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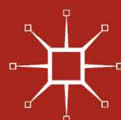

33 Strengthening Fiscal Transparency

David Heald

In principle, fiscal transparency "entails being open to the public about the government's past, present, and future fiscal activities, and about the structure and functions of government that determine fiscal policies and outcomes" (IMF 2008). In practice, it is a child of our times as well as a reflection of wider social developments (Hood 2006). A whole series of economic and public policy failures are now attributed, at least in part, to shortfalls in transparency, including weak regulation of the financial sector prior to 2008 (which led to the conversion of private debt into public debt), the sovereign debt crisis and the Eurozone crisis.

One difficulty facing the transition from principle to practice is that fiscal transparency is expected to achieve so much, with contrary expectations among those advocating its strengthening. Such expectations may include restricting the size of government, limiting the size of deficits and debt, enhancing accountable and responsive government and reducing corruption. Although having multiple objectives may enlarge the number of stakeholders supporting fiscal transparency, this may be at the expense of clarity in implementation. Moreover, as initiatives become heavily bureaucratized, they may achieve process objectives but not the promised outcomes.

A second difficulty lies in distinguishing the technical, cultural and political factors that influence the relationship between transparency and other features of fiscal management. While we may observe institutional and political differences in the way countries address current problems such as those faced in the Eurozone, it is highly questionable whether process developments such as greater fiscal transparency and budget surveillance can address their structural problem of competitiveness (Wolf 2011b) or legitimacy deficits (Münchau 2011).

This chapter aims to clear away some of the rhetorical and analytical fog that now surrounds transparency. It proceeds on the basis of two assertions, reliant on evidence and argument presented elsewhere (Heald 2003a, 2006a, 2006b, 2012). First, transparency should be valued *instrumentally* for how it contributes to the achievement of public policy objectives, not intrinsically as a value in its own right. Second, properly constructed fiscal transparency is beneficial to effectiveness, accountability and corruption-avoidance in fiscal management.

The chapter is structured as follows. The next section summarizes an approach to the conceptualization of transparency and then examines what is meant by fiscal transparency. We then discuss the relationship between transparency and surveillance. This is followed by a section on key dimensions of fiscal surveillance practices, focusing on contemporary importance, objects, actors and mechanisms. Much of the contemporary policy interest in fiscal transparency is rooted in concerns about fiscal risks, particularly hidden ones. We then turn to the question of what external fiscal surveillance might realistically be expected to achieve. The final section is prescriptive, making proposals to strengthen fiscal transparency that accommodate differences in cultural context and in informational, statistical and implementation capacities across countries.

The conceptualization of transparency

Transparency as a generic concept[1]

Transparency claims are far from unanswerable in substance, even if they seem rhetorically compelling. Hood (2001) recognized that transparency, notwithstanding origins going back at least to Jeremy Bentham, was acquiring a new salience in public life. He found its meaning to be elusive:

> … the exact meaning of this much-used word is hard to determine. In fact, it is commonly used to mean a number of different things, such as disclosure, policy clarity, consistency or a culture of candour… . In perhaps its commonest usage, transparency denotes government according to fixed and published rules, on the basis of information and procedures that are accessible to the public and (in some usages) within clearly demarcated fields of activity. (p. 701)

Transparency is a visual metaphor. This implies directions of transparency: looking inwards, looking outwards, looking upwards and looking downwards (Figure 33.1). The implications of these relationships can be illustrated through the metaphor of car windows. The driver of a car sees through the windows in order to position that car in relation to the road and other traffic (outwards transparency). Whether others can see who is driving and who else is in the car constitutes inwards transparency. There are various reasons why those outside might wish to see who is driving. Driving behind privacy glass will prevent passers-by appreciating dangers from armed gangsters inside the car, prevent traffic police identifying offending drivers or prevent religious police observing that a woman is driving. Whether the glass steams up (den Boer 1998) because of climatic factors or by intention (e.g., to hide identity) depends upon the circumstances of the particular case. Thus, there is a moral ambiguity to transparency: the value to be placed on transparency in specific circumstances is highly contingent.

Horizontal transparency is therefore about "situating" relative to context and culture, whether that is personal or organizational. Outwards transparency

[1] This subsection draws on the generic conceptualization of transparency developed and justified in Heald (2003a, 2006a, 2006b and 2012).

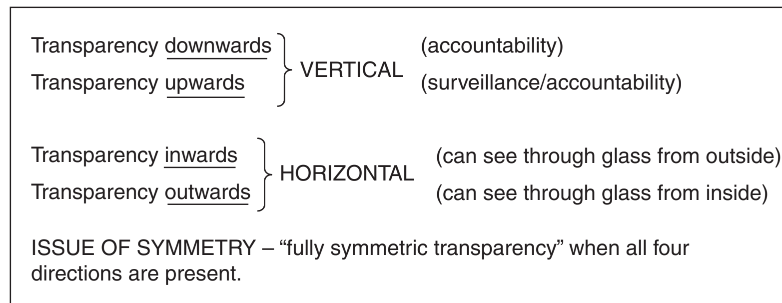

Figure 33.1 Directions of transparency
Source: Heald (2012, figure 2, p. 33).

is about gaining bearings, seeing where one is. In many contexts, navigation towards ends depends on such knowledge. Inwards transparency is often about some external observer making comparisons.

Vertical transparency, in contrast, is about accountability relationships, often contested. Upwards transparency refers to the capacity of top managers (or rulers) to see the actions and behavior of their agents (or ruled). This directional labeling may be thought contentious (democratic societies conceptualize rulers as the agents of citizens), but this does not substantively affect the argument.[2] Downwards transparency refers to the information made available by rulers to the ruled, thus forming the necessary basis for those rulers to be held to account. This forms a key part of the legitimacy claims of elected governments in democratic societies, however imperfect their operation.

This analytical framework provides for transparency in all four directions, or "fully symmetric transparency" (Heald 2006a, pp. 27–9), a label that is solely descriptive and not indicative of normative desirability. However, it encourages consideration of various cases of asymmetry and their implications, both normative and in relation to the behavioral responses of actors who are the objects of transparency.

We may also observe structural varieties of transparency (Figure 33.2). Heald (2006a, pp. 29–35) made three principal distinctions:

- *Between event and process transparency*. This is a development from the standard framework within which inputs, outputs and outcomes are distinguished. These are labeled as ***events***, linked together by ***processes***. The hypothesis is that a focus on process transparency is more disruptive to organizational functioning than a focus on events, particularly if the latter is based on some measure of results.
- *Between nominal and effective transparency*. This highlights possible divergences between the transparency that is supposed to exist and what really does exist.

[2] See the extended discussion of this point in Heald (2012, p. 33).

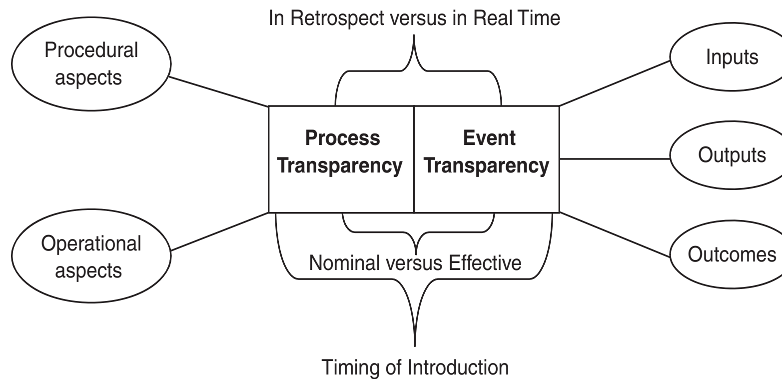

Figure 33.2 The structure of transparency
Source: Heald (2012, figure 2, p. 34).

- *Between transparency in retrospect and transparency in real time*. This concerns whether transparency is rendered ex post in relation to defined (reporting) periods or is continuous.

A fourth issue is also highlighted in Figure 33.2; namely, whether there are step changes in what information is made available and at what time. Step changes can mean that information which policy actors believed would remain confidential is later made public.

This conceptualization also warns that transparency is not homogeneous. For example, indexes that add together different measured attributes of transparency may be adding incompatibles. Put another way, the "volume" of transparency is a problematic concept because the varieties of transparency may interact in complex ways. Different combinations of directions and varieties of transparency can be expected to have differential effects, in part through inducing different behavioral responses. Following Allen (2000), much emphasis is placed in this chapter on why the "disciplined release of information" is vital. The distinction between transparency in retrospect and in real time is brought out clearly in Figure 33.3.

