P08 / Fiscal Governance: an International Perspective

Topic : POLICY DESIGN, POLICY ANALYSIS, EXPERTISE AND EVALUATION

Chair : Haizhen Mou (University of Saskatchewan)

Second Chair : Michael Atkinson (University of Saskatchewan)

GENERAL OBJECTIVES, RESEARCH QUESTIONS AND SCIENTIFIC RELEVANCE

Citizens, journalists and academics can often be heard worrying about the tendency of governments to run deficits and accumulate debt. After all, unlike most organizations, governments often have very significant borrowing capabilities. To reduce the temptation to fund current spending via long term borrowing, many countries, states and provinces have adopted rules that impose limits on debts or deficit spending. In Canada, the United States and other developed countries, the most popular of these rules requires governments to balance their budgets either annually, or over a relatively short time frame. In developing countries, debt limits are commonly employed as fiscal rules.

Although the presence of stringent fiscal rules is generally associated with lower deficits and debts, the process of implementing fiscal rules has drawn criticism and suspicion. Fiscal rules are not always well conceived. Sometimes governments do not follow their own rules, sometimes they change the rules so that they can be in compliance, and sometimes they develop accounting practices that allow them to skirt the rules. The effectiveness of rules depends on: 1) their design, and 2) the fiscal governance regime in which they work. Getting the rules right is important, but whether rules work in the way they were intended also requires a set of norms and institutions that commit decision makers to maintain fiscal accountability.

This panel will compare the experience of different countries and sub-national entities in developing and applying fiscal rules. Whether fiscal rules can be effectively employed in multi-level governance settings is of particular interest to those concerned with the financial vulnerability of local and regional governments. The objective of the panel is to understand whether and how a fiscal governance regime centered on fiscal rules can help governments manage debts, foster norms of fiscal sustainability and meet the accountability expectations.

The research questions that the panel will focus on include:

1. What is the experience of different countries in controlling debts?
2. What is the experience of different countries in creating and applying fiscal rules?
3. How can rule-based fiscal governance be made more effective?
4. How can the measurement and evaluation of fiscal governance be improved?

Fiscal sustainability should be of concern to citizens in every country, but significant disagreements exist regarding the dangers of indebtedness and the perils of austerity. A consideration of fiscal rules can reveal different norms and expectations regarding fiscal governance and the readiness of governments to use rules to guide decision making. Lessons learned from those with extensive experience can be shared widely to improve the design and implementation of rules, ensure budgets are sustainable, and strengthen norms of fiscal accountability. This panel discussion can also help researchers to exchange ideas and learn from each other the methods of measuring and evaluating fiscal governance.

CALL FOR PAPERS

There is no doubt about the growing popularity of fiscal rules (IMF 2012). The most common rule requires a balanced budget within a particular time frame, but other rules stipulate debt levels, establish savings funds, limit expenditure growth, or require referendums prior to tax increases.

In spite of their appeal, it is difficult to make self-imposed rules a centerpiece of fiscal governance. Research suggests a propensity to abandon fiscal rules in the face of economic pressures (Simpson and Wesley 2012). The panel proposed here is premised on the idea that a sound fiscal regime requires well-designed rules (Howlett and Lejano 2013) and a supportive regime of fiscal governance that foster norms of fiscal sustainability and meet the accountability (Atkinson, Mou and Bruce 2016).

The objective of the panel is to understand whether and how a fiscal governance regime centered on fiscal

rules can help governments manage debts and achieve desirable fiscal and democratic outcomes. The research questions that the panel will focus on include:

1. What is the experience of different countries in controlling debts?
2. What is the experience of different countries in creating and applying fiscal rules?
3. How can rule-based fiscal governance be made more effective?
4. How can the measurement and evaluation of fiscal governance be improved?

Whether fiscal rules can be effectively employed in multi-level governance settings is of particular interest to those concerned with the financial vulnerability of local and regional governments. We invite panel submissions that describe the experience of different countries and sub-national entities in developing and applying fiscal rules. Both conceptual and empirical work will be considered. Comparative design is not required but is strongly encouraged.

