# Book Review: Restoring Public Debt Sustainability: The Role of Independent Fiscal Institutions, edited by George Kopits

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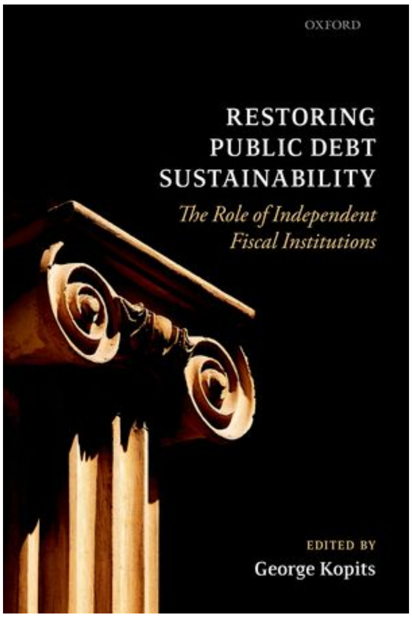
*Since 2008, new independent fiscal institutions have been established all over the world, including in Canada, the UK, Slovenia, Australia, Ireland, Portugal and the Slovak Republic. This stimulating collection of essays explores the theories and approaches surrounding IFIs, and also examines how some of these largely heterogeneous institutions have worked in different countries where they have already been established, explains* ***Richard Jones****.*

**Restoring Public Debt Sustainability: The Role of Independent Fiscal Institutions. George Kopits (ed.). Oxford University Press. October 2013.**

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Independent fiscal institutions (IFIs) are intended to bring greater professionalism and rigour to public finances in the countries where they are established. Funded by, but independent (to varying degrees) of government, the chief attractions of IFIs include improvements in the stability and transparency of decisions regarding public finances (militating against governments reclassifying spending as 'investment'), and strengthening the long-term dynamics of fiscal policy. They can also help break through politically-charged distributional conflicts associated with elected representatives having sole contrc over decisions relating to taxation and public expenditure. The discussion of IFIs is predicated on the idea that fiscal policy left solely to a democratic polis comes associated with systemic bias towards deficits as 'politicians are selfish budget maximizers' (p. 36) and this leads to the accumulation of very (and sub-optimally) large government debts.

This in turn is cut across by the political business cycle, where these utility-maximizing incumbent governments seek re-election on the back of fiscal policies engineered with this, and not any notional economic objective, in mind. We are told how the rational expectations iteration of this argument framed by Rogoff and Sibert in 1988 'assumes that voters cannot ascertain how competent politicians are in conducting fiscal policy for the common good, especially in macroeconomic management. Instead, voters use data for current economic outcomes to infer the competence of the incumbent governmer to form their decisions on whether or not to re-elect it' (p. 37). This analysis is supported by differing trends in fiscal policy cycles either side of elections. All of this is especially dangerous when combined with an excessive optimism with respect tc future predictions by both politicians and voters: that large debts can be accrued today, because future economic performance will be so much better, servicing these debts will be so much easier.

Challenges facing IFIs include the variety of problems they might be expected to address. The structures needed to promot transparency in the public finances differ markedly from, for example, those needed to limit pork-barrel politics. A structure conceived to tackle one of these problems should not be expected to solve the other. This means that the design of an IFI i heavily dependent on the analysis of what fiscal problems it is actually intended to address, and this obviously varies between countries to such an extent that the experience of one IFI in one country cannot be readily transplanted into the design for another body elsewhere, however successful this institution may have been in its own right.

This book contains a valuable and succinct comparison between the delegation of monetary policy to central banks, and of fiscal policy to IFIs, which should prove accessible to a much wider audience than academic economists. The main difference in the architecture of this delegation is that independent central banks enjoy formal authority over monetary policy as they take decisions over interest rates and money supply, whereas IFIs tend to be advisory or monitoring bodies giving legislators and the public information – and occasionally advice – about fiscal policy. Central bank independence is usually associated with a clear target inflation rate, which those pulling the levers of monetary policy are expected to hit, whereas even if IFIs are assigned policy-setting powers, it is far harder to see what objective they should be expected to meet, given consensus over debt levels is significantly less probable than consensus over the acceptable level of inflation.

Julia Bertelsmann's chapter explores some of the drivers and consequences of debt-to-GDP ratios, venturing a 'crude but powerful explanation of deficit bias is that governments may have time-inconsistent preferences. In other words, they may initially plan to balance their budgets or respect some pre-approved debt ceiling but later renege on their commitment' (p. 83).

In some of the most convincing analysis of IFIs in the whole volume, the spectre is raised that so many OECD countries were at or near the threshold ranges in their debt-to-GDP ratios at the start of the financial crisis because the time path of their tax revenues and public debt converged to a steady state, with both taxes and debt levels close to their upper bounds. On paper, 'their debt levels may have been reasonable and sustainable before the financial crisis. But after the crisis, financial shocks may have reduced their steady state upper bounds for debt, while simultaneously forcing governments to increase their debt stock to finance post-crisis interventions' (p. 84). This demonstrates the need for bodies such as IFIs to exert downward pressure on debt accumulation to a level rather below this upper limit, to allow the capacity to respond to such shocks.

It isn't just the format of this excellent book that will appeal to a wide constituency, but also the information about IFIs. If governments really can enjoy lower borrowing costs when their policy architecture includes an IFI to augment public and market confidence, such bodies will continue to proliferate. Published in 2013, this edition grew out of an academic conference in 2010. This lag is typical of academic publishing, and is a drawback of using the medium for something of such topicality. This means it is all the more important for a debate to be catalysed around this important theme now, with this book providing an excellent place to start.

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**Richard Jones** is an economic and financial historian, who is currently on sabbatical from his PhD exploring the politics, ownership structures, and material culture of utility ownership in Victorian Britain, in order to serve as the President of the Cambridge University Graduate Union. Read more reviews by Richard .