The Politics of Fiscal Monitoring

by

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Declaration

I declare that this thesis has been composed solely by myself and that it has not been submitted, in whole or in part, in any previous application for a degree. Except where stated otherwise by reference or acknowledgement, the work presented is entirely my own.

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Abstract

The last decade saw a rise in the number of expert bodies with a public mandate to monitor fiscal policy, aiming at mitigating the alleged overspending bias of politicians. In contrast to the existing literature this thesis claims that policy monitoring is inherently political. I develop an understanding of policy watchdog bodies as non-majoritarian institutions and emphasise the reciprocal nature between policymakers and the experts serving in these bodies. The Politics of Fiscal Monitoring approach developed here acknowledges that the origins, structure and remits of fiscal watchdog bodies as well as the selection of and responsiveness to its experts are driven by political strategies and compromise. Based on a new dataset this thesis demonstrates in three distinct research articles and a research note that the monitoring capacity of fiscal watchdog bodies can be traced back to its political roots; that policymakers select watchdog experts based on political loyalty; and that elected officials are more responsive to experts if their advice is politically beneficial.

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Contents

Introduction

In his 1989 book *Democracy and its Critics*, Robert A. Dahl notes that modern democracies can be characterised as "elaborate systems of representation, delegation, committee specialization, and administrative expertise" which compared to earlier systems vastly improved the "amount and quality of information and understanding brought to bear on decisions" (Dahl, 1989, p. 77). Typically, elected officials – members of parliamentary committees, cabinet ministers, prime ministers and even presidents – lack an in-depth understanding about the policy field they are engaging with. They rely on unelected experts for designing practical and consistent policies who, with their specialised knowledge and analytical astuteness, are an invaluable asset to today's political class.

Expert advice is particularly important in more abstract policy areas that are usually not in the focus of an interested public (Ikenberry, 1992). Obviously, the management of public finances falls into this category, despite the encompassing nature of taxation and spending. In contrast to well-defined policy areas with clear partisan camps, it demands a great deal of analytical understanding when faced with the intricacies of budgetary effects and trade-offs. This renders public finances a prime domain for expert integration. Experts typically serve as advisors for governments and presidents or as analysts of the budgetary situation, for example in the U.S. *Council of Economic Advisers* or the *Institute for Fiscal Studies* in the United Kingdom. The role of experts becomes all the more pertinent with new institutional arrangements that integrate scientific expertise permanently into the political system. Almost unnoticed by the public, the last decade saw an upsurge in the number of expert bodies with a peculiar mandate: these bodies not only advise policymakers but oversee the fiscal performance of governments as policy watchdogs.

The literature on fiscal monitoring has until now focussed on the problem-solving capacity of these new expert bodies. Despite their genuine political nature as part of the political system surprisingly few studies address the politics behind their emergence, structure and operations in relation to the political environment. Explanations remain unsatisfying as long as they do not capture the motivations of elected officials in charge of establishing and endowing fiscal monitoring bodies, and country-specific circumstances. A systematic investigation into the political aspects of fiscal monitoring is overdue; this thesis is the first step in this direction.

In the remainder of this introduction we will become familiar with the economic case for fiscal monitoring, the debate that evolved around the issues before eventually turning to the new theoretical and methodological approach developed in the course of this project. The Politics of

Fiscal Monitoring approach signifies a clear break with the existing economic literature. I will outline the chances and challenges of this new approach and provide the reader with an outlook for further research on this and similar subjects. This thesis is a collection of three research articles that deal with the political choice of a monitoring design, the selection of experts to monitoring bodies, and the effectiveness of monitoring conditional on the structure of the budget process. In the following, I will put each article into context and highlight its contribution to a better understanding of fiscal monitoring.

The economic perspective

The roots of the discussion on expert integration into fiscal policy can be found in public choice theory. In these studies, it is claimed that due to their office-seeking behaviour politicians use public finances strategically to target voters and win elections (Alesina and Tabellini, 1990). The problem arises as budget decisions are inter-temporal decisions: public money invested in one year will not be available in the next, instead costs can be deferred to the future. Without constraints to fiscal policy discretion in place policymakers have strong incentives to use public money in a way that is inconsistent with long-term objectives such as government solvency, resilience to unexpected fiscal shocks, or macroeconomic stabilisation (Debrun et al., 2007). Instead, candidates are inclined to use public money to target constituents before elections (Alesina and Rosenthal, 1995; Nordhaus, 1975) and ministers try to expand the resources of their own ministries while being indifferent about budget constraints (Hallerberg et al., 2007; von Hagen and Harden, 1995).

What is more, scholars claim that the mechanisms of democracy fail to address these problems. Fiscal opacity, i.e. the lack of information and understanding of budget policies and the divergence between policies and their budgetary effects, makes it difficult for the electorate to hold elected representatives accountable and sanction fiscally irresponsible behaviour at the ballot box (Persson and Svensson, 1989; von Hagen, 2013, pp. 36-37). Instead, voters use macroeconomic data or adverse budgetary outcomes as indicators to evaluate the fiscal performance of governments (Rogoff and Sibert, 1988).[1]

According to these scholars the overspending bias of policymakers and the inability of voters to sanction such behaviour is pervasive. The proposed solution is to constrain fiscal policy in a way that rewards responsible behaviour and promotes budget transparency. Among the earliest and oft-used institutional constraints are budget rules that set a limit to debts and deficits. These rules have already been around since the early 1990s, most prominently the convergence criteria of the 1992 Maastricht Treaty and the 40 percent cyclical limit in the United States.

[1] Duch and Stevenson observe that voters attribute responsibility for policies to decision makers with proposal rather than veto powers (Duch et al., 2015; Duch and Stevenson, 2013). However, voters can only punish elected officials if an outcome is actually observed. Time-inconsistency, i.e. the possibility of running deficits on the watch of future governments, undermine such simple attribution heuristics.

However, these numerical rules take away flexibility that is needed to react to macroeconomic disturbances: governments need to be able to intervene in the economy even if that leads to unsustainable deficit levels. This led scholars to think about new institutional features that struck the balance between policy flexibility and overspending constraints.

Sketching the blueprint

Eichengreen, Hausmann and von Hagen (1999) point out that Latin American economies in particular tend to be volatile and demand targeted interventions of governments. On the other hand, given the short-termism and fiscal illusion of politicians, institutional constraints need to be in place to avoid an overstretching of public budgets. The consensus of early contributors to the debate is summarised by Calmfors, who argues that "it appears difficult to claim that fiscal policy does not work as a stabilisation tool in a technical sense. The crucial issue is instead the political-economy one of to what extent policy makers will use the fiscal policy instruments in an appropriate way" (Calmfors, 2003, p. 326).

Which policy tool can balance the demand for flexibility while being sufficiently strict to limit political transgressions? Eichengreen, Hausmann and von Hagen argue that independent experts could act as arbiters by setting an annual permissible deficit limit. Such expert councils would offer sufficient leeway for counter-cyclical policies initiated by governments to stabilise the economy and replace rigid numerical budget rules. Note the passive role of experts in this proposal: as soon as the new limit is set, based on available budget data and economic forecasts, the experts retreat for a year and let politics do its business.

Soon after the idea first appeared, we find contributions that discuss the merit of full delegation of fiscal policies to external experts similar to monetary policy (Blinder, 1997; Wyplosz, 2005). Wyplosz argues that even setting rules on an annual basis goes beyond technical capability as the duration and amplitude of business cycles and the dangers of further shocks cannot be properly considered. He states that "[t]he natural implication is that the institutions adopted for monetary policy can and should be applied to fiscal policy as well. Independent Fiscal Committees can play the same role as Monetary Policy Committees, deciding on deficits and the evolution of the debt" (Wyplosz, 2005, p. 77). In consequence, these committees should be endowed with a debt sustainability mandate and a long-run debt target – macro-prudential instruments that leave decisions with redistributive impacts (e.g. taxation, social spending) in the hands of policymakers.

Calmfors warns that even if full delegation of fiscal decision-making powers improves fiscal policy, there is a need for democratic control as even such a committee "might at times pursue idiosyncratic objectives or just make bad technical judgements" (Calmfors, 2003, p. 340). Yet if accountability and political control over aspects of fiscal policies such as income distribution are assured, then the delegation can improve the state of public finances.

The acknowledgement that fiscal policy needs to have sufficient flexibility to react to macroeconomic shocks is typical for early contributions. Authors deliberated about different ways to ensure that the balance between political commitment and flexibility is guaranteed. However, despite the positive attitude towards fiscal delegation the authors recognise that for the time being this does not seem to be political obtainable, especially because of its "aura of technocracy" (Wyplosz, 2005, p. 77). In the meantime, existing and new expert bodies with a consultative nature can at least attempt to get on with the job.

Forging the policy tool

The debate fundamentally changed when IMF economists engaged with these ideas. We observe a shift in how the underlying problem is defined: recognising that adverse shocks can fuel deficit hikes, these scholars identify inadequate fiscal discipline as the driving force for persistent deficits and rising public debt. Simultaneously, we encounter new terminology that reflects the development of fiscal monitoring as a viable policy option.

Although the theoretical justification is largely similar to that of earlier scholars the difference comes with the sole emphasis on the *structural* problem caused by discretionary actions of politicians. This approach does away with earlier calls for flexibility to respond to macroeconomic shocks and focusses nearly exclusively on the distortions that underlie the behaviour of policymakers (Debrun et al., 2007). As this is not enough, it inverts the relationship between shocks and fiscal interventions, claiming that "weak fiscal discipline has often compromised stability and growth, and in the worst cases has led to economic and financial crises" (Kumar and Ter-Minassian, 2007, p. 2). In consequence, budget rules should be strengthened not despite their rigidity, but because of it: the issue with numerical rules is not their existence but rather that these are not sufficiently enforced. However, even these authors accept that full fiscal delegation is not feasible mainly due to the reluctance of policymakers to relinquish powers (Debrun et al., 2007, p. 114).

For the first time we find a discussion on the remits of economic experts' permanent supervision in fiscal policy. Obviously, this requires more than being *wise men* to the government as it has been practised for example in Germany, the Netherlands and with the Council of Economic Advisers of the U.S. President. It is claimed that fiscal monitoring bodies contribute to the transparency on fiscal policies and foster compliance with budget rules. Institutions that encourage rather than punish policymakers can serve as a device to signal competence to the voters – "the 'carrot' of higher re-election chances, which in turn reduces the temptation for excessive deficits" (Debrun et al., 2007, p. 6).

The new concept of *fiscal monitoring* elegantly turns the attention away from the politicians-versus-technocrats dichotomy and towards the hazards of leaving public money in the hands of unsupervised policymakers. This twist goes along with a new role for economists: rather than causing accountability issues by delegating fiscal policy away from democratically elected representatives, economic experts are there to *restore* the democratic accountability of politicians that benefit from covering up the state of finances towards their electorate (Debrun, 2011).

What we see is that within just a few years not only has the problem definition changed. With it comes a new role for experts in the policy process: neither are we dealing with full delegation of fiscal policy to unelected experts, nor with toothless tigers that are merely consulting the political class. Instead, fiscal watchdogs are mandated to keep a sharp eye on elected officials with its effectiveness derived "from its expertise and from 'barking', that is, its ability to communicate convincingly with the general public and with elected officials" (von Hagen, 2013, p. 45). Fiscal monitoring thus operates with the instruments of influence and persuasion through which experts are able to "raise the reputational and electoral costs of undesirable policies and broken commitments" (Debrun et al., 2013, p. 7).

In consequence, the purpose of expert integration is now strictly targeted at political behaviour: the promotion of fiscal discipline enables macroeconomic stability; political interventions in the economy in turn lead to market distortions (so-called 'deadweight losses') and higher debt burden, and inhibit rather than promote stability. At this point, the literature enters the alleyway of modelling the effectiveness of fiscal monitoring in enhancing the discipline of elected officials (Debrun and Kinda, 2014; Debrun, 2011; Hagemann, 2011). These discussions outline the options available to restrain fiscal policy by monitoring bodies. The breakthrough on the political level came with yet another framing.

Promoting the toolbox

The reactions to the financial crisis of 2008-09 saw deficit and debt levels soaring to new heights as the yields on sovereign bonds made borrowing expensive. In countries such as Iceland, Ireland and Greece international lenders stepped in to save governments from default. According to the IMF authors, unsustainable budget paths were already entered before the crisis which only intensified the problem. Fiscal monitoring as a new policy device contributed to narrowing the IMF policy advice to fiscal consolidation with the overall pre-crisis IMF paradigm broadly remaining intact (Broome, 2015). The reaction to the crisis has thus "shaken the credibility of governments' commitment to sustainable public finances (...) the pre-crisis track record of pro-cyclicality in good times and delayed reforms, and the sheer magnitude of current challenges have seriously eroded public confidence" (Debrun and Kinda, 2014, p. 3). As we know, the remedy to restore the confidence of investors were deep-cutting structural reforms and radical fiscal consolidation.

Even though the debate initially started with the purpose of granting just about enough flexibility for governments to react to macroeconomic shocks it has moved towards restraining politicians. Eventually, with introducing market lenders and refinancing through issuing bonds the debate has completely shifted to fiscal restraint: the emphasis of what monitoring should do is extended from restoring accountability towards voters to restoring trust of international investors in a fiscally responsible government. Fiscal monitoring became part of some structural reform packages, either as a precondition for financial support, as guidelines issued by international organisations or as part of supranational legislation.

In 2010, a task force led by a former Belgian finance minister urged strengthening the budgetary surveillance framework of the EU's Stability and Growth Pact to ensure "fiscal discipline and the sustainability of public finances in the medium and long term" (Van Rompuy Task Force, 2010, p. 3). It states that "there is a need for a greater focus on debt and fiscal sustainability, to reinforce compliance and to ensure that national fiscal frameworks reflect the EU's fiscal rules" (p. 1).

Directive 2011/85/EU of the subsequent Six-Pack Regulations include a provision on "the effective and timely monitoring of compliance with the rules based on reliable and independent analysis carried out by independent bodies (. . .)" (Art.6, 1b). Two years later, Two-Pack Regulation (EU) 473/2013 tightened the screws on Eurozone member states by introducing budget reporting and monitoring requirements. For the first time, fiscal monitoring becomes mandatory by legislation despite leaving significant leeway on the structure and specific tasks of the watchdog body (Raudla et al., 2017).

On a global level, we see much stronger efforts by the IMF and OECD to promote structural reforms that include the introduction of independent monitoring. With OECD scholars entering the debate we can also observe a broadening research focus by stressing the institutional aspects of – in their terminology – Independent Fiscal Institutions (IFIs). A canon of twenty-two principles summarises "lessons learned and good practises that are firmly grounded in the experience of IFIs to date" (OECD, 2014, Introduction) and should ensure that fiscal monitoring bodies are designed in a way that guarantees their (political) independence, non-partisanship, transparency and accountability.

Importantly, as we will see later, there remains significant leeway for governments on whether and how to implement fiscal monitoring into the national fiscal framework. The angle brought in by the OECD eventually opens up empirical research on the independence and operational autonomy of fiscal monitoring bodies.

Limits to the economic perspective

The debate around independent fiscal monitoring is an unusual contrast to the disruptive nature of past discussions. Rather than being the result of a decades-long academic and political tug-of-war it has been incrementally developed by a small circle of economists over not more than ten years. Equally, it is possible to trace back the academic debate to the moment it was lifted into the political and promoted as a new policy device. One can claim that what we are looking at is a reoccurring pattern of policy promotion yet without the usual jumble of politics – a technical gearwheel that fits well into the political engine. According to this reading policy watchdog bodies formed of independent experts were established because the time has come (Horvath, 2018, p. 130). However, this is only half the story.[2]

We find that the public finance literature with its economic models offers important theoretical insights regarding the effectiveness of fiscal monitoring as a problem-solving device. Furthermore, investigations into the creation and operation of fiscal monitoring are important for research on the topic by other disciplines. However, this literature suffers from a circularity in reasoning and the inattention to political dynamics. In essence, it cannot explain why elected officials should care about fiscal monitoring in the first place.

At the heart of the circularity problem lies the question where the impetus for institutional reform to create fiscal watchdog bodies (and similarly budget rules) comes from. According to the common-pool approach, politicians target their constituents in exchange for votes, leading to permanent deficit spending and unsustainable levels of public debt. Obviously, if voters were resistant to money windfall, this exercise would be futile. This institutional equilibrium, despite being a strain for public budgets, benefits policymakers and voters alike, at least in the short run.

Perhaps the root cause of higher deficits are thus not politicians – but indeed voters (Debrun et al., 2007, p. 48). Given that policymakers are assumed to be vote seeking they react to demands from the electorate. The assumption about voters' orientation and preferences is therefore critical. Logically however this leaves the argument for implementing external constraints trapped.

We can see that provided the assumptions are accepted the problem definition justifies how external constraints can improve the sustainability of public finances. By the same token, given the same assumptions policymakers have no incentives to implement such reforms. As Wyplosz notes,

> "(...) governments have no electoral interest in eliminating the political failure. Being captured or partisan is socially bad, but this is the game that politicians need to play to be voted into power. Individual interest groups or ideologically-biased voters would like to prevent others from acting as they do, but individually wish to continue. Therefore, it is not clear how a majority could be assembled to reduce the political failure. Put differently, the externality that gives rise to the deficit bias also prevents its treatment by adequate measures" (Wyplosz, 2008, p. 177)

The same models that justify the purpose of fiscal monitoring also justify why we cannot expect to encounter fiscal monitoring in practise. And yet, we see that in most developed countries fiscal monitoring is now the rule rather than the exception.

[2] I have so far described the stages of the debate around fiscal monitoring. There is, however, more work to do for future research in examining how monitoring became a politically viable option. In what follows I will focus on the explanatory power of the theoretical model that underpins the justification for fiscal monitoring once its assumptions are accepted.

An attempt to rescue the economic argument brings in political priorities and preferences by the electorate (Debrun, 2011). According to this interpretation, the electorate is sensitive to the long-term development of public finances and parties and governments react strategically to this demand. The introduction of fiscal monitoring is used to signal competence and a commitment to fiscal responsibility. *Bona fide* (well-intended) parties and governments are thus more inclined to implement constraints to fiscal discretion, also to constrain future governments that are thought to be of a profligate bent. But when is such a commitment really rewarding for governments?

Although these considerations point into the right direction, they only work under the conditions that both the government is indeed *bona fide* and that the electorate rewards fiscal prudence. This, however, is not at all clear as voters are unlikely to rank fiscal prudence and consolidation efforts high on their list of priorities, especially in the face of alternative policy objectives. In fact, voters in many countries disapprove of austerity measures which are policies often advocated by fiscal monitoring experts (Barnes and Hicks, 2018; Hübscher and Sattler, 2017). It seems more likely that signalling directed at a particular clientele rather than the electorate at large.

If voters are not that keen on fiscal reforms, who is? We know that the creation of fiscal monitoring bodies "of course, is facilitated in a number of countries by a considerable pressure from financial markets, especially as they perceive a sovereign debt sustainability problem" (von Hagen, 2013, p. 46). It seems plausible that pressure by international lenders and investors is indeed the key driver for the rapid rise of fiscal monitoring. Yet the contradiction between voters and lenders gives rise to another conundrum that is not addressed by the current literature: could it be that fiscal monitoring bodies are established in order *not* to be effective?

Arguably, the moment that fiscal monitoring can be used to signal commitment to international lenders and the electorate it becomes prone to manipulation. Debrun recognises this weakness and hints to further explanatory factors:

> "The fact that independent fiscal councils nevertheless emerge in practice could mean that none of those actually exert any constraint on discretionary fiscal choices, or that politicians face motivations excluded by assumption from the illustrative model. For instance, the two political parties competing for votes could be ideologically different" (Debrun, 2011, p. 10)

For the first time, we find reference to political disunity: political actors do not equally consider fiscal sustainability as a major objective. Unfortunately, this insight is dismissed immediately as

> "(...) this would require a partisan model of fiscal policy, involving a more loaded notation, but no obvious benefit in terms of additional insight (...)" (p. 11)

We have seen that provided the basic assumptions of public choice are accepted the reasoning for the need for fiscal monitoring is logically sound. However, the focus on output legitimacy –

the benefits of having unbiased and non-partisan experts in charge of fiscal surveillance – neglects the political dynamics behind the creation, design and operations of fiscal monitoring bodies. Even more problematic, current scholarship makes no reference to the fact that too often appointment and dismissal rights of experts to fiscal monitoring bodies remain with governments and legislators.

As we have demonstrated, the economic approach to fiscal monitoring might give explanations on how fiscal monitoring restrains the discretion of politicians over fiscal policies in line with the assumptions of public choice theory. However, it falls short at the moment it has to explain why monitoring exists in the first place and provide criteria that indicate under which conditions watchdog bodies are effective, when they are not, and how to tell the difference.

Interestingly, the seeds for a new approach to fiscal monitoring can be found in this literature where they are merely treated as *post hoc* explanations without naming the elephant in the room: politics. Research by other social scientists can start where economic theory and models reach their limits. Developing an alternative perspective is the endeavour of this thesis. In the following we will turn to the presentation of the Politics of Fiscal Monitoring approach.

The Politics of Fiscal Monitoring

The Politics of Fiscal Monitoring approach developed in this thesis starts with a suspicion. Fiscal monitoring must be "accepted and promoted by those very agents who are responsible for political failure" (Wyplosz, 2008, p. 190). We have seen that at a first glance it is not at all clear why policymakers should have an incentive to establish an expert body that would effectively constrain fiscal discretion. And yet, we observe monitoring in most of the developed world.