P08 / Fiscal Governance: an International Perspective

Chair : Haizhen Mou (University of Saskatchewan)

Second Chair : Michael Atkinson (University of Saskatchewan)

Session 1Fiscal governance: behavioral aspects

Thursday, June 27th 10:30 to 12:30 (MB S1.255)

The prospects for rule-centered fiscal governance

Michael Atkinson (University of Saskatchewan)

Haizhen Mou (University of Saskatchewan)

Despite growth in their popularity over several decades, it has become increasingly clear that for governments seeking to balance demands for investment with the need for budgetary prudence, fiscal rules cannot be the centerpiece of fiscal governance. Apart from the propensity of governments to modify or abandon fiscal rules in the face of economic pressures (Simpson and Wesley 2012), stringent rules also risk creating moral hazards, particularly creative manipulations of budget data (Hemming 2013, 33). Governments seeking a fiscal regime, one attuned to macro-economic constraints and committed to a healthy investment climate, require a comprehensive fiscal governance framework. This paper outlines the essential elements of such a framework in which well-designed rules (Howlett and Lejano 2013) are a part of a supportive regime of fiscal governance (Atkinson, Mou and Bruce 2016).

Fiscal governance refers to the distribution of authority regarding the planning, composition and implementation of the budget and to the rules that those in authority create, follow and enforce (Hallerberg 2004). We propose what we believe are two uncontroversial goals of fiscal governance: sustainability and accountability. Sustainability implies that whatever rules are adopted they need to be attentive to the medium and long term, not just the annual budget cycle. The second general goal of fiscal governance is accountability. A sound fiscal governance regime requires a clear demarcation of authority for the creation of fiscal policy and the ability to hold those responsible to account.

Sustainability is an elusive goal, but it is more difficult to achieve without a culture of accountability. Rules exist not merely for the purpose of achieving prescribed outcomes, but also to foster certain norms and behavior (Collier 2016; Mitchell 2007). Fiscal rules should not simply constrain governments but also promote norms supportive of sustainability and accountability (Buchanan 1997; Shah 2005). To foster these norms, it is important that the design and implementation of fiscal rules meet certain criteria (Kaplow 1992). We propose a conceptual framework of rule-centered fiscal governance that reaches beyond the content of rules, as important as that is, to include process values such as transparency and responsiveness. Our set of criteria includes stringency and clarity of rules, comprehensiveness of government budgets, checks and balance in government fiscal management, accuracy of forecasting, quality of communication on the progress and causes of budgetary outcomes, and responsiveness of budgeting.

Using the framework as a guideline, we will review the existing conceptual and empirical work on fiscal governance, and draw lessons from the experience in select developed countries, based on studies conducted by international monitoring agencies including the OECD, the EU, the IMF, and the World Bank. The goal of this research is to outline a more comprehensive framework to evaluate fiscal governance and provide lessons on the appropriate design and implementation of fiscal rules.

Fiscal Governance: Rules, Social Dilemma and the Brazilian Perspective

Mattos Miguel (University of Brasília)

The fiscal sustainability can be seen as a common pool resource. Although fiscal rules are collectively desirable, because of the benefits to the whole economy, its power depends on the individual behavior of the agents involved. The individual rationality of those agents, however, induce them to maximize their own public resource consumption, mainly driven by the collective profile of the good. The sum of the rational individual behaviors leads to predation of the fiscal resource, despite the general understanding of the

importance of achieving a sustainable fiscal balance. This is a social dilemma problem.

The seeking of a kind of governance based on authority's control to solve social dilemma leads to centralization of fiscal management tools. This trend is the opposite of the one related to induce the cooperation and coordination among the sectorial decision makers (micro) in order to keep the sustainability of the common pool resource, aligned to the 08 principles stated by Elinor Ostrom in the book "Governing the Commons" (1990).