Consider an activity where time can be divided into periods, such as for preparing the accounts of a private business or government. The activity takes place over the time period t_0t_1 and then over successive periods from t_1t_2 onwards. In relation to t_0t_1, there is a reporting lag while the accounts are being prepared. This is followed by an accountability window in which the agent is held accountable by the principal for performance. This accountability window closes well before the end of period t_1t_2, with the result that the agent can concentrate once again exclusively upon the operational activity. In sharp contrast to such transparency in retrospect, accountability windows are always open when there is transparency in real time. This will divert the attention of the agent from exclusive focus on the operational activity. Concerns about portrayal in the context of transparency in real time may lead to different substantive decisions being taken. An example illustrating

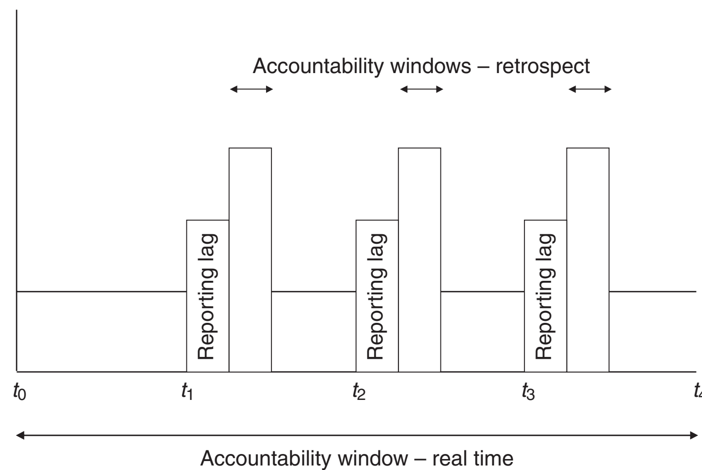

Figure 33.3 Transparency in retrospect versus in real time
Source: Heald (2012, figure 2, p. 35).

accountability windows is that financial reporting by listed companies has moved from annual to quarterly reporting (increasing frequency of accountablity windows and their cumulative duration), a development that has been challenged.[3]

Fiscal transparency

There is a substantial empirical literature supporting the proposition that fiscal transparency is beneficial on a number of criteria. A key theme takes as an analogy the lower cost of capital for private sector firms that exhibit good disclosure practices. Thus, high fiscal transparency will bring lower government borrowing costs. More generally, high levels of fiscal transparency are held to be associated with better fiscal outcomes in terms of deficits and debt. Influential empirical papers include Alesina and others (1999), Alt and Lassen (2006) and Glennerster and Shin (2008). Rather than looking at the effects of fiscal transparency, Wehner and de Renzio (2011) have investigated the political determinants of fiscal transparency, highlighting the role of free and fair elections and of partisan fragmentation in the legislature.

The generic analysis of transparency translates to the specific case of fiscal transparency. It is important not to think of fiscal transparency simply in terms of "how much," on the basis that more is automatically better (Heald 2003a, pp. 725–9). Conceptualizing in terms of directions and varieties shows why the effects of the volume of transparency can be ambiguous. Composition matters because of potential interactions and the contingent nature of transparency's effects.

[3] Professor John Kay, who has been appointed to conduct a government review of U.K. stock markets and long-term decision making, has stated, "The tyranny of quarterly earnings has created a dysfunctional cycle of smoothed and exaggerated numbers and relations between companies and analysts based on earnings guidance, an activity almost unconnected to the real business of the company and to assessing its progress" (Kay 2012).

Otherwise good performance – and hence high scores on additive indexes – might be compromised by toxic defects on particular issues.[4]

Fiscal transparency manifests the structural characteristics of generic transparency but also some specific features deriving from its origin and development (Heald 2003a). The IMF (2008) defines fiscal transparency as "being open to the public about the government's past, present, and future fiscal activities, and about the structure and functions of government that determine fiscal policies and outcomes." According to the OECD (2002, p. 7), "Budget transparency is defined as the full disclosure of all relevant fiscal information in a timely and systematic manner." Fiscal might be thought to have a broader coverage than budget; namely, general government or public sector rather than federal government or central government.

The idea of fiscal transparency embraces the timely and systematic disclosure of all policies and transactions related to the revenues, spending and borrowing, together with the assets and liabilities of government entities, whether at the central, regional or local level, and also government-owned entities, including public enterprises. Whether there is a difference between fiscal and budget transparency is problematic because of established linguistic usage. However, it would be reasonable to think of budget transparency (presumably covering both expenditure and revenue) as contained within fiscal transparency, which is a broader concept that also covers long-term fiscal projections and calculations of fiscal gaps (Eich 2008).

At the core of fiscal transparency is the notion that the underlying realities of public expenditure and revenue should be made visible and intelligible to identifiable user communities. The production and distribution of information is insufficient as transparency requires there to be an audience with the capacity to understand and act. Moreover, the user community, including that within government, needs to be identified and provided for. Openness alone does not require an effective audience (Heald 2006a, p. 26).

Fiscal numbers have to be communicated in intelligible form to those external to the organization (inwards transparency). This resonates with the accountability of the directors of listed public companies (that is to say, privately owned and quoted on a recognized stock exchange) to their shareholders. A huge amount of private resources, in the form of accounting standards development, financial reporting by entities and auditing by registered auditors, is devoted to making this accountability relationship work in the private sector. There are well-defined users of private sector financial reports, most obviously shareholders, analysts and financial journalists. Whatever the shortcomings in private sector financial reporting, the agency relationship is clear; the "information brokers" are well rewarded in the marketplace. In contrast, though there are various listings of public sector report users (Jones and Pendlebury 2000, pp. 132–9), the identity of actual as opposed to theoretical users of public sector annual reports and financial statements is unclear. The "missing user," even when information is available, is one

[4] Whereas the U.K. Treasury has a creditable performance in terms of information made available, the manipulative disclosures prior to government announcements bring discredit and distrust. See, for example, what appears in the media in the run-up to a U.K. budget or spending review. It defies belief that all these leaks are unauthorized.

of the intrinsic barriers to fiscal transparency (Heald 2012). In practice, other governmental bodies, notably those higher up the chain of multilevel governance, may figure prominently; this will particularly apply to summarized information.

In some developed countries, debates about fiscal transparency are likely to revolve around: macroeconomic projections underpinning budgets; prompt financial reporting and relationships between these numbers and statistically defined aggregates prepared in accordance with the United Nations' System of National Accounts or Eurostat's European System of Accounts; and measurement of long-term fiscal sustainability. In such countries, the administrative capacity to track and control expenditures and revenues has already been established. However, the challenges for some countries are more fundamental: they lack administrative and statistical capacity; public sector corruption is endemic; and access to natural resource rents protects governments from taxing citizens (Bräutigam and others 2008) and/or feeds corruption and economically inefficient rent-seeking behavior. These three conditions interact, especially where there is civil violence and/or the de jure government does not exercise de facto control over parts of its jurisdiction.

Popular conceptions about transparency are often driven by the Public Sector Corruptions Perceptions Index published annually by Transparency International. Four Scandinavian countries together with Australia and New Zealand are in the top ten for being "least corrupt" on the 2011 index (Transparency International 2011).

> The message is clear: across the globe, transparency and accountability are critical to restoring trust and turning back the tide of corruption. Without them, global policy solutions to many global crises are at risk. (Transparency International 2010)

Whatever the methodological strengths and limitations of this index, it has appropriated the language of transparency for anticorruption campaigns. This influences the political and media context into which assessments of fiscal transparency are placed.

The IMF's work on fiscal transparency was prompted in part by the 1998 Asian financial crisis and also by persistently large deficits in OECD countries (Hemming and Kell 2001). This led to the 1998 publication of *Code of Good Practices on Fiscal Transparency*, subsequently revised in 2001 and 2007 (IMF 2007a) (See Box 33.1). The resulting reports on the observance of standards and codes (ROSCs) were part of a larger IMF surveillance operation. Fiscal transparency ROSCs did not lead to scoring or to the generation of league tables. There is unevenness in country coverage; for example, the only fiscal transparency ROSC on the United Kingdom is dated 1999, and the only one for the United States is dated 2003. The IMF undoubtedly raised the profile of fiscal transparency, but by the mid-2000s, the number of fiscal transparency ROSCs had reduced to a small flow (IMF and World Bank 2011b). It is not clear to an observer outside the IMF why this should have happened.[5] Possible explanations include resource constraints, particularly after

[5] The overall position is more complicated because of the overlapping coverage of the World Bank's Public Expenditure and Financial Accountability (PEFA) Program. The 2005 PEFA framework was development oriented and used by both the donor community and development partners (see Pessoa and Allen 2010).

staff downsizing; the sheer workload for an organization with 188 member countries; the fiscal aftermath of the 2008 crisis, which put the focus on time-urgent tasks; a lack of formal requests from governments; and the sense that this was an unglamorous activity, albeit one with the potential for annoying member governments.

