



CURRENT PROCESS TOPICS IN INTERNATIONAL BUDGETING

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FOUR CURRENT PROCESS TOPICS

1. **Expenditure Caps Are Better Than Deficit-Based Fiscal Rules**
2. **Very Long Term Budgeting Is Better Than Intergenerational Accounting**
3. **Performance Information Is Better Than Performance Budgeting**
4. **Tax Credits Are Spending**

Concluding Comments



Expenditure Caps Are Better Than Deficit-Based Fiscal Rules

- Reasons for our study
 - Europe's SGP = GRH
 - Caps have worked in Chile, Finland, Netherlands, Sweden, and the US; deficit rules have never worked
- Findings
 - Caps are inherently counter cyclical; deficit rules are inherently pro-cyclical, and can't be adjusted for the cycle
 - Caps work in the good times; deficit rules don't
 - Caps are better in terms of administrability, credibility, protecting public investment and core government functions, and in cooperation with monetary policy



Very Long Term Budgeting Is Better Than Intergenerational Accounting

- Easier to explain
- No debate about choice of discount rates
- Tracks intergenerational transfers and fiscal risks
- Shows impacts of uncertainties through sensitivity analysis
- Demands on very long term budgeting are less than on short or medium term budgeting



Performance Information Is Better Than Performance Budgeting

- Fewer countries appear to be following New Zealand's lead of rigidly tying the budget to performance
- But more developed countries are using performance information to impact the budgetary process
- Developing countries talk a lot about using performance information, but still largely stick to incremental budgeting
- OECD will update our 2003 **Survey of Budgetary Processes** to provide better information on this and other trends in budgeting

Tax Credits Are Spending

- Should the budget treatment of tax credits be revisited?
 - Following the US, use of tax credits are growing worldwide
 - Most are spending programs placed on the tax side
 - Exemptions and deductions help determine the level of tax liability; credits only impact how a tax liability is paid
 - The current treatment distorts government's intervention in the economy by lowering both spending and revenues
- Redefining the budgetary treatment need not have any impact on the name of tax credits or how they are administered

Concluding Comments

- Comments on the need to reform International Organizations and who might do it:
 - World Bank: Wolfowitz
 - OECD: Gurria
 - UN: Annan's replacement
 - IMF: ???
- Comments on the quality of USG staff vs. what I have seen in the rest of the world