

## Keeping the bastards honest

We think voters should be given better information about the fiscal consequences of political parties' election promises. We offer some observations and suggestions on how.

### Voters need to understand the impacts of parties' fiscal promises, not how their spreadsheets are organised

During the last election campaign, Labour, National and other parties debated the fiscal consequences of their policy proposals. Unfortunately, much of that debate, and commentary on it, was about how the parties chose to present their fiscal intentions, rather than about what those intentions are or their merits.

Following the election, parties are negotiating the policy agenda and structures for an incoming government. They are doing so largely based on their own costing of proposals.<sup>1</sup>

This event exposed a hole in New Zealand's electoral institutions: while we have world-class systems to hold the government to account for its fiscal policies **once it has been elected**, we place no requirements on how political parties present their proposals or their costs **before** the election.

Other countries, including Australia, do have systems that would have allowed the recent debate to focus on impacts if applied here, not accounting conventions.

We think it is time to modernise how New Zealand political parties present the costs of their manifestos.

### Elections matter

Living in a country where there is open debate about ideas and policies, where no one risks going to jail or worse for expressing a political view and where there is a peaceful transfer of power if the incumbent party is voted out of office is a good thing.

In New Zealand, we have only one level of sovereign government, selected from the members of one parliamentary chamber, exercising virtually unlimited legislative power with no entrenched bill of rights to

provide checks and balances. The triennial election is therefore one of the few opportunities we have to hold the government to account for its actions and to exercise our democratic power to elect who we want to govern.

### Good information leads to good elections

One essential for good elections is trustworthy information about what is at stake. The media play a vital role here in ensuring that questions are asked and judging the veracity of the answers given.

But without transparent and robust data, there is a limit to the questions that can be asked and it is harder to judge the answers.

### And that includes the budget

New Zealand has a comprehensive system for ensuring that the government's fiscal policies are transparent and prudent. The fiscal responsibility provisions of the Public Finance Act require the Treasury to report, using its best professional judgement and free from political oversight, on the fiscal impacts of the Government's budget.

Prior to each election, it "opens the books" and publishes a Pre-election Economic and Fiscal Update (PREFU) that makes available to voters and politicians alike a set of fiscal and economic forecasts prepared using transparent and consistent methods. All the major political parties take the PREFU as the baseline for their fiscal commitments.

That is where things stop. By tradition, the Treasury and other departments are not asked to cost the political promises of political parties. If they are, then guidelines prepared by the State Services Commission are evoked to protect officials from accusations of political bias. In our experience, Ministers have rarely, if ever, asked officials to cost the political promises of their opponents.<sup>2</sup>

On the government side, the line between what is a government decision, which should be incorporated in the

<sup>1</sup> Following the election, the State Services Commission re-issued guidelines on how officials can support government-formation negotiations by providing information, including costings of proposals. See: <http://www.ssc.govt.nz/negotiations>. We are not aware of any public comments that suggest these guidelines have been invoked by any party.

<sup>2</sup> The last time this happened was prior to the 1993 election, when Ruth Richardson asked the Treasury to cost a series of Labour Party promises,

which she released. Dr Michael Cullen objected strongly to the costings, claiming that they were based on assumptions that were not part of Labour's policy. An inquiry followed that found that some of the costings were indeed not based on the Labour Party's actual proposals. As a result, guidelines were promulgated to Treasury managers on how to undertake costings in the future.

PREFU, and what is a political promise of the party in Government, which does not, is blurred.<sup>3</sup>

### But shouldn't we ask the experts?

Costing government programmes is a specialist function. Many interacting and at times contradictory factors drive how much it costs to provide a government programme.

Establishing the first year's costs of a programme is relatively easily, especially when the costs of individual components (such as staff costs, number of staff, accommodation costs, etc.) can be determined by reference to exiting programmes. So, providing more police officers can be costed based on what it takes to provide the current level of policing.

In future years, however, costing gets harder, as more drivers become variable: the level of demand for services may change, as may the costs of individual components.

Finance ministries and fiscal agencies around the world are expert at the task. The New Zealand Treasury, for example, has considerable experience in estimating government expenditure at the programme, ministry and government-wide level.

It is for this reason that the Treasury is required to prepare fiscal and economic updates: it is their job and they are good at it.

So, all other things being equal, it makes sense to use officials like the Treasury to prepare estimates of government programmes for both the government and opposition parties. Not only would doing so mean that expertise was being applied to an expert task, but using the same people using the same methodologies will assist in making "apples for apples" comparisons.

### Political neutrality is important too

The New Zealand system of government is based, in part, on an apolitical public service, serving the government of the day. Unlike in the United States, when the government changes, the public service does not. Heads of departments continue in office, advising the new Government fearlessly and implementing its decisions enthusiastically.