Box 33.1 The IMF's *Code of Good Practices on Fiscal Transparency*

Legalistic adherence to specified principles of what the IMF and others categorize as fiscal transparency is neither necessary nor sufficient for users to be able to comprehend public finance developments. Nevertheless, the assembled body of knowledge and guidance has significantly advanced the policy agenda associated with fiscal transparency and raised its global profile.

The IMF code:

- advocates full detailing of all spending and revenue and trends over time together with comprehensive, publicly disclosed audits, which improve the chances of corrupt practices being identified;
- highlights that different practices work in different places and avoids quantifying ratings or presenting league tables;
- emphasizes that improving transparency is a multistage process, including first addressing basic requirements;
- recognizes the crucial role of good, independently respected data;
- avoids compulsion but favors institutions that monitor integrity standards and welcomes diversity in potential users.

The code is hierarchically structured, with four main headings which then cascade into detailed requirements: "Clarity of Roles and Responsibilities," "Open Budget Processes," "Public Availability of Information" and "Assurances of Integrity." Even at this overview level, the connections with upwards and downwards transparency are evident. The extent to which public availability of information is an established public policy goal varies enormously across IMF member countries. Moreover, there are pronounced differences in statistical, accounting and administrative infrastructure.

The code forms the basis for fiscal transparency reports on the observance of standards and codes (ROSCs). This is a voluntary program whereby member governments request the IMF to assess their degree of conformity with the code. The emphasis has been on mutual learning, with the expectation that there might be large gains in many countries from relatively low-cost measures such as improved fiscal data, publication of relevant materials and the availability of interpretative commentary.

The role of fiscal transparency ROSCs is discussed later in this chapter. Information about the origins and development of the code is available on the IMF website at http://www.imf.org/external/np/fad/trans/. The 2007 version of the code (IMF 2007a) can be located at http://www.imf.org/external/np/pp/2007/eng/051507c.pdf. The brief code is supported by the comprehensive *Manual on Fiscal Transparency* (IMF 2007b), available at http://www.imf.org/external/np/pp/2007/eng/101907m.pdf.

Developments at the IMF, including the presentation of a board paper on fiscal transparency in July 2012 (now published as IMF (2012a)), suggest that there might now be a new wave of fiscal transparency ROSC activity. The possibilities are briefly discussed in the final section of this chapter. This may in part be a

result of its experiences during the Eurozone crisis, when it formed part of the so-called troika with the European Commission (EC) and European Central Bank (ECB). Post-2008, the sense of global interdependence is stronger, as is awareness of the vulnerability of country public finances to the financial system.

The Open Budget Initiative 2010 Report is an expert-ranked scoring of 94 countries on budget transparency; South Africa came out on top with a score of 92 out of 100, and five countries scored 0 (International Budget Partnership 2011). Index scores should be treated with caution, even when the broad picture they portray seems reasonable. Some countries may be better at formal compliance on measured indicators and thus score highly, while effective transparency is damaged by other features.

Specific initiatives have had a narrower remit, such as the Extractive Industries Transparency Initiative (http://eiti.org/), established to protect the interests of citizens of developing countries from foreign mining companies and their own governments. The Collaborative Africa Budget Reform Initiative (http://www.cabri-sbo.org/) promotes transparency about budgetary matters, including aid transparency. More general in orientation, the Global Initiative for Fiscal Transparency (http://fiscaltransparency.net/) (Brumby 2012) describes itself as "a multi-stakeholder action network working to advance and institutionalize global norms and significant, continuous improvements on fiscal transparency, participation, and accountability in countries around the world." This was launched after the Open Government Partnership meeting in April 2012.

While international initiatives to raise the profile of fiscal transparency are welcome, two examples illustrate how context and culture are fundamentally important. First, the high fiscal transparency index scores of Scandinavian countries reflect their levels of cultural infrastructure and social capital. Policy instruments and mechanisms used there would not generate similar results if transplanted wholesale to countries with different social, political and economic characteristics. Implementation capacity would not exist, and unintentional consequences might be severe.[6] Second, it is important to recognize the cumulative resourcing in a country such as the United Kingdom in the years since 1995, the year in which the Conservative Government committed to the implementation of accounting and budgeting for central government on accrual principles (resource accounting and budgeting).[7] Moreover, the issue is not only one of money but also of the availability of real resources such as qualified persons.

The existence of a strong accounting profession with vast experience in the private sector and in parts of the public sector created a pool from which direct

[6] A U.K. example illustrates this point. Under the transparency initiative of the U.K. Conservative–Liberal Democrat Coalition Government elected in May 2010, public bodies have been mandated to place on their websites details of all payments over £500, identifying the goods and services supplied and particulars about the suppliers. This information has been used by criminals for the purpose of submitting false invoices, the detection of which has resource costs and depends upon strong systems of internal control which do not exist in many countries.

[7] No figures are available but the author's personal experience as participant observer in this process has made him very conscious of the resource commitment that was involved, notwithstanding that he has been a strong supporter of U.K. government accounting reforms.

recruitment could be made by central government and from which consultancy resources could be hired.

Yet such investment in professional and system infrastructure is not sufficient of itself, given the technical demands and political incentives. The chief executive officer of the International Federation of Accountants, the "parent" of the International Public Sector Accounting Standards Board, has publicly criticized European Union (EU) member states and other countries for "deficient accounting, auditing and financial management practices by governments" (Ball 2011a). Transparency appears to be equated by him to compliance with international public sector accounting standards (IPSAS); he attributed the sovereign debt crisis to such deficiencies. Ball (2011b) ironically greeted news of the German government's discovery of an accounting error of $77 billion euros in relation to the Hypo "bad bank," equivalent to 2.6 percent of GDP, rectification of which improved its public finances. The implication was that there might have been less enthusiasm for revision had the effect gone the other way.

How surveillance relates to transparency

The car window metaphor implies that transparency is related to surveillance. Whereas transparency is a property of a phenomenon or relationship, surveillance is an activity in which one set of actors watches over another. Analysis of surveillance has to consider the objectives and behavior of the watchers and the watched.

There are also issues of language and tone. Surveillance has a menacing ring with implications of wrongdoing, often associated with authoritarian styles of government. This has created doubts about the desirability of surveillance, whereas transparency seems to have become a mantra. Generically, surveillance draws attention to the surveillant (watcher), whereas transparency is projected as a positive attribute that the surveilled (watched) wish to project whether the substance is there or not. This is a reminder that power relationships have to be understood and mapped, especially when surveillance applies to sovereign states that are formally equal under international law.

For fiscal transparency to be effective, there must be an audience of actors capable of processing, interpreting, disseminating and acting upon the information that transparency has made available. This audience is likely to differ across inwards, upwards and downwards transparency. External fiscal surveillance of a country's public finances might be characterized as a hybrid of upwards and inwards transparency. The likelihood of this being productive will be higher in countries with strong traditions of downwards transparency (e.g., Scandinavia) than in countries lacking such traditions (e.g., China, Russia and Saudi Arabia). Moreover, information flows about countries with endemic corruption problems are likely to be contaminated, thus leading to accentuated problems of data interpretation.

The strong sense of being watched in surveillance means that attention has to be paid to the behavioral responses of the surveilled. These can be constructive

(e.g., openness to criticism and willingness to address identified weaknesses) or dysfunctional (concealing weaknesses through false reporting and/or responding in a hostile manner to those bringing the criticism and/or engaging in resource-intensive efforts to dilute criticism). In a *Financial Times* interview with an outgoing secretary general of OECD (Donald Johnston), Giles and Thornhill (2005) reported, "Staff said the U.K. and Australian governments were particularly adept at watering down reports about their economies." Sensitivities about performance scores are likely to be widespread.

A distinction can be made between mandatory and voluntary fiscal surveillance. Mandatory refers to a law-based activity (e.g., treaty obligations of the EU or Eurozone) or a contractual one (a country in receipt of IMF funding). An obligation of membership (e.g., the IMF's Article IV consultations and the OECD's country economic surveys) sits somewhere in the middle.

