



CPB Netherlands Bureau for Economic
Policy Analysis



CPB
The world's oldest fiscal
watchdog

Coen Teulings

- Stockholm
May 8th 2012



CPB Directeur Teulings: zeer relevante delen van Brussel' willen de bezuinigingspijn voor Nederland verzachten.

CPB Director Teulings says:
“relevant parts of Brussels do want to soften the austerity pain for the Netherlands

de Volkskrant, March 27th 2012

- Recent plea in FT for structural reform, not immediate austerity
- Fiscal Compact
- Common experience with the Swedish fiscal council

ft.com > comment > Welco

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 **Jean Pisani-Ferry** February 27, 2012

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EUROPE • FINANCE

Eurozone countries must not be forced to meet deficit targets



Major events in the history of CPB

1945	Start, first director: Jan Tinbergen
1946	Government budget based on CPB's estimates
1950	Start of Socio-Economic Council
1953	1 st CPB macro model
1961	1 st CPB Macro Economic Outlook
1971	1 st advisory group on fiscal policy
1975	Supply side included in macro-model: effect of wages and unemployment
1986	1 st evaluation of the election platforms
1992	1 st general equilibrium model labour market: marg. tax rates on employment
1992	1 st long term scenario study: the role of institutions for growth
1994	Cost-benefit analysis of railway freight track to Germany
1998	1 st study of sustainable public finance (generational accounts)



Formal position

- Just a department within Ministry of Economic Affairs
- Not an *agency* or *independent body*
- But instituted by law
- Director = civil servant
 - Appointed by the cabinet
 - 7 year term
- Personnel evaluation by Secretary General of Ministry
- Staff of 100-150
 - Large compared to other countries
 - ... but useful



A public reputation

- Generally accepted as an independent source
- Day to day in the press
- Evaluation of election platforms
- Works also for opposition parties
- Recently: directly accessible for parliament
 - Might be dangerous



Rules of conduct

- Independence is part of tradition
- I never experience any pressure on our forecast
- Existing procedures *guarantee* independence
- We try to be ahead of the policy debate
- Leave convincing voters to political parties
- We are only arbitrator in a dispute on request
 - Such requests come in quite often
- Three values
 - Transparency
 - Scientific quality, mainly monodisciplinary
 - Policy relevance



Even then

- Regular attempts to influence our stance
- Mainly by members of the cabinet
- Also by civil servants
 - On behalf of their political bosses
 - ... or on their own behalf
- 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
 - Cielings 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



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



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 / ₄
Quality of transport	³ / ₄	³ / ₄	- ¹ / ₄	¹ / ₄	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 / ₄	4	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



Recent Dutch experience

- Triple A status till sofar, relatively low interest rates
- Huge balance of payment surplus
- Automatic stabilization in 2008/2009
- Deficit 2010 up to 5.1 % gdp
- Elections in 2010
- New government set out for austerity (3% GDP in 3 years)
- Planned deficit 2013 <2 %
- Actual forecast 4.6 %
- Due to Eurocrisis, housing market, pension funds, confidence
- Call for additional austerity to meet 3 % target EU
- Collapse of government
- Agreement with opposition prior to elections



Lessons and implications (Romer, IMF)

Fiscal Policy lessons:

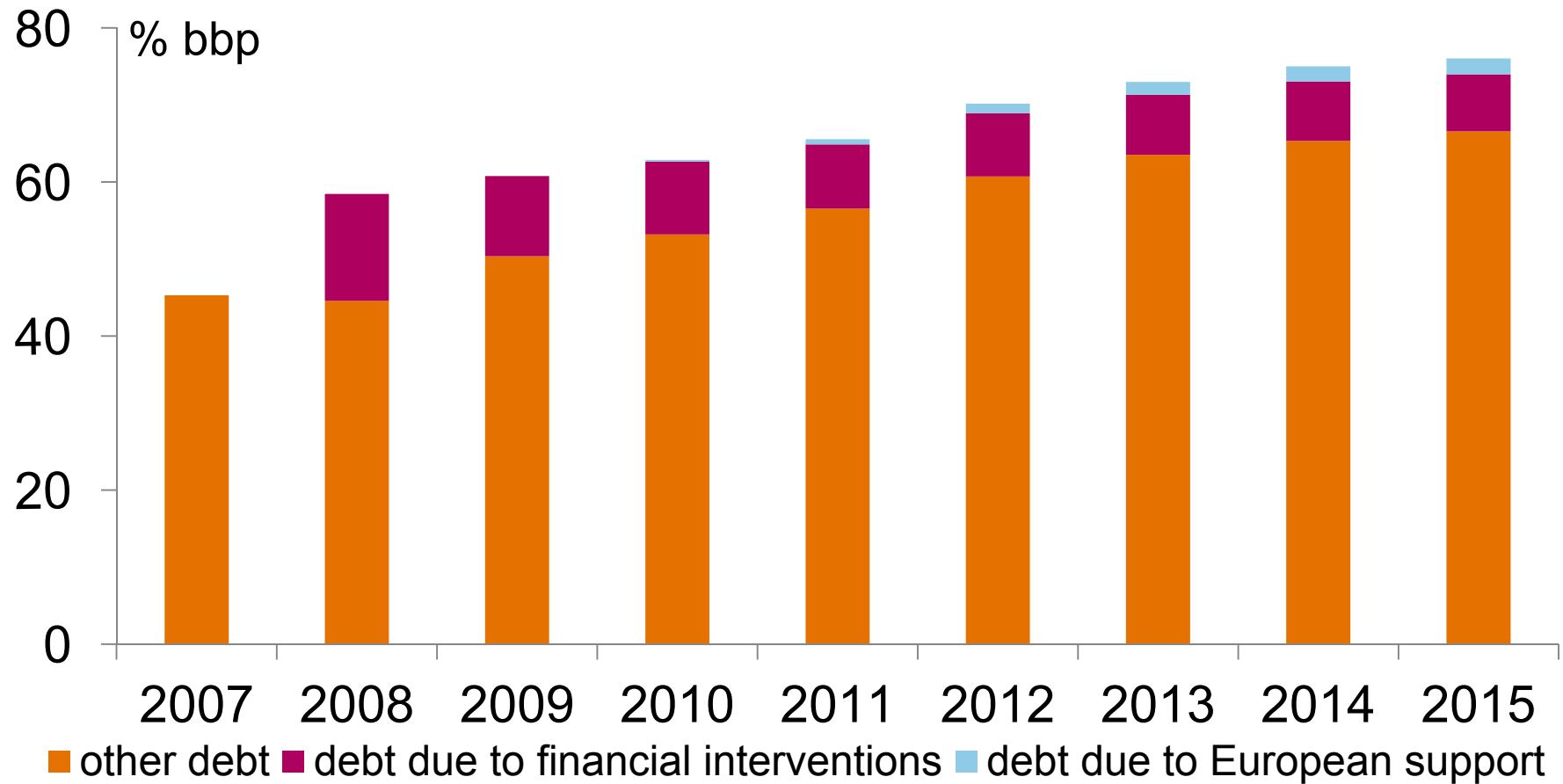
- Changes in fiscal policy have large effects in short run
- Unsustainable long-run budget deficits eventually lead to ruin

Implications for Policy

- Immediate austerity is likely to be counterproductive
- Backloaded 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



Debt in Holland increased primarily by deficits





Reforms and austerity are substitutes, not complements! (Romer)

- 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



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



Reforms

- Abolishing mortgage deduction
- Raising retirement age to 65
- Reducing EPL
- Limiting duration unemployment benefits elderly

- Relation between financial crisis and ageing: too much saving
- Problem: political economy of ageing
 - E.g. healthcare versus education
- Relation fiscal policy – European adjustment unit labour cost
- EC should seize power: demand structural reform, not austerity
 - This is not a mild recession!



Lessons CPB

- Reputation of quality is crucial for success of a watchdog; building a reputation it takes time
- Scope of activities should not be limited to fiscal policy contribution to a common understanding of trade offs
- Effectiveness depends on demarcation of roles of watchdog and politics
- Welfare theory provides little guidance in drawing this demarcation line
- Close ties to government yields better information and more effectiveness in policy making, but less independence