The paper discusses the limits and applications of those principles of good governance to fiscal equilibrium in Brazil as a case of huge and complex public financial ina a national level.

The main discussion is about the Brazilian example in which fiscal governance methods are based on the management by central authority, trying to enforce fiscal rules from the center to the margins, in order to achieve aggregated fiscal targets, in an environment of asymmetric information, bounded rationality and low level of cooperation and coordination. At the same time, the level of participation of sectorial managers in rule-making related to fiscal governance is low and there is no horizontal coordination between sectorial agents when building their particular strategies. This envrionment structured in a vertical and centralized way means that sectorial actors behavior in the microlevel is governed by individual and uncoordinated decision-making and by opportunistic behavior.

As a proposal, a multilevel fragmentation of the fiscal federal common is taken as a possibility to settle better resources boundaries, allowing steady and credible appropriation rights. The reduction of the common scale applied to decision-making in the microlevel could give support to horizontal cooperation and coordination, reducing transaction costs and lowering and simplifying the decision task of the central budgeting authorities with the establishment of a decentralized and layered decision making structure.

Keywords: governance; fiscal rules; social dilemma; fiscal commons; asymmetric information; bounded rationality; opportunistic behavior.

State-imposed Property Tax Levy Cap and Local Government Revenue: Evidence from New York

Hyoung-Keun Kwon (Maxwell School of Citizenship and Public Affairs, Syracuse University)

Yilin Hou

Many states in the U.S. impose some form of constraints on local governments' authority to levy and collect property taxes. The leading motivations for state governments to establish and enforce such constraints are to control, and if possible, reduce the tax burden on property owners as well as hamper the level or growth in local government revenue. However, many prior studies show these limits engender localities to either reduce spending on key services—such as education, police and fire protection—or raise more fees and charges, which further burdens the disadvantaged.

This paper assesses the effect of the property tax levy cap in New York that became effective in January 2012 on municipal governments' revenue structure and total expenditure. Specifically, the paper dissects two questions: first, whether there is a disparate effect on municipalities with different socioeconomic contexts; and second, whether property levy caps effectively constrain local overall expenditure.

This study will construct a formal model to explain local government decisions to raise and spend different sources of revenue, then employ the difference-in-differences (DID) approach to estimate the impact of the NY State property tax levy cap. For this estimation, the paper will use Connecticut localities as the control group, because the state of Connecticut had set up property assessment caps that became effective by June 2006, but Connecticut does not impose any levy cap until a local option levy limit for homeowners started in October 2016. As of 2017, only City of Hartford adopted this levy limit. Two dependent variables will be (1) revenues by sources and (2) expenditures by service category, both measured at per capita level, growth rate, and percent share of the total. The data sources are the Office of the New York State Comptroller and the Connecticut Data Collaborative.

To add estimation power to the DID analysis, the paper will use the event study design since one cannot directly test the parallel trend assumption, and a border discontinuity design since Connecticut and New York are neighbors.

Preliminary analyses with the interrupted time-series design suggest that the New York property tax levy cap moderates the growth of property tax revenue but not the growth of total revenue.

This study contributes to the growing literature of tax and expenditure limits (TELs) in several ways. First, this paper attempts to present a model for explaining local governments decisions to collect revenues from different sources. This model will help us better understand local responses to property tax levy caps.

Second, many prior studies of state-imposed local property tax limitations use county as the unit of analysis, this study extends to all municipalities. Finally, this study aims to fill the research gap by unmasking the influences of these limits that are pertinent to municipalities.

Theoretical Analysis and Policy Practice: Debt expansion Mechanism and Governance of Local Government Financing Platforms

Wei Wang

Abstract?