Voluntary refers to where there is, at least in principle, the option of declining to participate; for example, the IMF's fiscal ROSCs and the OECD's sectoral studies, such as on health (Joumard and others 2010). Voluntary is a nuanced word in political life: the consequences of non-participation can range from none to sanctions exerted through other means. When misused, the term "voluntary" can provoke cynicism, whether in relation to voluntary freezes in public sector pay or "haircuts" on private sector holdings of sovereign debt. Nevertheless, the distinction remains important even if the dividing line becomes blurred, not least in terms of the behavioral response of the recipient country towards the process and conclusions.

Those who conduct external fiscal surveillance rely on a mixture of inwards and upwards transparency for the generation of necessary materials. This is an example of Hood's (2007) "bureaucratic transparency," in which experts communicate with experts about "technical" matters. Depending on the standing of the external surveillant, they may have access to materials that the country government denies to a wider audience, including its parliament and citizens. In the case of Ireland in 2011:

> [t]he taoiseach [Enda Kenny] conceded that significant elements of the [Irish] budget had been leaked by German politicians after they had been sent to the finance ministries of all 27 European Union member states . . . Amadeu Altafaj, European Commission spokesman, said: "We understand that the Irish authorities are upset: any leak of confidential information is regrettable." (Inman 2011)

This example neatly illustrates the issue of time-limited confidentiality and the importance of discipline in the release of information; effective transparency requires structure in order to allow internal space for decision making and to preserve legitimacy.

There is no implication that fully symmetrical transparency is optimal. However, certain patterns of asymmetry are likely to generate a sense of unfairness, damaging legitimacy and leading to recourse to surrogates for public expenditure and taxation (Heald 2012) and sometimes to false or manipulative reporting. Out

of context, it is difficult to predict when the latter will happen, but it seems more likely, for example, in southern and eastern Europe than in Scandinavia, where there are strong domestic traditions of downwards transparency as part of accountable government.

Fiscal surveillance

It may be a trick of language but the adjective “fiscal,” narrowing the domain of surveillance, removes some of the edge. Indeed, the term “fiscal surveillance” is extensively used in international practice in a technical way that de-emphasizes this edge. This section seeks to address four questions: why external fiscal surveillance is currently such a topical issue; the “objects” on which it focuses; the actors involved in external fiscal surveillance of country public finances; and the mechanisms used.

Why now?

The 1998 Asian financial crisis had profound effects, not least in the adoption of policies by several countries designed to avoid future dependence on the IMF. Globalization has brought greater economic interdependence, meaning that shocks transmit more quickly. Economic and social change have speeded up, as evidenced by the rise of the BRIC economies[8] and the impacts of new migrations and population ageing on industrialized countries. The 2008 crisis took the global economy to the brink, transforming a private sector financial crisis into a public sector fiscal crisis. For several countries, the apparent miracle of the long boom turned sour. Institutionally, the boom had facilitated the expansion of the EU to 27 countries and the initially smooth settling-in period for the euro currency. Post-2008 developments gave renewed purpose to international agencies, such as the IMF, whose long-term future had earlier been questioned.

A current watchword is “fiscal sustainability,” supplementing concerns about necessary fiscal adjustments. The conventional wisdom still supports the use of monetary policy over fiscal policy, though there has become a relatively broad consensus that automatic stabilizers should be allowed to work, implying large fiscal deficits as an immediate result of the 2008 crisis. Discretionary fiscal policy continues to be regarded as generally ineffective in “normal times,” even counterproductive as a result of lags between decision and implementation and inappropriate timings driven by political considerations.

Moreover, huge international imbalances have developed, with fiscal and trade deficits in the industrialized world financed by savings and trade surpluses from elsewhere, particularly from China. This situation has produced shifts in the distribution of global economic power, conferred political leverage and created economic fragility and potential dislocation. A further reason for the growth of fiscal surveillance is the expansion of the EU and the establishment of the Eurozone, a currency union without political (and hence fiscal) union.

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[8] This is a widely used term to denote Brazil, Russia, India and China, intended to emphasize shifts in global economic power.

There is a clear political dimension as well. Governments in many developed countries have suffered a loss of self-confidence and have also lost the confidence of their electorates. There is much talk about crises of trust in democratic politics, with transparency often claimed to be a recipe for rebuilding this trust. Sections of the media cultivate hatred of governments and portray them as incompetent while demanding immediate and decisive action on an expanding array of issues. These contextual factors obstruct necessary action to promote fiscal and exchange rate adjustments that are required to rebalance the global economy. Surplus countries often lack the incentives to play a role in adjustment, leaving all the pressure on deficit countries; at the global level, trade surpluses and deficits must sum to zero.

The objects of external fiscal surveillance

External fiscal surveillance comes from outside a polity, however that is configured. Its theoretical justification is that the action of one country may generate spillovers for other countries. Many countries are of negligible importance to the world economy, but what happens in key countries has major spillovers. These are generated by fiscal deficits and debts, the long-term growth of the latter having spiraled as direct and indirect results of the 2008 global financial crisis. It is deficits and debt that generates spillovers, not the level of public expenditure – provided that it is financed by taxation. In 2009, the general government expenditure / GDP ratios in OECD countries ranged from 59 percent (Denmark) to 34 percent (Switzerland) (OECD 2011, p. 34).[9]

There are dangers for those international organizations with fiscal surveillance responsibilities if they allow a mission creep from deficits and debt to the size of the public sector per se. They risk the loss of legitimacy in dealing with the central issue if they pursue agendas that can be portrayed as ideological and caricatured as "Washington consensus" or "neoliberal." In some countries the overstretched scope and inefficiency of the public sector are indeed the central problem. However, structural reform, like modernization, often embodies particular views of the proper scope of the public sector that would be widely contested, not least in many successful industrialized economies. Fiscal consolidation has costs in terms of foregone public services and unfulfilled redistribution objectives, unless zero values are attached to changes in public output and redistribution. Sometimes these costs appear to be ignored as if it were solely a matter of removing "public sector waste."[10] Conversely, countries with low tax regimes can come under peer pressure, again blurring the line between concern with deficits and debt and political preferences about the size of government and degree of tax progressivity.

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[9] The data for Chile and Turkey were missing from the source, and the present author has also omitted Korea and Mexico, which were the lowest two but are very different economies. All such public expenditure / GDP ratios must be accompanied by the caveat that differential recourse to policy instruments such as tax expenditures and coerced private expenditures might modify the picture, if consistent data for them were available.

[10] The dangers of intentionally or unintentionally assuming that the foregone public activity resulting from fiscal consolidation has limited value are illustrated in some of the country chapters in Mauro (2011).

External fiscal surveillance therefore extends beyond fiscal transparency; the difference between indexes of fiscal transparency and of fiscal responsibility should be noted. The former is essentially about disclosure, while the latter is intended to be prescriptive about substantive policy. Augustine and others (2011) report a sovereign fiscal responsibility index. Fiscal governance, part of which relates to fiscal transparency, is one of the components. Overall, the United States is scored 28th out of 34 OECD and BRIC countries. Although the United States is 7th of 94 countries in the Open Budget Index, it scores poorly on this fiscal governance measure. Clearly the indicators used – and transparency about the indicators – are central to conclusions and to credibility. External fiscal surveillance is usually concerned with the fiscal substance as well as with the transparency of that substance.

The actors in external fiscal surveillance

What is striking is how crowded the arena of fiscal surveillance has become. At the global level, the major "public" actors are the IMF (for all its members) and the OECD (for its narrower range of members, predominantly the advanced countries but with some politically important additions such as Mexico and Turkey). The "private" actors include the credit rating agencies, whose profile has greatly increased following the global financial crisis and the subsequent fiscal crisis. The enlargement of the EU and the creation of the Eurozone have intensified the fiscal surveillance roles of the EC and of the ECB. During the global fiscal crisis, the G20 group of countries became a significant player in international discussions about fiscal policy responses without its relationship to existing institutions being clarified. The relationships between these actors are problematic.

The key issues for such surveillance actors are legitimacy and capability. Inescapably, the public institutions of surveillance are intensely political, particularly at the very top level, sensitive to their major stakeholders and sometimes with leading politicians at their helm. Political centrality confers a measure of legitimacy but will also impose constraints on what can be said, particularly about key countries, and in what way and when. The capabilities of the IMF and the OECD stem from the excellence of their professional staff, being prestigious places for professional economists and statisticians to work.