Thus, could it be that independent fiscal monitoring is created mainly for political benefit in the anticipation that this would enhance the credibility of the government? In this scenario, governments follow a 'logic of appropriateness' to adhere with expectations by supranational organisations and international lenders (Raudla et al., 2017). However, although its formal structure signals independence and effectiveness, the watchdog body would be unable to constrain fiscal discretion by its very design (March and Olsen, 1984; DiMaggio and Powell, 1983; Meyer and Rowan, 1977).

The first step to answer the question of political benefits from external monitoring is to consider fiscal watchdog bodies as a part (and not in isolation) of the political system. We can draw on extensive research on semi-political bodies and classify fiscal watchdog bodies as non-majoritarian institution accordingly as a body of appointed members that exercise "some grant of specialised public authority" (Thatcher and Stone Sweet, 2002, p. 2).[3]

[3] Indeed, as Debrun et al. (2007) state, fiscal monitoring entails "some delegation from the elected representatives or their administration" (p. 107).

Crucially, this act of delegation constitutes a principal-agent relationship between policymakers and the experts of the monitoring body which can – depending on the situation – lead to political capture if the principal does not grant the autonomy that independent fiscal monitoring requires, or agency slippage, by which the monitoring body emancipates from such control to the detriment of the principal. Evidently, fiscal watchdog bodies are anything but independent from the political system.

Not only the effectiveness, but fiscal monitoring as such thus hinges upon the actions and intentions of elected representatives. In consequence, I develop an analytical grid with three distinct though interlocked foci of analysis and concurrent guiding questions for the thesis:

- Why and on what terms do policymakers create independent fiscal institutions? How do policymakers choose between different institutional designs of these watchdog bodies? (structural choice)
- What are the specific criteria for screening and selecting members of independent fiscal institutions? (expert selection)
- When do policymakers listen to the advice and recommendations of independent fiscal institutions? What are the political conditions for fiscal monitoring to have an effect on fiscal outcomes? (effectiveness)

As we can see, we are dealing with fiscal monitoring at different stages of its development and operation. The first set of questions refers to the paradox introduced above, though by considering political context factors we will be able to provide more convincing answers as to the origin of fiscal watchdog bodies. Unnoticed by the economics literature is the fact that in the vast majority of cases we find governments or parliaments selecting the very experts that are monitoring their policies. This could have ramifications for the operations of fiscal watchdog bodies. What is more, the operations of fiscal monitoring and the need for expert input by elected officials hinges upon the political and institutional environment in which fiscal watchdogs operate. Arguably, there is no uniform effect of monitoring activities on the fiscal outcome.

Outline

The Politics of Fiscal Monitoring approach developed in this thesis is built upon expectations deduced from earlier research on independent agencies. In relation to the existing public finance literature it introduces political analysis into the scholarship on fiscal monitoring. Key to this approach is the assumption that politics shapes fiscal monitoring to a significant degree. I consider political strategies and agendas as well as the reliance of policymakers on expert input as essential for the understanding of the genesis and operations of fiscal monitoring.

The structure of this thesis follows the questions from above. In the first paper I focus on the political genesis of fiscal watchdog bodies from a structural choice perspective; the second paper deals with the selection of experts to these bodies; finally, the third paper examines the effectiveness of fiscal monitoring activities within the structures of politics. A research note at the end of this thesis introduces the dataset that was developed as part of this project.

Article 1

The first article, entitled *Political Determinants for the Capacity of Fiscal Monitoring*, deals with the political origins of fiscal monitoring bodies in the European Union. It asks which factors cause differences in their institutional design despite countries belonging to the same fiscal governance framework. As Terry Moe states, bureaucratic agencies are created as a politico-strategic choice rather than to be effective (Moe, 1989, p. 267). Policymakers establish institutions not because it is the right thing to do to increase public welfare but to win elections, keep public offices, strengthen a political agenda and signal commitment. I assume that the same is true for the creation of seemingly independent non-majoritarian institutions: the establishment of fiscal watchdog bodies is rather a matter of achieving political objectives with its effectiveness for fiscal outcomes as a side effect.

In this article I aim to identify potential driving factors that led policymakers to implement watchdog bodies with high (or respectively low) monitoring capacity in terms of powers, independence and proficiency. To that end I examine the political and fiscal context in which fiscal monitoring systems were created. At the moment there is no comparative study that maps the landscape of fiscal monitoring and identifies factors that contribute to the establishment of different types of watchdog bodies. This can hardly be achieved through classical statistical methods with their focus on average effects. In consequence, I apply fuzzy-set qualitative comparative analysis (fsQCA) as a suitable method to detect which combinations of factors are necessary and sufficient to explain the capacity of twenty-seven fiscal monitoring bodies in the European Union.

The results of this investigation illustrate the effects of expectations coming from the EU-level as opposed to domestic political struggles. I find that governments introduced expert bodies with high monitoring capacity in countries that need to take effective action to reduce deficits as part of the Excessive Deficit Procedure, the corrective arm of the Stability and Growth Pact (SGP). The adherence to EU requirements to introduce national budget surveillance is another sufficient condition for the creation of fiscal monitoring bodies. By contrast, domestic political factors shape the creation of monitoring bodies with low capacity. Less frequent government turnovers (an indicator for political stability) and strong parliaments within the budget process contribute to weak monitoring provisions and safeguards.

This article brings together research on fiscal monitoring with theories of structural choice of non-majoritarian institutions. It is the first study that considers fiscal monitoring bodies as a particular type of non-majoritarian institution which is more often than not created as part of a broader political strategy – to signal commitment, set the agenda or re-balance powers during budget procedures. The results of the analysis go beyond the domain of fiscal policymaking as policy monitoring promises to become a popular policy device in related domains, for example climate councils that monitor the government's progress in reducing carbon dioxide. It will be up to future scholars to investigate the political strategies behind the creation of such monitoring bodies. The mechanisms identified in this article, in particular the aspect of signalling commitment to supranational organisations, will be useful in these endeavours.

Article 2

In the second article, *Policy Monitoring and the Ally Principle of Expert Appointments*, I elaborate how political principals seek to guarantee the support of watchdog bodies through the screening and selection of their members. That politicians themselves can be in a position to select experts that monitor political behaviour is a frequently encountered paradox. I expect that in the screening and selection of experts, meritocratic recruitment principles are degraded to minimum requirements. Instead, to decrease the risk of political damage that experts can inflict on the government they will choose candidates they consider political allies.

And yet, selecting political allies can never guarantee that a non-majoritarian institution, and certainly not a policy watchdog, remains loyal to the political principal. Arguably, once appointed experts are largely unbound from political directives, especially once the watchdog body has garnered public support and popularity. The possibility of emancipation from political capture with members turning from allies to critics, known as *Thomas Becket-effect* (Berger and de Haan, 1999), is even higher when legislation prevents the principal from removing experts from the watchdog body.

The article provides a case study on Sweden's *Fiscal Policy Council*, the first of a new generation of monitoring bodies. I analyse the council as a most likely case due to its design and appointment rules. I can show how the finance minister selected the first council members based on political responsiveness rather than purely on meritocratic principles. In fact, most of the independent experts have previously served a government of the same political colour and have promoted policies close to the finance minister's agenda. However, the attempted political capture failed. Quickly the council received media attention and reputation. Neither for the finance minister nor for the opponent successor was it possible to tame the watchdog.

Studies on fiscal monitoring assume that experts are non-partisan and independent. This investigation departs from this technocratic view and highlights the importance of nomination and appointment procedures for the functioning of fiscal monitoring. Furthermore, I extend the research on non-majoritarian institutions by introducing policy watchdog bodies as a new type due to the peculiar principal-agent relationship between policymakers and experts. In sharp contrast to other agencies political control cannot be guaranteed ex post through monitoring and sanctioning by the principal. Obviously, this would defy the purpose of monitoring. As the article illustrates, policymakers instead make use of the ex ante instrument of appointments to keep the watchdog in check, even if this appears to be a futile exercise. Prospective research may find more evidence for the validity of the Thomas Becket-effect and identify conditions under which experts will dare to speak out against the policies of the principal.

Article 3

The third article, *Independent Fiscal Monitoring and the Budget Process*, considers how fiscal monitoring can influence the budget process and eventually the deficit. We know from previous studies that the success of fiscal monitoring depends largely on two factors: the power of watchdog bodies to approach policymakers and their ability to influence and persuade them (von Hagen, 2013, p. 51). In the budget process, fiscal monitoring bodies can intervene at different stages and target governments and parliaments, yet these powers are not always provided. What is more, the involvement of watchdog experts may or may not trigger a change in fiscal behaviour. I expect that policymakers use expert advice selectively depending on the budgetary context with implications for the effectiveness of fiscal monitoring at large.

Based on data for thirty-six countries between 2009 and 2017 I investigate the effectiveness of fiscal monitoring at different stages of the budget process. I examine how monitoring powers correspond to the power balance between governments and parliaments. To that end I distinguish between countries in which parliament has limited powers to amend the budget, indicating a strong role for governments, and countries in which parliaments are unrestricted. Arguably, monitoring activities target primarily the political branch with larger impact on the final budget and thus the fiscal deficit. Whether fiscal scrutiny and advice causes a change in the behaviour of policymakers, hinges upon the need for budget information by the legislature, the ideological orientation of policymakers and the existence of further institutional devices that dissuade policymakers from deficit spending.

The analysis reveals important aspects on the relationship between fiscal monitoring and the structure of the budget process, and eventually the fiscal outcome. I find no effects on the deficit level if fiscal monitoring activities target governments at the budget formation stage. In turn, I can show that fiscal monitoring has an effect on the deficit level if fiscal watchdogs target parliaments through timely briefings and participation in hearings of the finance committee. Finally, ideological orientation mediates the effectiveness of fiscal monitoring. There are indications that the opinion of watchdog experts resonates well with MPs from ruling right-wing parties.

This article is pioneering as it considers the effectiveness of fiscal monitoring conditional upon the structure of the budget process. Although the conditionality of fiscal monitoring effectiveness is known to public finance scholars there is no study that satisfactorily integrates the local political and institutional context in which watchdog experts operate. The challenge of gauging their impact comes with the non-binding character of their advice. Rigid budget rules and similar constraints need to be adhered by policymakers; experts however can be ignored more easily. As the article illustrates, institutional aspects can help us to understand under which conditions politicians are open to fiscal monitoring advice.

Research note

The Comparative Independent Fiscal Institution Dataset (CifiD) that has been developed as part of this project addresses critical aspects of fiscal monitoring and the omissions of established datasets. The dataset is based on a collection of legislative documents that capture the legal provisions of fiscal monitoring bodies, or Independent Fiscal Institutions (IFIs) in the OECD-terminology. A set of forty-eight indicators comprehensively describes the institutional design of these watchdog bodies and includes previously unacknowledged measures on appointment procedures, composition, membership rights and duties, and transparency. A particular strength of this dataset is its broad coverage of forty-four watchdog bodies in thirty-nine countries including legislative changes over time.

The research note *A New Dataset on the Political Independence of Fiscal Monitoring Institutions* provides detailed information on the CifiD and reports empirical variations on aggregate measures on monitoring powers, formal independence and quality assurances. The comprehensive description on institutional characteristics of fiscal monitoring ties in with questions of a more explanatory nature: what causes institutional variations (structural choice); how do appointment rules determine who becomes a member of the fiscal watchdog (expert selection); which monitoring instruments are appropriate to influence and persuade policymakers (effectiveness). For the three research articles presented in this thesis CifiD indicators are used in line with the respective method as outcome, case selection criteria, or as key independent variables.

Contribution

Fiscal monitoring has by now been almost exclusively the subject of investigations in public finance research. With the articles presented in this thesis I shift the analytical focus to an investigation that considers fiscal monitoring as genuinely political construct. I leave behind the economic view that vaguely introduces politics by highlighting output legitimacy – the restoration of democratic accountability and the generation of superior outcomes through fiscal monitoring. In contrast, with the *Politics of Fiscal Monitoring* approach I study the existence and legitimacy of fiscal monitoring as subject to political deliberations and justifications. Fiscal monitoring bodies can be examined along similar lines to other non-majoritarian institutions (NMIs) whose members were appointed by policymakers without being under their authority.

The mandate of fiscal monitoring bodies, and that of policy watchdog bodies more generally, is contrary to the mandate of other NMIs in two significant ways: first, tasks delegated to NMIs were typically exercised by policymakers. By its very nature, policy monitoring cannot be exercised by the same ones who are being monitored. Still there is an act of delegation to an external agency even though the mandate itself is created alongside the agency that assumes it. Second, it follows from this constellation that monitoring by the principals as an option of retaining political control over the agency undermines the very purpose of monitoring. As the contributions in this thesis demonstrate, this shifts political attempts to secure support of the monitoring bodies to the *ex ante* means of political control: the institutional design and remits of the watchdog bodies and the appointments of its members.

More generally, the Politics of Fiscal Monitoring approach posits that policy monitoring, despite its purportedly independent and non-partisan nature, is profoundly political. It is a procedure by which legislators typically

- equip a standalone institutional body with a supervision mandate for fiscal policy;
- define its structure, powers and access to information and resources;
- nominate, appoint and dismiss its members; and
- selectively adopt analyses and opinions into their policies.

Likewise, legislators are able to amend the structure and mandate of the expert body or to abrogate the fiscal monitoring process at large through repealing the underlying legislature. I characterise policy monitoring as a relationship between policymakers and experts, even though empirical cases may not possess all the properties mentioned above.

These analyses not only bring about a new perspective on fiscal monitoring. Similarly, their aim is to demonstrate how a variety of methods can help us to better capture context conditions and political reasoning, the interactions between elected officials and experts, and the integration of fiscal monitoring bodies into the political system. All contributions in this thesis deal with a snapshot of the empirically observable world. The research articles use methods that promise to answer the respective research questions in an intelligible, comprehensive way. This requires openness to different means of investigation as some methods may be unfamiliar to the reader.

With the research articles I address the fiscal monitoring scholarship. Article 1 demonstrates that the creation and design of fiscal watchdog bodies is first and foremost contingent upon political motives, agreements and compromises. Article 2 shows that governments adverse to taking on political risks can make use of appointment rights hoping to have an ally on fiscal policies. This ties in with experiences described by previous members of fiscal monitoring bodies. Article 3 challenges scholars who assume uniform effects of watchdog bodies on fiscal outcomes. The analysis demonstrates that the impact of these bodies hinges upon their function as arbiter between governments and parliament within national budget institutions.

The focus on the institutional aspects of fiscal monitoring comes with limitations as well. I assume that fiscal monitoring is politically contested with parties and governments varying in their position on its purpose. This is at times expressed in a tense relationship between the political principal and the watchdog body. Naturally, as with any expert body there is always the potential that experts also disagree among themselves. Reay (2012) argues that economists often interpret scientific evidence in different ways with implications for the choice of policy proposals. Potrafke (2013) shows for the German *Council of Economic Experts* that economists nominated by labour unions diverge in their conclusions from the council's majority view. Arguably, such a lack of cohesion has ramifications for the legitimacy of the expert body as such. However, in the interest of conceptual parsimony I assume that expert opinions are coherent and unequivocal.

Throughout this thesis there are elements familiar to political science scholars. The approach presented here mainly focusses on the institutional side with fiscal watchdog bodies as non-majoritarian institutions. It is nevertheless accessible to related fields with a different analytical angle. As a case in point, this project illustrates how politics and academia are intertwined, with policy watchdog bodies serving as institutional intermediaries between the two spheres. Furthermore, I can show that policymakers use academic networks to screen and select members of fiscal monitoring bodies. This is compatible with scholarship on epistemic communities that focusses on the ideational and professional habitat in which economists develop policy ideas (Fourcade, 2009; Marier, 2008; Markoff and Montecinos, 1993).

Moreover, future research can investigate how fiscal monitoring bodies contribute to political agenda setting, policy framing and, more broadly, the shift of policy paradigms (Blyth, 2002; Broome and Seabrooke, 2007; Hall, 1993; Lindvall, 2009). In the absence of veto options for the policy watchdogs I find that the mechanisms of expert influence and persuasion bear resemblance to lobbying activities of interest groups. Thus, it can be worthwhile to further investigate the access of experts to policymakers, their persuasive power alongside other influences on politics and whether expert knowledge is traded for influence on the political agenda (Beyers, 2004; Klüver, 2011; Michalowitz, 2007). Finally, this research can be embedded in a broader picture on technocratic decision-making and the accountability of experts in democratic systems (Mair, 2009; Ruser, 2015).

Conclusion

Fiscal monitoring is a new phenomenon that has only be the focus of discussions and analysis by economic scholars. As this introduction has documented, the subject has evolved from an initial idea into a policy device and a recipe to tackle excessive spending, and materialised in fiscal reforms in most of the developed world. At the same time fiscal monitoring has stretched the boundaries of economic analysis where it is treated as a policy device not too different from other institutional restrictions that constrain the discretion of policymakers. However, as I made clear, the technocratic perspective of economic models that considers experts as non-partisan and independent judges over the fiscal discipline and performance of governments cannot be a valid characterisation of fiscal monitoring.

Policymakers create fiscal monitoring bodies, nominate and appoint experts, provide information and resources, and react to (or ignore) expert opinions. This alone is a strong indication that monitoring is anything but frictionless. In consequence, there is large potential for political analysis on the integration of experts into fiscal policymaking. The research articles of this thesis address different aspects of the relationship between policymakers and experts and highlight that fiscal monitoring bodies are representative of a new type of non-majoritarian institution: although policy watchdog bodies share many properties of independent agencies their peculiar mandate makes political capture challenging. And still, the creation and design of monitoring bodies can be rational as part of a broader political strategy.

Appendix A. Terminology

The literature offers a range of different terms for the main player of this thesis: expert bodies that are tasked with monitoring fiscal policy. At this point clarification on the terminology thus seems appropriate. Two main definitions exist in the literature.

- The OECD defines *Independent Fiscal Institutions* (IFIs) as "publicly funded, independent bodies under the statutory authority of the executive or the legislature which provide non-partisan oversight and analysis of, and in some cases advice on, fiscal policy and performance" (OECD, 2014, p. 1). This definition highlights that these institutions have an oversight function that goes beyond a pure advisory role.
- For the IMF and its authors, *Fiscal Councils* are broadly similar in their attributes despite a stronger emphasis on their functional role (Debrun et al., 2007, p. 115). According to the authors fiscal councils are – without reference to aspects of integration into the political system – by definition non-partisan agencies.

Obviously, the OECD definition comes closer to the analytical perspective of this thesis as it accounts for the formal and actual relationship between the expert body and policymakers. Nonetheless, both terms give rise to potential confusion: Fiscal Institutions can be misunderstood as referring to the arrangement of institutional features of fiscal governance as a whole, including budget rules, procedures and other aspects of the fiscal framework. The prefix 'independent' only adds to this confusion. In turn, fiscal councils are more commonly understood as these expert bodies that are established with an exclusive focus on overseeing fiscal policy and under the authority of governments. It is therefore a subset of expert monitoring bodies.

Within the Politics of Fiscal Monitoring approach, it would be most fitting to refer to *fiscal watchdog bodies* or *fiscal monitoring bodies* to emphasise the supervision role of IFIs as opposed to purely consultative bodies. This terminology eliminates the ambiguity inherent in the current IMF/OECD-terminology. Due to the format of this thesis as a collection of research articles, a coherent usage of this term is not feasible. Instead, the use of the terms is subject to the sample of the investigation, the analytical focus and the various audiences of the research papers.

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Political Determinants for the Capacity of Fiscal Monitoring

Daniel Belling

Abstract. Why do we observe that some governments establish expert watchdog bodies with a large capacity to monitor fiscal policies whereas others do not? Scholars in public finance are mainly concerned with the effectiveness of watchdog bodies in reducing the pro-spending bias of national governments. Yet less is known about what determines the capacity of such bodies that allow for effective fiscal monitoring in the first place. Based on an analysis of legislative documents, I examine the political and fiscal context at the time that 27 watchdog bodies in EU member states were created. I apply fuzzy-set Qualitative Comparative Analysis (fsQCA) to detect which factors can explain the capacity of fiscal monitoring in terms of the monitoring scope and powers, formal independence and proficiency. Results show that watchdog bodies with high monitoring capacity were often created in the context of compliance with the Stability and Growth pact. By contrast, expert bodies with low capacity are mainly rooted in domestic political struggles. While the results add to a better understanding of expert integration into politics, more comparative research is needed to trace the origin of cases that remain unexplained in this analysis.

Introduction

In recent years, sovereign debt crises in many countries shifted the political attention towards fiscal responsibility and consolidation. Government performance in budgetary matters is now accompanied and captured more critically than before as international organisations push for fiscal reforms and the creation of "discipline-enhancing fiscal frameworks" (Debrun et al., 2013, p. 7). Non-partisan oversight through independent fiscal monitoring has a key function in encouraging fiscal responsibility (Debrun et al., 2013, 2009; European Commission, 2009; OECD, 2014) as experts are believed to promote transparency and accountability in the budget process (Calmfors and Wren-Lewis, 2011; Kumar and Ter-Minassian, 2007; von Hagen, 2013).

To be effective, fiscal monitoring needs to limit the fiscal discretion of governments in the long run by highlighting budgetary restrictions and trade-offs (von Hagen, 2013). However, despite the rising number of fiscal monitoring bodies, little is known about the political circumstances of their origin. Much of the research on the independence of fiscal watchdogs fails to address a key question of institutional choice: why should policymakers tie their own hands by introducing external fiscal monitoring?

