

*cpb*

*Lessons from NL*

Brussels,  
21-6-2006

# Forecasting, policy evaluation and the budgetary process

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## Lessons from the Netherlands

by

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- **CPB forecasting practice**
  - ▶ short term (annual) budget cycle
  - ▶ medium term (4 years) election platforms, coalition agreement
  - ▶ long term (several decades) ageing study
- **Position of CPB**
  - ▶ Conditions for quality and independence
  - ▶ IMF enthusiastic
- **Lessons**

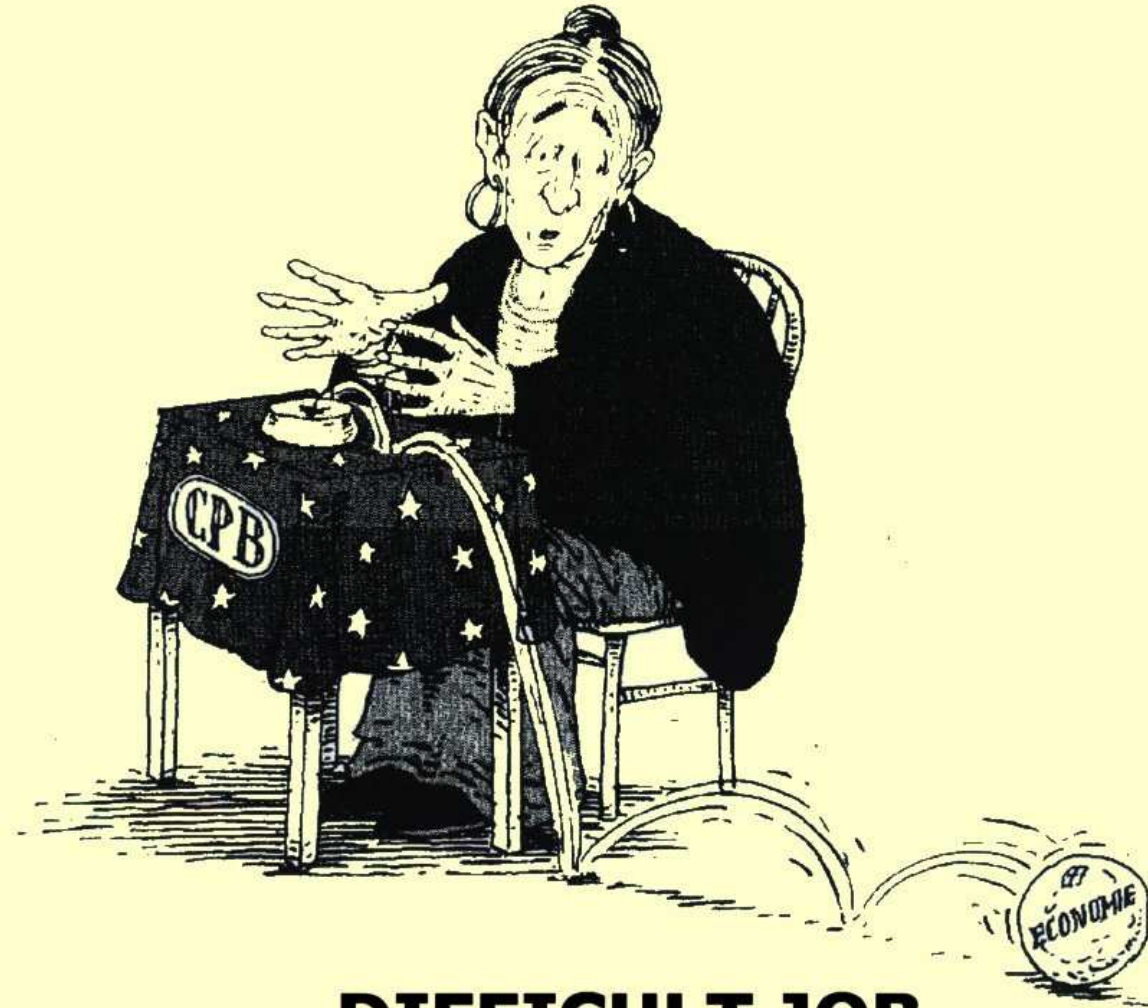
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# CPB forecasting practice...