The emergence of the credit rating agencies as significant actors in fiscal surveillance has been a feature of the sovereign debt crisis. Under threat of regulatory and civil action in relation to their alleged failings in the run-up to the 2008 crisis, these private organizations have flexed their muscles on sovereign debt, most noticeably with the highly publicized August 2011 downgrade of the debt of the U.S. federal government. This rating agency scoring of sovereign debt will result in these surveillants themselves being watched; for example, in research designed to identify the factors that actually drive sovereign debt ratings (Afonso and Gomes 2011).

This role of fiscal surveillant involves severe risks. First, international agencies are exposed to fashions, ideologies and powerful state and private interests.

Second, care needs to be taken about the language they use as this will be recycled in domestic fiscal debates; being portrayed as "cheerleaders" for particular governments is likely to diminish their long-term prestige.[11] On the other hand, there is a temptation to shout to be heard, and this may involve the use of graphic language. Third, they have to resist the temptation to see themselves as objective and benevolent advisors confronted by pernicious governments and stupid electorates who do not recognize their own long-term interests. Fourth, much judgment goes into economic forecasting, financial sector surveillance and fiscal surveillance, and ex ante judgments may look incomprehensible when viewed ex post. For example, the U.K. economy was described during the previous boom as a goldilocks economy ("neither too hot nor too cold") and there was much praise – and suggestions of imitation – for its light-touch regulation of the financial sector.

Country governments are the surveilled in fiscal surveillance arrangements. Control of its own fiscal affairs is central to what it is to be a sovereign state; even perceptions of losing control are deeply threatening as evidenced by Eurozone developments in 2011 and 2012. Subjugation to external experts, whether from the IMF, EC or ECB, is humiliating to governments, leading to those experts becoming celebrities and/or hate figures in the domestic media (Wise and Spiegel 2011). The issue becomes blurred as to whether the problem, amidst denial of responsibility and tactics of blame deflection, is prior fiscal profligacy or uncontrollable events or the unreasonable actions of external surveillants.

Democratic politicians have to stand for election; expectations that their reputations will be trashed are not conducive to either good policy or fiscal transparency. Under extreme pressure, governments do disreputable things. There are unanswered questions about how much economic pain can be withstood in particular countries while maintaining civil peace. The more that decision-making power is delegated to experts and technocrats, the more problematic their accountability (Heald 2012).

Problematic also is the role that non-governmental organizations (NGOs) and others that provide agency services might have in fiscal surveillance activities designed to enhance the level of fiscal transparency, both within countries and cross-nationally. Unsurprisingly, a number of delicate issues are raised when NGO activity is not a spontaneous outgrowth of civil society in a particular country but sponsored from abroad. These can be seen to challenge political authority, even caricatured as "an enemy within." Official multilateral organizations and NGOs themselves live in contested space, with it not always being clear when they are opposing or when they are implicitly collaborating. It is possible for NGOs to say and publish things that official bodies cannot because they offend some of their member countries. An example relevant to fiscal transparency is

[11] Governments are always looking for favorable quotations that can be trailed domestically, and this creates dangers for fiscal surveillants. The economic journalist William Keegan has strongly criticized the OECD for being seen as a cheerleader for the 2010 fiscal consolidation measures of the U.K. government, which were explicitly designed to reduce the role of the public sector in the U.K. economy (Keegan 2011).

the non-publication of the expert-rated study on the quality of fiscal institutions in the G20, commissioned by that organization from the IMF after the 2008 crisis.

Domestically generated NGOs' work can contribute to political debate, in some cases even formulating the ground on which debate takes place because their credibility exceeds that of government and public agencies. The United Kingdom has been fortunate to have the Institute for Fiscal Studies (IFS), without which U.K. Treasury decisions, conduct and presentation would have received much less challenge. The model may be difficult to transfer, especially to countries where political pressure on critics of government policy is more brutal. However, some civil society organizations may, in reality, be lobbies for particular kinds of fiscal measures, though they sometimes have expertise.

Justice and Tarimo (2011) examined the scope of "budget work" activities of 26 members of the U.S. State Fiscal Analysis Initiative and of 46 groups in 25 countries that were in some way connected with the International Budget Partnership. They noted that "many of these contemporary groups combine egalitarian rhetoric with sponsorship by elites" (p. 16). International NGOs, sometimes with official funding but otherwise dependent on philanthropic foundations, have entered the field of international comparisons of fiscal transparency. As with academic performance ratings, these are often data driven, thus dependent on the quality of data – including the seriousness with which organization websites are maintained and questionnaires completed. Non-governmental organizations are heterogeneous on many dimensions. One notable development has been the trend to use NGOs as subcontractors to government for purposes of service delivery instead of this being done by public sector organizations. The increasing complexity of contract governance arrangements raises problems of transparency in terms both of NGO dependence and of cost and performance information moving behind the veil of commercial confidentiality.

The mechanisms of external fiscal surveillance

Surveillance by the IMF and OECD are here classified as a mixture of mandatory and voluntary. The OECD publishes regular economic surveys on member countries at intervals of one or two years. Essentially this is an exercise in peer review and is mandatory. The IMF undertakes Article IV consultations, now leading to the publication of a report on a "voluntary but presumed" basis, with explicit rules severely limiting the nature of changes that a country might request.

The way in which mandatory – in this case, treaty-based – external fiscal surveillance operates can be seen in the Treaty on Stability, Co-ordination and Governance in the Economic and Monetary Union, signed by 25 out of the 27 EU member states on March 2, 2012. The fiscal compact is illuminating in a number of ways. First, it demonstrates how, in the Stability and Growth Pact Mark 3, mandatory surveillance of fiscal policy (deficits and debt) moves on to consideration of macroeconomic policy (trade imbalances) and then structural reform (competitiveness). The likelihood of interventions on matters, which would hitherto have been considered close to sovereign power, is evident.

Second, it is noted that "other Member States with external surpluses capitalized on their competitive export sector, but domestic demand lagged somewhat behind, amplifying the gap between deficit and surplus countries in the euro area" (European Commission 2010); clearly this is a veiled reference to Germany. However, it seems implausible that the new excessive imbalance procedure, requiring member states to take corrective action or suffer penalties, would actually be used in such a case. The targets of such proposals are the weakly performing peripheral countries within the Eurozone, yet the zero-sum-of-balances problem remains.

Third, the new enforcement powers, which involve sanctions in the form of deposits and fines for Eurozone countries, will operate on the basis of reverse majority voting.[12] This mechanism is intended to ensure that Stability and Growth Pact Mark 3 is not compromised by major countries exempting themselves, as France and Germany did when breaching the Stability and Growth Pact Mark 1. In retrospect, Ireland and Portugal, who then felt aggrieved that the rules applied only to unimportant countries like themselves, would later have benefited from the fiscal caution that acceptance of criticism might have brought.

Apart from substantive concerns about equitable treatment of countries, breaches in perceived fairness encourage manipulations[13] that undermine fiscal transparency. In surveillance and performance review contexts, there is a fundamental question as to whether all units (here countries) are treated equally. This might be done to emphasize the even-handedness and legitimacy of the process. Alternatively, attention might concentrate either on the worst cases or on those with the greatest potential for improvement. Considerations of effectiveness (targeting available resources) and legitimacy (perceived unfairness is destructive) become interwoven.

Fourth, because external fiscal surveillants are concerned about the big picture, periods of fiscal consolidation may lead to the centralization of power within a country: power moving from the legislature to the executive, from line ministries to the finance ministry, and from subnational governments to central government. The hurried, broad-brush measures taken for purposes of fiscal consolidation may have long-term effects that damage accountability mechanisms. There is a genuine dilemma: fiscal surveillance has to consider the whole picture, otherwise arbitrage within the components of general government and between general government and the public corporations sector might undermine the fiscal consolidation.

At the voluntary end of the external surveillance spectrum are ROSCs, including the IMF's fiscal transparency ROSCs. A comprehensive review of ROSCs was jointly conducted by the IMF and World Bank, leading to the publication of the

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[12] This means that, if the European Commission proposed sanctions, it could be struck down only by a qualified majority vote of the Council of Ministers.

[13] IMF (2011a, appendix 2) details accounting strategems that obscure deficits and debt, including Portugal's 2010 device of transferring the pension assets and liabilities of Portugal Telecom into general government, a device which France had used in 1997. This reduced Portugal's 2010 deficit by 1.5 percent of GDP. This appendix documents other deficit-reducing devices. There is nothing new about this, as shown by the window dressing used to enable countries to qualify for Eurozone membership.

