

Submission

By

**THE
NEW ZEALAND
INITIATIVE**

to the Treasury

on

**New Zealand's Fiscal Policy Framework: Establishing an
Independent Fiscal Institution**

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1. SUMMARY

This submission on the Treasury's Discussion Document, "New Zealand's Fiscal Policy Framework: Establishing an Independent Fiscal Institution", is made by The New Zealand Initiative, a Wellington-based private sector public policy think tank.

The New Zealand Initiative's 2014 report, *Guarding the Public Purse: Faster Growth, Greater Fiscal Discipline*, recommended establishing an independent fiscal council. We saw it as desirable to strengthen the effectiveness of fiscal rules through public monitoring and reporting.

We remain of that view. Accordingly, this submission supports the concept of an independent fiscal institution (IFI). It concurs with many aspects of the Treasury's proposal but has reservations about others.

In particular, we advocate a greater focus on issues relating to the quality of spending. We also suggest a role for costing party policies that is more clearly a backstop role. One option is a budget cap for each political party.

We stress the importance of institutional design and quality appointments if the IFI is to have any chance of fulfilling its potential.

2. Introduction

This submission on the Treasury's Discussion Document, "New Zealand's Fiscal Policy Framework: Establishing an Independent Fiscal Institution", is made by The New Zealand Initiative, a Wellington-based private sector public policy think tank.

The Initiative's mission is to help create a better New Zealand for all New Zealanders. We are taking the initiative to promote a prosperous, free and fair society with a competitive, open and dynamic economy.

The New Zealand Initiative's 2014 report, *Guarding the Public Purse: Faster Growth, Greater Fiscal Discipline*, recommended establishing an independent fiscal institution or IFI. We saw it as desirable to strengthen the effectiveness of fiscal rules through public monitoring and reporting.

A key weakness in New Zealand's current fiscal arrangements is the systemic lack of focus in the value for money in government spending. This has been documented in successive Productivity Commission reports and highlighted in the Initiative's latest research report, *Fit for Purpose? Are Kiwis getting the government they pay for?*

We consider that currently Parliament and the public are not as well-informed about the quality of government spending as they should be. This is because it is not in the interests of incumbent governments to keep them better informed.

We propose that the IFI should:

- A. be an office of Parliament;
- B. monitor executive government's compliance with fiscal responsibility principles;
- C. monitor Treasury's expenditure control and expenditure assessment procedures and functions;
- D. assess the degree to which executive government has a credible programme for addressing identified fiscal pressures, such as those identified in its long-term fiscal projections;
- E. assess the performance of government agencies administering major government spending programmes in detecting and avoiding waste through lack of clarity about objectives, failure to adequately consider alternatives, poor administration, and/or diffuse accountability; and
- F. improve the servicing of Parliament's Finance and Expenditure Committee.

The proposed greater scrutiny of expenditure quality processes and procedures is important to our proposal. We note that the IFIs proposed by the IMF and the OECD appear to encompass this feature.¹

The rest of this submission responds to the discussion document from this perspective.

3. Proposed key functions

The discussion document lists the government's proposed five key functions as being to:

1. cost political party policies;
2. assess compliance with the government's fiscal strategy and targets;
3. comment on Treasury's economic and fiscal forecasts;
4. comment on long-term fiscal sustainability and fiscal risks; and
5. produce relevant research and commentary on fiscal and budgetary issues.

Item 1: Costing political party policies

The fiscal debate during the 2017 general election campaign persuaded us that there is a role for an informed body to comment on the costs of political party promises during general election campaigns, at least where they are significant and in major dispute.

One source of disputes over costs is lack of clarity about fiscally important aspects of a proposed policy. That may not be deliberate. It may reflect lack of time and lack of agreement within the proposing party. An independent assessment could not solve this problem, but it may usefully inform the public about the critical uncertainties and the likely range of fiscal implications.

Issues of independence, expertise and resourcing arise in respect of this role. Access to expertise and knowledge in the Treasury, Inland Revenue, and the major relevant spending departments would likely be necessary. Staff numbers would need to be boosted during the general election and its aftermath, perhaps by temporary secondments. It may be desirable for the IFI to set up a temporary special unit, perhaps headed by a leading academic economist, a former Secretary to the Treasury, or a former Treasury chief economist.

However, item 1 looks like a broader proposal to have taxpayers fund the costing of political party policies at any time. That would be too much of an open cheque book. Parties should not be able to go on fishing expeditions wanting costings of fanciful or hypothetical policies at the taxpayers' expense. The costings done by an IFI would have to be diligent and professional. They may be expensive.

Currently, political parties have an adequate incentive to fund their own cost estimates and make their basis public. For example, BERL and Infometrics were used by different political parties for the 2017 general election campaign. More commonly, parties use expertise among their supporters. Parties in Parliament also have access to Parliamentary Library expertise, albeit on a controlled basis. Opposition parties can also use parliamentary questions to extract information relevant to costing policies.

