**COMMENTS ON SESSION 1**
**NATIONAL FISCAL FRAMEWORKS: THE EXPERIENCE**

*David Heald*[*]

My allocated task is to discuss two papers: the paper on India, by Brajamohan Misra, and the one on the IMF study on the G7 countries by Paolo Mauro. If I discipline myself in terms of time, I will also discuss the OECD study by Colin Forthun, which has no allocated discussant.

On the India paper, it is excellent that we are broadening the countries to be discussed. The OECD and G7 countries get a lot more attention about fiscal matters than the emerging economies, so it is interesting to have such a paper. The presenter covered the substance of the paper very clearly. I will pick up some issues which I consider important. The first is that, in the 30 years following independence, India did not have a significant problem with fiscal deficits. The problem started from about 1980, and an attempt was made through fiscal responsibility laws from 2004-05 to deal with this problem by means of fiscal rules.

That is the context. One of the questions that comes out in this and other papers is whether the 2008 global fiscal crisis has or has not shifted views about discretionary fiscal policy. There seemed to be a substantial consensus that one used automatic stabilisers but not discretionary fiscal policy. It is not clear from this or other papers whether that view has been substantially changed, or whether it is only the enormity of what happened in 2008 that creates a special case.

Returning specifically to the paper about India, it talks about central government and the 28 State Governments. It would be interesting to know more about variation between the State Governments, because the data in the paper are aggregated. The paper does not deal with local government, because there are no consistent data. That provokes the question about how important local government is in India. In the published version of the paper, it would be helpful if that information was provided.

There are also issues where, given my lack of detailed knowledge about the institutional structure in India, it would be very helpful to have more description about, for example, the Sixth Pay Commission and the Thirteenth Finance Commission, and the substance of their proposals and their impact.

One item discussed briefly in the paper, and even more briefly in the presentation, is the structure of the small macro-model. If the model is to appear in the published paper, I suggest that it appears earlier, with a discussion on why it is a credible model relevant to the Indian economy, because it focuses on central issues about crowding-in and crowding-out.

Two final points about India. It would be very good for most of our countries to have had GDP growth of 8 per cent in 2009-10. That strikes a very cheerful note: obviously, there is a huge boost to public finances when growth rates are on that scale. There is also a mention towards the end of the paper of something I will come back to, which is off-budget and one-off items. The specific issues here are about pay arrears, which sounds alarming, and capital receipts from auctions.

Turning now to the Mauro paper on the IMF Fiscal Adjustment Study, I must declare an interest here, because I was at a very interesting conference in Washington DC in December 2010 when the papers for the forthcoming book were presented, and I was the discussant on the United Kingdom case study. That provoked in me a lot of thought about what the criteria for "success" are

* University of Aberdeen.

and the timescale over which one can judge whether a fiscal consolidation has been successful. For example, I was more sympathetic to the Geoffrey Howe (1980) consolidation than the authors of the case study, and much less sympathetic to the so-called success of the Nigel Lawson (1984) fiscal consolidation. It obviously matters whether you look only at the period to which the consolidation applies, or whether you look at the longer period. For instance, if you neglect infrastructure, or you neglect something like health and education, you then get a period later when that neglect creates problems, and there is an attempt at a very fast catch-up which proves very expensive.

There is an issue that I will return to, in relation to the OECD study. The IMF study does recognise the point that it is very dangerous for international bodies to blur the issue about the size and role of the state with that about deficits and debt. One wishes to build a political consensus for dealing with deficits and debt, but that will be undermined if it appears that the agenda is really about how to reduce the size and role of the state, which in my view should be a political choice in democratic countries. There are wide differences in measured public debt-to-GDP ratios, but the reality might be less different because of how spending under particular institutional structures is scored.

There are three points that come out from Mauro's summary. First, data quality and timeliness are essential: without them we do not know where the economy is at present. This has clear links to the broader fiscal transparency agenda. There is no point in talking about fiscal transparency without good data. Second is the way that one thinks about automatic stabilisers. In the first UK consolidation mentioned, automatic stabilisers were explicitly suppressed, but that does not now seem to be something that people argue for. The final point about the IMF presentation relates to the sentence at the end: "Thus a priority going forward will be to build public support through communication campaigns". This makes me shudder a little, because the United Kingdom has had a long period of "spin". What exactly is spin and what is communication is something that people should think about. Substantive transparency is more important than communication. If communication means presentation, that emphasis is somewhat dangerous. I look forward to seeing the book (Mauro, 2011) when it is published.

I have managed my time sufficiently well to say something about the OECD presentation. First, I am to give a presentation in the United States in May 2011 about fiscal transparency, and it is very useful to have the broad summary of positions in different countries. It is almost impossible for an individual academic to pull these things together, and it is helpful to have this kind of summarised presentation. There is an issue not stressed in the presentation as much as it was in the document, namely that these are self-reported data, so the question is whether countries tell the truth to international bodies. This raises questions about classification and about off-balance sheet and off-budget items.

Before I go on to some points of detail, I would make three general points. I worry about some of the language that is used. "Dire fiscal problems" are often talked about. Forthun mentions having a picture of the Titanic. I get quite worried because international organisations want to claim the credit for rescuing the world economy in 2008. It is obvious that, if you have a very big fiscal stimulus, this is going to have an effect on country debt numbers. This ought to be no surprise to people. It does not help the public debate if language gets out of control. Linked to that, one has to think about what the medium-term exit is from that 2008 fiscal stimulus. To give an example, the OECD was created as part of the Marshall Plan in 1945: would one have recommended that post-war Europe go back to 1939 debt-to-GDP ratios when much of the European infrastructure had been destroyed? That point is important because, if one wants to stabilise and reduce debt, building public consent is fundamentally important.

Also relevant to building public consent is my third point: too much discussion of fiscal consolidation, to my taste, proceeds on the basis that the sacrificed public output has zero value, so that health and welfare spending can be cut without economic or social cost. The OECD study contains a number of asides about the effect of certain measures on efficiency and growth, but one of the things that worries me, and I would have thought would worry Ministers in democratic countries, is the lack of discussion about distribution and equity. One of the problems many of our economies have is that the pre-tax distribution of income has become much more dispersed. How governments react to this is an important issue. For example, when talking about consumption taxes versus income taxes, it may well be true that the preference for increasing consumption taxes rather than income taxes is the correct policy choice, but the issues need to be acknowledged more openly.

I will make two final comments. I recognise that international organisations have to be careful about how they voice certain things. What struck me about the comparisons is that political cycles matter. The United Kingdom had an election in 2010; France is to have one in 2012 and Germany in 2013. The way that governments present narratives about the past depends on how long that government has been in office. Finally, I welcome the discussion in the OECD document about various fiscal wheezes and tricks. This is going to be a very significant issue in the future. One of my research interests is Public-Private Partnerships (PPP) (Heald and Georgiou, 2010). When you talk to people in many different countries, you will be told that PPPs are preferred because they are more efficient than traditional procurement. If you then ask about the budget scoring, people smile!

## REFERENCES

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