What is more, we know that within the European Union fiscal monitoring bodies differ significantly in the institutional design, remits, resources and visibility (Jankovics and Sherwood, 2017). Why is it that we observe such an institutional variation in a fiscal policy environment that is typically characterised by homogeneity in the approach to rules and procedures?

In this article I investigate the factors that drove the creation of 27 fiscal monitoring bodies in EU member states. Based on an analysis of legislative documents I constructed an index of the capacity of monitoring bodies to operate as powerful, independent and proficient watchdogs. I suspect that disparity between these bodies is mainly due to domestic politics. Fuzzy-set Qualitative Comparative Analysis (see Ragin, 2008) is employed to detect which combination of conditions explains the (lack of) monitoring capacity.

For the plurality of cases that can be explained by this model I can show that the creation of highly capable watchdog bodies is often associated with an ongoing Excessive Deficit Procedure and EU requirements to introduce systems of national budget surveillance. By contrast, many expert bodies with low monitoring capacity are rooted in domestic factors.

The article contributes to comparative research on the EU's fiscal governance framework and on the integration of policy experts more broadly. I show that politics matters even in seemingly technocratic acts such as the creation of non-partisan expert bodies. Arguably, the choice of an institutional design is part of broader political strategies in the face of pressure from political adversaries and expectations by the international community and the electorate.

Contributions

Before 2008 there were only few national monitoring bodies in operation, mainly in industrialised countries, but within a decade after the financial crisis their number has tripled (Belling, 2019; Debrun and Kinda, 2014). The dominant view on the pertinence of independent expert monitoring highlights the ability of watchdog bodies to improve the governments' performance. It is claimed that fiscal discretion and pro-cyclicality inherent in the actions of policymakers result in high levels of public spending and persistent deficits (Calmfors and Wren-Lewis, 2011; von Hagen, 2013). Fiscal monitoring bodies, also known as fiscal councils or fiscal watchdogs, are thus created to promote fiscal discipline and dissuade policymakers from following unsustainable budget paths (Beetsma and Debrun, 2016; Debrun et al., 2007; Kumar and Ter-Minassian, 2007; Jankovics and Sherwood, 2017). Von Hagen notes that such a watchdog "derives its effectiveness from its expertise and from 'barking', that is, its ability to communicate convincingly with the general public and with elected officials" (von Hagen, 2013, p. 45).

The choice of an institutional design and the integration into the political system are contingent on the nature of the pro-spending bias as well as the political context, institutions and traditions of a country (von Trapp et al., 2016, p. 13; OECD, 2014; Debrun et al., 2013, p. 34). Case studies reveal differences in the mandate, scope, structure and powers of monitoring bodies (Bogaert et al., 2006; Calmfors and Wren-Lewis, 2011; IMF, 2013; Kopits, 2011; Kopits and Romhanyi, 2013; Raudla et al., 2017; von Trapp et al., 2016). The heterogeneity of monitoring bodies has also been reconfirmed by studies that focus on their independence from external interference (von Trapp and Nicol, 2018; Franek, 2015). As of now only the study by Horvath (2018b) covers the institutional capacity for effective fiscal monitoring based on measures related to the OECD Principles of Independent Fiscal Institutions (OECD, 2014). He identifies the Swedish and the British monitoring bodies as being most effective. However, this approach conflates formal provisions and actual freedoms that are based on political discretion. As a consequence, the temporal validity of this study is questionable.

Despite ample literature that deals with the political roots of institutional bodies such as central banks and regulatory agencies (e.g. Hanretty and Koop, 2013; Schulz et al., 2014; Cukierman et al., 1992) no attempt has been made to trace institutional disparities back to the local political context. This article presents the first investigation of that kind. As Fabrizio and Mody (2006) note, the budget expresses political rather than economic priorities. Arguably, the same is true for fiscal monitoring institutions.

Fiscal monitoring in EU member states

Starting with the 1992 Maastricht Treaty the European Union gradually created a fiscal governance framework that binds all member states – and in particular eurozone members – to a set of common rules and procedures in fiscal policy. The Treaty sets out convergence criteria, including deficit and debt limits, that need to be adhered by all EU member states. As described in table 1, the 1997 Stability and Growth Pact was a milestone in the evolution of the fiscal framework as it defines procedures of fiscal surveillance by the European Commission and the Council of Ministers. The preventive and corrective rules are designed in a way to dissuade national governments from overspending.

In an effort to further strengthen compliance with fiscal rules, national governments agreed on two new legislative packages in the aftermath of the sovereign debt crisis. In 2011, member states agreed on the Sixpack legislation following the recommendations of a task force led by a former Belgian finance minister (Van Rompuy Task Force, 2010). It includes guidelines for the implementation of numerical fiscal rules on a national level and suggests the creation of independent monitoring bodies as a way to ensure compliance. This is the first time that monitoring by experts is put forward as an option, yet without further specifying structures and procedures.

The importance of preventive measures on the national level was further elevated by the 2013 Twopack legislation. It adds an additional layer of scrutiny to the rules of the Stability and Growth Pact for eurozone members by demanding more systematic and frequent monitoring (European Commission, 2018b). Most significantly, article 5 of Regulation (EU) 473/2013 instructs eurozone

Table 1: Development of the EU's fiscal governance framework

1992	**Maastricht Treaty**. Requirements for member states to meet the government budget deficit (must not exceed 5 percent annual deficit-to-GDP) and debt criteria (must not exceed 60 percent debt-to GDP).
1997	**Stability and Growth Pact (SGP)**. Agreement on fiscal monitoring of EU member states by the European Commission and the Council of Ministers.
1998	Preventive rules enter into force. Obligation for member states to submit annual SGP compliance report to the European Commission and the Council of Ministers.
1999	Corrective rules enter into force. In the case of non-compliance with the deficit and debt limits an **Excessive Deficit Procedure (EDP)** is initiated that outlines an adjustment path and sets a deadline for compliance.
2005	Amendments to the Stability and Growth Pact to strengthen surveillance and the EDP.
2011	**Sixpack legislation** to foster compliance with the deficit and debt limits. Directive 2011/85/EU stipulates that member states shall have fiscal rules in place that are subject to independent monitoring by functionally autonomous bodies (Article 6(1)).
2013	**Twopack legislation** to reinforce fiscal policy coordination for eurozone members. Regulation No 473/2013 stipulates that member states shall have independent bodies in place to monitor compliance with fiscal rules (Article 5). As a binding legislative act, eurozone member states are obliged to establish independent monitoring bodies.
2013	European Fiscal Compact. An intergovernmental treaty that obliges member states that opted in to keep the national budget balanced or in surplus.

countries to create independent bodies to monitor compliance with fiscal rules. Unsurprisingly, as of 2019 we find some form of fiscal monitoring in place in all but one EU member state (Poland) whereas only few watchdog bodies exist in non-EU countries (Belling, 2019).

A critical aspect of the regulation is that it states the mandate of independent fiscal monitoring bodies but does not spell out their design and capacity. As long as they are functionally autonomous there is considerable leeway in the interpretation of the regulation (Raudla et al., 2017, p. 3). In consequence, monitoring bodies "differ significantly from one Member State to another in terms of the breadth of their mandates, the size of their personnel and financial resources, their level of visibility in the public debate on fiscal issues etc." (Jankovics and Sherwood, 2017, p. 5).

The decision to focus on EU member states largely reflects this two-faced nature which is a result of retaining national fiscal sovereignty within the EU's governance framework. On one hand, governments are subject to the same rules and procedures of surveillance and sanctioning, hence balanced budgets and debt reduction are recurring policy issues. On the other hand, the design of measures to counteract overspending and the timing of such reforms are largely in the hands of the political class. In this article I stress that the observable differences between national monitoring bodies is a result of this interplay between adherence to EU rules and objectives, and domestic political dynamics.

In what follows I will focus on the decision-making context of policymakers when implementing fiscal monitoring and address the institutional setup of expert bodies in charge of this task. Before moving on to possible explanations drawn from the literature let us first focus on the disparities in the legal provisions that determine the capacity of fiscal monitoring bodies to be influential, independent and proficient watchdogs.

The capacity of fiscal monitoring

In order for a fiscal watchdog to operate efficiently – i.e. their ability to positively influence the fiscal behaviour of policymakers according to their mandate – a number of provisions and safeguards need to be granted. These aspects are anchored in statutory rules and legislation that define how fiscal monitoring bodies are constituted and governed. In characterising fiscal monitoring, I distinguish between the formal powers, independence and proficiency of expert bodies which in combination contribute to effective policy monitoring.

- **Powers** refer to the scope of legally defined monitoring remits and legal provisions that enable the experts to get in contact with policymakers. Both aspects are essential for the effectiveness of fiscal monitoring as it guarantees that watchdog bodies are visible to the public and influential in the political process.
- **Independence** refers to legal provisions that protect monitoring bodies from undue interference by political actors. It includes guarantees and safeguards that enable these bodies to operate at their own discretion without facing the risk of being reprimanded by the government. It also includes membership guarantees that should prevent conflict of interests and similar impairments to the neutrality of the experts.
- **Proficiency** refers to legal provisions that enhance the ability of monitoring bodies to deliver high-quality forecasts, analyses and policy opinions. Arguably, a monitoring body is highly proficient if its members are selected based on academic and professional merits and are visible to the public through publications and frequent reporting.

If we want to investigate whether fiscal monitoring can be effective – at least based on existing knowledge of the institutional design – then all three dimensions need equal attention. This becomes clear when considering the nature of monitoring bodies as non-majoritarian institutions. The reason for the existence of these institutions is the belief that certain tasks can be better managed by actors from outside politics. Therefore, some authority over a policy area is delegated to non-partisan experts (Thatcher and Stone Sweet, 2002).

By definition, these expert bodies have to be independent from political interference. Yet independence is not sufficient for their effectiveness. Instead, experts of fiscal watchdog bodies need

Table 2: Items in the composite index on the capacity of fiscal monitoring.

POWERS (max. 10)	**INDEPENDENCE** (max. 20)	**PROFICIENCY** (max. 10)
Evaluation (5) • Preparation of own forecasts[*3] • Assessment of official forecasts part of budgetary projections[3] • Consistency with policy objectives[*] • Costing of policy measures[*3] • Compliance with fiscal rules[*3] **Access to policymakers (5)** • Integration of IFI forecasts in budget[3] • Timely written briefings of legislature[*3] • Participation in parliamentary hearings[*3] • 'Comply or explain' clause[3] • IFI can stall the budget process[3]	**Statutory guarantees (2)** • Separate legal entity/ autonomous body[*2] • Independence recognised by legislation[*1,3] **Operational autonomy (6)** • Own initiative analysis[*] • Own work program[*1] • Information collection powers[*1] • Right to select own staff [*1] • Safeguards on IFI budget[*1,3] • Secure source of income[*3] **Leadership autonomy (6)** • Full-time commitment[*] • Remunerated position[*] • Incompatibility rules at the appointment stage[2] • Extension of incompatibility rules to relatives[2] • Rules preventing conflicts of interest[2] • Cooling-off period for posts in government and related agencies[2] **Membership safeguards (4)** • Non-concurrence with electoral cycle[*1] • Staggered appointments[2] • Limited renewals[2] • Strict rules of dismissal[*1] **Non-political composition (2)** • IFI members appointed by other than government or parliament[2,3] • Exclusion of policymakers as IFI members[*]	**Integration (3)** • Inclusion of external stakeholders[2] • Inclusion of independent public agencies[2,3] • Inclusion of research and advisory bodies[2,3] **Knowledge (4)** • Legal requirement for professional expertise[*] • Legal requirement for qualifications[*] • Possibility of non-citizenship[3] • Legal option to seek external advice[2] **Transparency (3)** • Periodical publications[*1] • Key publications addressed to public[*] • Legal requirement on external audit[*]

Note: maximum score in brackets. Items marked with [*] match OECD Principles of Independent Fiscal Institutions (2014); Items also covered by [1] von Trapp and Nicol (2018); [2] INDIREG Project (Irion and Ledger, 2013); [3] IMF Fiscal Council Dataset (see Debrun and Kinda, 2014, p. 11).

the capability to influence and persuade policymakers, given that the experts' opinions and recommendations are in no way politically binding (Debrun et al., 2013). Without proper monitoring instruments the policy watchdog and its work is indiscernible to elected officials.

What is more, the quality of forecasts, opinions and policy recommendations is subject to the level of expertise, professional conduct and transparency of the agency and its members: lacking proficiency, an agency may be able to influence policymaking, yet its policy proposals may cause unintended and detrimental side effects. A blind policy watchdog can thus not be effective, disregarding the volume of its barking.

In consequence, by focussing on one dimension only we fall short of recognising the qualities and relationship between different institutional features and their contribution to effective monitoring. To avoid any conceptual conflation between the breath of powers and the degree of independence and proficiency (see Hanretty and Koop, 2012, p. 202) I compose an index on monitoring capacity that accounts for all three dimensions.

Table 2 summarises the forty items in the index on the formal capacity of fiscal monitoring. I only consider provisions that increase or contract the monitoring capacity, irrespective of other institutional properties or the de facto operations of monitoring bodies. I apply no weighting scheme on the items as there is insufficient case study knowledge regarding the size of each item's contribution to the monitoring capacity (Goertz, 2006, pp. 35-39). Moreover, for the sake of simplicity in the interpretation I follow other studies (e.g. von Trapp and Nicol, 2018; Horvath, 2018b) and choose an additive approach in constructing the index. However, I acknowledge that from a conceptual viewpoint a multiplication of the sub-dimensions has its merits.[1]

Figure 1 displays ranked index scores for the 27 monitoring bodies in EU member states. We can see that in the comparison of fiscal watchdogs the British *Office for Budget Responsibility* performs best, which is especially due to an extensive mandate and provisions that allow interventions into the policy process. In terms of formal independence, the *Slovak Fiscal Council* enjoys a range of legal safeguards from undue interference. The council is in second place when it comes to the overall monitoring capacity. On the lower end of the ranking we find expert bodies with restricted monitoring capacity, in particular because of insufficient legal safeguards for their independence and a lack of powers towards policymakers.

It needs to be noted that the absence of certain provisions indicates limited *formal* monitoring capacity but does not invariably translate into limited *de facto* capacity. To illustrate the difference between the two concepts let us compare fiscal monitoring bodies with similar scores. Sweden's *Fiscal Policy Council* lacks some essential guarantees to prevent undue interference and allows council experts to intervene in the budget process. Nevertheless, experts have always played a significant

[1]For a discussion on the methodology, see Belling (2019).

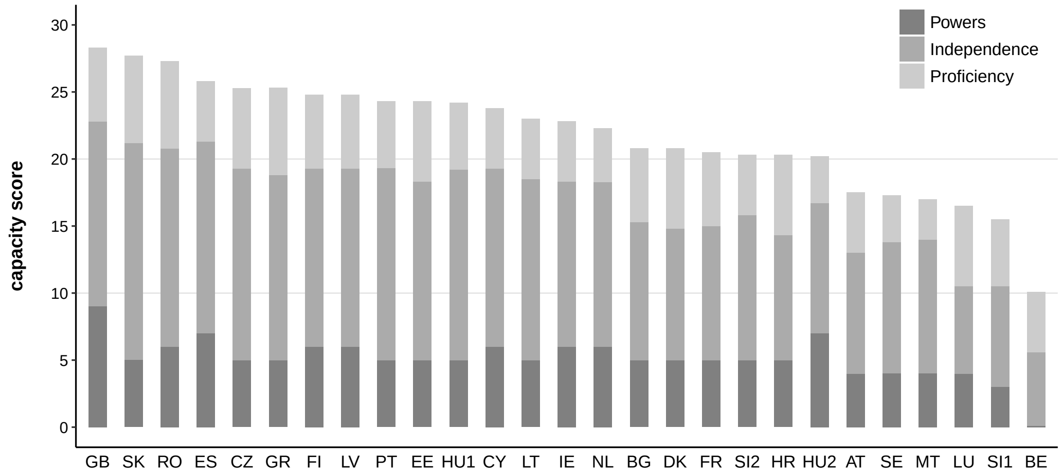

Figure 1: Capacity of 27 fiscal monitoring bodies.

role in Swedish politics and the council is a highly regarded fiscal watchdog that enjoys high media attention. Its leadership is regularly invited to the finance committee of the *Riksdag* however solely on a deliberate base (Jonung, 2018).

In turn, lacking such levels of attention, Luxembourg's *National Council of Public Finances* has a difficult time to make itself heard. As a case in point, in 2018 the Finance Ministry rejected the council's macroeconomic scenario that underlie the budget projections, claiming that forecasting is not part of the legal competences of the council (European Commission, 2019, p. 22). Evidently, formal capacity does thus not preclude deviations in the real monitoring capacity. Nevertheless, I consider it as a valid indicator for the long-term monitoring capacity once political discretion is subtracted.

What explains differences in the capacity of fiscal monitoring?

The following theoretical considerations help to identify factors that contribute to how fiscal monitoring is implemented on a national level. I develop expectations on the effects of single conditions, bearing in mind that the focus of this article is to identify conjectural causes for the capacity of fiscal monitoring in an explorative rather than conclusive fashion.[2]

Policy salience

By adding an additional layer of scrutiny to the rules of the Stability and Growth Pact, the EU's 2013 Twopack legislation (**TP**) aims to tighten budgetary surveillance. Importantly, it obliges

[2]For the same reason I will not use directional expectations in the analysis of sufficiency to develop what QCA scholars refer to as intermediate solution term, i.e. as a substitute for combinations of conditions without empirical observation (logical remainders) to reach a more parsimonious solution (Schneider and Wagemann, 2013, pp. 168-174).

eurozone countries to create independent monitoring bodies but leaves the specific arrangement of their mandate and structures to national governments. Nevertheless, the legislation sets a time frame for the creation of fiscal watchdog bodies and thus initiates government activity towards fiscal reform.

If member states do not comply with the deficit and debt criteria of the Maastricht Treaty it is possible for the European Council to launch an Excessive Deficit Procedure (**ED**). In this procedure, budget surveillance and reporting obligations are intensified, and a budgetary adjustment path outlined that has to be complied with (European Commission, 2018b, pp. 85-96). Governments can be inclined to signal commitment to the Council and the electorate by reforming the national fiscal framework and, as part of this institutional overhaul, introduce independent fiscal monitoring with high monitoring capacity (see also Coletta et al., 2015, pp. 13-14).

Budget institutions

Studies on budget institutions have described how negotiations between policymakers in the legislative branch shape the volume and allocation of public budgets, frequently at the cost of fiscal prudence. Such a detrimental outcome can be detected in budget negotiations at the parliamentary stage, particularly in situations in which opposition parties have the ability to block budget proposals (Hallerberg and Basinger, 1998; Tsebelis and Chang, 2004). Polarisation between parties of divergent political orientation can thus cause overspending due to expensive concessions in budget negotiations, eventually leading to a deficit increase (Hallerberg et al., 2009, p. 62). Yet not all legislatures have unfettered powers to amend the budget once it is tabled.

Parliaments that are constrained in the budget process through limits to their power to amend budgets rely on overall budget limits that are predefined by the government at the budget preparation stage (Wehner, 2010, pp. 20-22). Keeping in mind that the parliament also legislates fiscal monitoring bodies I hypothesise that MPs in legislatures with unrestricted amendment powers (**LB**) have no incentive to approve legislation with the potential to limit their strong position in the budget process. Legislation on the mandate, powers and structure of monitoring bodies could therefore be weakened on the parliamentary stage. Conversely, in legislatures with limited amendment powers (lb) I expect MPs to support the creation of watchdog bodies with extensive monitoring capacity to scrutinise governments more effectively.

Political strategies

Spending preferences indicate whether parties want to preserve discretion over public budgets or accept a rules-based approach to fiscal policies that comes with restrictions to this discretion. Presumably, liberal and conservative parties advocate stricter budget regimes due to more market-oriented policy preferences (Armingeon et al., 2016a; Cusack, 1999; Hübscher, 2016). Fiscal monitoring can be a means to promote a fiscally conservative agenda that gives priority to budget consolidation. I therefore expect cabinets with a majority of posts owned by right-wing parties (**RC**) to install high-capacity monitoring systems. In turn, implementing fiscal monitoring can be used by governments of a different political denomination to signal commitment to fiscal discipline, thus following a "logic of appropriateness" (Raudla et al., 2017; March and Olsen, 1984). Monitoring bodies created in this way are likely to be established to deflect from weak fiscal discipline and are limited in their monitoring capacity (Debrun and Kumar, 2008, p. 484).

As Moe and Caldwell (1994) argue, winning groups and parties can design institutional structures in a way that inhibits democratic control and renders a reversal to old structures unlikely. In complex policy areas, winning parties can create "expert organisations that are granted much discretion and held accountable through oversight" and equip them with "whatever forms of organization, discretion, staffing, and the like that seem most conducive to agency performance" (Moe and Caldwell, 1994, p. 173). Using this politics of structural choice in fiscal affairs benefits legislators who prefer lower spending levels and would like to see subsequent governments to be tied to fiscal rules and tough external scrutiny. I expect that in an attempt to constrain the fiscal discretion of future governments the tendency to create strong monitoring bodies is more pronounced in countries where changes to the government occur frequently (**GT**).

Data and method

The OECD defines fiscal monitoring bodies (in their terminology Independent Fiscal Institutions, IFIs) as "publicly funded, independent bodies under the statutory authority of the executive or the legislature which provide non-partisan oversight and analysis of, and in some cases advice on, fiscal policy and performance" (OECD, 2014, p. 1). They are therefore not subordinate to a political branch or part of the public administration which makes them similar to other independent agencies (Thatcher and Stone Sweet, 2002). For the following analysis I exclude parliamentary budget offices and councils in a mainly advisory capacity from the analysis, even though they can be endowed with a monitoring mandate. These bodies are in the service of a political branch and usually work on demand rather than with an own agenda.