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**DIFFICULT JOB**

## Short term

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- timing: fixed quarterly schedule
- covers current year and next year
- draft figures available to Ministries (and usually leaked to the press)
- draft texts discussed with cabinet

## Medium term

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- **timing: political cycle**
  - ▶ every new cabinet
  - ▶ study group, election platforms, coalitions agreement
  
- **two scenarios**
  - ▶ cautious / optimistic (about potential growth)
  - ▶ end-year cyclically neutral
  
- **relation with budgetary framework**
  - ▶ asymmetric loss => use cautious scenario
  - ▶ cyclical fluctuations accommodated by deficit

# Implementation

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- cautious scenario is baseline...
  - ▶ for assessment election platforms
  - ▶ for coalition negotiations
  
- and benchmark
  - ▶ updated baseline + effects coalition agreement defines real expenditure ceilings in new cabinet period
  
- system supported by
  - ▶ advice (Study Group, Social Economic Council)
  - ▶ no formal rules

## Evaluation election platforms

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- Budgetary calculation
  - ▶ EMU deficit (medium term)
  - ▶ sustainable surplus (long term)
- Effect on human capital formation
- Cost benefit analysis of new infrastructure and environmental policies

- Ageing study
  - ▶ measure: robust primary surplus (excl. natural gas and interest payments)
  - ▶ Mushgrave criterium for intergenerational fairness
- Long term scenario's

