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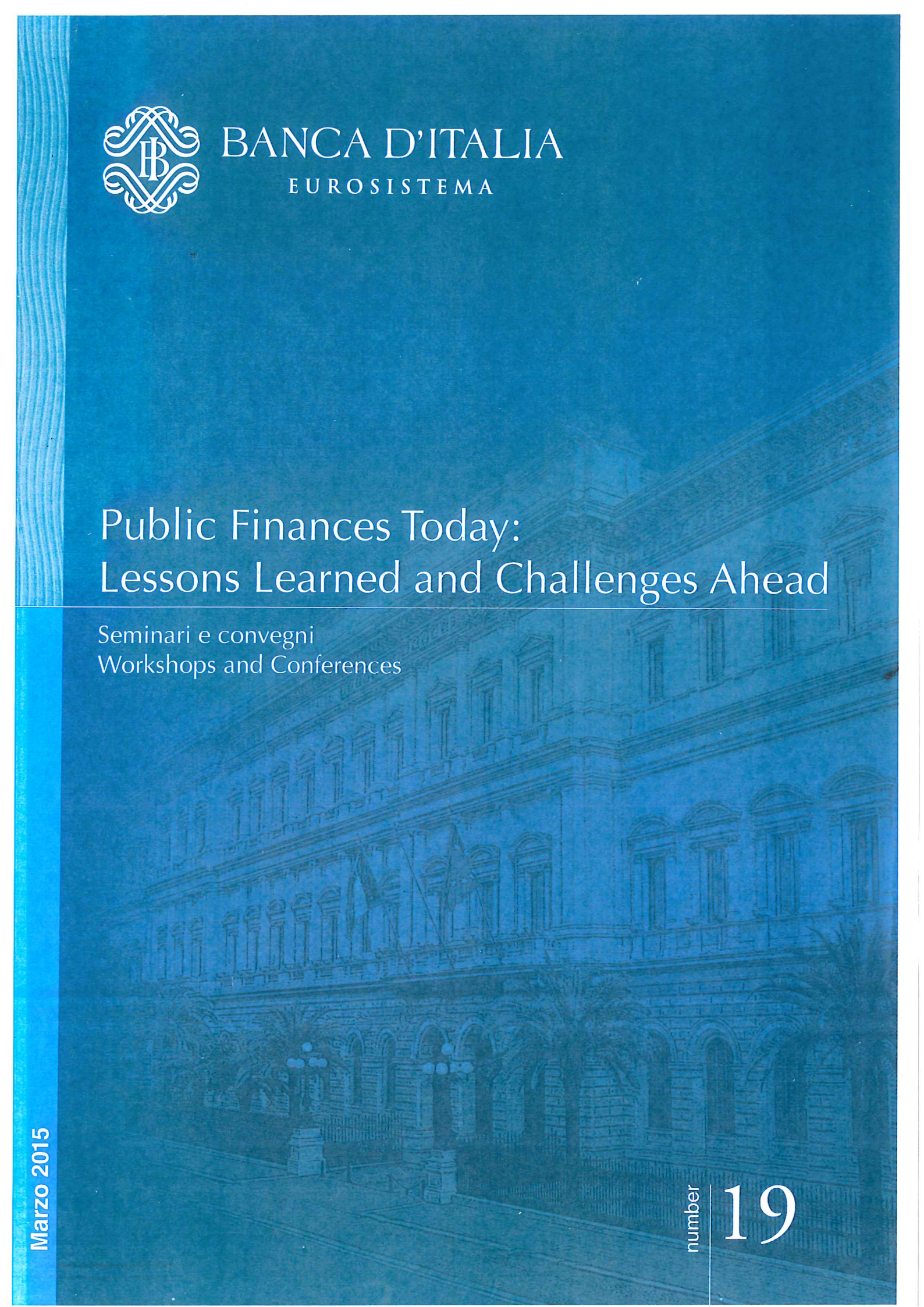

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COMMENT TO "TOWARDS A (SEMI-)NARRATIVE ANALYSIS OF FISCAL POLICY IN EU MEMBER STATES" BY RICHARD MORRIS, PIETRO RIZZA, VLADIMIR BORGY, KIRSTINE BRANDT, MANUEL COUTINHO PEREIRA, ANNA JABLECKA, JAVIER J. PÉREZ, LUKAS REISS, MORTEN RASMUSSEN, KARIM TRIKI AND LARA WEMENS

David Heald[*]

