

The Charter of Budget Responsibility: Ditch it or Fix it

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In many respects, Tasmania now is in a similar situation facing New Zealand in the 1980s. We are likely to require significant public-sector reform in the face of a major change in our economic circumstances. Difficult choices lie ahead, and governments of all persuasions will find it easier if the ground is prepared by an informed public debate on the choices before us.

Charters of Budget Honesty – their origins.

In our part of the world, New Zealand was the first jurisdiction to introduce what I describe as 'Budget Honesty' legislation. Responses to the disastrous Muldoon years, which ended in 1984, included the introduction of a proportional representation scheme in Parliament. Another was New Zealand's Public Finance Act (1989) which reformed the way fiscal policy was conducted. This Act did several things:

1. It adopted a consistent accrual-based accounting framework,
2. It adopted short and medium term fiscal targets, with prescribed ways of reporting against these, including pre-election fiscal policy statements.
3. It required the Treasury to prepare four-decade fiscal outlooks.

This general approach was adopted by federal Treasurer Peter Costello in 1998 with the Charter of Budget Honesty; he added to the NZ legislation by introducing the possibility of having government and opposition election policies costed by the Departments of Treasury and Finance (more recently, the Parliamentary Budget Office has this role).

In 2007, Tasmania introduced its Charter of Budget Responsibility which, like its predecessors, was designed to encourage fiscal discipline, and to improve transparency in election campaigns.

In practice, it is difficult to legislate for fiscal discipline because, apart from defeat at the ballot box, there is no effective censure against failure to meet targets. The government of the day can always move the goalposts. The fox is, indeed, in charge of the chicken coop.

Measures to improve transparency are more likely to be effective in the long run, and from now on I focus on transparency.

Transparency

If the electorate is provided with

- a realistic view of the fiscal outlook,
- an accurate picture of the performance of the incumbent set of politicians,
- and a realistic view of the feasible set of policy choices,

it is probably more likely to elect governments which implement sustainable and efficient policies (although of course this is not guaranteed).

Tasmania's Charter has several features intended to enhance transparency.

- The Treasury publishes a Pre-election Fiscal Outlook Report which, importantly, is a Treasury publication, not a government publication.
- During the election campaign, government and opposition are required to publish a Fiscal Strategy Statement which is intended to translate the general principles of the Act into more specific strategies, and
- Both Government and Opposition parties may submit policy proposals for costing by Treasury.

How well do these work?

The first – the Pre-election fiscal outlook – takes the same form as the standard budget statement and provides useful information, albeit over a relatively short time horizon compared to the 40-year outlooks provided at regular intervals in the Commonwealth and New Zealand process.

The second – the Fiscal Strategy Statement – does not work well at all. The government's fiscal strategy is reasonably well known, simply by virtue of its presentation in successive budgets and its greater frequency of communication. In terms of informing the electorate, the Statement is probably more important for opposition party(ies). Here, current arrangements fall well short of what is required.

Taking the Liberal Party as an example, its Statement was, apparently, published in an obscure part of Mr Gutwein's website and has since been removed. I requested a copy from his office several weeks ago but it has yet to be supplied.

Fortunately I obtained a copy from another source. As it turns out, it is a collection of motherhood statements and fiscal objectives, not a strategy. For example, it states that ‘the target for net operating outcomes over the budget year and the forward estimates period will be for improved outcomes each year on current forecasts’

Whose forecasts? The last budget presented by the government? The forecasts in the alternative budget presented by the opposition last year? The forecasts in the pre-election fiscal outlook?

‘We promise to do better’ is hardly a fiscal strategy, but then the provisions of Act don’t require any greater precision.

If a Strategy statement is to be produced, there does not appear to be anything in the Act which would preclude posting them on the Treasury website where they would lead a somewhat less ephemeral existence. This would be a small but welcome step.

Policy Costings

Now turn to costings by the Treasury. Parties requesting costings are required to provide details of the proposed policy, which Treasury then ‘costs’ with the results published in a pro forma on the Treasury website. In practice, this process does not work at all well.

1. Important details of the policy being costed are not provided. For example, consider the ‘Job Creation Package’ which is the largest of the Liberal proposals listed on the Treasury website. This \$28m package includes a \$10m proposal over two years for ‘water and sewerage headworks relief for new developments’. The words in quotation marks are, literally, the only detail provided. Voters might want to have answers to the following questions

- a. Who is eligible for relief?
- b. Is relief provided on a first-come, first served basis, or pro-rata, or on some other basis?
- c. What are the administrative arrangements i.e. who will administer the policy, and how much will policy administration cost? What administrative costs are borne by applicants? How much will be left for relief?

Given that the costing on the treasury website is exactly \$10m we can probably be safe in assuming that these details were not provided to Treasury – there is no meaningful ‘costing’ going on at all.

That situation – that no costing takes place – certainly holds for most of the proposals. Of the 48 Liberal Party proposals listed, the majority are like the promise to give \$10k to the

Cradle Coast Mountain Bike Club. Highly trained treasury officers are spending their valuable time, in accordance with the Act, transcribing proposals like these into the prescribed proforma which is then placed on the treasury website.

2. Of the Liberal policies submitted to Treasury most (52 late versus 48 on time) were provided too late for a formal costing to be carried out.

3. No policies resulting in net savings were submitted – evidently ‘costings’ are interpreted to only apply to increases in outlays, whereas some of the more extravagant election proposals (from all sides of politics) relate to proposed reductions in spending.

4. In any event there is actually no legal requirement to submit policies for costing at all. The Act says that parties may submit policies for costing. So when Mr Gutwein was quoted as saying that budget honesty laws do not require cost-neutral policies to be scrutinised, he was absolutely correct.

In fact, most important and fiscally significant policies were not scrutinised. A random selection of non-scrutinised policies from the opposition’s ‘Change for a Brighter Future’ document includes

- the proposal to extend high schools to year 12,
- expansion of elective surgery,
- disaggregation of government contracts,
- a serious and organised crime squad,
- double first home owners grant,
- establishment of a department of state growth,
- and so on.

Clearly it is a misleading contribution to election campaigns to assert, as is frequently the case, that ‘our policies will be submitted in good time to be fully costed by Treasury’. Of those that are submitted, most are late. The great majority, including proposals for cost savings, are not submitted at all.

It is my impression that during election campaigns all the contestants rely on the costing process to confer some kind of integrity to their proposals. Insiders know this isn’t the case, but I suspect the great majority don’t. The ‘costing’ charade should be discontinued, saving valuable resources, at no cost to transparency.

Lessons

There are some lessons we can learn from New Zealand here. They did not go down the 'policy costings' route. Nor did they require opposition parties to provide a fiscal strategy statement. Rather, they provide an environment where the Treasury, which is surely well placed to do so, plays a much more active role in framing the public debate.

Some examples:

1. Briefings to incoming Ministers of Finance, prepared before successive elections, are public documents and are posted on the Treasury web page.
2. The models used to generate 40-year outlooks are available on the Treasury website as an Excel spreadsheet. Users can generate their own scenarios by changing various parameter settings.
3. Treasury has an active visitors program in which specialists interact with staff on projects of interest – results are published in working papers which are published on the Treasury website.
4. Time series of budget data are made available to outside users.

I argue that the Charter of Budget Responsibility in its present form should be ditched. Instead of asking Treasury to participate in a costing process which has very little value, it would be much better if the policy environment were changed so that the Treasury (and other government departments) could play a much more active role in enhancing transparency and framing the public policy debate.