The analysis covers 27 bodies in EU member states. As discussed above, the advantage of focussing on EU member states lies in the common framework of rules and procedures that these countries have to observe. The question then becomes how national governments deal with expectations regarding fiscal consolidation and potential (or effective) sanctions when deficit and debt limits are violated. Fiscal monitoring is one option on the menu of policy choices for governments.

With this research design it is possible to capture institutional variations within the European Union and the degree to which these are caused by domestic politics. I accept that this comes with limited explanation power for the few cases in non-EU countries.[3] An inclusion of these cases would blend together two very different groups of countries: the ones that are subject to a matured fiscal regime with regular budget surveillance and sanctioning mechanisms, and the ones that are mostly unbound in their budgetary choices. Nevertheless, with the analysis of the first group I can identify potential driving factors in domestic politics that may be even more prevalent for the creation of fiscal monitoring bodies in countries of the second group.

The composite index on the capacity of fiscal monitoring (CAP) is based on an analysis of legislative acts that established monitoring bodies or provided existing institutional bodies with fiscal monitoring tasks. I disregard the previous history of these institutions and subsequent changes to their mandate, powers and design. Secondary legislation was included in the coding if referenced in primary legislation. Not included are Memoranda of Understanding, internal agreements and chartas that further regulate the operations of monitoring bodies. For validation of the coding I use the datasets by the IMF (2016) and the OECD (2019), and case studies, mainly those by von Trapp et al. (2016).

The creation of fiscal monitoring bodies depends on political factors that by not have not been fully understood by research on the subject. Local context conditions are well dealt with in single-case descriptions yet remain underspecified in comparative studies. This is partly due to the design of these investigations: statistical methods do well in detecting average effects, yet at the same time variation between cases that do not fit the model is treated as negligible. Qualitative differences are however essential for understanding how a specific local context – the fiscal and political situation of a country – contributes to the genesis of fiscal reforms.

Conversely, Qualitative Comparative Analysis (QCA) is the most appropriate method to detect the relationship between political context and the reform of the national fiscal framework. This method operates on the basis of set membership which is fundamentally different from statistical methods of estimating average effects. With this set theoretic approach it is possible to discern which aspects of this context are relevant for the explanation and which are indeed negligible. In QCA, parameters of fit thus do not indicate deviation from estimates rather than the degree to which cases are reliable members of a set.

Emphasising the similarities and variations between existing cases QCA is able to map the landscape of fiscal monitoring institutions and their genesis. This is possible due to key assumptions on the nature of the link between conditions and outcome (Sabatier and Mazmanian, 1980): *conjectural causation* presumes that a combination of case-specific conditions affects how fiscal monitoring is set up; *equifinality* states that the same outcome can be induced by different sets of such combinations; finally, *asymmetry* means that the negative outcome is not simply the result of negating the sets of

[3]In 2019 there are only five monitoring bodies outside of the EU that match the definition as structurally autonomous fiscal watchdogs, namely in Chile, Colombia, Iceland, Peru and Serbia.

conditions identified for high-capacity monitoring. Instead, a separate analysis has to be conducted to identify the sets that lead to the creation of low capacity monitoring bodies.

I use fuzzy sets to identify the combination of factors that lead to the creation of bodies with high (and respectively low) fiscal monitoring capacity (Ragin, 2008; Skaaning, 2011) . A common misunderstanding about fuzzy-set QCA stems from the properties of fuzzy sets as establishing both qualitative and quantitative differences between cases (Schneider and Wagemann, 2013, p. 27). It is often believed that the transformation of a continuous measure such as the capacity index into a fuzzy set does away with gradual differences. Yet this is not the case. In fact, such gradual differences between cases (difference-in-degree) are preserved and remain relevant for the logical minimisation and the analysis (Ragin, 2000, pp. 234-238; Mahoney and Goertz, 2006, p. 234).

As this analysis includes five single conditions, the number of possible combinations exceeds the number of cases, thus combinations of conditions that are not covered by empirical observations (logical remainders) are inevitable. The researcher has to decide how to treat these remainders when applying the logical minimisation algorithm. A complete exclusion creates a (bulky) conservative solution term. In turn, replacing logical remainders in a way as to obtain a (slim) parsimonious solution term creates problems with implausible, incoherent or contradictory assumptions. As a compromise, I apply enhanced standard analysis to identify and exclude logical remainders that create implausible, incoherent or contradictory assumptions, and graft enhanced parsimonious solution terms for each of the outcomes (Schneider and Wagemann, 2013, pp. 200-203).

In the results part I use standard operators of Boolean algebra. The logical *AND* connection (conjunction) is denoted by a $*$ sign, the logical (inclusive) *OR* connection (disjunction) by a + sign. Single conditions are signified by a two-letter expression (e.g. 'TP'). Contrary to many previous studies that apply set theory I do not make use of the $\neg$ sign but denote negations through small letters (e.g. 'tp'). I used the QCA package (version 2.2) for R (Medzihorsky et al., 2016) and consulted online manuals (Dușa, 2017; Thomann and Wittwer, 2017) to carry out the analysis.

Operationalisation and calibration

In the following I outline the measurement and calibration of the single condition and outcome sets. I focus on the choice of an institutional design at the time institutions were legislated with fiscal monitoring tasks, irrespective of subsequent reforms to the mandate and design. Exceptions to this rule are bodies that have been established earlier but were overhauled to adapt to these tasks.

Capacity of fiscal monitoring (CAP)

The index on the capacity of fiscal monitoring bodies covers legal provisions regarding monitoring powers, independence from political interference and the level of proficiency. Forty items were identified that relate to the monitoring capacity, which is essential to the effectiveness of watchdog operations. With each item contributing in equal size to the index the maximum score possible is forty. I set the cut-off at 21 to guarantee that at least half of the possible score is attained. This cut-off delimits 15 monitoring bodies with high monitoring capacity (55.6 percent) from 12 monitoring bodies with low capacity. Note that despite the hard cut-off we are still dealing with a non-dichotomous set as differences in degree are retained. Tests for alternative cut-off points at 22 and 22.5 yielded no substantially different results.

Mandatory creation as part of the Twopack Legislation (TP)

In ten eurozone member states (37 percent) fiscal monitoring was introduced after regulation (EU) 473/2013 as part of the Twopack legislation came into force on 30 March 2013. These cases are coded 1 in a dichotomous set.

Excessive Deficit Procedure (ED)

Excessive Deficit Procedures (EDP), which are the corrective arm of the EU's Stability and Growth Pact (SGP), were in place in a majority of 14 cases (51.9 percent) at the time that fiscal monitoring was implemented. These cases are also coded 1 in a dichotomous set.

Legislative budget power (LB)

I follow the definition of Wehner (Wehner, 2010, p 90) who considers the budget power of the legislature as its capacity to amend the budget tabled by the government. I updated and expanded his coding of budget powers with data from the *IPU PARLINE Database on National Parliaments* (IPU, 2018) and the OECD's *International Budget Practices and Procedures Database* (OECD, 2012). I find 12 cases (44.4 percent) in which the legislature has unconstrained amendment powers, and which are coded 1 in a dichotomous set.

Strong right-wing cabinet (RC)

Based on government data from the *Comparative Political Data Set* (Armingeon et al., 2016b) and own calculations I determine the share of posts of right-wing parties among all cabinet posts. In the coding, right-wing parties are economically conservative or liberal. In turn, faith-based parties (e.g. Christian parties) are in the political centre as they have more moderate positions on economic and fiscal policies. I consider 52 percent of senior ministers including the prime minister as a reasonable threshold (see also Hinterleitner et al., 2016). This leaves 10 cases (37 percent) with right-wing majority cabinets. An alternative cut-off at 49 percent of cabinet members reassigns the former Austrian coalition government (between the centrist Austrian People's Party and the right-wing populist Freedom Party), but without substantially different results.

Table 3: Measurement and calibration of outcome and single conditions.

Set	Measurement	Calibration (set membership) fully out	cut-off	fully in
Monitoring capacity (CAP)	Index on legal provisions for fiscal monitoring in relation to powers, formal independence, formal proficiency.	16	21	27
Twopack Legislation (TP)	National legislation after instruction for eurozone members to implement fiscal monitoring as part of the EU's Twopack legislation (30 March 2013).	absent	-	present
Excessive Deficit Procedure (ED)	Ongoing Excessive Deficit Procedure against EU member state at the time of legislation of fiscal monitoring. Source: European Commission (2018a).	absent	-	present
Legislat. budget power (LB)	Legislative power to amend government budget proposals. Source: Wehner (2010), OECD (2012), IPU Parline (2018).	limited	-	full
Right-wing cabinet (RC)	Share of cabinet seats of right parties in government in percent. Source: Comparative Political Data Set, Government Composition, 1960-2016 (Armingeon et al., 2016b) and own calculations.	5	52	95
Government turnover (GT)	Number of changes of the prime minister's party in the ten years before legislation. Source: Comparative Political Data Set, Government Composition, 1960-2016 (Armingeon et al., 2016b) and own calculations.	0	2.5	5

High government turnover (GT)

For the measurement of government turnover, I focus on the number of changes to the party of the prime minister in the ten years before the legislation for fiscal monitoring came into force. This measure is familiar with the concept of ideological turnover due to a change in partisan orientation (Horowitz et al., 2009) and a reliable indicator of political uncertainty. I consider countries with low government turnover as those who have seen a maximum of two changes in ten years (cut-off at 2.5). I identify 9 cases (33.3 percent) in which changes occurred more than twice, indicating that governments do not survive typical electoral cycles of four to five years. No substantially different results were found for a more lenient cut-off at 3.5.

Table 3 summarises the calibration decisions for the single conditions. As it is good practise in qualitative-comparative research (Skaaning, 2011) I explain the details for the calibration decision and robustness tests in part B of the supplementary material to this article.

Results

Let us now turn to the analysis of necessary and sufficient conditions for the capacity of fiscal monitoring bodies. The purpose of the analysis of necessity is to identify conditions without which an outcome could simply not occur. Here we find no such single condition or combination of conditions that meets the criteria of consistency (.90) and coverage (.60) to deem them necessary for any outcome. Nevertheless, with a consistency score of 0.896, the combination high government turnover combined with an ongoing Excessive Deficit Procedure (ED + GT) comes close to be considered necessary for implementing high-capacity monitoring. However, we observe the absence of this combination in Spain, Finland and Estonia despite these countries having expert bodies with high monitoring capacity.

In the analysis of necessity for low monitoring capacity we can observe a similar result: an incumbent right-wing cabinet in a country with only few government changes (RC + gt) narrowly misses the consistency threshold to be considered necessary for the creation of weak fiscal monitoring bodies; the first Slovenian Fiscal Council, created in 2009 under a social democratic government, renders this necessity condition imperfect.

We now move on to the analysis for sufficient conditions. Here I aim to identify which combinations of conditions concur with the outcomes, i.e. creation of bodies with high and respectively low monitoring capacity. As this analysis covers five conditions there are 32 combinations that are logically attainable (2^5). Yet the sample leaves us with 14 logical remainders, i.e. logically possible combinations that are not empirically observed. In the minimisation process – the standard procedure to obtain sufficient combinations of conditions – I calculate solution terms that exclude such logical remainders that are based on contradictory simplifying or incoherent assumptions (Schneider and Wagemann, 2013, pp. 209-211). In interpreting the results, I will focus on typical cases for each path.

Table 4 displays three paths that explain the creation of expert bodies with high monitoring capacity. The solution term covers 13 cases, including two deviant cases. The non-occurrence of government turnover indicates that political uncertainty is of no relevance for the sufficiency conditions for high capacity of fiscal monitoring. In other words, attempts to curtail the discretion of future governments through fiscal monitoring are not systematically detected, though they may exist in single cases. Let us turn to the interpretation of the paths.

In the first path I find fiscal monitoring bodies that were created after the Twopack legislation made surveillance on a national level compulsory for eurozone member states. None of these countries were part of an ongoing Excessive Deficit Procedure and parliaments in these countries are characterised by limited budget powers.

Estonia is a typical case in this path as it has among the lowest level of public debt among EU countries and is perceived as a role model of fiscal responsibility. Yet even the right-wing government initially opposed the mandatory introduction of fiscal monitoring (Raudla et al., 2017, p. 6). With the Twopack legislation in place the government was however compelled to introduce fiscal surveillance. Eventually, in 2014 the government created an independent council with close

Table 4: Enhanced parsimonious solution for high monitoring capacity.

	TP*ed*lb	+	ED*lb*RC	+	tp*ED*LB*rc	⟶ CAP
Covered cases	ES; EE; LV		GB; CY, NL; GR, *SI2*		*DK*, HU1, PT; RO, SK	
Path						
Consistency	0.870		0.929		0.849	
Raw coverage	0.167		0.235		0.223	
Unique coverage	0.167		0.235		0.223	
Solution						
Consistency	**0.883**					
Coverage	**0.625**					

Note: Deviant case consistencies in kind are indicated in italic. Semicolons separate different truth table rows.

links to the independent Estonian Central Bank. In turn, the creation of the Spanish *AIReF* in 2013 was subject to political controversy as the centre-left opposition parties did not support its introduction. Given the conservative majority at that time this did however not affect the constitution of the monitoring body (Horvath, 2018a).

Fiscal monitoring in the remaining paths was implemented in the context of increased scrutiny by the European Commission due to ongoing Excessive Deficit Procedures. In the second path I find governments with a right-wing cabinet majority facing assemblies with weak legislative powers during the budget process. This suggests that in the pretext of complying with the Stability and Growth Pact right-wing governments can more easily pursue a fiscally conservative agenda. Take Cyprus for example where in the light of the 2014 banking crisis a conservative government created a fiscal council as part of profound government efforts to consolidate public finances and rebuild confidence of foreign investors.[4]

In the United Kingdom, the *Office for Budget Responsibility* was created after the 2010 general election against the background of an immense deficit hike and a temporary suspension of fiscal rules in the years before (von Trapp et al., 2016, p. 242). Fiscal responsibility and the promise to revise the fiscal framework became part of the Conservative Party's manifesto in which they argued for the creation of the OBR to "ensure that no Labour government can ever attempt to bankrupt our public finances again" (Conservative Party, 2010, p. 7).

The third path illustrated that despite the seemingly natural match between monitoring and a fiscally conservative agenda I also find cases in which expert bodies with high monitoring capacity were established by centrist and left-wing governments. Countries in this path have in common that fiscal monitoring bodies were created in the presence of an Excessive Deficit Procedure and

[4]See the commentary by President Anastasiades for CNBC Online (Anastasiades, 2014).

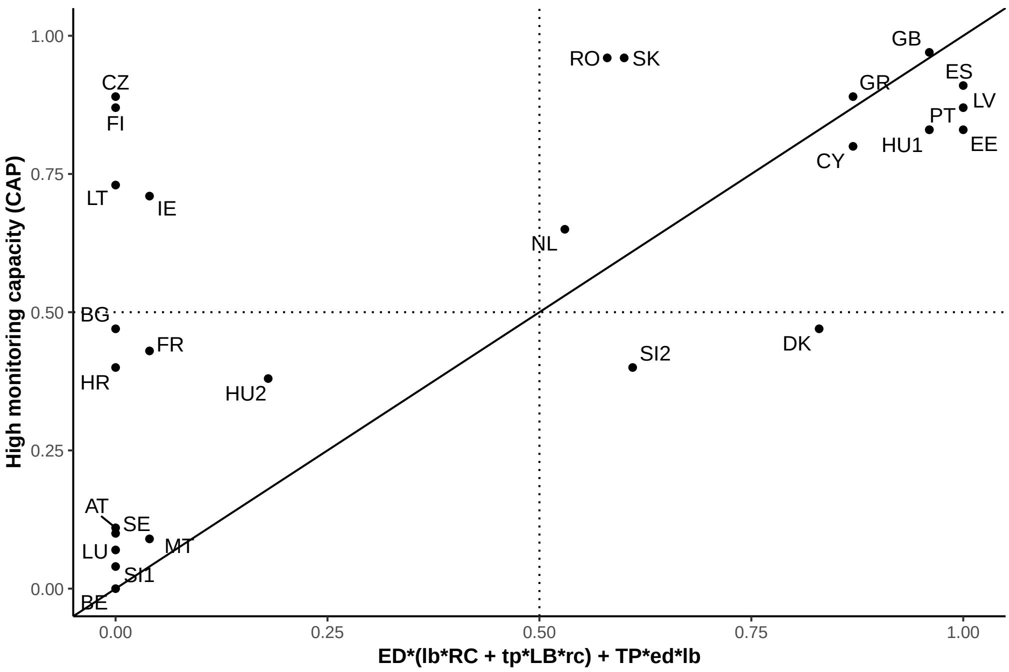

Figure 2: Enhanced parsimonious solution for high monitoring capacity. Note: consistent cases above the diagonal. Deviant cases are in the upper left (coverage) and lower right (consistency) quadrant. The lower left quadrant is irrelevant for sufficiency (Schneider and Rohlfing, 2013).

parliaments with large budget powers. As a case in point, Hungary's fiscal council was created under a social democratic government and a shift to rules-based fiscal policymaking after the financial crisis in 2008. As parliament plays an important part in budgetary matters, it became involved in the development of the council (Kopits and Romhanyi, 2013, p. 226). However, only two years after its creation the council was de facto stripped of its independence under the first national-conservative government of Viktor Órban.

Overall, I find that expert bodies with high monitoring capacity were created to comply with the 2013 Twopack legislation or with the adjustment path laid out by the European Commission as part of Excessive Deficit Procedure. Limited evidence is found for the creation of fiscal monitoring as part of a partisan strategy. Figure 2 shows the consistency and coverage of cases in the enhanced parsimonious solution. I find most covered countries towards the high end of the solution formula, indicating a high fit between cases and their respective paths (and hence the relatively high solution consistency of 0.883). However, in Ireland, Finland, Lithuania and the Czech Republic I find monitoring bodies whose high capacity cannot be explained by the solution term.

Table 5 displays the result of the analysis of sufficiency for the creation of monitoring bodies with limited capacity. I can identify six consistent and one deviant case in the three paths of the enhanced parsimonious solution. We see that, except for the Maltese case, fiscal watchdog bodies with low monitoring capacity were created in the absence of external pressure by the Stability and

Table 5: Enhanced parsimonious solution for low monitoring capacity.

	tp*ed*gt	+	**ed*LB*gt**	+	**TP*ED*lb*rc**	**⟶ cap**
Covered cases	HR; SE; AT, BE, *FI*		LU; SE; AT, BE, *FI*		MT	
Path						
Consistency	0.867		0.864		0.909	
Raw coverage	0.321		0.335		0.167	
Unique coverage	0.080		0.094		0.167	
Solution						
Consistency	**0.882**					
Coverage	**0.582**					

Note: Deviant case consistencies in kind are indicated in italic. Semicolons separate different truth table rows.

Growth Pact. These fiscal monitoring systems are said to be 'homegrown' as no external factors made the implementation necessary (Jonung, 2018).

The first two paths overlap in coverage but are nevertheless distinct sufficient conditions. All these monitoring bodies were created in stable political environments with just a few changes in government. As the most typical case the creation of the Swedish *Fiscal Policy Council* is said to be "motivated by arguments of principle" (Calmfors, 2016, p. 604). In 2007, a newly elected liberal-conservative government with a long-term advocate of fiscal reforms as finance minister pushed for the creation of a fiscal council amid opposition by left-wing parties (Calmfors, 2013, p. 192). Austria's government upgraded an old advisory council to become the Government Debt Committee in 2002. Belgium followed in 2006 with a strengthened High Council of Finance, that nonetheless remains too close to the government (Bogaert et al., 2006; Kopits, 2011, p. 16). All three monitoring bodies share a lack of legal provisions that allow them to engage with policymakers during the budget process or by requiring the government to answer to watchdog reports.

Although broadly covering the same cases, the second path highlights an important domestic factor: the strength of parliament in the budget process. We can observe that in all these cases parliaments can make use of extensive rights to amend the budget, which can be a source for over-spending and deficits. At the same time, parliament can also block any curtailment of this power in the legislative procedure. It is thus likely that in these countries parliaments were able to water down proposals for strong fiscal monitoring systems.

