

Opening Statement to the Committee on Budgetary Oversight

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Introduction

I want to begin by thanking the Chair and the Committee for the invitation to appear before you today. The topic under discussion is extremely important and, as you know, your deliberations are part of the on-going process to improve the budgetary process in Ireland which began in the aftermath of the financial crisis.

I have participated in these discussions through various roles and fora since 2011. In my comments today, I will draw on some of my experiences as a member of the Irish Fiscal Advisory Council, as chair of five National Economic Dialogues and as a member of the External Advisory Group of the Parliamentary Budget Office. My remarks are also likely to be influenced by the time I spent on secondment from the ESRI to the Department of Finance. Although this was a long time ago - 2001 to 2003 - it was a valuable learning experience.

I should say at the outset that my remarks here are intended to prompt discussion as opposed to being clearly thought out recommendations. I should also say that I focus on the role of this Committee and not the broader set of Committees.

Interim Report

In preparing for today, I have read your Interim Report on the framework for parliamentary engagement. This provides a very useful starting point and highlights many of the issues that need to be considered if the role of the Oireachtas in the budgetary process is to be enhanced in a way that improves outcomes for Ireland's citizens.

Perhaps it is a result of the extensive coverage of the issues in the Interim Report but my main reaction was to urge this Committee to think in terms of defining specific actions, or even areas of action, for its work in the next two to three years. I am sure you all know this but perhaps it will be possible to present some options which might be helpful in guiding thinking on priority actions.

Activities for focus

In deciding what activities to focus on in the short to medium term, there are a number of criteria that could be used. I think one important criterion should be closely linked to the status of this Committee and its unique opportunity to achieve all-party (or even broad-party) support.

I see the potential role of the Committee in four possible spaces. Although I will mention all four, I can say at this point that I see the Committee having a greater impact if areas (1) and (2) become the focus so I will only develop the discussion on them.

1. The budgetary process – how we make decisions
2. High-level budgetary parameters
3. Scrutiny – are expenditures and taxes achieving objectives?
4. Making policy proposals

1. Process

Ireland's budgetary process suffers from the same weaknesses as those of many other countries, namely, (1) the potentially distorting role of some lobbying, (2) degrees of inertia and (3) short-term horizons. I do not wish to imply that Ireland is in any way an outlier. However, I think we all understand that with regard to lobbying, the voices of some groups are more likely to be heard than the voices of others. With regard to inertia, it is generally the case that programmes and institutions tend not to be closed while new taxes tend not to be levied. And on short-term perspectives, while there are exceptions, the political cycle tends to be very evident in the fiscal cycle.

It seems to me that this Committee could play important roles with respect to countering items (1) and (3). One of best defences against unhelpful lobbying is the requirement for a strong evidence-base in support of policy proposals. Ireland has made significant progress in this area in recent years and many of the reforms are mentioned in the Interim Report. However, it is still the case that proposals should always be challenged to ensure that the greatest good is derived from the use of public funds. This Committee could assist in setting standards of proof for the adoption of new policy measures.

With regard to short-term horizons, many of the reforms of recent years have sought to overcome this feature through devices such as multi-annual expenditure ceilings and medium-term budgetary frameworks. While these reforms were of value, my memory from my IFAC days was of elements of the frameworks being honoured at earlier points in the cycle but possibly less so later on. This Committee is well-placed to assess adherence to the medium-term objectives and to break the interaction between the political and fiscal cycles.

2. High-level Budgetary Parameters

Let me begin by listing some of the parameters I have in mind before discussing the role of the Committee. As with some earlier comments, a number of the points I will make are already in the Interim Report. The key feature of these parameters is that they relate to a Budget in total and not to individual measures. In this way, they are particularly relevant for this Committee.

Traditionally, the main macroeconomic parameters of a budget related to whether the budget was expansionary or contractionary (the fiscal stance) and this in turn was related to the level of the deficit or surplus. These are central to the assessment provided by IFAC and had been, until the Covid crisis, heavily constrained by European and domestic fiscal rules. Within the frameworks of fiscal rules, debt levels were also considered. Another important parameter is the tax to GDP ratio – a measure of the size of the state.

More recently, other aggregate metrics are being explored and these typically seek to identify a Budget's impacts on cross-cutting policy objectives such as gender and other dimensions of equality, poverty, well-being and climate.

It seems to me that this Committee could play a leading role in seeing that the various metrics on cross-cutting issues are further developed and implemented. Similarly, this Committee is well-placed to ensure that the impacts of demographic change are adequately factored into medium- and long-run plans. Assessments of these impacts are available but the interrogation of the remedial measures are probably less prevalent.

Concluding thoughts

I want to touch on two more areas before concluding – priorities and risk.

I chaired five National Economic Dialogues between 2015 and 2019 and listened to hours of assertions on the value of different policy proposals. It would be difficult in general to assess whether the airing of views at the various NEDs led to policy action but two areas stand out where a consensus across many different groups did seem to help to move those issues up the policy agenda. One was childcare and the other was integrated planning to deliver on infrastructural investment. If this Committee could agree on such priorities, it would well influence budgetary outcomes.

Finally, I will mention risk which can sometimes be the inconvenient truth which is left aside in budgetary discussions. Political groupings typically want to promote their programmes and tend to base programmes on optimistic or even central macroeconomic scenarios. Rarely is the pessimistic scenario mentioned by politicians and this is often left to IFAC, the ESRI and others. The explicit consideration of risk – such as the fragility of the tax base or the implications of cost over-runs – could be usefully addressed by this Committee.