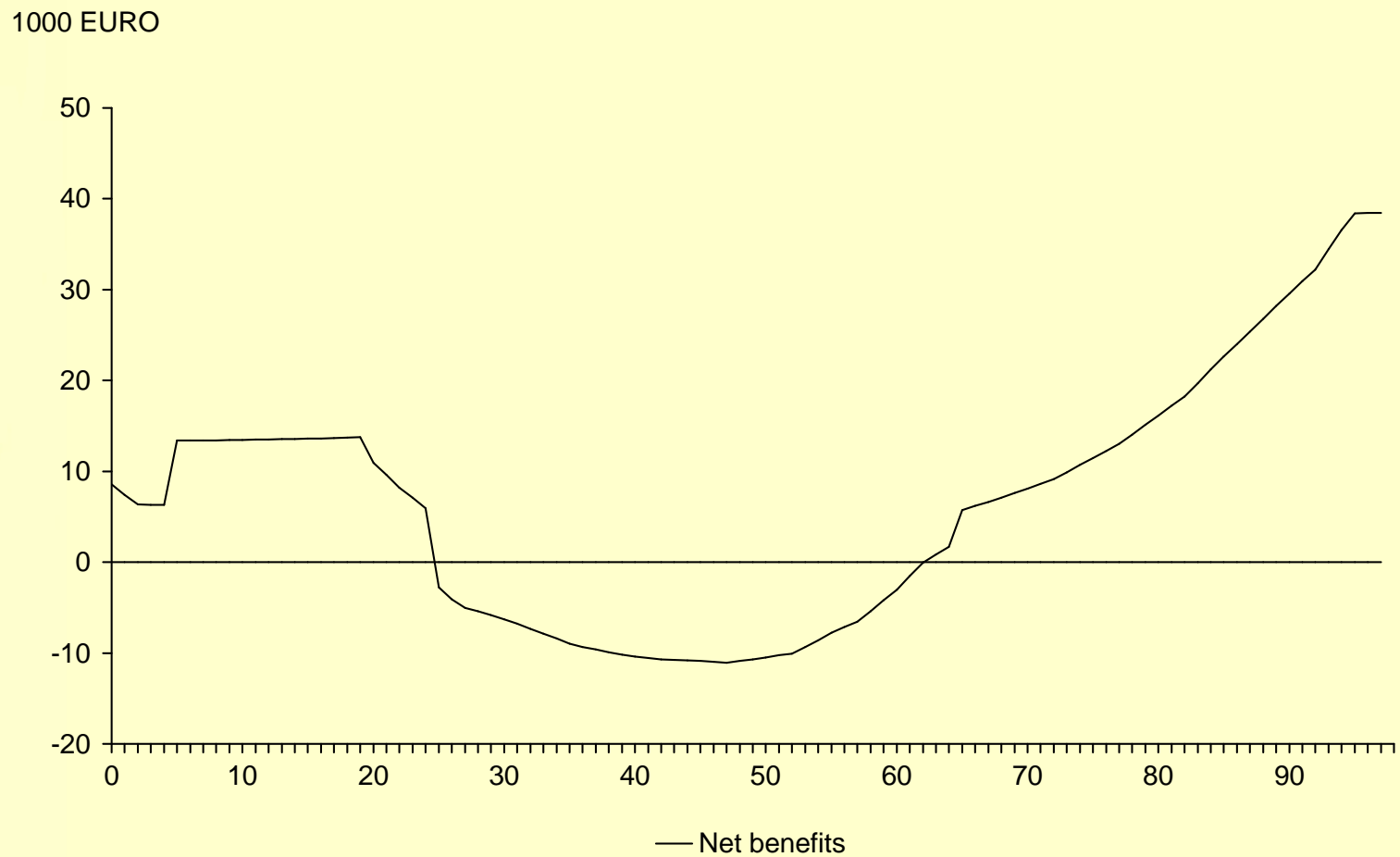


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# Net gain of the government