Finally, I find a single case in the third path. Malta's Fiscal Advisory Council was created by the Labour-government of Prime Minister Muscat one year after the EU launched an Excessive Deficit Procedure against the country. As part of the eurozone, Malta was also obliged to introduce fiscal surveillance on the national level. Unlike other countries that faced scrutiny from the European Com-

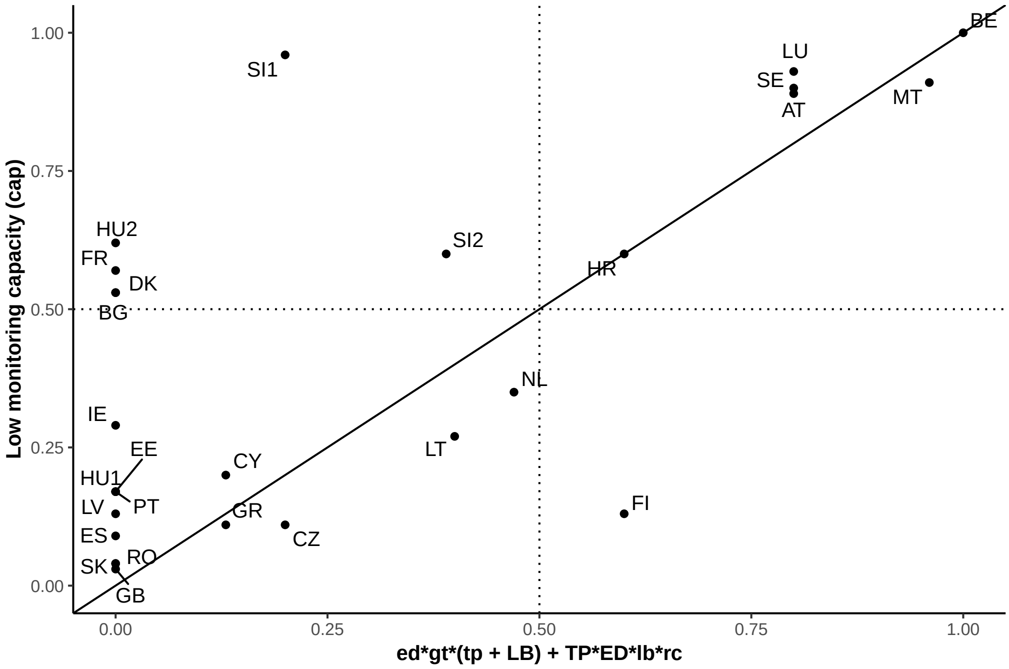

Figure 3: Enhanced parsimonious solution for low monitoring capacity. Note: consistent cases above the diagonal. Deviant cases are in the upper left (coverage) and lower right (consistency) quadrant. The lower left quadrant is irrelevant for sufficiency (Schneider and Rohlfing, 2013).

mission, Malta managed to implement a comparably weak watchdog body with limited autonomy and legal provisions to interact with policymakers.

The degree of consistency and coverage for each case can be taken from figure 3. We see that the high consistency value of 0.882 is mainly due to the cluster of cases at the top-right of the graph. However, as the coverage value of 0.582 indicates, we have an equal number of cases with low monitoring capacity that cannot be explained through the solution term. In consequence, even though the result identifies relevant combinations of factors that cause the creation of bodies with low monitoring capacity we cannot easily generalise from these cases.

Discussion

This article presents the first comparative analysis on the political origins of fiscal monitoring bodies. Previous studies document how monitoring bodies compare in terms of mandate (Jankovics and Sherwood, 2017), independence (Belling, 2019; von Trapp and Nicol, 2018; Franek, 2015) and potential effectiveness (Horvath, 2018b). However, why this institutional divergence exists has not been subject of empirical research. What is more, whereas previous studies focussed on the effectiveness of fiscal monitoring bodies (Debrun et al., 2013; Hagemann, 2011) less emphasis has been put on the capacity of these bodies which are a prerequisite of effective monitoring.

Similarly, existing datasets do not cover important aspects of monitoring capacity and lack historical data. Therefore, for the construction of the capacity index I relied on my own collection and coding of legislative documents of 27 monitoring bodies in EU member states. The index confirms that monitoring bodies differ significantly in their institutional design, with the UK's *Office for Budgetary Responsibility* having the highest capacity.

In this article I claim that the decision to establish fiscal monitoring as well as the choice of an institutional design are inherently political. These decisions are multicausal as they are shaped by the adherence to supranational arrangements, the dynamics of domestic politics as well as partisan strategies. For that reason I employ fuzzy-set Qualitative-Comparative Analysis as appropriate research method to identify combinations of conditions and allow for separate analyses of high and low monitoring capacity. With the results of this analysis we can estimate the significance of three aspects in the development of fiscal monitoring bodies.

First, the strengthening of the Stability and Growth Pact with legislation that requires eurozone members to have national monitoring in place has indeed led to the creation of expert bodies with high monitoring capacity. Similar effects are observable if a country was subject to the Excessive Deficit Procedure as the corrective arm of the SGP. In combination with with case study evidence (von Trapp et al., 2016; Raudla et al., 2017) it is plausible to consider this a political strategy to emphasise commitment to fiscal discipline towards European and international partners.

Second, divisions along party lines, between parliamentary chambers and the executive, and governments on different levels in federalist countries are significant aspects of domestic politics. In the analysis I included legislative power during the budget process and government turnover to account for potential political frictions. However, despite case study evidence that points to the contentiousness of fiscal monitoring (Kopits and Romhanyi, 2013; Calmfors, 2013; Bogaert et al., 2006) there is no clear pattern that explains monitoring capacity. For a subset of cases however the analysis shows that strong legislative powers go along with the establishment of expert bodies with low capacity.

Third, the results offer no clear link between a fiscally conservative agenda of right-wing cabinets and the choice of a monitoring system despite the assumption that conservative policymakers are the most ardent advocates of fiscal discipline. Supposedly, opposition experience rather than political instability may explain a strategy in which right-wing governments attempt to limit the future fiscal discretion of competitors (Moe, 1989).

In the investigation I was able to identify conditions that explain most of the cases. However, there remains a range of unexplained cases.[5] Deviant cases are highly consistent with the respective solution term but do not show the expected outcome. By contrast, a range of cases shows the expected outcome but is not consistent with any of the solution paths. This is particularly problematic

[5] I discuss the most obvious outliers in table 10 of the supplementary material (part A).

in the analysis of low monitoring capacity as half of the cases are not covered by the solution term. However, the analysis has identified relevant factors for a plurality of cases and hence, in connection with case study knowledge, offers high internal validity. From the view of interference to other cases the results have to be treated with caution.

Conclusion

In the last two decades we observed an upsurge in the number of national fiscal watchdog bodies (Belling, 2019; Debrun and Kinda, 2014). With politicians being the subject of fiscal monitoring and at the same time in charge for its legislation the question of structural choice becomes pertinent. We know from previous research that the choice of an institutional design is anything but devoid of political contestation. Whenever governments set up such councils and commissions there is a risk of shirking and not choosing the most effective institutions (Moe, 1995; Moe and Caldwell, 1994). This article suggests that the same applies for fiscal monitoring bodies even in a highly organised fiscal policy environment such as the European Union.

I use fuzzy-set Qualitative Comparative Analysis (fsQCA) to demonstrate how in particular compliance with the Stability and Growth Pact plays into the equation of whether governments introduce strong fiscal monitoring bodies. I find that high-capacity monitoring bodies were created in the presence of an ongoing Excessive Deficit Procedure (EDP) or against the background of EU legislation that requires the implementation of national monitoring systems. By contrast, expert bodies with low monitoring capacity are much stronger rooted in attempts to foster political consensus on sustainable finances, especially in the presence of a strong parliament within the budget procedure.

Due to the set-theoretic logic of QCA the combination of factors that determine the outcome are identifiable for each case in the sample. The downside of this method is that interference to a larger universe of cases is problematic, especially as this article only covers EU member states. However, given the case coverage and factors identified in this article three alleyways for further research are viable. First, the deviant cases identified here, in particular monitoring bodies in Denmark and Finland, could be subject to closer investigation by case-related research. Second, provided more information on new monitoring bodies will be available in the future, further endeavours to extend the sample to include non-European countries could be undertaken. Third, whereas the creation of expert bodies is a one-time event the monitoring operations can be covered in a longitudinal design. In particular the dynamics domestic politics are likely to impact the relationship between politics and experts as well. With some prudence in the selection of indicators these factors can be included in statistical models.

Although this article has focussed on fiscal monitoring, its implications go beyond this domain. In fact, policy monitoring has the potential to become a feasible device in other policy areas that depend on expert input and where political consensus on a common target is purportedly found.

For example, expert commissions on climate change could be endowed with a similar monitoring mandate to promote compliance with climate targets and track government efforts to reduce carbon emissions. This article is an invitation to examine in more detail the dynamics that lead to the creation of policy watchdog bodies and to be sensitive to the political benefits of signalling commitment through institutional reform. A closer examination of domestic politics as a driving force behind the choice of a monitoring system promises to be fruitful.

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Policy Monitoring and the Ally Principle of Expert Appointments

Daniel Belling

Abstract. Do governments appoint allies to serve in independent policy watchdog bodies? Previous research on non-majoritarian institutions (NMIs) has shown that political principals delegate powers to agents they believe to be politically loyal. This article asserts that this ally principle is also observable in the selection of experts to bodies that monitor government's policies, in this case fiscal policies. Institutional ties of nominally non-partisan fiscal councils to political principals suggest that appointments can be used as a device to secure the backing by the experts. Council members are thus selected by political responsiveness rather than by meritocratic recruitment principles. The analysis of the Swedish *Fiscal Policy Council* demonstrates the validity of the ally principle. Nonetheless, this is no guarantee for political support. I can also document how the council, facilitated by high public visibility and the near absence of ex post sanctioning tools, emancipated from political capture. This article extends the research on non-majoritarian institutions by introducing policy watchdogs as a distinct type of NMI. It also addresses an obvious gap in the literature on fiscal monitoring which underspecifies the political integration of fiscal councils.

Introduction

In 1162, after serving seven years as Chancellor to King Henry II, Thomas Becket became archbishop of Canterbury, the mother Church of England. According to the report of a contemporary, the king "lavished upon him such great affection as, one may think, he had never bestowed on any man before" (Roger of Pontigny/Anonymous I, cit. Hutton, 1926, p. 40). and went through great lengths to persuade the council of bishops in the election of a royal clerk to the highest ecclesiastical office of the country, usually held by a monk. From what is known, King Henry II feared increased influence of the papacy and believed that "his design against the Church could be most effectively carried out through Thomas, for experience had shown that he was most loyal to him in everything and well disposed to his wishes." (William Fitzstephen, cit. Hutton, 1926, p. 51).

Personal loyalty also features in awarding posts in modern day politics. Scholars in political science usually employ principal-agent (PA) models to describe how legislators choose between candidates for political offices (Bäck et al., 2011; Thatcher and Stone Sweet, 2002). Appointments to non-majoritarian institutions (NMIs) such as central banks, regulatory agencies or standard-setting boards are particularly interesting as agents exercise "some grant of specialised public authority"

(Thatcher and Stone Sweet, 2002, p. 2) delegated to them through a legal act. This implies that political principals restrain or fully relinquish powers to agents that are ostensibly impartial and highly proficient. Agents in NMIs need the capacity to act autonomously and membership usually follows legally defined tenures. This renders the selection of agents even more pertinent. As research on public bureaucracies shows, principals that engage in ex ante screening are inclined to select candidates with converging political views and a previous career record of serving for the same principal (Connaughton, 2015; Di Mascio and Natalini, 2016; Hollibaugh Jr., 2018; Palus and Yackee, 2016).

This article introduces policy watchdog bodies as a distinct type of NMI. Typically, investigations and oversight of many types of NMIs concern operations of a third party, e.g. private banks and corporations. Not so for independent bodies that are mandated to monitor the policies of their own principals: it is policymakers who retain the right to appoint, renew and dismiss members to these bodies. What implications does this have for the choice of experts? Given that the principal is subject to the agent's monitoring activities I assert that the selection of expert members is most likely to be politically motivated.

The most discussed type of policy monitoring bodies are fiscal councils, which hold powers to obtain budget information, prepare fiscal forecasts, assess budget proposals, flag non-compliance with budget rules and offer alternative policies. This article extends the research on non-majoritarian institutions by investigating in more detail how selection principles apply to fiscal councils. I analyse appointments to Sweden's Fiscal Policy Council, the first agency of a new generation of fiscal watchdog bodies and the most likely case to observe political appointments. The analysis demonstrates how the finance minister screens and selects council members based on perceived political loyalty. We can see that this *ally principle* even extends to the nomination of successors by the incumbent experts. In its operation however, high public visibility and the near absence of sanctioning mechanisms allowed the council to emancipate from political capture – a phenomenon known as *Thomas Becket-effect* – which eventually triggered the collapse of the appointment practice under a new government.

What we know about agency appointments

Earlier research on non-majoritarian institutions (NMIs) such as regulatory agencies or central banks studied the relationship between policymakers and the institutions in a principal-agent framework (see Thatcher and Stone Sweet, 2002). Within this approach principals face the problem of *agency slippage*, the risk of non-compliance with political objectives of the principal. Typically, through an optimal mix of measures to monitor and sanction the agents a certain degree of political control can be retained (McCubbins et al., 1987, p. 253; Strøm et al., 2000, p. 271). However, although policymakers deposit ex post sanctioning tools into legislation of NMIs their use can be politically harmful. The public may consider interference into the affairs of independent agencies –

a cutback on financial resources or arbitrary replacements of members for example – as a transgression of political powers. This gives priority to (precautionary) ex ante measures in relation to the selection of agents with the ability to make strategic choices on the screening, selection and terms of membership in an NMI (Dahlström and Holmgren, 2015, p. 6; see also McCubbins et al., 1987, p. 249).

The Ally Principle

Retaining the power of appointing agents gives political principals the opportunity to choose members whose actions are thought to be predictable. As Moe observes, personal reputation offers an indication about if, when and how the agent will make effective use of agency discretion and thus offers a higher degree of predictability for policymakers. In the best of all worlds, candidates highlight job-relevant qualifications and make their policy preferences overt to policymakers. This allows political principals to select professionals that are

> "(...) programmed to behave in specific ways. Knowing how they are programmed, the group [policymakers] can select those with the desired programs, place them in a structure designed to accommodate them, and turn them loose to exercise free choice. The professionals would see themselves as independent decisionmakers. The group would see them as under control. And both would be right." (Moe, 1989, p. 273)

We can expect that appointments for NMIs take place along the lines of what is known as the ally principle as principals do not choose the best qualified but the politically most desirable candidates (Bendor et al., 2001; Dahlström and Holmgren, 2015). Legislators are more inclined to appoint members to agencies whose policy preferences (the 'desired program' in the words of Moe) they perceive as matching their own preferences (Huber and Martinez-Gallardo, 2008, p. 172; Strøm et al., 2000, p. 271). In anticipation of agency operations, they hope that costly supervision of the agents becomes redundant as the agent shares the same beliefs and objectives (Di Mascio and Natalini, 2016; Swank and Dur, 2001). Furthermore, the closer an agent is to the principal, the more information is communicated, which enables governments to receive early warning signs (Bendor et al., 2001, p. 254).

Political loyalty can thus be used as a heuristic to help policymakers in screening through the rows of potential candidates. This does not mean that competence and expertise are irrelevant; certainly not for NMIs whose activities can only be judiciously exercised by seasoned academics or policy practitioners. Nevertheless, the ally principle relegates meritocratic recruitment principles to minimum job requirements. This leaves space for choosing agents with an indisputable academic reputation who are also advocates of the principals' agenda. Appointments can thus be a means to promote a policy agenda that is buttressed by the academic scholarship of appointees.

For this to happen, principals need to know potential agents beforehand as part of the screening process as otherwise the assessment of a candidate's loyalty is nothing more than a futile exercise. A previous selection into advisory roles can increase the chances that an expert is politically loyal to the principal (Silva, 2017; Swank and Dur, 2001). Alternatively, policymakers can rely on a pre-structured and mostly informal network that links elected officials to policy experts. Within this network experts hold institutional positions at the fringes or near the centre of the political system or find their way into politics (Hirschman and Berman, 2014, p. 781). These paths are common to economists who serve as policy entrepreneurs in policy advocacy groups and research departments, as part of the advisory staff in ministries or parties, or even as office holders with an educational background in economics, promoted by senior politicians. We can assume that the following attributes indicate expert support prior to the appointment:

- *Previous advisory role*. Experts have previously served under a minister of the party that the incumbent office holder belongs to. The principal appoints the same person in the expectation that the expert is also ally of the current government (Di Mascio and Natalini, 2016).
- *Affiliation to an advocacy group*. Experts can be affiliated with organisations that develop and promote policies such as non-profit organisations, industry associations and think tanks. The principal appoints such experts if the match between these policy proposals and his own agenda is close.

Think tanks in particular can serve as an "infrastructure for ideas" (Rich, 2011) and organisational interface between policy-oriented academics and policymakers. Hall observes the expansion of such organisations from the 1970s onwards stating that "where once there was virtually no external commentary on macroeconomic policy, something similar to a 'policy network' or 'issue network' sprang up to provide outsiders with influence over a formerly closed policy process" (Hall, 1993, p. 289). Through this interface economists frequently become proponents of policy tools they themselves helped to develop (Hirschman and Berman, 2014, p. 728; Muniesa et al., 2007). These new ideas can be brought into the political debate and taken up by parties and candidates competing for political offices. Thus, the political outing of policy experts in the desire to influence policies and contribute to a paradigm shift comes with a welcoming side effect for elected officials who can identify allies within the discipline. Ministers and other high officials not only adopt new policies but also recruit their architects to positions within the political system.

The Thomas Becket-effect

Not always does the identification of loyal agents result in support for the principal. Historians have documented how Thomas Becket right after his appointment refused to hand over church property to the monarch. William Fitzstephen, Becket's household clerk, states that King Henry II "regarded it as an affront that the man whom he had made first Chancellor and the archbishop, had now withdrawn from his obedience and was opposing him in many matters." According to Roger of Pontigny, the king summoned the archbishop in Autumn of 1163, asking him "[h]ow comes it then that so many benefits, so many proofs of my love for you, well known to all, have so soon been obliterated from your mind, that you are now not only ungrateful, but oppose me in everything?" (Fitzstephen, cit. Hutton, 1926, p. 64).

It may be unlikely that today's elected politicians express such levels of admiration and resentment. Nonetheless, the fundamental problem of agency appointments remains: a seemingly friendly agent appointed based on loyalty can shortly after oppose government's policy, a phenomenon aptly known as *Thomas Becket-effect* (Berger and de Haan, 1999, p. 36; Calmfors and Wren-Lewis, 2011, p. 662). It is a reminder that careful screening and selection by the principal cannot rule out the risk of policy drift – the divergence between policy priorities of the principal and the agent. Calvert, McCubbins and Weingast state that this becomes manifest once the agent chooses policies whose "goals *differ* from what the executive and legislature expected *at the appointment stage*" (Calvert et al., 1989, p. 605, original emphasis).

Such divergence does not (always) imply that agents change their policy positions. Instead, the source could just as well be found in a misjudgement by the principal who confuses an expert's strong policy preferences with political loyalty. Experts consider their beilefs as scientifically sound and consistent by virtue of being based on scientific methods and modelling (Fourcade et al., 2015). In day-to-day politics however actions of the principal could compromise the ideal policies that experts have in mind. Later on in this article I will return to this point and show that divergence could be a result of rigid preferences on the side of the principal.

Usually, a principal can make use of institutional checks to assure that agents share information with the principal and do not overreach their power, such as monitoring and reporting requirements (Kiewiet and McCubbins, 1991, pp. 22-38; Strøm et al., 2000, p. 271). Abilities to sanction transgressing agents include the withdrawal of financial support or the dismissal or non-reappointment of agents. Yet even if sanctioning tools were in place, policymakers would be hesitant to make use of them. Rebuking an agent can be for its part perceived as transgression and result in the loss of political support once taken up by the media (McCubbins et al., 1987). Arguably, the backfire can be particularly strong in the case of non-majoritarian institution that are nominally independent and publicly visible such as central banks, or, as we will see in a moment, watchdog bodies that monitor government policies. Public visibility can thus be a life insurance for agents that antagonise their political principals.

Let us now turn to fiscal councils, a type of non-majoritarian institution for which the significance of such appointments is even more pronounced. I will describe the universe of cases, outline the case selection and turn to a case study on Sweden's Fiscal Advisory Council, whose appointment practises are informative for the analysis of other non-majoritarian institutions.

Case selection

In recent years many countries introduced expert bodies that are mandated to monitor whether government policies are in line with fiscal rules and other limits to the budget. The IMF defines such fiscal councils as permanent agencies “with a statutory or executive mandate to assess publicly and independently from partisan influence government’s fiscal policies, plans and performance against macroeconomic objectives related to the long-term sustainability of public finances (...)” (IMF, 2013, p. 8). In the following I will consider fiscal councils as non-majoritarian institutions of an exceptional type. Fiscal councils are established through a legal act that delegates specialised public authority (fiscal monitoring) to agents that are appointed by elected officials. There are nonetheless limits in the operations of councils. In pursuing their mandate, they are restricted in their access to legislators as parliamentary committee hearings are frequently a matter of informal concession rather than legal rights (von Trapp et al., 2016, see; Debrun and Kinda, 2014, pp. 11-23). Furthermore, fiscal councils are typically dependent on political bodies in the provision of information, resources and staff.

The discussions on budget sustainability in the last decade resulted in a reappraisal of expert involvement and became manifest in a number of new fiscal councils, most of these created within the last decade. Table 1 depicts appointment rights as defined in legislation for fiscal councils in 30 mostly European countries by the year of legislation. Evidently, policymakers play a crucial role in the appointments of members to fiscal councils. In about two-thirds of all instances the final say on the appointment of council members lies either with the government (12), the parliament (10, excl. budget offices), or in a joint appointment procedure by both branches (7). In another four instances policymakers decide on a minority of members while the larger part is selected by stakeholders such as industry associations, unions, interest groups, research departments, central banks and audit offices.

Given that in the vast majority of cases appointments are made by political bodies I suspect that the ally principle is observable to different degrees. For the following investigation I need to select a case in which the ally principle of expert selection is most likely to be present. I also expect that the Thomas Becket-effect is observable when experts are free from sanctions by the principal. Finally, the selected case should be representative for a broader range of cases.

The first condition applies if the appointment of council members is a discretionary decision by the govenrment, or more specific to the finance minister. In this constellation the principal is also the instance that is directly monitored by the agent. Moreover, veto players are absent in the appointment proceudre as the selection is not subject to a decision by parliament or joint procedures between branches. I find such cases in the first column of table 1. The second condition concerns the absence of ex post sanctioning tools such as arbitrary dismissals or non-renewal of terms. This

Table 1: Fiscal watchdogs by appointment rights and year of legislation.