Debt financing by local platform corporation is a financing method of local government in China. A great deal of the credit expansion had been funneled through the Local Government Financing Platforms (LGFPs). In recent years?these debts are institutionally expanding. The debt risk has emerged. Since the circulation of new budget law, under new supervision policy, the debt of local financing platform will not be part of increment debt of local government, the implicit debt relationship between the local government and the financing platform still exists. Institutional expansion and implicit debts would magnify the scale of local government debts and debt risks?so it is necessary to find out the root cause of these debts in mechanism and regulate local government debts in an institutionalized way.

This paper theoretically derives the expansion mechanism of local government financing platform from the perspective of dual soft budget constraints under fiscal decentralization and financial decentralization, and makes a theoretical discussion on the location factors of the differences of local debt expansion. The theoretical inducement is tested empirically. Using the quasi- municipal bond data issued by local government financing platform in 2009- 2017. This paper studies how soft budget constraint affects financing behavior of local governments from the perspective of quasi-municipal bond, and analyzes the influence of local governments' characteristics on the credit spread of quasi- municipal bond with the policy impact. The empirical results verify the theoretical hypothesis: the higher the degree of fiscal / financial decentralization, the stronger the degree of soft budget constraint, the greater the degree of debt expansion of the local government financing platform; the degree of financial and financial synergy can reduce the degree of soft budget constraints It is shows that to prevent and control the systemic financial risks in China, it cannot be ignored the spatial spillover effect of local government debt risk, so it need to strictly clean up the paths channel of its risk spillover, and focus on strengthening the market mechanism of local government debt financing.

P08 / Fiscal Governance: an International Perspective

Chair : Haizhen Mou (University of Saskatchewan)

Second Chair : Michael Atkinson (University of Saskatchewan)

Session 2Fiscal governance: policy issues

Thursday, June 27th 16:30 to 18:30 (MB S1.255)

Barking dogs and purring cats: impartial budget oversight in Western, ASEAN and African parliaments

Scott Cameron

Scott Cameron (Parliamentary Budget Officer of Canada)

I examine two different models of providing impartial fiscal advice to parliamentarians so that they may hold their governments to account on financial matters.

In western democracies, non-partisan budget offices are able to freely criticize official government forecasts and financial disclosures and in some cases, policy choices. In this manner, they can support parliamentarians through overt research support and direct relationships with the media and citizens.

In other countries where institutions are less deeply rooted, exist in appearance only, or do not exist at all, non-partisan budget experts must take a more cautioned approach, finding ways to align research with the complex incentives of parliamentarians, and having a more intimate relationship with the ruling government than traditional models for guarding the public purse would dictate.

I argue that a cautioned and collaborative approach to financial scrutiny can achieve similar results to a more aggressive critical approach, and in many cases may be a more successful model. To demonstrate the latter, the experiences (anecdotes and empirical performance analysis) of fledgling parliamentary budget offices in ASEAN member states are compared to those of African countries. Budget offices in each region have taken a very different approach in their relationship with their governments: one barking at their heels, another purring on their laps.

The fiscal space and spending multiplier of the state governments in Mexico: a comprehensive analysis of sustainability and promotion of regional growth

IGNACIO RUELAS (Centro de Investigación y Docencia Económicas (CIDE))

Alain Dimitrius Izquierdo Reyes (Universidad de Guadalajara)

The fiscal decentralization process in Mexico has shown weaknesses in the institutional and management capacities of state governments. These weaknesses are reflected in both fiscal accounts and in the strategies to boost regional economic growth. It is in this context that this paper proposes a comprehensive analysis of the fiscal sustainability of Mexican state governments and their potential to boost regional growth.

Over the last decades, Latin American federal countries like Brazil and Argentina have faced subnational fiscal imbalances (trough debt and deficits) that have had a significant macroeconomic impact, situation that has explained the policy changes oriented to promote and implement subnational fiscal rules in these countries (Jiménez y Ruelas, 2016). So, attempting to collaborate to this kind of international experience of fiscal governance (specially in developing countries), the central idea of this paper is to demonstrate the importance of subnational fiscal space as a measure of resource availability for public spending oriented to stimulate regional economic growth. In fact, this analysis is proposed considering the subnational fiscal rule that has recently approved in Mexico (Ley de disciplina financiera de las entidades federativas y municipios, 2016).