2011 Review of the Standards and Codes Initiative (IMF and World Bank 2011a, 2011b). These are valuable documents that neatly illustrate several of the themes of this chapter. The fiscal transparency ROSC, often thought of by fiscal experts as free-standing, sits within an architecture of three standards and codes on policy transparency, five on financial sector regulation and supervision and four on market integrity. The Standards and Codes Initiative "has been identified as one of several building blocks for the overhaul of the global financial architecture after the Asian crisis in the late 1980s" (2011b, p. 5).

Data are available for ROSCs completed during the period 1999–2010 (2011a, p. 10). In terms of volume, fiscal transparency ROSCs totaled 110, making them third in the list. Strikingly, this split as 74 in the first six years (peaking at 21 in 2002) and 36 in the second six (there being only three in 2010). This decline in numbers was commented upon earlier in this chapter. The reduced number of fiscal transparency ROSCs, which had high publication rates, contributed to the sharp decline in the publication rate for all ROSCs, from initially around 90 percent (1999) to 33.3 percent (2010).

Several messages are explicit or implicit in the 2011 review and its background paper. First, there is a tension between ROSCs as learning mechanisms and as scored performance measures. Overall, the background research found some enviable satisfaction levels among participating governments: for example, "Ninety-six percent of respondents to the country authorities' survey found that participation in the Initiative outweighed its costs" (2011a, p. 14). In contrast, market participants criticized ROSCs for being out of date, for their incomplete coverage and for the lack of a published score. The fiscal transparency ROSCs, as conveniently summarized (2011b, pp. 7–9), formalize what might be regarded as professionally accepted good practices in public financial management. Most of these process features would not be contentious other than in relation to reform sequencing. However, the resource commitment to underpin scoring systems would be much greater: scores are quickly transformed into sporting-like league tables, with the predictable consequence that those being assessed become defensive and devote resources to contesting scores and to gaming the scoring rules.

Second, fiscal transparency ROSCs have suffered from the failure to establish periodicity, a regular cycle of reassessments. When only 13 fiscal transparency ROSCs were completed in the years 2008 to 2010, they are likely to have been seen as of marginal relevance when country governments face intense pressure on resources. There is no indication of the progress (or lack of it) being made by individual countries and no possibility of benchmarking them against an external appraisal of like countries. Given that avoidable fiscal vulnerabilities contributed to the fiscal crises following 2008, it should be noted that half-hearted and under-resourced exercises are unlikely to be effective. There are predictable issues as economies struggle to recover from recession. For example, public-private partnerships (PPPs) and government guarantees to private providers of public infrastructure will proliferate as surveillance focuses on statistical indicators which exclude them.

Third, the technical difficulties and political sensitivities attached to scoring systems within a polity (Hood 2007) intensify when surveillants are scoring sovereign governments (Heald 2012). This raises profound issues of legitimacy, especially when the assessed can claim democratic legitimacy and the assessors cannot. What the surveillant portrays as voluntary may not seem so to the surveilled, especially if results are subsequently re-used within mandatory systems, such as Article IV consultations. The possibility of retrospective scoring of unscored systems would not only discourage participation and self-critical evaluation but also encourage the mobilization of defensive resources, escalating costs for both surveillant and surveilled.

Fourth, the deeper the interpenetration of standards and codes with standard-setting institutions (e.g., on accounting and auditing), the more profound will become the legitimacy and capacity questions associated with particular bodies and mechanisms. Governments and civil society organizations will demand transparency and accountability from those networks, in turn generating cost pressures beyond those in relation to frequency and coverage. Where coverage is selective (e.g., systemically important countries), that selectivity would have to be justified on the basis of published criteria to avoid allegations of favoritism and bias. Even in a restricted group of countries, such as the G20, there are transparency-relevant differences in their understanding of the sources of legitimacy and accountability. Taken as a whole, ROSCs impinge on substantive public policy objectives and on conflicting and evolving views on financial sector and macroeconomic stability. Since 2000, there have been remarkable swings in the mood music about financial innovation and light-touch regulation and about fiscal and monetary policy.

What external fiscal surveillance might realistically achieve

The directions of transparency and the issue of asymmetry serve as a caution regarding the potential of external fiscal surveillance. As in the personal domain, where there are deep sensitivities about being watched, fiscal surveillance may have unpredictable and undesirable consequences. Barber (2011) warned in advance about "solutions [to the Eurozone crisis] that substitute technocratic government for democracy":

> For all the dysfunctions of their public finances and state administration, Italy and Greece are proud nations that dislike, even in a crisis, taking orders from foreigners. This stance resonates with the general public, as much as with the political classes… . In the name of saving their currency union, European policymakers prefer to suspend politics as usual in Greece and Italy and replace it with non-partisan, managerial expertise. Government policies will be supervised, not to say crafted in the first place, by Brussels and Frankfurt, the ECB's headquarters, and will be implemented by Greek and Italian experts of identical pan-European outlook… . The debt crisis appears gradually to be propelling

> Europe towards closer integration. But Europe may pay a heavy price if, on this journey, it increasingly treats democracy as an old-fashioned luxury.

This measured prose can be contrasted with the venom drawing on historical memory that has been thrown across European frontiers during the Eurozone crisis. It puts the emphasis back on the centrality of domestically owned efforts to improve fiscal transparency in recognition of the likelihood of dysfunctional consequences when fiscal surveillance can be interpreted as part of hostile foreign intervention; for example, when the German government tabled a plan for EU control of Greek public finances (Spiegel and Hope 2012).

As with many tools of public policy, a crucial danger is in expecting too much from external fiscal surveillance. It cannot fix fundamental structural or political problems though it may highlight them earlier – even that would require the surveilled to be receptive. The vulnerabilities of peripheral Eurozone countries were masked during the long boom. These economies suffer from weak synchronization with the central Eurozone economies, an inability to cope with the long-term effects of superior German productivity when there is no exchange rate adjustment instrument, and from the domino effect. Whether this currency union, without the political union which would have brought explicit or implicit internal fiscal transfers, will survive intact is a question which only events will answer.

Apart from that specific issue, a number of tentative conclusions can be drawn from the preceding analysis. First, fiscal matters are so politically central to the existence of states that perceptions of fairness count. This urges even-handed treatment by fiscal surveillants even when the political and economic importance of countries differs greatly. The reputation of EU surveillance under the Stability and Growth Pact Mark 1 was sorely damaged by the rules being changed when France and Germany were the offenders, in contrast to the treatment of Ireland and Portugal. The perception that certain countries, including the United Kingdom and the United States, were treated gently in the 2000s by the IMF was also damaging.

This highlights a resource allocation dilemma for those organizations undertaking fiscal surveillance; for example, whether to concentrate resources on those countries which are either systemically important or pre-identified as vulnerable (possibly bringing stigma and provoking hostility) or to treat equally all countries (satisfying fairness criteria but spreading limited resources very thinly).

Second, fiscal virtue cannot be imported or imposed. Effective practices need to be "owned" domestically in ways that promote fiscal transparency. Achieving this depends heavily on constructing domestic institutions that promote and defend transparency. These can be a mixture of governmental (e.g., fiscal councils), parliamentary (audit offices and select committees) and external (influential NGOs such as the IFS). In the short term, a finance ministry may regard such institutions as a nuisance. Fiscal rules and expenditure rules, which are sometimes the underpinnings of fiscal surveillance, are explicitly intended to restrict the available options of future governments. These rules are often motivated by distrust

of politicians, sometimes of the franchise. Such qualification of majority political rights requires high levels of consent in order to be seen as legitimate. The more external fiscal surveillance becomes associated with compulsion and the overriding of domestic priorities, the more difficult it will be to achieve fiscal transparency. Strong domestic institutions, outside the finance ministry, are likely to contribute to an environment in which timely high-quality fiscal information is valued. This is the most promising response to the missing-user problem.

Third, fiscal surveillance that is designed to monitor adherence to rules may provoke dissimulation and circumvention, especially – but not exclusively – when consent is lacking. As in professional sport, once rules are set, there is a premium on finding ways of circumventing them while avoiding sanction. Such "misconduct" is self-justified by appeal to higher objectives. Heald (2012) identified five main categories of surrogate for public expenditure: off-budget expenditures; tax expenditures; coerced private expenditures; mechanisms such as PPPs that pre-commit future expenditures; and arbitraging the boundaries between general government and public sector and between public sector and private sector. In particular circumstances, each of these mechanisms may have substantive merits; nevertheless, much of their appeal to governments stems from how they are scored in financial reporting and in national accounts (Heald and Georgiou 2010).[14] These illustrate the development of constructed barriers to fiscal transparency, which reinforce the intrinsic barriers deriving from such factors as the complexity of material, the volume of information, and the lack of interest shown by potential users.