	Final say on the appointment of all or the majority of members...							
	Government		**Parliament**		**Both branches**		**External**	
Newly established	2007	Sweden (-18)	2008	Hungary (-10)	2011	Colombia	2011	Hungary
	2009	Slovenia (-12)	2009	Serbia	2011	UK	2011	France
	2011	Portugal	2010	Romania	2013	Latvia	2014	Estonia
	2012	Ireland	2011	Slovakia	2013	Spain	2018[a]	Sweden
	2013	Chile	2012	Finland	2014	Cyprus		
	2013	Peru	2013	Croatia	2014	Luxembourg		
	2014	Greece	2015	Bulgaria	2015	Iceland		
	2014	Malta	2015	Lithuania				
			2015	Slovenia				
			2015	Czechia				
			2016	Brazil				
Veteran	1989	Belgium (HRF)					2012[a]	Denmark
	1994	Belgium (FPB)						
	2002[a]	Austria						
	2013[a]	Netherlands						

Legal provisions for national fiscal councils excluding pre-selection procedures and informal agreements. Parliamentary Budget Offices (PBOs) excluded. [a]Legislative change to existing body.

risk is further minimised when members are professional academics in research institutions and do not rely on council membership.

These two conditions are given for the Swedish *finanspolitiska rådet* (Fiscal Policy Council, FPC) which was also the first council that was explicitly created as a fiscal watchdog body. Until 2018, legislation stated that candidates for membership need to be confirmed by the finance minister. In this constellation, the council monitors the fiscal policy of its direct principal. Given these direct ties I expect that the ally principle is at work for appointments to the FPC. Moreover, because of short one-off tenures the first years of the FPC offer sufficient variation in council membership that allows for an analysis of selection patterns for the appointed members. It also indicates a lack of instruments to sanction members as the threat of non-reappointment is void.

Regarding the third condition, conclusions for the Swedish case shed light on membership selection to policy watchdogs with similar constellations between the principal and the expert agents. Given the particular rules of appointment in the Swedish case I suspect that the ally principle is most likely to be observable here. In that regard the FPC is also a typical case for other cases in which the final decision in the appointment procedure lies with a government minister, even when nominations are made by current council members or external groups. This is especially the case as the design of later fiscal councils such as the Irish *Fiscal Advisory Council* was influenced by the Swedish model (Jonung et al., 2016).

Sweden's Fiscal Policy Council

The Swedish policy network

International comparisons demonstrate that views of economists are shaped by their academic socialisation and the epistemic community (Fourcade, 2009; Marier, 2008). This is no different for Swedish economists who tend to be politically more liberal-conservative compared to the population.[1] There is nonetheless a divide between labour union economists, who have traditionally strong links to the Social Democrats, and such economists that have expressed sympathy with non-Keynesian ideas such as wage moderation and welfare state retrenchments. This also affects the dissemination of expert ideas into the political sphere, which is typically moderated by party politics and the access of ideological entrepreneurs to policymakers (Hirschman and Berman, 2014, pp. 783-785; Lindvall, 2009, pp. 707-708).

Economists in Sweden are traditionally vocal participants in public debates and due to their comparably small number the network within the discipline and between economists and politicians is said to be close. Although they were largely absent from earlier international debates on monetarism parts of these policy ideas gained traction in the national debate of the early 1980s. Many economists openly advocated a shift away from a Keynesian consensus that had dominated Swedish economic policymaking for decades. There is strong evidence that this shift and the integration of economists in policymaking kicked off a process that culminated in reforms to the Swedish fiscal framework during the incumbency of the liberal-conservative coalitions of Carl Bildt (1991-1994) and Frederik Reinfeldt (2006-2014). Already in the 1980s economists critical with the use of currency devaluation as a policy tool to reduce unemployment took over institutions such as the *Economic Policy Group* of the business-funded think tank *Centre of Business and Policy Studies* (SNS) and became predominant in *Ekonomisk Debatt*, a flagship journal in Swedish economics. Both served as vehicles that contributed to a 'third-order' change from Keynesian to a soft version of economic liberal ideas (Hall, 1993, pp. 283-284; Lindvall, 2004, p. 139).

Blyth considers the SNS among "vital agents in promoting institutional change. However, what made SNS and later on Timbro [another think tank] so influential was (...) a concomitant shift in the ideas held by Swedish academic economists and opinion makers, ideas that those organizations could exploit" (Blyth, 2001, p. 16). Regarding their political impact, Calmfors notes that in the 90s the "ideas of the SNS Group gained increased acceptance. (...) The SNS Group had an even greater influence on the thinking of the Liberal-Conservative government which came to power in the Autumn of 1991" (Calmfors, 2016, p. 597). The influence of the SNS however just lasted as

[1]Berggren, Jordahl and Stern (2009) show that the political orientation of Swedish economist is slightly tilted as they tend to be more right-oriented compared with the average of the Swedish population. Economists expressed largest sympathies for the Liberal Party (27.2 percent) and the centre-right Moderate Party (20.4 percent) with the Social Democrats only ranked third (18.1 percent).

short as the 3-years incumbency of the Bildt-cabinet. Already in 1994, the Social Democrats led by then-Prime Minister Carlsson ousted the government, and it took the conservative Moderate Party another twelve years before returning into government.

The alignment of non-Keynesian ideas with party politics in the 2000s is closely linked to Anders Borg, then chief economist of the Moderate Party, who for many years participated in the debate among Swedish economists. In an article for *Ekonomisk Debatt* (Borg, 2003) he advocated a tightening of state finances by introducing binding fiscal rules, developing a well-structured decision-making process, and creating an expert council; policies that were opposed by the then incumbent Social Democratic government (Calmfors, 2013, p. 193). Just three years after the publication of his article the general election resulted in a victory for the centre-right bloc and Anders Borg became Sweden's new finance minister.[2] Given a large political consensus on a mix of tight fiscal policy and expansionist monetary policy as a dominant strategy since the 1980s and quickly improving public finances after the crisis of the early 1990s there was no immediate need for fiscal consolidation and institutional reform. However, with expert ideas elevated from a policy proposal to a party agenda and eventually government policy the new coalition started with reforms early on in the term. As one of its first acts in office, finance minister Borg introduced legislation to establish the FPC.

The council

Scholars in public finance argue that reforms to the fiscal framework, and thus the creation of fiscal councils, are often responses to high budgetary pressure (Debrun and Kinda, 2014; IMF, 2013). In that regard the Swedish budgetary context of 2007 offers no indication of urgency. Instead the creation of the FPC can be seen as acquisition process triggered by discretionary political strategies, as an act of political conviction and opportunity. According to the first council chair the reform of the fiscal framework was "motivated by arguments of principle" (Calmfors, 2016, p. 604). Accordingly, the FPC was designed at the drawing board with its structures foreshadowing what will become a blueprint for many councils created after the financial crisis (Calmfors, 2010; Flodén, 2013). It was fashioned as pure expert council under the exclusive domain of the ministry of finance.

The ordinance[3] gives the council operational freedom to perform its tasks independently as an autonomous body, yet over time council members raised concerns over the large work load of the council despite restrictions to its resources and time that members can dedicate to council work (von Trapp et al., 2016, pp. 231-240). When it comes to powers towards policymakers, there are no formal procedures to include the council into the budget process. Council opinions come as *ex post* evaluation of government policies and only target the winning coalition but not policy proposals

[2]Given his convictions, his academic background and his party membership, Borg is a prime example of an ideologue minister with strong policy convictions who would "prioritize policy outcomes over office" (Alexiadou, 2016, p. 18).

[3]SFS 2007:515 of 28 June 2007.

of opposition parties. The FPC's annual report is nevertheless subject to a hearing with the parliamentary finance committee and the chairman of the FPC uses media appearances to increase public visibility. By being a publicly noticeable watchdog and initiator of debates fiscal policy becomes a permanent feature on the political agenda.

Members of the FPC need to hold "a high level of scholarly expertise in economics and members who have practical economic policy experience and there is a balanced representation of expertise and experience."[4] Appointments to the FPC are made for a non-renewable term of three years with a maximum six years for the chairman. The number of council members was first limited to eight members and appointees included former politicians. Since a reform in 2011 the council only comprises six members. Until 2018 candidates were nominated by current council members and appointed by the finance minister, who was nominally in charge of confirming or vetoing nominations. In practice, during the first decade of the council no nomination has been blocked. Membership in the council is according to one of its former chairs thus 'self-perpetuating' (Jonung, 2014, p. 206).

This is significant. Granting current council members, the effective right to select their successors boosts the integrity of the FPC as a non-partisan expert body. Retaining the right to veto nominations and not making use of it raises the expectation that also future finance minister will not intervene as the reputational cost of rejecting a proposal "would likely be very high" (Jonung, 2018, p. 138). I can investigate whether nominations by council members after 2007 follow the same selection patterns than did the first appointments.

Appointment

Table 2 presents the characteristics of newly appointed members over time distinguished by three waves of appointments: the initial appointments of eight members by the finance minister in 2007, the appointments based on nominations by council members, and appointments during the incumbency of a new government and finance minister.[5] The bottom section indicates whether newly appointed members are former politicians and advisors, and whether they held a position within the SNS Economic Policy Council prior or during their council membership. It is also shown whether members held positions at research institutes close to trade associations and unions:

- The *Research Institute of Industrial Economics* (IFN), until 2006 known as *Industrial Institute for Economic and Social Research* (IUI), which has close ties with the Federation of Swedish Industry and the Swedish Employers' Confederation.

[4]§11 of Ordinance SFS 2007:515 of 28 June 2007.

[5]I coded council members based on information in their CVs, reports and the online presentation of agencies, universities and associations. Official promulgations and media news sources were used for validation. Visiting and assistant positions are not considered. I provide the full list of members in table 1 of the supplementary material to this article.

- The *Trade Union Institute for Economic Research* (FIEF), the former research institute (dissolved in 2006) of the Confederation of Labour Unions (LO), Sweden's oldest and with around 1.5 million members largest umbrella organisation of trade unions.

We can see that the ally principle holds for the first appointments made by finance minister Borg. Among the first eight members were two former politicians – the chairman of the parliamentary finance committee at the time of the centre-right cabinet of Carl Bildt, and a former fiscally hawkish finance minister of the Social Democrats (probably to appeal to the opposition). Moreover, three council members were previously appointed under the Bildt-government to an earlier economic advisory council, and its former chairman will become the first chairman of the FPC. We also find that 5 of the 6 economist members appointed in 2007 had links to the *SNS Economic Policy Council*.

Later rounds of appointments in which incumbent council members nominated candidates show that political loyalty is no pertinent selection criterion as the share of experts without previous links and affiliations increases. Younger researchers without history in providing expertise to politics replaced the old guard of economists that served under the previous conservative government. Notable exceptions include the second council chairman, who was chief economic advisor to conservative Prime Minister Bildt between 1992 and 1994, and the former conservative leader in the parliamentary finance committee, who became the third and last ex-politician to be appointed to the FPC. The elections at the end of 2014 saw a change at the head of the ministry of finance. The new Social Democratic finance minister Magdalena Andersson did not veto the proposed members, of which the majority did not previously serve within the political system, except for a state secretary in the Ministry of Finance in the former Social Democratic Persson-Government.

One could argue that the pool of potential candidates is limited given the comparably small number of Swedish academic economists. After all, as a contributor to the national economic debate Borg was part of the policy network and thus knew fellow economists. It is thus remarkable that we find the network around the *SNS Group* being fully utilised to recruit new members: one-third of all council members have previously held a position with the SNS *Economic Policy Council*. In turn, only a negligible part has been at some point affiliated with the labour-funded FIEF institute. This indicates that views and policies close to positions of the labour movement are hardly represented. Instead, the selection mirrors the overall shift towards the 'rules-based' and non-Keynesian policy paradigm. Arguably, even without direct appointments by the finance minister there is an observable pattern that can be best described as academic ally principle: council members have a gate-keeping function to guarantee that only economist of a particular strand in the economic debate are appointed. Yet as it turned out, neither the political nor the academic ally principle is an effective reassurance for political support as the first decade of monitoring activities illustrates.

Table 2: Appointments to the Fiscal Policy Council, 2007-2018.

Wave	**2007** *Start of council operations*	**2008-2014** *Appointments under new rule*	**2015-2018** *Government change (Oct. 2014)*
Appointment rule	Appointed by finance minister	Nomination by council members, confirmation by finance minister (de facto 'self-perpetuating')	
Finance minister Government	A. Borg (M) Liberal-conservative	A. Borg (M) Liberal-conservative	M. Andersson (S) Social democratic
Council chair	Lars Calmfors	Lars Calmfors (-11) Lars Jonung (11-13) John Hassler (13-)	John Hassler (-16) Harry Flam (16-)
Council size	8	8 6 (after 2011)	6
Newly appointed	**8**	**12**	**7**
of which...			
former politicians:	**2** (25%)	**1** (8.3%)	0
former advisors[a]:	**3** (37.5%)	**2** (16.7%)	**1** (14.3%)
Affiliation[b]			
SNS Econ. Policy Group:	**5** (62.5%)	**1** (8.3%)	**3** (42.9%)
IUI/IFN (business):	**1** (12.5%)	**2** (16.7%)	**2** (28.6%)
FIEF/LO (trade union):	**1** (12.5%)	**1** (8.3%)	**1** (14.3%)
None of the above:	0	**6** (50%)	**2** (28.6%)

Note: Reappointments not possible. [a]Advisor to corresponding previous government coalition. [b]Positions held prior or during time of council membership; excl. visiting and assistant research positions. Multiple affiliations possible. M = Moderate Party (liberal-conservative); S = Social Democratic Workers' Party.

The first decade of monitoring: barking and biting back

As discussed above, policymakers are limited in their ability of sanctioning fiscal councils once they started their operations. In the Swedish case, the finance minister cannot use non-reappointment as a threat given that council members only serve for short and non-renewable terms in the FPC. The very nature of the mandate of a fiscal council, i.e. monitoring the policies of the principal for which the council has to be independent from policymakers, reduces obligations to report to the principal to a minimum. Given the near absence of ex post sanctioning tools the finance minister relies on the benevolence of council members or, alternatively, on the credibility of threats to reform the structure of the council (see also Selin, 2015, pp. 973-974).

Did the members of the Fiscal Policy Council remain on good terms with the government? A short analysis of newspaper articles will give insights into the relationship between council, policymakers and the public. We will see that in practice, the council quickly emancipated from its

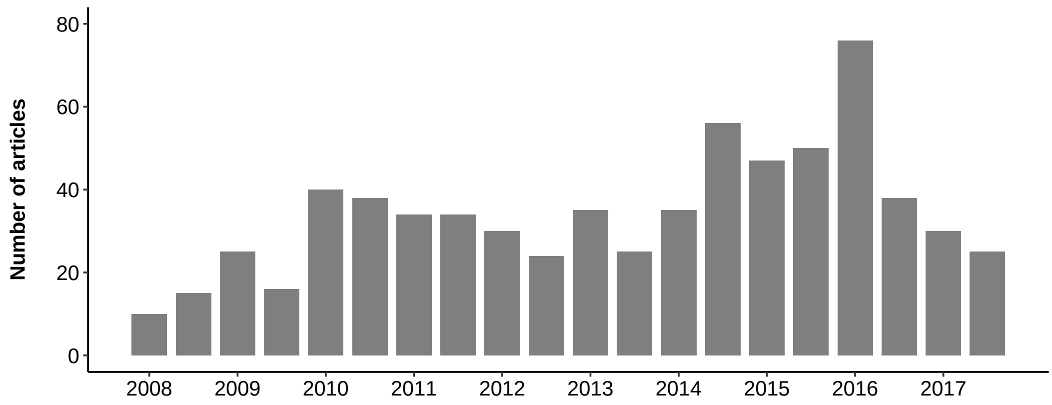

Figure 1: Articles in 'Dagens Nyheter' and 'SvD Nähringsliv'. Relevant mentions of the Fiscal Policy Council (excluding doublettes and letters to the editor).

political principal, not least due to high public interest in its opinions and the media attention that the council enjoyed right from the outset.

Figure 1 shows the number of articles mentioning the council in two of the most popular daily newspapers, including guest comments by and interviews with council chairs. The online archive of both newspapers holds available all articles that were published in print and online during that time period. I selected articles mentioning 'finanspolitiska rådet' through the search tool and skimmed through the context of each article.[6]

I can identify three spikes in the reporting. At these points in time the relationship between the council and the finance minister was particularly tense: in 2010 ongoing disagreement led to considerations to reform the council structure; at the end of 2014 when a new finance minister took office; and in 2016 amid fierce council criticism that triggered changes in the appointment procedure. These numbers also convey how the discourse is fought out in public with guest comments by economists from inside and outside the council who came in support of the council at different occasions:

2008 – 2014. In the first years, finance minister Anders Borg experienced criticism for his budget plans by the very same council he created and whose members he appointed. Notably, the council disagreed with the unwillingness of the conservative government to spend more money to stimulate the Swedish economy after the financial crisis. Not only had the council objected to the general direction of the government's policy, but also with a policy stance that the finance minister did not anticipate. Referring to these council opinions Borg later stated that while he was finance minister the language of the council was 'very Keynesian'.[7]

[6]Through this way it was possible to exclude doublets, letters to the editor and articles that are not topical. Automatic text analysis enables researchers with more detailed examinations such as the sentiment of a text (e.g. negative versus positive statements). However, any such investigation goes beyond the scope of this brief survey, which is to illustrate the enduring public interest in the FPC.

[7]Cit. from *Dagens Industri* (De Vivo, 2018).

In 2010 the conflict between the minister and the FPC intensified after the council chairman demanded more independence from government. Lars Calmfors claimed that more funding and autonomy would further strengthen the council.[8] An op-ed by Stockholm economists Per Krusell and John Hassler warned that Minister Borg needs to "fully realise the shortcomings of the present system where the Fiscal Council is a government agency."[9] Although threatening to restrain the autonomy of the council Borg eventually agreed to a proposal to put the council under the auspices of the parliament. Yet this change never materialised during his incumbency.

Since council members were supposedly allies of Anders Borg, I find clear evidence for the Thomas Becket-effect of political appointments. What is more, the criticism is not only directed towards the content of the minister's policies but also the conduct of the minister himself in dealing with the council. The large media presence and the additional support by the network of economists raised the audience costs immensely and put Borg in a position stuck between a rock and a hard place: either he changes his policies and increases the resources and autonomy of the council – or he faces a public backlash. Both options are politically costly, yet Borg managed to stay on with only small changes to the council structure: the decrease in size and the exclusion of politicians as members.

Following the election of 2014, a minority coalition consisting of the Social Democrats and the Greens propped up by the socialist Left Party replaced the liberal-conservative government. These parties were opposed to the creation of the FPC in 2007, with the Left Party claiming that the council would be "another body providing false scientific clothing for the government's right-wing policy" (cf. Jonung, 2014, p. 206). With a fiscal council whose members were confirmed under a fiscally conservative finance minister there was a noticeable change in the relationship to the fiscal watchdog. News coverage was particularly strong during that period, once again indicating the media's sensitivity for disagreements between the new government and the inherited fiscal council.

2014 – 2017. A number of events in the first year of the new government contributed to an increasing distrust between council members and the new finance minister Magdalena Andersson. These included a press conference right after inauguration, in which the council reprimanded the new government's policy priorities that would result in a decrease of the public surplus, and an ill-fated meeting between the council and the minister in spring 2015.[10] A newspaper comment sums up the dilemma that Andersson faced in the reaction to the council:

> "Would you like to have an employee who is more educated than you and enjoying greater confidence among the public? Who tells you that everything you are doing is

[8]News article in *Dagens Industri* (Munkhammar, 2010).

[9]Op-ed article in *Dagens Industri* by (Krusell and Hassler, 2010), translated from Swedish. Hassler will later become member and eventually the chair of the council.

[10]News article in SvD Naeringsliv, (Carlström, 2017b).

> wrong – and that our future risks to be worse than it otherwise would have been. No, and neither do Sweden's finance ministers. That would be enough to explain why the conflicts with the Fiscal Policy Council will continue – regardless of the colour of the government. But what should one do when a dog bites? It is not easy to despatch the Fiscal Council because it would be perceived as if the government does not tolerate a scientific review of its policies."[11]

In the absence of sanctioning tools that target the current council members the finance minister opted for a politically risky option. Andersson announced to break with the routine of 'self-perpetuating' appointments and went as far as to change the nomination procedure of council members. As expected, the suggestion to include politicians for the nomination procedure triggered sharp criticism by leading economists and the council chairman.[12] The council itself warned in its annual report for 2017 that such a change would damage the confidence in the independence of the FPC (Finanspolitiska Rådet, 2017, p. 11).

All the same, a legislative amendment that would see the old appointment procedure abolished was passed in late 2017. The government later justified this decision by stating that "[t]he fact that the Council itself nominates members can contribute to safeguarding independence, but at the same time risking a unilateral composition" (Swedish Government, 2017, translated from Swedish). Instead the new legislation foresees the creation of a nomination committee consisting of the directors general of three research institutes and two parliament committee members.[13] There are no appointments under this new procedure yet.

Lessons from the Swedish case

The history of the Swedish Fiscal Policy Council offers four key insights into the relationship between political principals and fiscal councils. First, policy networks facilitate the identification and recruitment of political allies among economists into council positions. Finance minister Borg, who participated in debates among Swedish economists for many years, appointed seemingly like-minded economists who partly served under the previous conservative government. Most importantly, with the provision that later nominations in the hands of incumbent council members the minister effectively set the council bandwagon on a distinct institutional track. In a next step, the 'self-perpetuating' appointment practice turns the political into an academic ally principle – economists will nominate colleagues of a similar academic strand.

