# The Dutch CPB: What can be learned from the world’s oldest fiscal watchdog?

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| *The sovereign debt problems in European countries have increased the interest in fiscal watchdogs. This column draws lessons from the evolution of the oldest such institution, the Netherlands Bureau for Economic Policy Analysis. It suggests starting with a conventional approach focusing on monitoring and analysing the government budget only to later contribute to broader policy issues.*The sovereign debt problems in European countries have increased the interest in fiscal watchdogs. Last year, the European Commission proposed to reinforce the national fiscal frameworks by introducing independent fiscal councils in all Eurozone Member States[1](http://www.voxeu.org/index.php?q=node/7929#fn). Such councils should monitor the implementation of the new treaty. The European Commission also advocates that independent macroeconomic forecasts should be used for the preparation of the budget. Making such forecasts may also be a task for a fiscal council. International organisations like the IMF and OECD regard fiscal councils as a major tool to improve fiscal outcomes. Last year, three new fiscal councils were launched in Ireland, Portugal, and Slovakia. Previously, fiscal councils have been set up in the UK, Sweden, and Canada. The role of national fiscal councils is likely to gain further relevance with the recent legislative developments in the EU. But what should be the tasks of these fiscal watchdogs?[2](http://www.voxeu.org/index.php?q=node/7929#fn)Only a few fiscal watchdogs have existed for more than a decade. The Netherlands Bureau for Economic Policy Analysis (CPB) is an exception. The world’s oldest fiscal watchdog was founded directly after World War II by Jan Tinbergen. In this article, we discuss what lessons can be learned from this long experience.[3](http://www.voxeu.org/index.php?q=node/7929#fn)In the course of its lifetime, CPB has obtained a strong reputation in Dutch society. It is a widely trusted source of economic analysis on a wide range of issues. CPB provides, for example, the short-run macroeconomic forecast used in the budgetary process, the mid- and long-term prospects for public finance, and cost-benefit analyses of all kinds of policy proposals (ranging from tax policy to social security and from education to physical infrastructure). A special feature is CPB’s assessment of a political party’s election platforms prior to general elections. Though participation in this assessment is voluntary, all major parties do so. CPB plays therefore a central role in the Dutch debate on economic policy. The Dutch institutional setup for economic policy has widely been reviewed as a success (IMF 2006 and OECD 2010).Table 1 provides an overview of the major events that have shaped today’s position of CPB as a fiscal watchdog. What lessons can be learned from this history?**Table 1**. Major events in the evolution of CPB as a fiscal watchdog

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| 1945 | Start of CPB with Tinbergen as its first director. Pre-war ideas of social planning gradually evolve intoforecasts and analysis about objectives and tools |
| 1946 | Central government budget based on CPB’s estimates of the national economy and CPB starts to provide a regular macroeconomic perspective on Dutch public finance |
| 1950 | Start of Socio-Economic Council |
| 1953 | First CPB-macro model for analysing and forecasting the Dutch economy |
| 1961 | In September each year, simultaneously with the Government Budget, a Macro Economic Outlook on the Dutch economy is published, including estimates of Dutch public finance |
| 1971 | First advisory group on fiscal policy; CPB is one of the participants |
| 1976 | Supply side included in macro-model (clay clay vintage-production function ), which substantially changed policy recommendations |
| 1986 | First analysis of the economic consequences of the election platforms of political parties |
| 1992 | First applied general equilibrium model for the labour market (MIMIC) |
| 1992 | First long term scenario analysis stressing the role of institutions (Scanning the future) |
| 1993 | Start of first major study on economic institutions: a comparison of economic institutions in Germany and the Netherlands |
| 1994 | Cost-benefit analysis of railway freight track to Germany (Betuwelijn) |
| 1998 | First analysis of sustainable public finance (generational accounts) |
| 2000 | National guidelines by CPB on cost-benefit analysis |