Fourth, uncertainty attaches to public finance numbers, particularly to forecasts, and previous certainties unwind. For example, what was described in the United Kingdom as the "Nice"[15] decade looks very different in hindsight. Policy critiques at the time focused on the then Labour Government's sleights of hand about the dating of the economic cycle, relevant to whether the 1998 "golden rule" was being met. What attracted far less attention was the fragility of the tax revenues which were supporting very large increases in public expenditure. Over a similar period, New Zealand did not run sufficiently high surpluses during the boom years (Brook 2012), reinforcing the point that democratic governments find it difficult politically to run large surpluses in the face of demands for tax cuts or better public services. When economic cycles are shallow, it can be difficult to date the cycle, especially in real time. Output gap measures may be unreliable, thus calling into question structurally adjusted budget and deficit numbers.

Fifth, credible fiscal or expenditure rules have to be relatively simple; they must also command broad political consensus because of the way in which they qualify majority political rights. Complicated rules, depending on contentious measures of the output gap and cyclical position, will rapidly lose that consent,

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[14] PPPs are figuring prominently in many countries, especially during periods of fiscal consolidation. For warnings about fiscal risks and dangers to value for money, see Heald (2003b) and Rial (2012).

[15] "Nice" decade, a term first used in 2003 by Mervyn King, governor of the Bank of England, stands for "non-inflationary consistently-expansionary." He noted its ending in a speech on June 18, 2008 (King 2008).

encouraging recourse to well-known and novel techniques to obscure the fiscal position from those policing the rules. With simple rules, there have to be escape clauses triggered by exceptional events; one might cite the 2008 global financial crisis and the 2011 earthquake in Japan. In such situations, a mechanism such as "comply or explain" will be preferable to an attempt to forecast "unknowables."

Proposals for strengthening fiscal transparency

It is appropriate now to propose viable paths to strengthening fiscal transparency. Here the focus is on context, culture and capability, with an imperative for policymakers to be clear about the nature of the problem, as what is viable is likely to be contingent. While this book chapter was in production, the IMF published in November 2012 a substantive paper on "Fiscal Transparency, Accountability, and Risk" (IMF 2012a), followed in December 2012 by the launch of a public consultation on a revised fiscal transparency code (IMF 2012b). Although there is much common ground between that paper and this chapter, some important differences will be discussed below. These developments follow on from the re-emphasis on fiscal adjustment (IMF 2011a) and the Triennial Surveillance Review (IMF 2011b).

First, if the central fiscal problem is corruption, some measures that hold promise elsewhere may not only be ineffective in efficiency terms but may also have perverse consequences. In such cases, transparency is essentially about governance: information flows can be expected to be compromised by attempts to cover the trail of corruption. If people are stealing the money, do not expect government accounts to portray an accurate picture. The issue is how best to deal with corruption, especially that perpetrated by political elites. Transparency International (2010) makes useful recommendations, though implementation will be far from easy without international cooperation. There are some promising signs. After years of frustrated OECD efforts to deal with tax havens, the 2008 crisis facilitated international action. Criminal proceedings in Paris in relation to thefts from African countries by leadership elites indicate an expansion of what is possible (Chrisafis 2012). In such cases, following U.S. Supreme Court Justice Brandeis, sunlight can act as disinfectant (Freund 1972).

Second, countries with effective practices, that is, those that fit the prevailing contingencies, should be encouraged to sustain and develop their fiscal transparency practices,[16] but they should not be regarded as blueprints. Consultants selling false prospectuses, often consisting of inappropriate policy and instrument transfer, should be sent packing. Fiscal transparency will work when the people actually running country finances have internalized the values underpinning it. This avoids the otherwise predictable three-stage process: establish the rules; game the rules; and intimidate enforcement agencies that are inevitably

[16] Examples of innovations are the use of an Australian adaptation of the IMF's *Government Finance Statistics Manual* for government financial reporting (Barton 2011) and the United Kingdom's Whole-of-Government Accounts project (Heald and Georgiou 2011).

weak because of constitutional conventions and symbolism. Claims to be high performers need to be tested:

> Britain and the U.S. lead the world in accountancy, both conscientious and creative. They have an independent judiciary, honest statistical services and relatively honest politicians. But they have been unable to enforce self-imposed rules of budgetary discipline. We are now asked to believe that countries with weaker political structures will reliably implement budgetary disciplines imposed from outside. (Kay 2011)

The voluntarist top performers can always benefit from supportive peer review. A predictable consequence of league tables, derived from scoring against check lists, is to create pressures for uniformity. These top performers need to have confidence in their own institutions and instruments. For example, as there is no evidence of bias in New Zealand Treasury forecasts, establishing an office for budget responsibility might disperse expertise in a small country. If New Zealand were to be scored down on a fiscal transparency measurement instrument, so be it. High achievers can resist pressures to conform.

Third, new public management reforms have greatly complicated governmental and contractual structures in many industrialized countries. These are often portrayed as "international best practice," with at least implied encouragement for other countries to copy such structures. However, such prescriptions rarely take account of the contingencies in which they are set. Unless countries have the capacity to manage them, they should concentrate on developing effective practices appropriate to their development. This implies adhering to well-delineated governmental structures as opposed to complex ones, especially those interwoven with private interests.

A historical parallel illuminates this point. Many economists (e.g., Vickers and Yarrow 1988) concluded that industrial and utility privatizations were beneficial in the United Kingdom in the 1980s, policies that were later adopted in many OECD countries. The spread of such policies to post-1989 Russia, an entirely different political, legal and regulatory environment, led to the rise of the oligarchs, thefts of state property, the concentration of economic power and further weakening of the rule of law. An ironic twist is that Berezovsky versus Abramovich, a dispute between two oligarchs, was heard in the High Court in London (Croft and Buckley 2012). Russia in the 1990s did not have the legal or cultural infrastructure to prevent the emergence of oligarchs and widespread pillaging of state property. Context matters crucially. Policy transfer and imitation need to proceed with caution, and practices in innovating countries should not be regarded as transferable recipes.

The more complicated contractual relationships within public services become, the more opportunities there may be for corruption and commercial confidentiality bars on the release of information (Hood 2006). Even in industrialized countries, complicated transactions between the public and private sectors raise problems of transparency. Examples include PPPs (Heald and Georgiou 2010) and lengthy contractual disputes (e.g., U.K. National Health Service Information Technology projects). This also happens with outsourcing arrangements in the

private sector, as the Macondo oil well disaster in the Gulf of Mexico has amply demonstrated (Pfeifer 2010).

Where capacity does not exist on the government side, there is a powerful case for keeping things simple – through organizational relationships and through reliance on cash accounting. In countries exhibiting extreme problems of inefficiency and governance, enhancing fiscal transparency depends on installing the basics of public financial management, most particularly good cash control (Hepworth 2003), and avoiding overambitious reform programs that in many cases are doomed to failure. The International Public Sector Accounting Standards Board should give higher profile to its standard for cash accounting for use where appropriate, supported by supplementary reporting and performance mechanisms. The view that full accruals are always preferable, regardless of context, should be challenged. False reporting is particularly likely when capacity is absent. Moreover, the Eurozone crisis emphasizes the complicity of countries that had hitherto turned a blind eye. False reporting by Greece was clearly documented well before the 2008 crisis (Savage 2005) but was ignored as inconvenient to the success of the Eurozone project.

Fourth, the vitality of domestic institutions is fundamentally important for sustaining long-term commitment to fiscal transparency. Otherwise, it will become caught up in formal compliance but substantive neglect. Without a strong supporting constituency, there is likely to be a sequence of rule formulation, rule evasion and explicit or implicit pressure on public agencies that have enforcement responsibilities. Institutional architecture differs across countries, depending in part on constitutional arrangements. In any case, formal legal and constitutional relationships may not communicate the real position of audit offices (often known as supreme audit institutions) or of national statistical offices. Their technical and professional capacities and their scope for action independent of both executive and legislature will strongly influence what is achievable in fiscal transparency.