Second, through the selection of such allies, fiscal councils become independent yet politicised bodies. The Swedish council in fact acts in the spirit of a particular policy paradigm. Lars Calmfors,

[11] Comment in SvD Naeringsliv by Göran Eriksson (2017). Translated from Swedish.
[12] News article in SvD Naehringsliv (Carlström, 2017a).
[13] §§11, 11a of Ordinance SFS 2017:1316 of 28/12/2017.

the first council chair, was no stranger to politics as he was both a long-time advocate of wage restrains and an early proponent of the rules-based approach to fiscal policies (Lindvall, 2004, p. 88). Furthermore, one-third of all council members were at some point part of the *SNS Economic Policy Council*, a think tank that early on developed non-Keynesian policy alternatives to the then dominant 'Swedish model' of economic regulation (Blyth, 2001, p. 16). It is thus plausible to consider the Fiscal Policy Council, at least in its initial composition, not simply as a non-partisan policy watchdog but as a publicly mandated think tank. Yet different from private think tanks which typically take part as one side of the debate the council obtains a reputational bonus as an independent body that *moderates* the debate. In consequence, the debate becomes constricted to discussing the means to improve the fiscal situation; the objective itself is seemingly taken for granted. This is all the more remarkable as it countervails the influence of labour union economists on the policies of the Social Democrats.

Third, fiscal councils may contribute to sound public finances but are also likely to deepen the political divide over the purpose of fiscal policies. Right from the outset the Swedish council has been contentious as centre-left parties rejected the legislation to create the council in 2007. In later public discourse left-leaning pundits came to defend Social Democratic finance minister Andersson over council criticism and questioned the council's impartiality (e.g. comments by Bohlin, 2017; Persson, 2016). Nonetheless, the plan to boost a conservative political agenda has rebounded as council members reprimanded policies disregarding the colour of the government coalition.

Finally, high public visibility with fellow economists directly contributing to media content and the absence of ex post sanctioning tools strengthened the hands of the council leadership which could afford to be vocal in their criticism. Reports of two former council chairs give evidence that members of the Swedish Fiscal Policy Council were well aware of the public reputation and the high public visibility of the council (Calmfors, 2010, 2013; see also Flodén, 2013; Jonung, 2018). This allowed the council to voice at times strong criticism on their principals' policies which is clear evidence for the Thomas Becket-effect.

Discussion

The core claim of this article has been that in the selection of experts policymakers prioritise political loyalty over meritocratic honours. The investigation on Sweden's Fiscal Policy Council, which was chosen as the most likely case, offers sufficient evidence to consider the ally principle as essential selection criterion. At the same time, I find that even though members were selected through this principle, experts publicly disagreed with both finance ministers on many occasions. This is an important insight as it counteracts the purpose of the ally principle – to create an independent monitoring body that is nonetheless sympathetic to the government's policy agenda. In fact, it appears that it does not matter who is appointing and on which grounds screening and selection takes place. Instead, it seems to be more significant if the principal retains control over the agents *after* these are assuming their roles.

In that regard this investigation offers evidence that fiscal councils, and policy watchdogs more broadly, benefit from being functionally autonomous from principals: it provides them with the opportunity of building a reputation as an independent institution and allows them to rigorously scrutinise government activities. Compared to public bureaucracies and the hierarchical relationship between principals and agents (Thatcher and Stone Sweet, 2002) policy watchdogs have actual leverage over political principals. In line with previous public finance studies we could consider the Swedish council as a prime example for a monitoring body that fulfils its purpose as a barking and biting watchdog (Debrun and Beetsma, 2018; Calmfors, 2010). Whether politicians tried to capture the council is thus secondary as eventually they did not succeed and the council was just as effective as if members were purely selected based on meritocratic principles.

However, although it appears that the Thomas Becket-effect counteracts the ally principle in this example, it does not mean that it always does. In fact, Sweden might be particular in that there was a near-absence of ex post sanctioning tools (non-renewable part-time membership, no arbitrary dismissals) and Swedish economists themselves are considered trustworthy contributes to the public debate (Lindvall, 2009). Whether experts take the liberty to discuss and criticise when not only membership becomes a career risk but the existence of a council itself is debatable. First hand experience of other cases such as the Hungary's Fiscal Council, which was abolished and then reinstated with political allies of Prime Minister Órban (Kopits and Romhanyi, 2013), could offer further insights into the factors that determine the liberty of council experts.

More importantly, where the ally principle does matter is in the shift of policy priorities. We observed that the finance minister and council experts started to disagree when it came to crisis management. The question is who actually did depart from what at least the finance minister perceived as common ground? The answer probably lies in a misapprehension regarding the purpose of fiscal monitoring.

Fiscal consolidation is typically a long-term effort to balance the budget. Logically, this can be achieved not only through spending cuts but increased tax revenues (Barnes and Hicks, 2018). Public investments could in the short run contribute to higher tax revenues by increasing macroeconomic stability. It seems to be in that spirit that the Fiscal Policy Council perceived its own mandate while the finance minister stuck to a rigid view on fiscal consolidation as non-interventionist policy effort. It is for future research on fiscal monitoring (and fiscal policymaking more broadly) to gauge the match between expert policy recommendations and the policy preferences of elected officials. A policy lock-in through the creation of fiscal monitoring does not by itself promote a conservative, small-government agenda.

Conclusion

This article focuses on the importance of political loyalty in the selection of experts that serve as members in policy watchdog bodies, a distinct type of non-majoritarian institutions. Its distinctiveness comes with the official mandate to monitor government policies with ministers simultaneously being their principals. In this constellation, the political principal has an incentive to select experts that he knows and that he believes to be responsive to his own policies.

Fiscal councils are the most obvious case of such non-majoritarian institutions. I juxtaposed the meritocratic recruitment principle and the ally principle as two non-exclusive selection criteria and chose the Swedish Fiscal Policy Council as the most likely case for detecting the ally principle of political appointments. These can be understood within a larger ideological shift in Swedish economic policies but is no insurance against council criticism. I can show that safeguards to the independence of the council and high media coverage allow the council to voice criticism without fearing serious negative consequences.

The investigation of this article is a first step to understand the mechanisms at work for the selection of experts to nominally independent institutions, i.e. in which agents are not structurally subordinate to the principal. There is a crucial difference to non-majoritarian institutions as we know them: policy watchdog bodies monitor the activities of their principals. It is reasonable to believe that governments will therefore step up efforts to keep watchdogs at bay and prevent agency slippage (Epstein and O'Halloran, 1999; McCubbins et al., 1987).

This article was designed as a single-case investigation and thus is only limited in the extend to which in can explain whether the ally principle and the Thomas Becket-effect are at work in other circumstances. What it can show is that these two effects are conditional upon the institutional design of expert councils, which to choose is in turn a prerogative of policymakers. Future research on appointments to non-majoritarian institutions will likely find more cases in which political appointments occur and identify factors for when these have an impact on the effectiveness of these institutions. This avenue has previously been taken for investigations on independent central banks and regulatory agencies (Bendor et al., 2001; Maggetti, 2007). When it comes to investigations on independent expert councils a main focus has to be put on potential veto players in the appointment procedure, the presence ex post sanctioning tools and the reputation of council experts which can serve as a safeguard against undue interference. These factors seem to be crucial for the occurrence of the ally principle and the Thomas Becket-effect, and eventually for the question whether political appointments impact council operations.

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Independent Fiscal Monitoring and the Budget Process

Daniel Belling

Abstract. How does the structure of the budget process shape the effectiveness of fiscal monitoring? Recent studies focussed on the attributes of independent expert bodies that can monitor fiscal policies, so-called independent fiscal institutions (IFIs), that promise to be effective in promoting sound public finances and foster politicians' compliance with budget rules. Less attention has been drawn to the local institutional context in which fiscal monitoring takes place. This article investigates whether IFIs can effectively scrutinise national budgets based on available monitoring devices, the strength of parliament in the budget process and the ideological orientation of elected officials. Using data for 36 countries this article shows that there is no uniform effect of fiscal monitoring on the deficit. Instead, the impact of fiscal monitoring on public deficits is contingent upon the ability of the legislative chamber to amend the budget. Timely budget analyses prove to be effective for chambers with limited amendment powers. In turn, legislatures with unrestricted powers are not responsive to monitoring activities but strongly adhere to deficit rules. I also find that fiscal monitoring resonates well with parliament members of liberal-conservative ruling parties. These results illustrate that the effectiveness of fiscal monitoring heavily depends on the political context in which they operate.

Introduction

Public finance scholars have argued for some time that monitoring by independent bodies of experts can foster fiscal discipline of policymakers and contribute to sound public finances. In particular, experts are able to analyse fiscal policies and communicate expected costs and benefits to voters. The electorate would then be put in a position where it can make an informed judgement on the fiscal performance of policymakers (Calmfors and Wren-Lewis, 2011; Debrun and Kumar, 2008; von Hagen, 2013). Whereas this model is well established in public finance theory only a handful of empirical studies exist that investigate the actual effects of monitoring on fiscal outcomes such as the public debt and the annual deficit. Surprisingly, none of these studies considers how the structure of the budget process – the power balance between the legislature and the executive – shapes how fiscal monitoring bodies operate and eventually how these structural conditions shape fiscal outcomes.

It is known that fiscal monitoring can only be effective if two conditions are met: firstly, monitoring bodies can address elected officials during the budget process. Secondly, fiscal monitoring by independent experts "can help improve fiscal performance if and only if the government agrees that there is a problem of weak fiscal performance and that something must be done about it" (von Hagen, 2013, p. 52). I assume that this condition does also apply to legislative chambers and will deal in more detail with the motivations of elected officials for considering expert assessments and recommendations during budget negotiations. The guiding question of this article is thus to what extent the effectiveness of fiscal monitoring hinges upon the budgetary power balance between government and parliament, and the political willingness to listen to expert advice. In answering this question, this article provides this missing link in the literature on fiscal monitoring and highlights how public finance theory can be combined with insights from the field of comparative politics.

Based on a comprehensive dataset on fiscal monitoring bodies I am able to investigate fiscal monitoring activities in 36 mainly industrialised countries between 2009 and 2017. I find that monitoring efforts during budget negotiations in chambers with limited amendment rights – for example when experts are heard by the finance committee – coincide with a lower deficit level. Chambers with unrestricted powers to amend the budget do not prove to be responsive to fiscal monitoring in the same manner. In these settings, deficit rules are more effective to mitigate public deficits. I also find indications that MPs of ruling liberal-conservative parties are more open to expert input, but only if budget constraints are already in place. These results demonstrate that the success of independent expert monitoring is highly dependent on politics with potential for more comparative research on the determinants of political responsiveness to expert opinions.

Theory

Why fiscal monitoring?

Governments played a key role in managing the financial crisis by bailing out struggling banks and setting up large-scale investment programs. High levels of public debt and deficits in many states have been the legacy of these measures and paved the way for institutional reforms to encourage policymakers to consolidate national budgets. In particular, economists associated with the IMF started promoting the effectiveness of new policy tools as devices to alter the spending behaviour of elected officials (e.g. Debrun et al., 2007; Schaechter et al., 2012). This policy toolbox includes budgetary rules, changes to the structure of the budget process and the introduction of independent bodies to monitor the fiscal performance of governments.

Recent contributions have argued that formal budget constraints are not as effective as expected due to weak compliance by politicians and the complexity of the fiscal framework (Beetsma et al., 2018; Reuter, 2015). The actual behaviour of policymakers is a central, yet oft-times omitted factor in earlier studies on fiscal performance. Instead it is assumed that when faced with competing policy goals policymakers are unlikely to opt for fiscally balanced policies by default. A remedy to foster compliance with fiscal rules is seen in the inclusion of independent fiscal policy experts into fiscal policymaking. Discussions in the early 2000s highlighted the virtues and limits of full fiscal delegation to independent agencies similar to the delegation of monetary policies to central banks (Wyplosz, 2005). Yet this debate ebbed until the financial crisis propelled fiscal responsibility back onto the agenda.

Particularly IMF economists started to advocate fiscal policy monitoring as a workable option halfway between mere expert advice and fully relinquishing policy tools to independent experts. In various contributions, Debrun and colleagues argue that monitoring fiscal policy by independent experts can incentivise policymakers to act fiscally responsibly when seeking re-election (Beetsma and Debrun, 2016; Debrun, 2011; Debrun and Kumar, 2008). Although not being in direct control of the commanding heights of fiscal policy, monitoring is thought to hold the political class accountable by highlighting fiscal profligacy, effectively reducing the asymmetry of information between voters and their elected representatives (Beetsma and Debrun, 2016; von Hagen, 2013). Through the means of influence and persuasion such expert bodies can act as fiscal policy watchdogs that gain strength from public visibility and reputation (Calmfors and Wren-Lewis, 2011).

In 2014 the OECD published recommendations for the mandate and design of Independent Fiscal Institutions (IFIs). In its broadly accepted definition IFIs are “(...) publicly funded, independent bodies under the statutory authority of the executive or the legislature which provide non-partisan oversight and analysis of, and in some cases advice on, fiscal policy and performance” (OECD, 2014, p. 1). Most IFIs were created within the last decade after political attention shifted to the consolidation of public budgets and the establishment of long-term measures for sustainable public finances. In the Eurozone, finding a cure for high debts and deficits and attempts for further economic integration have culminated into a strengthening of the fiscal framework through a set of new regulations. The EU’s 2013 Two-Pack Regulations reinforced budget surveillance and reporting, and requires Eurozone member states to implement independent fiscal monitoring on a national level. By 2017 all but one EU member state created operational IFIs.

Effectiveness

Whether fiscal monitoring by IFIs has an effect on fiscal performance has been the subject of several studies in the last decade. Debrun and Kumar (2008) study how formal guarantees, self-reported independence and assessed impact of fiscal councils[1] in fourteen EU countries alter the budget balance, though acknowledging the questionable quality of the measures. At this early stage fiscal councils were solely considered as a source for expert input on fiscal policies. Since most IFIs with a fiscal monitoring mandate were established after the period under investigation most

[1]Most economic studies have adopted the IMF-terminology and use the term ‘fiscal councils’ to refer to what the OECD and this article refer to as ‘Independent Fiscal Institutions’.

of what the authors consider as fiscal councils would now disqualify from the sample. Hagemann (2011) underpins the positive relationship between independence and fiscal performance in a study of OECD countries between 1995 and 2005 and with case studies of Belgium, Chile, the UK and Hungary. This study is also the first analysis that identifies monitoring rather than advising on fiscal policies as the key mandate of these expert bodies.

Debrun and Kinda (2014) provide another take on the subject, this time based on data from the IMF Fiscal Council Dataset, which covers several features on the mandate, task and impact of fiscal councils. They observe 58 countries over the period 1990-2011, of which half established fiscal councils in this period, and show that the existence of fiscal councils improves the quality of fiscal forecasts. Moreover, they identify institutional features of fiscal councils – legally granted independence, higher staff numbers and the various monitoring tasks – that positively affect the deficit level. More recently, Beetsma et al. (2018) observe that fiscal councils in 27 EU countries are reducing forecasting errors for GDP growth and the deficit, and show that councils helped to foster compliance with expenditure and deficit rules.

What is absent from this literature is a systematic consideration of the role of influence and persuasion in the political process of IFIs' lobbying for sustainable finances. Hanretty and Koop (2013) point out that there is no direct link between features of independent agencies and policy outcomes. The same applies to fiscal watchdog bodies: by limiting the focus on the direct impact of IFIs on fiscal performance many studies neglect the steps and conditions necessary for fiscal monitoring to impact fiscal outcomes. The OECD Principles point to the necessity to consider the local context in the development of fiscal monitoring, stating that IFIs "should be informed by the country's legal framework, political system, and culture" (OECD, 2014, p. 2). Obviously, the local context shapes how the exchange between policymakers and IFI experts takes place. The budget process is undeniably a part of this local context and fundamental to fully understand monitoring activities and their impact on fiscal policymaking. In what follows I will develop a concept of fiscal performance and identify how fiscal monitoring can intervene in the budget process at different stages.

Fiscal performance

Unlike monetary policies, fiscal policies are not delegated to independent experts outside of the political business. The budget is instead shaped by many political actors with and without veto powers (Alesina and Perotti, 1996; Tsebelis and Chang, 2004). In most countries parliament holds the power of the purse and can thus shape the *government's* budget. In this context, fiscal performance relates to the ability of policymakers to obtain sound finances in the face of competing policy objectives, demands by the electorate and fiscal shocks due to unforeseen events.

Within this framework, fiscal monitoring can only indirectly contribute to stronger public finances. IFIs operate on the basis of influence and persuasion as their effectiveness relates to their ability to push policymakers towards prioritising balanced budgets over deficit spending (Beetsma and Debrun, 2016).[2] Through monitoring instruments conceded to IFIs it is made possible for experts to analyse government forecasts, policy proposals and budget drafts, get in touch with policymakers and encourage them to take up their analyses and recommendations.

I will now outline at which stages IFIs can intervene in the budget process. Public deficit is the most reliable estimate for fiscal performance, and I will accordingly develop hypotheses with this indicator later in this article.

Fiscal monitoring and the budget process

What shapes the operational capacity of fiscal monitoring bodies? In the tradition of public choice theory academics assume that vote-seeking politicians will favour unsound short-term fiscal policies for electoral advantage (Alesina and Tabellini, 1990; Nordhaus, 1975). In the absence of external surveillance, the same politicians cannot be held accountable for the long-term outcomes of their policies. Advocates of fiscal monitoring typically point out three political failures that need to be addressed by fiscal monitoring to ensure this long-term accountability (Calmfors and Wren-Lewis, 2011; von Hagen, 2013). Policymakers are able to circumvent democratic control and prevent voters from getting to know the true costs of policies (fiscal opacity) but they themselves can also be affected by overoptimistic forecasts when planning the budget (fiscal illusion). Monitoring bodies then have to be able to reduce information asymmetry by creating independent forecasts and assessment of budget and policy proposals. If policymakers make use of public money to target individual groups of voters in exchange for their support (common-pool problem, see also Hallerberg et al., 2009) then fiscal monitoring activities need to foster compliance with budget rules. This can be done best when IFIs get directly involved in the budget process (von Hagen, 2013, p. 45).

Mitigating these failures thus hinges upon the capacity of fiscal watchdogs to get in touch with elected officials in government and parliamentary chambers. When and how IFIs participate in political debates, in particular during budget season, is the subject of the following analysis. It is possible to broadly distinguish between three channels through which fiscal monitoring can influence the government's budget:

- At the budget formation stage, monitoring efforts target the budget draft of governments through the timely provision of relevant information and through scrutiny. These efforts aim to reduce overoptimistic views on future spending and revenues, and encourage governments to draft balanced budgets.

[2] Fiscal monitoring bodies are typically devoid of veto options. The only exception is the Hungarian Fiscal Council, created in 2011, which can ask the president of the parliament to stall the budget process (Kopits, 2011). As this is an indirect veto power it will not be considered in the following analysis.

- At the budget negotiation stage, monitoring activities focus on providing parliament with information and assessments on the budget draft. Thus, IFIs support legislative scrutiny while also reminding elected members of their own responsibility when tabling amendments.
- Fiscal monitoring bodies can inform the electorate about the state of public finances and the short- and long-term effects of the government budget. In this way IFIs can encourage public debates in which the government needs to justify its policy proposals.

The third channel relates to information asymmetry between policymakers and the electorate. In the literature it is argued that fiscal monitoring can contribute to a better understanding of budget policies and enables voters to hold policymakers accountable (von Hagen, 2013; Debrun, 2011). Yet it is questionable whether balanced budgets and debt reduction are voters' primary concerns (Barnes and Hicks, 2018). Especially spending preferences are most likely shaped by either the party line or by constituents' demands Le Maux et al. (2019) rather than by expert technocrats. IFIs can however garner media airtime and address those parts of the electorate that are concerned about the state of public finances. It is an indirect way of putting pressure on elected officials. Due to a lack of reliable data on this indirect effect, the analysis will focus on the first two channels, the inside strategy of influence, through which policymakers are directly addressed in the budget process.[3] In the following let us get more specific on the monitoring instruments that IFIs have at their disposal (see figure 1).

At the budget formation stage IFIs can highlight budget trade-offs through the provision of fiscal policy and forecast assessments. Jonung and Larch (2006) argue that government forecasts often bear biased financial estimates which is a source of unanticipated deficits. This can be addressed when government forecasts are assessed by an independent body – one of the key monitoring tasks. In their analysis of a sample of EU countries, Beetsma et al. (2018) find evidence that independent forecast assessment has the potential to reduce forecasting biases by creating a more realistic basis for budget calculations. The most effective way to avert the risk of unintended deficit premia is to let the fiscal institution not only assess government forecasts but prepare independent forecasts that need to be integrated into the budget. This monitoring device however is still rare.

Instead, an increasing number of IFI legislation features *comply or explain* clauses. These provisions require governments to reply in time to forecast and policy assessments, opinions and proposals of the monitoring body. Ideally, governments provide detailed information on budget measures, a timeline for their implementation, and a justification for potential deviations from the advice of the fiscal watchdog (EU IFI Network, 2016, p. 3). With this obligation the IFI can raise public awareness of the government's budget policies which in turn encourages policymakers to opt

[3]The analogy to lobbying strategies by interest groups is not coincidental (Beyers, 2004; Klüver, 2013, p. 14). In fact, both IFIs and interest groups are using similar means of influence and persuasion despite having different objectives.