For this, firstly, we'll estimate the fiscal space of the state governments, regarding this as the room to raise spending or lower taxes relative to a pre-existing baseline, without endangering market access and debt sustainability (IMF, 2018). Secondly, we'll calculate fiscal multipliers -defined as the ratio of a change in

output (?Y) to a discretionary change in government spending or tax revenue (?G or ?T) (Spilimbergo and others, 2009; Batini and others, 2014)- of public spending in intermediate governments, through a panel model with fixed effects. The analysis will be done for the 32 states, for a period of time that covers from 2003 to 2016.

The aim is to show evidence of the reduced -even required- fiscal space with which the state governments have faced their spending responsibilities during the last decade. In this sense, emphasis is placed on the importance of promote fiscal rules that create fiscal space and promote economic impact of public spending in the medium-term growth. Added, the results will provide elements for the improve of the measurement and evaluation of fiscal governance, mainly pointing out the importance of strengthening the fiscal capacities of state governments with the goal to increase the fiscal space and improve the quality of public spending.

Finally, with the preliminary results, we will register lessons for understanding the main about the fiscal space and spending multiplier in the sub-governments

References

Batini, N., Eyraud, L. Forni, L. y Weber, A. (2014). Fiscal Multipliers: Size, Determinants, and Use in Macroeconomic Projections. IMF Techincal Notes and Manuals.

Craig, B. (2005). "Fiscal Sustainability in Theory and Practice: A Handbook," World Bank Publications, The World Bank, number 7495.

IMF (2018). IMF Policy Paper. Assessing Fiscal Space: An Update and Stocktaking. Washington D.C.

Jiménez J.P y Ruelas I. (2016). El endeudamiento de los gobiernos subnacionales en América Latina: evolución, institucionalidad y desafíos (Borrowing in Latin American Countries: evolution, institution and challenges). Serie Macroeconomía del Desarrollo, No. 186, CEPAL

Spilimbergo, A., S. Symansky, and M. Schindler (2009). Fiscal Multipliers, IMF Staff Position Note 09/11 IMF, Washington D.C.

Population Aging and Sino-US Trade Friction: An Empirical Study about Pensions reserves

Yanfeng Bai (School of Public Fiance and Tax)

Tong Yue

The reasons for the Sino-US trade friction are related to changes of American social structure. The deepening of population aging is a significant feature that will reduce domestic savings and capital outflows by changing the number of labor, labor productivity and pension scales, which led to the US current account deficit. This paper takes the scale of pension reserve as an entry point, and combs the mechanism of the impact of population aging on Sino-US trade friction, and uses the time series data from 1970 to 2017 for empirical analysis. The results show that population aging is one of the factors of the current account deficit in the United States. However, after the introduction of pension reserves, the impact of the number of elderly population for the current account balance in the United States is not significant, and the scale of the pension reserve is significantly negatively correlated with the current account balance. This is analyzed. First, the impact of population aging on domestic savings and investment is transmitted through the scale of pension reserves. Second, it is related to the US policy of dealing with aging, that is, the policy of delaying retirement provides a certain labor force. The conclusions of this paper are as follows: Sino-US trade friction is to alleviate the current situation of the US economic downturn and promote the national economic recovery. The impact of population aging on the current account balance is mainly reflected by the continuous expansion of the pension scale; China is carrying out the reform of the pension system, at the same time, it is necessary to strengthen the risk assessment and control of pension investment channels.

Exchange of Information as a Public Policy Instrument Essential to Protecting the Tax Base and Canada's International Tax Cooperation

Marie-Thérèse Dugas (Université de Sherbrooke)

The contribution of this research is relevant to understand the context of the current international tax system, where the OECD is creating a real revolution in ways of doing things by proposing to the states many actions to help them to protect their tax base. Given that the understanding of governments and the way they exercise their power is important for international relations and for the different institutions involved, it is relevant to analyze the instruments from this perspective.

