fiscal Policy
 - Gives advice on budgetary goals
- CPB analysis of election platforms
- Elections
- Negotiations on new coalition agreement
 - Ceilings for expenditure in real terms
 - Half way deficits should be compensated
 - Tax rates and premiums on revenue side
 - Automatic stabilization on revenue side (till sofar?!)



Evaluation election platforms I

On request political parties, almost all participate (different from IFS)

Merits

- Same underlying economic scenario
- Evaluation by identical standards
- Makes programs comparable
- Improves technicalities in proposals
- Deeply suspicious regarding free lunches
- Checks practical and juridical feasibility
- Starting point bargaining for new government
- Issues: cutting on civil service,



Summary overview of the effects of the election platforms of 9 different political parties (changes relative to baseline, unless otherwise mentioned)

	CDA	PvdA	SP	VVD	PVV
Improvement EMU-balance 2015	18	11	10	20	15 ³ / ₄
Sustainability of public finances	33	31	16	39	17
Structural employment (%)	4	2 ¹ / ₂	- 1	5 ³ / ₄	1 ¹ / ₄
Quality of transport	³ / ₄	³ / ₄	- ¹ / ₄	1 ¹ / ₄	1 ¹ / ₄
Car use (%)	10 -15	10-15	0	0	0
Public transport use (%)	5-10	5-10	+ 5	0	0
Reduction of greenhouse gases (Mton Co2)	36	44	21	2	2
Effect education (%)	2 ¹ / ₄	4 ³ / ₄	1 ¹ / ₄	4	1 ¹ / ₄
Housing market (welfare gains % gdp)	0.1	0.5	0.4	0.3	- 0.1
Health care, (employment, 2015, thousand)	-10	-15	+15	-50	+10



Evaluation election platforms II

Objections

- Constrains political debate (e.g. juridical feasibility)
- Bias in debate to proposal that are easily evaluated
 - Institutional reform in health care
 - Compare free lunch skepticism
- Favors short run Keynesian above structural effects
 - Solution: e.g. Mimic model
 - Lines up to experience: structural reform takes time
 - Compare '80 in Netherlands, '90 in Sweden
- Broad remit, long history in the Netherlands
 - Wage policies during '70
 - CBA for Dutch railways



Reassessing role of macro model

- Excess attention for Keynesian instead of structural effects
- Solution: separate micro/partial equilibrium model

- Insufficient flexibility of model: e.g. financial crisis
- Simultaneity bias in estimation/weak empirical underpinning
- Lost linkage to scientific literature
 - Global phenomenon: IMF, OECD, other countries
- DSGE is even more inflexible/limited success in forecasting
- Standard VARs are too small to be serious
- Including broader set of variables (e.g. consumer confidence)
- Solution: Bayesian VARs?



Lessons and implications (Romer, IMF)

Fiscal Policy lessons:

- Changes in fiscal policy have large effects in short run
- Unsustainable long-run budget deficits eventually lead to ruin

Implications for Policy

- Immediate austerity is likely to be counterproductive
- Back-loaded austerity is needed
- Strong countries should be pursuing expansionary policy
- Structural reforms are needed, but benefits are long-term
 - Reforms are not softies, it is tough! (compare FT)
- Monetary policy needs to be more helpful



Recent Dutch experience

- Triple A status till so far, relatively low interest rates
- Huge balance of payment surplus
- Despite substantial consolidation, deficit 2013 up to 4.6%
- Call for additional austerity to meet 3 % target EU
- Plea CBP to the contrary, no impact on public opinion
- Why?
 - Excess commitment politicians to European norms
 - Experience of Keynesian policies in '80
 - Inadequacy of economist advice: if we have to postpone consolidation today, why doing it tomorrow
- Recent effort CPB to answer that question



Reforms and austerity are substitutes!

- Government debt is claim on future generations
- The same applies for constraints on competition
- Tradability of claims assigns all future rents to current insiders
- Examples
 - Mortgage deduction and house prices
even balanced budget abolishment favors future gen.!
 - Price of a cab license
 - Goodwill on professional practices
- Prioritizing needed: you cannot hit current generation always
- Reform is not for softies



Debt bias in politics?

Research Adi Brender (Bank of Israel)

- only in new democracies (<4 elections)
- in old democracies
 - voters are wiser
 - politicians do not gain from political fiscal cycle
- Fits recent Dutch experience

- Fiscal councils should be involved in structural reform !
- That requires some staff ! (e.g. wage policy in '70, Mimic '00)



Lesson I: towards structural reforms

- Government debt is claim on future generations
- The same applies for constraints on competition
- Tradability of claims assigns all future rents to current insiders
- Examples
 - Mortgage deduction and house prices
 - even balanced budget abolishment favors future gen.!
 - Price of a cab license
 - Goodwill on professional practices
- Prioritizing needed:
 - you cannot hit current generation on all dimensions
- Fiscal watchdogs should enter debate on structural reforms



Lesson II: broad remit

- Scope of activities should not be limited to fiscal policy
 - Contribution to a common understanding of trade offs
 - Different from mandate OBR
- Effectiveness depends on demarcation roles watchdog-politics
- Rethinking demarcation fiscal – monetary policy
 - Demarcation politics - technocracy
 - Rearranging tasks towards technocrats
 - In particular in Euro area, but against populist outcry
- Welfare theory provides little guidance for demarcation line



Lesson III: independence

- Reputation of quality is crucial; building it takes time
- Closeness of ties to government is trade off
 - Better, policy relevant information
 - Less independence