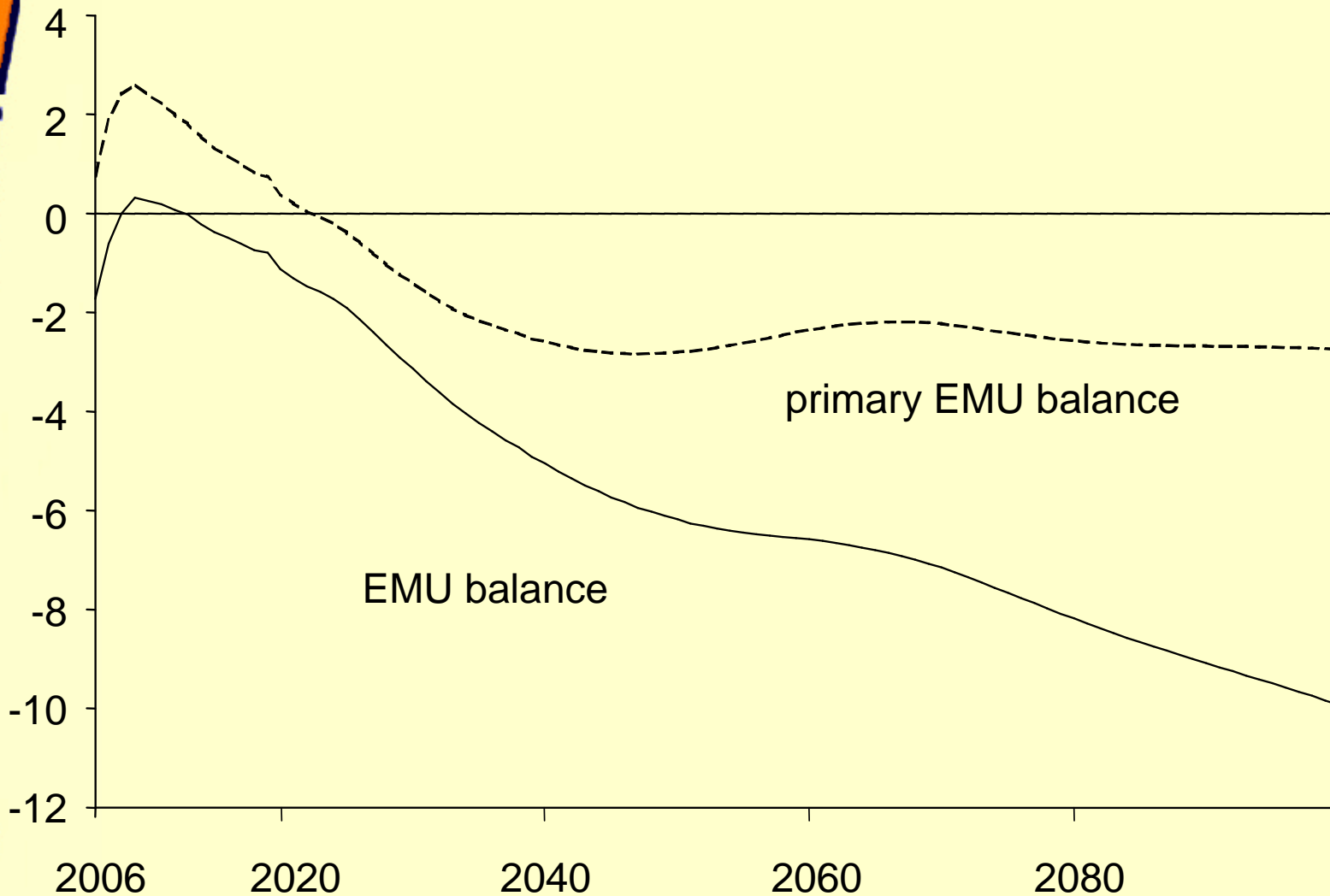


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# Primaire and EMU balance



## Relation CPB - politicians

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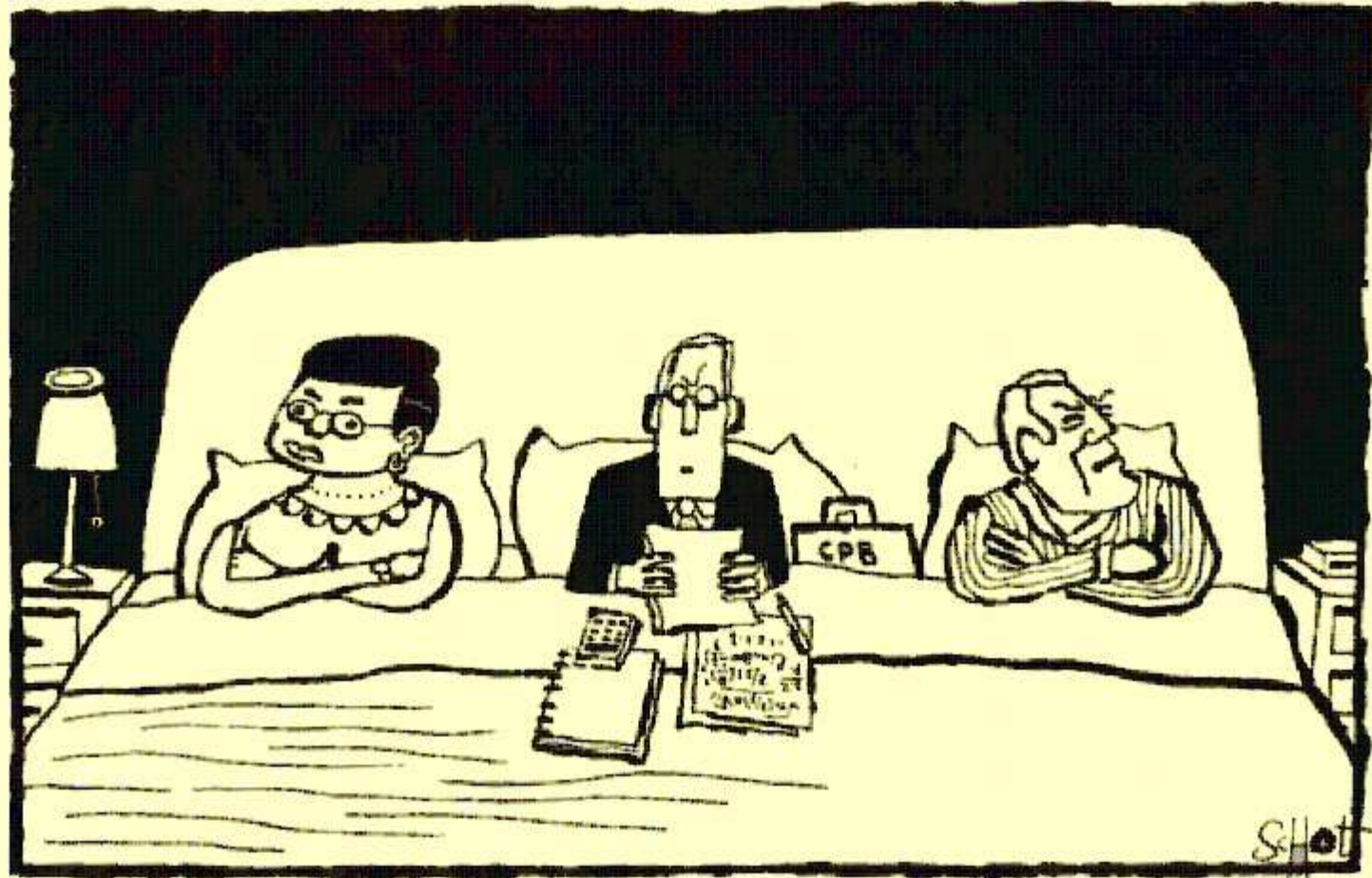
- CPB makes forecast and
- ... evaluates policies
- No obligation to use CPB forecast
- Coalition government
- Comparable to independence of Central Bank