As part of its international tax policy, Canada is positioning itself as a major player in international tax cooperation to protect its tax base. In opposition, some Canadian taxpayers' movements, professors and

researchers say that Canada is passive in protecting its tax base, even stating that Canada is putting legislation that allows for the movement of Canadian capital abroad. The purpose of this research is to answer the following question: In the international tax treaties concluded by Canada and based on the OECD recommendations, what are the exchange of information provisions and the public policy instruments that support the protection of the tax base of Canada?

Using the combination of two theoretical approaches, the theory of liberal institutionalism and the instruments theoretical model, this research is part of a qualitative approach of three case studies. The purpose of the research is to analyze, through exploration, description and explanation, the exchange of information provisions of the international tax treaties concluded by Canada and based on the OECD recommendations and the resulting public policy instruments that allow the protection of Canada's tax base.

In Canada, mainly three types of international tax treaties based on the OECD recommendations are used: the Model Tax Convention on Income and on Capital (Tax Convention), the Tax Information Exchange Agreement (Information Exchange Agreement) and the Convention on Mutual Administrative Assistance in Tax Matters (Multilateral Convention). These three types of international tax treaties contain provisions for the exchange of information. Canada uses these models suggested by the OECD and they influence its tax policy.

NATO's scheme (for nodality, authority, treasure and organization) identifies that Canada's strengths are in legal instruments and organizational resources instruments. This corroborates the finding that international institutions, particularly the OECD, have an effect on Canadian tax policy by the models of international tax treaties they suggest.

The NATO scheme also highlights that there are gaps in terms of financial resources and information. These two findings demonstrate the need for assistance in implementing Canada's public policies. Finally, it seems that the instruments available to the state should be better adapted to the digital age. Yesterday's static instruments should be modified in such a way that they become dynamic and remain relevant to the evolution of international taxation.

The analysis of the three cases leads to the conclusion that, in general, the exchange of information provisions, inspired by the OECD recommendations and present in the international tax treaties concluded by Canada, as well as the public policy instruments that emanate, allow the protection of Canada's tax base.

Are the glory days of Balanced Budget Laws fading? A review of recent Canadian experience

Haizhen Mou (University of Saskatchewan)

Michael Atkinson (University of Saskatchewan)

Maritza Lozano (Johnson Shoyama Graduate School of Public Policy)

Few Canadian provinces abandoned its Balanced Budget Laws (BBLs) amid the 2008-09 financial crisis, while in the more recent economic recovery period, four provinces took a sharp turn and repealed their decade-long balanced budget requirements. In the same period, several provinces switched to spending control or deficit reduction and emphasized their fiscal accountability standards.

In this paper we will review the legislative changes to BBLs in the ten Canadian provinces since 2013. We will then summarize the trend in rule-based fiscal governance and offer possible explanations for the changes. One explanation is economic – the demand for economic recovery after the 2008-09 financial crisis pressed provinces to put aside their ideological preference for austerity and instead focus on economic stimulus. The absence of consensus among economists on the appropriate goals of fiscal policy help create an atmosphere of what might be called "permissive experimentation." Another explanation for declining enthusiasm for balanced budget rules is political – through the experience of the 2008-09 economic recession, provincial governments increasingly emphasized a democratic standard in fiscal governance, namely accountability. Being accountable implies both sustainable spending, but also responsiveness to demands for high standards of public service.

Based on a reflection of the recent experience as well as the history of fiscal governance of Canadian provinces since the 1990s, we conclude that neither budget balance nor debt level continues to be the driving policy objective of Canadian governments. Instead, government budgeting is regarded as an important instrument to promote economic growth and/or signal a government's commitment to fiscal responsibility and accountability. The changing role and structure of fiscal governance reflects the shifting priority of governments in different policy contexts. Finally, we discuss what types of institutions can help governments use fiscal governance to achieve both economic and political objectives.