I won't talk about fiscal multipliers at all: we've had quite enough of them today! What I want to do is to praise the initiative of Richard Morris (European Central Bank) and his colleagues from other central banks – the eight countries now involved, three in process and hopefully this will be expanded later. This project is really an initiative, rather than a piece of specific research. What the participants aim to produce is a well-documented dataset. From reading the paper (Morris *et al.*, 2014) and listening to Richard's presentation, delegates at the workshop will gain a sense of the huge care that's been taken. There are questions about cost: clearly the resource costs of doing this kind of work are considerable. There's a question of expertise in terms of understanding the countries' government accounting as well as the national accounts under ESA. And there's also the question of access. This is the kind of work that academics cannot do but from which academics are potentially major beneficiaries. I was also impressed by the emphasis placed on having what has been done by experts on particular countries peer reviewed by people from other countries. Essentially this is about creating a research infrastructure as a platform for work both by the people who are doing the hard slog and by others.

The whole question about what goes into the public domain is important for legitimacy. We have seen a conflict between technocracy and democracy: it's not just the legitimacy of democracy that is under threat, it's also the legitimacy of technocracy. One of the things that worries me is that, when one hears numbers for fiscal multipliers, one does tend to expect certain kinds of numbers coming from particular institutions. The fact that the project is to open things up cannot be anything but beneficial.

Turning now to how the dataset will add value, there's a lot of care in thinking about disaggregation and about classification. Both the paper and the presentation contrast the approach in this work with that of Romer and Romer (2010) and of Devries *et al.* (2011). An important issue in the context of disaggregation is the measuring of what is "discretionary". Indeed, what constitutes a "measure"? What is it that you're trying to put a value on? There's the question of what kinds of spending should not be included as discretionary. Richard specifically mentioned debt interest and the transfer of assets between the government sector and the non-government sector. There's also been a lot of thought about benchmarks against which changes should be measured.

There are several things we can say about government documents. They come with a lot of political spin now that there is just as much concern about the political effects that announcements have as about what actually happens. And that raises a question in such datasets, about the use of numbers that are provided at the time. Obviously these numbers might not be reliable for reasons of political spin or they might not be reliable because there's very little basis on which to make an estimate. UK examples are: the incremental yield from increasing the top rate of income tax from 40 to 50 per cent; the cost of social care where the United Kingdom has had big problems with estimates; and of policy changes to student financing (where large projected savings now look illusory). One of the key differences between this paper and that of Devries *et al.* (2011) is not

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taking at face value the numbers provided at the time. I very much hope that the comments that are attached in the dataset to particular items will make clear the distinction between the numbers at the time and the subsequent numbers and set out the justifications for questioning the original numbers.

This brings me to a more general concern. Charles Goodhart (1983) became very famous for Goodhart's Law about monetary aggregates: if you take something as a target, it starts changing its behaviour. And as one focuses on fiscal aggregates there comes a very considerable danger that this happens in this context. I would mention the use of Public-Private Partnerships (PPPs) as opposed to publicly-financed capital expenditure; government guarantees for new power stations in England; and arbitrage between the general government sector and the public sector broadly defined. I used to have a fairly clear idea of what was fiscal policy and what was monetary policy but quantitative easing has taken on a quasi-fiscal role. There are questions to think about with regard to interpreting the numbers that are published.

I spent a long time as an adviser to the Treasury Committee of the UK Parliament and have a long record of criticising the UK Treasury. So it's quite nice to be able to note here that the UK Treasury comes out quite well in terms of the nature of the budget documents and what is actually provided. Specifically, the fact that the UK budgets on a national accounts basis is good because it creates more visibility in relation to the national accounts. However, one motivation for that is to make sure that PPPs do not score in the budgeted numbers (though they do in departmental accounts and the Whole of Government Account) (Heald and Georgiou, 2011a, 2011b). Once this dataset is available, it should be helpful for countries that don't have that kind of alignment between government budgetary documents and the national accounts, to see what is possible. That might start having an influence on international practice.

My final comment is that Eurostat (2013) is, at this moment, "trespassing" into the area of government financial reporting by publishing a proposal for harmonisation of public sector accounts. That raises all sorts of issues, because differences between budgetary accounting (the way the budget is presented), government financial reporting (the way in which the outturns are reported in government financial statements) and the national accounts, create significant problems of comparability. There is also the major issue of whether the European Union will follow International Public Sector Accounting Standards (IPSAS) or whether, and if so how, the proposed European Public Sector Accounting Standards (EPSAS) will be different from IPSAS. There are two possibilities. The first would be to eliminate some of the choices within IPSAS, to secure more comparability within the European Union. The second is the danger of carve-outs to IFRS-derived IPSAS standards that governments do not like because of the results that they show.

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