These obligations are set out in the Standards of Integrity & Conduct for the State Services issued by the State Services Commissioner.<sup>4</sup> One of the standards is the requirement to "maintain the political neutrality required to enable us to work with current and future governments".

Maintaining political neutrality suggests that officials should *not* be involved in costing political promises and this is the approach currently adopted in New Zealand.

This system protects public servants from having to comment publicly on the proposals of an alternative government in the politically charged environment of an election.

### Two competing goals

There are two competing interests at stake here, both important:

- (i) Providing voters, the media and commentators with accurate and reliable information about the policies proposed by parties seeking election; and
- (ii) Maintaining the political neutrality of the people best-placed to provide that information.

### Other approaches

New Zealand has decided to give more weight to political neutrality.

But we are not the only country with a tradition of an apolitical public service. Some of those countries have taken a different approach when it comes to political costings that involve their finance ministries in a more active role, or they have established independent agencies tasked with this role.

Here we explore a few of those alternatives to see if there are lessons for New Zealand.

### Australia

At the Federal level, Australia has two systems that allow independent costing of political promises.

#### Charter of Budget Honesty

The Charter of Budget Honesty Act was introduced by the Howard Coalition Government following the 1996 federal election.

The circumstances leading to the Charter were like what happened in New Zealand before the 1990 election. During the 1996 election, the then government said repeatedly it remained on track to achieve the fiscal forecasts in the previous Budget, namely a deficit of A\$590 million in the 1996/97 year and a surplus of A\$2.7 billion in the following year. Upon coming into office, the new Government was presented with revised figures that showed deficits of

<sup>3</sup> This issue arose prior to the 2005 election, when the Treasury prepared costings of possible changes to the student loan scheme for the Minister of Finance. While the Labour Party included a promise to introduce interest-free loans if re-elected, it argued that the work it had commissioned from the Treasury was not specifically related to its policy promises and that they should be withheld from release under the Official Information Act.

<sup>4</sup> <http://www.ssc.govt.nz/sites/all/files/Code-of-conduct-StateServices.pdf>

A\$7.6 billion and A\$7.3 billion for 1996/7 and 1997/98 respectively.

In announcing the Charter, the then Treasurer, Peter Costello said: “It is reprehensible that this revised figuring was not made publicly available before the election”.<sup>5</sup>

As well as including provisions like those contained in the New Zealand Public Finance Act regarding fiscal responsibility, the Charter introduced arrangements to allow political parties access to officials to undertake costings of election commitments, which can be made public prior to an election.

Details of the approach taken to preparing costings are contained in [guidelines](#) prepared by the Secretaries of the Treasury and the Department of Finance.<sup>6</sup>

At the last election, the departments operated a website (<https://www.electioncostings.gov.au/>) on which they posted numerous costings.

### Parliamentary Budget Office

Following the 2010 federal election, a commitment to establish a Parliamentary Budget Office (PBO) formed part of the minority government agreement between the Australian Labor Party, the Australian Greens and three independent Members of Parliament. Details of the role and operation of the Office were developed by a special joint parliamentary committee.<sup>7</sup>

The PBO compliments the Charter of Budget Honesty and provides Parliament with independent analysis of the government’s fiscal policies between elections.

Additionally, before election campaigning starts, members of parliament can ask the Office to prepare costings of proposals, which the member may choose to keep confidential. In the period leading up to the election, any requested costings are made public.

After the election, the Office also prepares and makes public a comprehensive report of all the fiscal commitments made by the parties that have five or more members returned.

### Canada

The Canadian Parliamentary Budget Officer was created in 2006 in response to criticisms that successive governments had shaped fiscal projections for political gain.

The Conservative Party’s 2006 election platform proposed creating “an independent Parliamentary Budget Authority to provide objective analysis directly to Parliament about the state of the nation’s finances and trends in the national economy” and “ensure truth in budgeting”.<sup>8</sup>

As well as reporting on the overall fiscal position of the Canadian federal government, the Parliamentary Budget Officer, on the request of a committee or parliamentarian, estimates the financial cost of any proposal for matters over which Parliament has jurisdiction. These costings are made public.<sup>9</sup>

### The United Kingdom

The Office for Budget Responsibility was created in 2010 to provide independent analysis of the UK’s public finances.<sup>10</sup>

Its roles are limited to the actions of the Government between elections.

The Office scrutinises the Government’s costing of individual tax and welfare spending measures before they are announced in the Budget or other statements, and its assessments are made public in both the Budget documentation and its own reports.

### The OECD

Eighteen OECD countries operate independent fiscal institutions of one sort or another.