Notwithstanding tensions inherent in roles, there is interdependence of finance ministries, audit offices and statistical agencies and those parts of the legislature (notably committees) with responsibility for expenditure oversight. The basics of the finance ministry role are fundamentally important to higher-level transparency and accountability objectives; this was well-illustrated by an IMF review of technical assistance to countries in central Europe and the former Soviet Union (Potter and Diamond 2000). Without good data, claims about fiscal transparency will be illusory. A key issue is to ensure that there are overview data linking budgetary presentations of expenditure and revenue with national accounts aggregates. The reality is that most actual users focus on future-oriented budgetary presentations, with attention to financial reports and statistical outturns being the preserve of a limited number of specialists. Data presentations that facilitate cross-walking between presentations on alternative bases are therefore of paramount importance; otherwise, visibility of the whole will be lost. Comprehensiveness in data coverage sits alongside the importance of disciplined release of information. Priority should be given to improving basic data, for hands-on financial management and for the

national accounts, rather than to "sophisticated" government accounting reform in countries where that is beyond financial or implementation capacities.

Fifth, there is a tension between stimulating domestic efforts to improve fiscal transparency and imposing fiscal transparency practices through the "heavy hand" of external fiscal surveillance that controls policy substance. The former requires internalization of the values underpinning fiscal transparency, whereas the latter may generate formal compliance while finding ways to evade the substance. Even notionally strong performers engage in questionable practices (Irwin 2012), meaning that bad examples may be more influential than pronunciations about good practice.

Before the 2008 crisis, there was overconfidence in economic policy success that spread across many governments, central banks, international institutions and commentators. This crisis then severely damaged the credibility of policymakers and institutions (Wolf 2011a). This matters because what happens to economies is not mechanical; for example, judging the cyclical position of an economy in order to calculate output gaps for structural adjustment purposes is not straightforward and involves much professional judgment. Eurozone crisis management has been an unappealing spectacle and destructive of legitimacy; constitutions are not there to be rewritten in a hurry, especially by external dictation. On a practical level, genuine compliance might not follow, and recent events will affect future economic and political relationships between EU states.

Initiatives on fiscal transparency and exercises in fiscal surveillance should be judged in part on how they tackle the intrinsic and constructed barriers to transparency. Without necessarily being exhaustive, Heald (2012, pp. 41–3) identified the barriers listed in Figure 33.4. There is scope for argument about where to draw the line between "intrinsic" and "constructed," but the distinction provides a useful starting point for discussing remedies.

By categorization, intrinsic barriers are difficult to address. Barrier 1 emphasizes the importance of resources being devoted to data reconciliations and explanations in relation to budgeting, financial reporting and national accounts measurement systems. Barriers 2, 3 and 4 raise issues about political systems generally outside the area that those developing fiscal transparency can directly affect.

Constructed barriers offer more possibilities. Barrier 6 (denial of downwards transparency) is not technical; for example, certain countries do not have a clear separation between the finances of the ruler and the state, and in others, rulers may deny the legitimacy of user claims to government information, perhaps for reasons of political power or to conceal corruption. However, the other barriers may be more penetrable. High-quality information can limit the damage from barrier 5. Barriers 7 and 8 are closely related. Whereas 7 emphasizes manipulations as a coping mechanism in the face of constraints binding on particular decision makers, the manipulation in 8 is self-validated by perceptions of unfairness in the operational context. High-quality fiscal information will constrain some manipulations by making them visible. However, much is cultural in terms of whether the values of fiscal transparency are internalized. Rigidly hierarchical systems within a country and external fiscal surveillance that is domestically

Intrinsic barriers	Constructed barriers
1. Technical complexity of measurement systems, both financial reporting and national accounts	5. Volume and opaqueness used by governments as tools of media and user management
2. Well-delineated "positive" state has given way to a more-difficult to map "regulatory" and "contract" state, with more complex and diffused modes of governance	6. Denial of legitimacy of claims to information (*downwards transparency*)
3. Cognitive problems about numbers that make many elected politicians switch off	7. Willingness of those lower down the principal-agent chain to manipulate data (for example, project appraisals for Public-Private Partnerships) as a means of "doing good by stealth" within constraints they cannot challenge
4. Relentless media negativity that interacts with government incentives to "spin" and "plant," thereby reinforcing the career advancement incentives of elected politicians not to commit to a scrutiny role	8. Perceptions of unfairness may validate cheating in the minds of those subjected to *upwards transparency*

Figure 33.4 Barriers to fiscal transparency
Source: Summarizing an extended discussion in Heald (2012, pp. 41–3).

considered an unfair foreign imposition are likely to generate dysfunctional behavior of the kinds suggested by 7 and 8.

Clarity is essential when it comes to which varieties of transparency are desired from fiscal transparency initiatives. Referring back to Figures 33.2 and 33.3, the focus should be on the following:

- Event transparency, focusing on inputs, outputs and outcomes, while protecting decision making and fiscal management from excessive focus on the operational aspects of process transparency.
- Effective transparency, avoiding the transparency illusion that will arise when claims to be transparent belong, in reality, to impression and media management.
- Transparency in retrospect, so that accountability can be established for well-defined reporting periods and user-relevant information is always released in a disciplined manner.

Achieving this configuration will not be easy given the pressures that modern media place on governments, but there is much that could be done by a committed government (e.g., not leaking budget announcements would be a promising start).

Sixth, the barriers to fiscal transparency can be tackled by supporting existing users and sometimes by new information creating new users. In an industrialized democracy, users are likely to be found in sections of the media, in academia, in civil society organizations and around parliamentary committees. One way of supporting users is to ensure that data valued by users are collected and published, even if those data do not have priority with ministers.[17] Finance ministries, which live on beyond existing ministers, need to accept a wider responsibility to users, even to those who are contemporaneously regarded as a nuisance; they also have a long-term interest in sunlight being cast over fiscal data. One of the potential benefits of fiscal councils might reside in their ability, from within the government data perimeter, to improve the data available to those outside. Their remits may give them more scope for initiatives (Hemming 2013) than has been available to public audit offices and national statistical institutes.

Fiscal transparency is usually seen in terms of what those outside government can perceive of the reality of government fiscal activity. However, an important set of users, though usually invisible to those outside policy networks, are those working within government but outside the central ministries. Governments, especially in developing countries, are often characterized by failures to share information among relevant departments and agencies. Similarly, there are sometimes poor communications and information flow between spending departments and the finance ministry in order to protect their power and authority in relation to spending limits and performance measures. Paradoxically, a key user – and hence potential lever – for improved published information both at entity and aggregate level might well be other parts of government whose internal access to data is often more limited than outsiders would suppose.

After much neglect, fiscal transparency is back on the official policy agenda. Although there is much that is admirable in "Fiscal Transparency, Accountability and Risk" (IMF 2012a), there are also gaps. There is an important question as to whether such omissions are due to unmentionables (e.g., internal resourcing arguments within the IMF and past hostility from important members), or to certain issues being under-appreciated. There is inadequate discussion as to why fiscal ROSCs were allowed to fade away, as well as excessive emphasis placed on the lack of fiscal transparency as a major cause of the 2008 crisis.

The analysis in this chapter suggests that complacency about macroeconomic success ("believing the narrative") combined with key member state uncooperativeness and lower IMF resourcing to marginalize fiscal ROSCs. Future success

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[17] Notwithstanding the commendable efforts put into the U.K. Treasury's annual *Public Expenditure: Statistical Analyses*, the lack of time series data for anything other than top-level aggregates is a long-standing and glaring omission. Consistent data are provided only for the short window deemed relevant to the spending review process. It would be tempting to characterize this as a constructed barrier, though the present author's previous experience as a specialist advisor to the Treasury Committee of the House of Commons persuades him that this has largely been a resourcing problem arising from lack of top-level understanding of the importance of good data beyond immediate planning and control needs. Good time series data rank high on user needs but are difficult to produce, not least because of machinery of government changes, definitional changes and accounting changes.

will depend heavily on co-operation, high levels of resourcing and a clear sense of priorities. The balance between data transparency and fiscal governance is a difficult area, given the wide range of institutional arrangements across countries and the expectation that inadequate fiscal governance will undermine data quality. One possibility worth exploring would be to concentrate the successors to fiscal ROSCs on G20 countries and other countries deemed to be systemically important to the global economy. There is a parallel review of the Public Expenditure and Financial Accountability program, after which a clearer demarcation of countries within the two programs would be beneficial. The IMF consultation, which will then lead to a new version of the fiscal transparency code, is an opportunity that needs to be seized.

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