We suggest limiting access to the IFI to ensure political parties undertake their own estimates in the first instance. There should be rules limiting access to the IFI's resources, and perhaps a user charge.

For example, a budget cap could be set on the costings that can be done by the IFI for each political party with parliamentary representation. A tight enough cap would force political parties to prioritise their requests.

¹ See, for example, the IMF's point 2 on page 17 and the OECD's points on page 19 of the discussion document.

Items 2–4

None of these items get to the question of spending quality. On the positive side, item 4 overlaps with our suggestion D.

Item 5: Produce relevant research and commentary

This looks too open-ended. Relevant to what purpose? Our considerations A–F would not licence the IFI to be a research organisation outside the specified functions. We already have the OECD, IMF, Treasury, and Productivity Commission producing and applying relevant research with a New Zealand dimension, along with economic consultancy firms, think tanks and academics.

We envisage a relatively small IFI focused on assisting Parliament and public debate in specific areas.² However, it is sensible to give it the authority to initiative research relevant to its assigned functions, within budget limits.

3. Specific Responses to Questions for Submitters

1: Why establish an IFI?

We concur with the three listed “key opportunities” but consider that the words “fiscal policy performance” should be unequivocally spelt out to make it clear that this includes spending quality.

See section 2 for our reservations about being a front-line provider of costings of policies.

2: What is the purpose of an IFI?

We concur with the suggested purpose and the statement as to how it would be achieved.

3: What roles and functions should the IFI undertake?

Section 1 summarises our preferred list of the IFI’s roles and functions. We concur with the roles and functions in the second and fourth bullet points at the top of page 47 in the discussion document. The IFI should be allowed to comment on Treasury’s economic and fiscal forecasts, but we do not see a case that it should be obliged to (bullet point 3). Section 2 provides our reservations about aspects of the proposed roles and functions that relate to the first and last bullet points on page 47. It is important the IFI can look past Treasury to assess spending quality monitoring and performance of major government spending agencies.

3.1 Provide financial costings

Section 2 has our general comments on this aspect. One specific point is the IFI should also be able to cost campaign policies by the major government party that are not already costed by Treasury in the pre-election fiscal update.

The key issue raised by 10 listed functions of the IFI is the scale of the proposed organisation in terms of budget and staff numbers. Answering that question in advance will help determine the scale and range of the tasks the IFI is required to undertake.

The key issue is to increase executive government’s accountability to Parliament and the public for spending quality. The IFI would complement the work of the Auditor-General in this respect. The issue of costing of election manifestos is a triennial one, which can be addressed by temporary arrangements to boost capacity.

3.2 Compliance with the government’s fiscal strategy and targets

This is something government is already well-motivated to do for itself, and opposition parties are already well-motivated to contest its claims. It would be difficult for the IFI to avoid being accused of partiality.

² For example, the Swedish Fiscal Policy Council had five full-time members and five part-time members (see page 71 of our 2014 report).

We suggest the IFI should report instead on the degree to which fiscal outcomes and targets comply with the provisions in the Public Finance Act (as in point B in section 1).

3.3 Comment on the Treasury's economic and fiscal forecasts

As stated above, we do not see any need to compel the IFI to do this. We do not see the problem for which this is the solution. The IFI should of course comment if it feels it should.

3.4 Comment on long-term sustainability and risks

We agree with this proposal.

3.5 Producing relevant and related commentary on fiscal matters

Since we favour a small IFI, we consider that this role should be limited.

4 Key success factors

Our 2014 [report](#), section 6.3.4 on pages 73–75, examined this critical question. It drew on research by Robert Hageman, George Kopits, Xavier Debrun, and Tidiane Kinda.³ (We note that the discussion document's bibliography lists several more recent papers co-authored by Debrun, but not the two older papers by Hageman and Kopits, respectively.)

Some of the points that resonate include the need for bipartisan support, independence, autonomy and direct access to public media. The questions of who would appoint the head of the IFI and their tenure are important.

5 Institutional form

We strongly favour the IFI to be an office of Parliament. The IFI needs to be highly independent of Ministers. We consider that it should have limited in-house resources and thereby be limited in the scope of its activities.

We do not have a preferred institutional model, but particular attention should be paid to the structure and experiences of the Australian Parliamentary Budgetary Office and the UK Office of Budget Responsibility.

5 Other feedback

Stronger spending quality disciplines based on transparency and accountability are needed even if an IFI is not created.

4. Concluding comment

We strongly support establishing a limited IFI, if it is done well.

Appointments need to be seen to be non-partisan. Its first leader must be capable of establishing a deserved reputation for independence, impartiality and professionalism. It needs a fair degree of autonomy. It needs multi-party and media support. It must earn the respect of fiscal policy experts.

New Zealand should learn from the experiences and structures of overseas IFIs. But our version should be tailored to our situation and circumstances.

³ One article by Robert Hageman, one by George Kopits, and one by Xavier Debryun and Tidiane Kinda.