The OECD operates a network of these institutions, working to improve parliamentary scrutiny of the budget process.<sup>11</sup> It has published principles that should guide the development of fiscal institutions and shape reviews of current practice.<sup>12</sup>

### Our suggestions

We see little reason to establish a standing independent fiscal agency in New Zealand, a view that we note that our colleagues at the New Zealand Initiative might not share.<sup>13</sup>

<sup>5</sup> [Charter of Budget Honesty](#). Statement by the Honourable Peter Costello, M.P., Treasurer of the Commonwealth of Australia, 20 August 1996.

<sup>6</sup> In 1976, the Federal Treasury was split into two departments: The Treasury, responsible for macro-economic policy, financial regulation and tax policy, and a new Department of Finance, responsible for financial management and budgeting, and program performance throughout the public sector.

<sup>7</sup> See: [http://www.apf.gov.au/parliamentary\\_Business/Committees\\_House\\_of\\_Representatives\\_Committees?url=jscpbo/report.htm](http://www.apf.gov.au/parliamentary_Business/Committees_House_of_Representatives_Committees?url=jscpbo/report.htm).

<sup>8</sup> For more details on the background and role of the Officer, see: <http://www.pbo-dpb.gc.ca/en/about>.

<sup>9</sup> For an example, see: [http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2016/CCB%20Indexation/CCB\\_Indexation\\_EN.pdf](http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2016/CCB%20Indexation/CCB_Indexation_EN.pdf).

<sup>10</sup> Details of the Office’s roles can be found on its website: <http://budgetresponsibility.org.uk/about-the-obr/what-we-do/>.

<sup>11</sup> The networks webpage is here: <http://www.oecd.org/gov/budgeting/oecdnetworkofparliamentarybudgetofficialspbo.htm>

<sup>12</sup> For a review of current practices, see: [http://www.keepeek.com/Digital-Asset-Management/oecd/governance/principles-for-independent-fiscal-institutions-and-case-studies\\_budget-15-Sjm2795tv625#.WbBWYrIjFEY#page2](http://www.keepeek.com/Digital-Asset-Management/oecd/governance/principles-for-independent-fiscal-institutions-and-case-studies_budget-15-Sjm2795tv625#.WbBWYrIjFEY#page2)

<sup>13</sup> See Eric Crampton’s views at: <https://nzinitiative.org.nz/insights/opinion/the-cost-of-policy/>.

The Public Finance Act's system of fiscal transparency has shown itself to be resilient over 20 years and provides Parliament and the public with a robust and politically neutral suite of short, medium and long-term statements of the economic and fiscal position of the Government.

The PREFU likewise provides a sound baseline upon which political parties can prepare their spending proposals and be held to account for what they have promised at the programme level.

However, we do see a place for more consistency and impartiality in the costing of the political promises of parties offering themselves for election.

Rather than present a fully worked-out proposal, we suggest below some of the features that we think are important and how they might be addressed.

### Who should do the costings?

At a technical level, we think that Treasury officials are the right people to do the costings, given their expertise.

But to preserve their political neutrality, we suggest that a prominent person, say a former Secretary to the Treasury or Auditor-General, should be appointed on a fixed-term basis prior to each election to oversee their work and take ultimate responsibility for the costings.

As with the Auditor-General, we think that this person – they might be called the Parliamentary Commissioner for Policy Costings – should be appointed by the House of Representatives.

The Secretary to the Treasury could make available expert staff and other resources to undertake the costings.

### What should the Commissioner do?

There is a wide range of tasks that could be undertaken.

At the simplest end of the spectrum, the Commissioner's role could be limited to providing technical assistance to parties, in the form of guidance material and templates that political parties could use to prepare costings of their proposals. This could include standard estimates of the costs of the major components of programmes (salaries, rents, etc.).

If this sort of material had been available and used by the Labour Party to present its costings, then there would have been less ambiguity about what it was proposing.

Moving along the spectrum, the Commissioner could, at the request of a political party, prepare costings of proposals, which will remain confidential to the party until they announced the policy.<sup>14</sup> As is the case in Australia and Canada, parties could be permitted to seek a costing of another party's proposals. This increases the incentive on

all parties to have their policies costed independently, since if they don't, they will know that their opponents could.

A more proactive role would be to require the Commissioner to prepare and make public prior to polling day their costing of the manifestos of the political parties standing for election.

More work will be required to refine any proposal. Fortunately, the next election is three years away.

### Conclusion: there must be a better way

We can do better than the current approach of leaving it to political parties to prepare and present their policies as they wish.

For now, we invite everyone with an interest in good electoral outcomes to consider our proposals.

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<sup>14</sup> This approach strikes the balance between allowing parties some flexibility to refine their policies, while requiring them to be accountable to the electorate for what they finally propose.