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# Coalition negotiations...



**NO CHEMISTRY**

# Position of CPB (1)

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- Part of Ministry of Economic Affairs
  - ▶ Budget (11,5 mln), labour statute
  - ▶ Outside requests need Minister's fiat
- No political interference with methods and analysis
- No paid assignments from private parties or local government
- About 15% project funding
  - ▶ Ministries
  - ▶ EU, OECD

## Position of CPB (2)

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- Advice on work program from
  - ▶ Central Planning Commission
  - ▶ Committee for Economic Affairs
  
- Quality ensured by
  - ▶ Open attitude, transparency, accountability
  - ▶ Broad scope, comprehensive knowledge base
  - ▶ Active contacts with scientific community
  - ▶ Peer evaluations, reviews, ...
  
- Protocol contains code of conduct
  
- Good staff, many persons have Phd's (economics, physics, math)

# Independence

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- formal rules not decisive
- CPB relies largely on quality (track record, trust, public opinion)
- refrain from political statements (e.g. no unconditional advice)
- checks and balances (external scrutiny and reviews)
- crucial for hiring staff



# Lessons (1)

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## Independent quality forecasts

- help improve the quality of the policy debate
  - ▶ avoid political quarrels about assumptions
- cannot remove uncertainty, but help cope with it
- lead to better policies??
  - ▶ Persson & Tabellini “Effect of constitutions”
  - ▶ Dewatripont & Tirole “Advocates”



## Lessons (2)

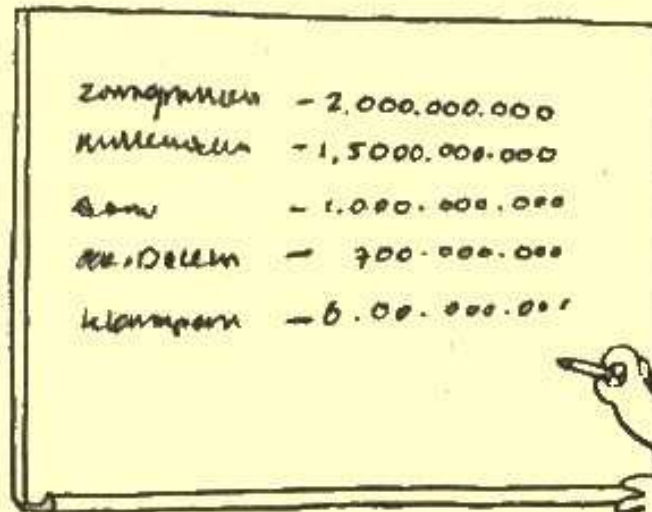
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### Safeguards for independence

- **rules are not decisive**
  - ▶ institutional setup country-specific
- **checks and balances**
  - ▶ trust must be earned
  - ▶ reputation is crucial
- **competition between forecast?**
  - ▶ mean diversion effect
  - ▶ political clientele
- **freedom of publication**
  - ▶ visit us at [www.cpb.nl](http://www.cpb.nl)

# Good idea?

THEY EASILY FIND THOSE  
20 BLN IN SAVINGS



Zonnepanelen	- 2.000.000.000
Kilometers	- 1.500.000.000
Gas	- 1.000.000.000
Deuren	- 700.000.000
Kluispanen	- 6.00.000.000

AND HOW ABOUT  
CLOSING DOWN THE CPB?

BINGO!