* The first lesson is that becoming engrained in the official decision-making process and earning a reputation of quality and independence takes time. At the start in 1945, the staff and the government had only vague ideas about the tasks and mission of CPB. Step by step, CPB managed to affect the policy debate, usually by showing main trade-offs to policymakers and the wider public.
* The second lesson is that a fiscal watchdog should define its scope broadly. The CPB has always been active on a broad set of issues. In this way, the bureau has provided insights in major political debates in Dutch society. The history of CPB shows some clear successes in influencing public debate and, ultimately, government policy. For example, CPB played an important role in reversing excess wage growth in the 1970s by pointing out its negative effects on employment. Similarly, its microsimulation model of the labour market contributed to a broad understanding of the importance of incentives and marginal tax rates for labour supply in the 1990s. It is now routinely used by political parties, from the left to the right. The introduction of generational accounting around 2000 contributed to a broader understanding of the cost of ageing for the government and an awareness of how the current institutions were unsustainable.

However, CPB was not always successful in guiding the public debate with up-to-date economic insights. For example, when the budget deficit and the government debt got out of hand in the early 1980s and the new government set out a policy based on supply-side economics, it took CPB some years to realise the importance of these new views. Hence, CPB played little role in the large policy shifts in the early 1980s. Similarly, at the start of the financial crisis after the demise of Lehman Brothers, CPB lacked the necessary understanding of financial markets to guide the policy debate.* Third, the effectiveness of a fiscal watchdog depends crucially on a clear demarcation of the distinctive roles of the watchdog and political parties. Convincing voters that they should support the one policy above the other is the prerogative of politicians. CPB aims not to interfere in the competition for votes between political parties. It tries to be ahead of the political debate. As soon as political positions are taken, it becomes very difficult for CPB to provide sensible economic arguments. Procedures and rules play an important role in making the demarcation line between the roles of the experts and the politicians visible. For example, in the autumn, when the cabinet defends its budget in parliament, CPB refrains as much as possible from public statements.
* Fourth, as a precondition for maintaining the demarcation line between the roles of politics and the fiscal watchdog, statements should be based on positive judgments and preferably broadly shared among the economic discipline. The boundary between positive and normative statements is not easily drawn. Part of what economists would routinely classify as a matter of efficiency and hence as belonging to the positive domain, will be classified as normative/political issues by the wider public. A clear example is the trade-off between output and leisure. Economists would use the wage as the price of leisure. Politicians tend to attach special value to employment and hold the view that this trade-off is not a matter of private preferences but of political judgement, since work is viewed as a main source of integration in society. A fiscal watchdog should take care when entering these fields.
* Finally, being only at arm’s length from the government has the advantage of getting inside information and being effective in the daily policymaking process, but the disadvantage that the actual or perceived independence is more difficult to maintain. To some extent, the role of CPB in Dutch fiscal policy is unique in the world and reflects typical Dutch circumstances, e.g. a prevalence of coalition governments and the independent position of CPB since WWII. Nevertheless, the Dutch fiscal institutions, procedures and specific rules could be relevant and transferable to other countries. The Dutch model, with a mix of an independent expert institute and a high-level advisory group on fiscal policy, can be interesting.

For brand new fiscal watchdogs in a turbulent political environment with public finance and the economy in dire conditions, the stakes are very high, the time is short and the resources are scarce. What is the best strategy for such new fiscal watchdogs? We have four suggestions.* Start with a conventional approach focusing first on monitoring and analysing the government budget as such, and then on macroeconomic forecasting and analysing the long-term sustainability of public finance.
* Benefit from what already exists in your country and do not duplicate activities with other organisations with a good reputation for quality and independence. For example, major parts of the government budget may already be well audited by the national audit office, or good quality and independent macroeconomic forecasting may already be provided by the central bank or a research institute.
* Clearly distinguish the roles of the fiscal watchdog and political parties. The core business of a fiscal watchdog is providing arguments derived from economic theory and empirical measurement. Articulate these arguments as clearly as possible and to as wide an audience as is willing to learn about them. However, convincing voters that they should support one policy above the other is the prerogative of politicians.
* A mature fiscal watchdog should contribute to a broader framing of policy issues. A broad scope of analysis contributes to a shared public understanding of relevant trade-offs and policy options and helps the political arena to come to the right conclusion. Recent experience shows that politicians in advanced democracies have strong incentives to show their fiscal strictness, as voters are well aware that free lunches do not exist. Implementing structural reforms turns out to be a much more difficult task.

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