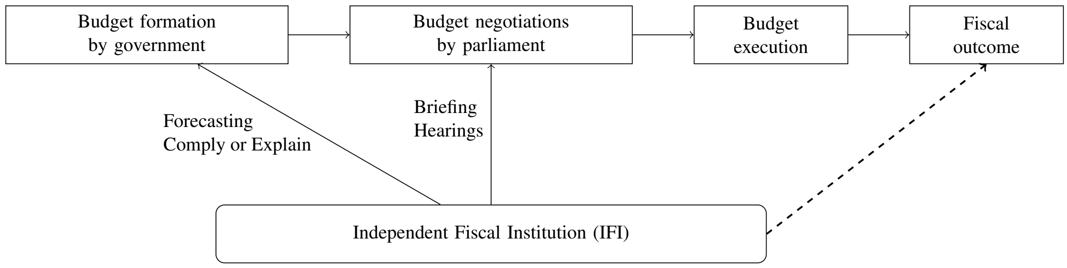


Figure 1: Fiscal monitoring in the budget process.

for more fiscally sustainable measures - provided that voters prefer budget consolidation over deficit spending. In the absence of veto powers this rule implies the highest degree of exposure of the government to fiscal monitoring (Horvath, 2018; Jankovics and Sherwood, 2017).

Even if the budget proposal stays within the boundaries of fiscal soundness there is the risk that parliamentary amendments will push the budget beyond the agreed limits. Therefore, it is possible for IFI experts to intervene at the budget negotiation stage. Typically, there are two devices with which fiscal monitoring bodies can attempt to influence and persuade legislators. IFIs can forward their analysis on the budget draft to parliament shortly after the government has submitted the draft. Opinions and recommendations by the fiscal institution can be considered as a critical annotation to the draft and enable specialised politicians in finance committees to spot deviations and measures that offer cause for concern. Additionally, the leadership can be invited to committee hearings to give a verdict on the budget draft and discuss the effects of different policy initiatives on the budget. In these hearings, experts can encourage legislators to table fiscally viable amendments.

When do policymakers listen to the experts?

The need for budget information

Previous studies show that experts exert more influence in policy domains that are inherently complex and are usually not centre stage in public debates (Brint, 1990; Ikenberry, 1992). Public finances fall into this category as they require specialised knowledge. Within parliament, members of finance committees are themselves specialised in the subject and can build a bridge between their colleagues in parliament and outside experts (Marier, 2008). Thus, at the budget negotiation stage they play a pivotal role by keeping their parliamentary groups up to date on government policies and the budget draft. In particular, committee members need to comprehend the fiscal situation, expected tax revenues, expenses and budget constraints – information they can obtain from IFI experts through budget briefings and committee hearings.

IFIs often serve as brokers between the legislative and the executive branch, particularly when they are designed as legislative budget offices. As an example, the creation of the U.S. Congressional Budget Office in 1974 was an attempt to restore congressional control over the federal budget and keep the executive in check (Steuerle and Rennane, 2013). Its northern neighbour saw the position of a Parliamentary Budget Officer created in 2008 to reinvigorate the budgetary role of the Canadian parliament given "a concentration of *de facto* legislative and executive authority in the hands of the prime minister of the day" (p. 168, original emphasis Page and Yalkin, 2013).[4] Yet limiting watchdog bodies to mere consultative tasks would defy the purpose of monitoring. If fiscal monitoring activities should have an impulse on the budget negotiations it would likely be through persuading specialised members of the finance committee: IFI experts can elucidate the fiscal situation and forecasts, expose costly policy initiatives, highlight budget constraints and stress the need for long-term planning, eventually contributing to a better understanding of political decisions.

Ideological responsiveness

Research on political partisanship confirms that the ideological orientation of parties is mirrored in fiscal outcomes, although recent decades have mitigated these differences (Cusack, 1999; Potrafke, 2009). Arguably, fiscal consolidation ranks high on the political agenda of economically liberal and conservative (i.e. right-wing) parties. These parties when in government have been pushing fiscal consolidation efforts while parties on the left only hesitantly implemented consolidation measures (Armingeon et al., 2016a; Hübscher, 2016). There is also evidence that fiscal adjustment paths differ with left-wing parties more inclined to raise tax revenues and right-wing parties to cut spending (Le Maux et al., 2019; Bjørnskov and Rode, 2018; Tavares, 2004). Fiscal policy watchdogs usually (but not always) opt for consolidation by reducing deficit spending. This certainly runs against spending initiatives of the left that intend to boost domestic demand and plays into the hands of parties that advocate restrained government activities.

Members of parliament are typically torn between the party line and the various demands of their constituents. This is no different in budget negotiations where "for the members of the party or parties backing the government in office, party discipline entails voting to support the government, even if the outcome does not fully match the preferences of the individual member" (Hallerberg et al., 2009, p. 54). As long as party discipline outweigh the benefits from obtaining an extra slice of the budget for their constituents it can be expected that MPs of right-wing ruling parties vote down amendments expected to increase the budget deficit. However, following the party line is often electorally costly, and politicians may have an incentive to "satisfy voter's demands in order to get reelected, regardless of their own preferences or ideologies" (Le Maux et al., 2019, p. 18). In consequence, even with liberal-conservative politicians there remains a risk of slipping into a

[4]Not all legislative budget offices have a monitoring mandate. As of 2018 there are only a handful of offices that were endowed with fiscal watchdog functions, mainly in countries with as Westminster-style political system (see von Trapp et al., 2016).

situation where political loyalty has to be rewarded through discretionary spending (Curto-Grau and Zudenkova, 2018). In other words, ideology is only one part of the equation. Reelection through voter-targeting could be a dominant political strategy for individual MPs with consequences for the budget balance.

In what remains I will explore the conditions under which fiscal monitoring impacts the level of deficit. The next step in this endeavour is to acquire an understanding of the relationship between experts and parliament.

Legislative budget institutions

Investigations of budget institutions shed light on the impact of the structure of the budget process on budgetary outcomes. Recent scholarship shows that hierarchical and centralised budget procedures that contain the veto-power of policymakers in the budget process leads to lower levels of deficit and debt accumulation and increases tax revenues (Aaskoven, 2018; Gleich, 2003; von Hagen and Harden, 1995). As an example, Hallerberg et al. (2009, p. 54) demonstrate how a change of voting procedures at the parliamentary stage, e.g. first voting on the overall budget size and then on amendments, can curb deficit spending. Furthermore, the amendment power of the parliament itself can be restricted.

Wehner (2006; 2010b) investigates the capacity of parliaments in OECD countries to scrutinise the government's fiscal policies and shows that legislative powers are shaping the budget to a significant degree. He finds that stronger limitations to the capacity of parliaments to amend the budget lead to an expenditure decrease. This result is in line with earlier work on budget institutions that points to similar effects of restrictions in place at the parliamentary stage (Alesina and Perotti, 1996; Fabrizio and Mody, 2006).

Arguably, the success of fiscal monitoring efforts hinges upon this power balance between government and parliament. For example, it would be rational for IFIs to influence elected members in a parliament that can commit far-reaching alterations to the budget. The same measures are futile if the only undertaking of parliament is to vote on the budget bill as a whole. For that reason, a uniform link between monitoring at the budget negotiation stage and the fiscal outcome cannot be assumed. Based on Wehner's classification, three arrangements of budget negotiations are likely to determine how fiscal monitoring bodies operate to be effective:

- In countries in which legislative chambers can only vote on the budget draft as a whole the government has exclusive control over the purse-strings. Under such an *accept or reject* limit budget negotiations have by definition no ramifications on the final budget bill.
- Legislative chambers can be allowed to amend the budget draft without raising the deficit ceiling that has previously been agreed by the government. These *limited* chambers often

have statutory restrictions in place that go even further. Nonetheless, it is possible for all chambers in this group to set the planned deficit below the government's deficit ceiling.

- The third group consists of countries in which chambers hold the power of the purse with *unrestricted* amendment rights. Budget negotiations in these chambers are characterised by the absence of numerical limits "to the degree to which legislators can increase or cut the budget, or move funds around, during the approval process" (Wehner, 2010b, p. 21).

When it comes to the key objective of fiscal monitoring, the main targets are arguably the political branches that set the upper limit of the planned deficit. Naturally, monitoring efforts directed at the government are consistent if parliaments only vote on the complete budget. In arrangements with limited chambers, monitoring efforts need to be balanced between targeting the government and legislative chambers. If chambers hold unrestricted amendment powers, the focus of monitoring efforts is arguably at the budget negotiations stage. Here it can be expect that MPs are encouraged not to propose changes that increase spending for their constituents.

Empirically, the application of monitoring instruments indeed follows the different budget arrangements. In figure 2 I distinguish between parliaments without amendment powers, those with limited powers and those without restrictions. We can see that monitoring activities are strongest when governments set out the deficit ceiling that parliaments have to observe when tabling amendments. In this setting there is an emphasis on budget briefings and hearings which illustrates the need of these chambers for budget information for preparing amendments. The presence of *comply or explain* clauses indicates efforts by IFIs to exert an influence on the government before the budget draft is passed on to the legislature. This rule is also important in the few cases in which parliament has no amendment powers (in Ireland, Greece and South Africa). On the other hand, committee hearings are the most prevalent instrument to exert influence on legislators in chambers with no amendment restrictions.

Figure 3 depicts the presence of monitoring instruments by participation of right-wing parties in government. The chart displays the number of countries in which the combination of monitoring and cabinet participation has occurred between 2009 and 2017. Provisions for *comply or explain* and timely briefings during budget negotiations are distributed fairly equally across countries. We can see that instances in which briefings and committee hearings take place while right-wing parties form a cabinet majority are disproportionately more frequent. This implies that the IFI leadership faces more members of ruling right-wing parties which are potentially more receptive to expert input. Given the short time span of the analysis there are few changes in government. Nonetheless, for the monitoring instruments I am interested in, there are sufficient instances across countries.

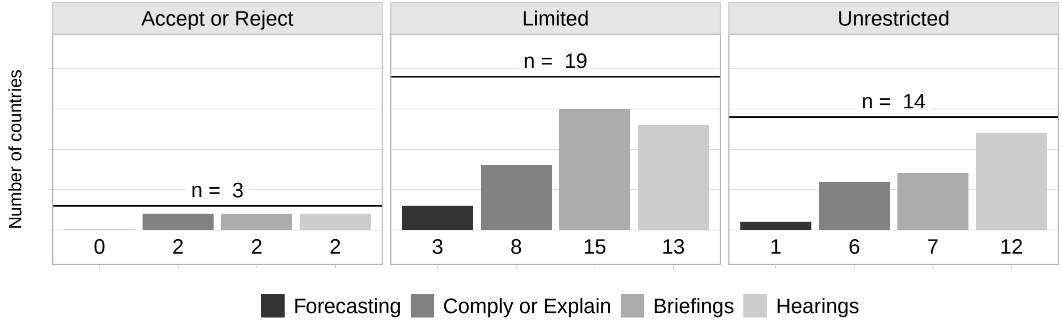


Figure 2: Fiscal monitoring instruments by legislative budget powers. Number of countries in which combination occurred anytime between 2009-17.

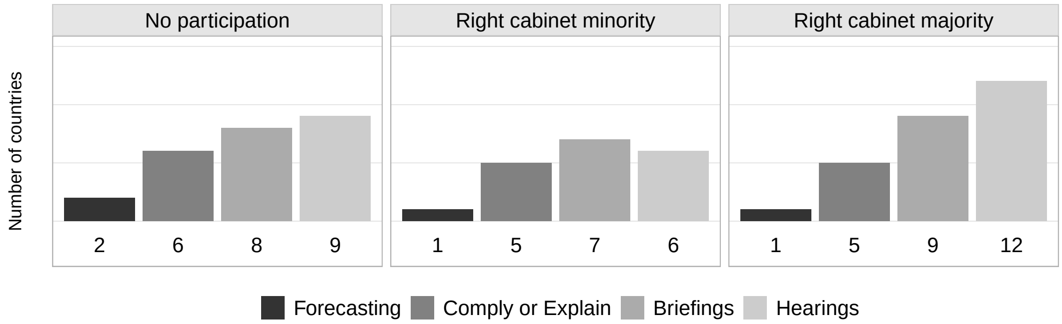


Figure 3: Fiscal monitoring instruments by right-wing cabinet participation. Number of countries in which combination occurred anytime between 2009-17.

Hypotheses

The budget formation by governments is subject to a bargaining process between ministers. More precisely, whether the budget is fiscally sound depends on the ability of the finance minister to restrain the efforts of spending ministers to increase resources for their portfolios (Wehner, 2010a). Presumably, the problem is less prevalent if a government coalition mainly consists of right-wing parties as consensus around a fiscally hawkish agenda is strong enough to limit budget deficits. I expect that such cabinets are responsive to IFI expertise, especially if it allows to portray the government as acting fiscally responsible (Debrun et al., 2007). Monitoring efforts make sure that the planned deficit complies with budget rules and commitments, is grounded on unbiased forecast estimates and takes long-term fiscal developments into account. As these are also priorities for right-wing government parties, I predict that the cooperation with the IFI experts is also reflected in the deficit level.

> **H1:** A larger share of right-wing cabinet ministers goes along with lower deficit levels in the presence of a *comply or explain* clause.

In legislative chambers with limited amendment powers the common-pool problem is alleviated as the budget draft comes with a fixed deficit ceiling. I expect that under these conditions, legislators are more attentive to the shape and priorities of the budget which they need to understand in order to table amendments. They rely more on expert inputs and are willing to include suggestions made by the fiscal watchdog, including reducing the planned deficit in the final budget bill.

> **H2:** Budget briefings and committee hearings are important for limited chambers. We observe lower deficit levels in these countries.

By contrast, unrestricted chambers have no statutory constraints to prevent higher deficits endogenous to the budget process. As Curto-Grau and Zudenkova (2018) point out, party loyalty can be electorally costly and is therefore often rewarded by discretionary spending for the constituency of a politician. Without fiscal constraints there is thus a higher payoff in political rent seeking as MPs are more responsive to the financial demands of the electorate. Evidently, the common-pool problem is pervasive (Hallerberg and von Hagen, 1999; Molander, 2001) and there is only humble need for expert input during the budget process.

Conversely, most developed countries now have external constraints in the form of legally binding numerical budget rules in place (Lledó et al., 2017). As with fiscal monitoring the rationale behind codifying statutory rules is to push policymakers away from an unsustainable budget path. In cases in which parliaments have unrestricted amendment powers the presence of a binding deficit rule can put a ceiling to the deficit in the final budget bill. These deficit rules need to be adhered to even if IFI expert advice falls on deaf ears. I expect that they effectively take on the job that cannot be done by fiscal monitoring when chambers are unrestrained.

> **H3:** Statutory deficit rules are substitutes whenever there are no limits for parliament to amend the budget. We observe lower deficit levels in these countries.

Ideological responsiveness also matters on the budget negotiation stage. Arguably, in chambers with no amendment restrictions MPs of right-wing ruling parties advocate to remain within the deficit band proposed by the government. These MPs will refer to the analyses and opinions of IFIs that are consulted during the negotiations to justify their voting behaviour. Therefore, I expect that the influence of fiscal watchdogs increases with more right-wing MPs defending the government budget.

> **H4:** A larger share of right-wing MPs in support of the government goes along with lower deficit levels in the presence of IFI briefings or hearings in unrestricted chambers.

The four hypotheses presented here state expectations on the conditional effects of monitoring on fiscal performance based on legislative amendment powers. Table 1 provides a summary of the hypotheses. In the next step I will introduce the indicators and empirical strategy to test these hypotheses.

Table 1: Expectations on the impact of fiscal monitoring on the deficit.

	Limited	Unrestricted
Monitoring to target governments		
'Comply or explain'	Right-wing cabinets favour fiscal restraint and are more likely to consider expert judgements (hypothesis 1)	
Monitoring to target parliaments		
Budget briefings Committee hearings	Need for expert information permits watchdogs to effectively influence MPs (hypothesis 2)	Fiscal monitoring is broadly ineffective and substituted by deficit rule as external constraint (hypothesis 3) MPs of ruling right-wing parties use expert statements to defend the budget draft (hypothesis 4)

Variables and operationalisation

In the following analysis I will focus on the *general government primary deficit* in percent of GDP as the dependent variable. This measure gives a reliable record on efforts to attain a sustainable budget path and potential overspending biases by politicians (Alesina and Perotti, 1996; Kumar and Ter-Minassian, 2007). The primary deficit refers to the account balance before the payment of interest between collected revenue, which is at the budget formation stage forecasted for the subsequent fiscal year, and the expenditure determined by the budget bill. Naturally, in the models I regress on the deficit of the subsequent year as it is then that the approved budget becomes effective.

Explanatory variables

Fiscal monitoring. I consider three instruments that enable IFIs to intervene at various stages of the budget process.[5] *Comply or explain* clauses demand the government to comply with forecast assessments and the budget path proposed by the IFI or otherwise justify deviations in detail. *Briefings* denote the release of budget assessments and analyses after the government submitted the budget draft to parliament. Although virtually all IFIs have legal commitments to publish reports, most of these statements do not coincide with budget negotiations and are therefore not considered.

[5] I am not testing the compulsory inclusion of independent forecasts into the budget (*forecasting*) given that this provision is observable in only four instances.

Hearings refers to the statutory or deliberate practice of inviting the IFI leadership to committee hearings during budget negotiations.

Legislative budget powers. Restrictions to the ability to amend the budget as defined in legislation are a suitable measure to gauge the budgetary power balance between governments and parliaments (Wehner, 2010b). I group countries based on this criterion: for chambers with *unrestricted powers* it is generally possible to amend the budget as they desire even if this alters the overall expenditure and deficit level. Chambers with *limited powers* face various restrictions in relation to these headline figures. All of these chambers are unable to increase the deficit beyond the limit that has been determined by the government at the budget formation stage.[6]

Ideological orientation. I consider the number of cabinet portfolios held by parties on the political right as a share of all partisan members in the indicator *Right Cabinet*. This category includes ministers of liberal or economically conservative parties excluding faith-based or centrist parties. The indicator *Right Support* measures the share of MPs from ruling right-wing parties analogously. Gamson's law on the link between party share of executive portfolios and parliament seats is a reminder that the two variables are strongly correlated. I will thus integrate these variables in separate model specifications.

Deficit rule. In this analysis I consider whether a numerical rule on the deficit that needs to be adhered to by the central government is present in national legislation. This excludes non-statutory political commitments and comes as a deficit ceiling that is exogenous to the budget process.

Controls

Budget rules. In addition to the deficit rule there are numerical *debt, expenditure and revenue rules* as part of the fiscal governance framework (Schaechter et al., 2012). As with the deficit rule I only consider fiscal rules in national legislation which apply to the central or general government.

Political attributes. As the dependent variable refers to the general government there is the risk of confounding budget decisions on the national and the subnational level. I include the variable *federalism* to take this additional layer of complexity into account. Features of the electoral and political system impact the spending behaviour of vote-seeking policymakers (Cheibub, 2006; Persson and Tabellini, 2004). I therefore control for *proportional elections* and *presidential systems*. Furthermore, *technocratic governments* are often in place in situations of economic and political shake ups with the main task to restore fiscal soundness.

World regions. Members of the *Eurozone* have to comply with enhanced budget supervision obligations set out by the Stability and Growth Pact and subsequent reforms. The inclusion of a

[6]The third category of chambers can only accept or reject the budget as a whole and thus rely on other means of influencing the government, for example credible threats to reject the budget draft (Hallerberg et al., 2009, p. 55). This group is part of the whole sample, yet because of the insufficient number of countries I will not analyse it separately.

dummy variable for *Latin America* allows to account for unobserved effects due to the common colonisation history and higher economic volatility in these countries (see e.g. Cheibub, 2006; Eichengreen et al., 1999).

Macroeconomic attributes. I include the level of *debt* in the previous year as percent of GDP as an indicator for the manifest fiscal situation of a country at the time at which the formation of the budget for the next year took place. Similarly, the *real GDP growth* indicator is included to capture the macroeconomic situation and to address endogeneity concerns when including fiscal indicators that are measured relative to the Gross Domestic Product.

Empirical strategy

For the following analysis I employ a sample of thirty-six countries that had fiscal monitoring in place between 2009 and 2017. Nine of these countries established some form of fiscal monitoring before 2009, mostly exercised by veteran expert bodies that cannot be counted as fiscal watchdogs in a strict sense (e.g. economic expert councils in Germany and the Netherlands, budget offices in Korea and the United States). In turn, fiscal monitoring bodies in Brazil, Iceland and the Czech Republic started their operations after 2015. As there are not enough years with fiscal monitoring in place, I will not include these countries in the sample.

Table 2 provides an overview of the sample with a description of fiscal monitoring systems. I account for monitoring as it happens, disregarding by which and how many institutional bodies it is exercised. As a case in point, Greece created a parliamentary budget office and later on the Greek Fiscal Council endowed with different monitoring instruments. Both are part of the analysis. Furthermore, I account for legislative changes that affect monitoring provisions. Gaps in monitoring are mainly caused by political disruptions and have been observed in Hungary (2010-12), Slovenia (2012-2016) and Belgium, whose government sent the fiscal council on hiatus between 2004 and 2007.

Public finances were massively shaken up in the aftermath of the financial crisis of 2007-08. More than a decade after these events there is sufficient data available to trace the paths of fiscal recovery that countries underwent and see which structural and institutional reforms have proven to contribute to sounder finances. The design and time frame chosen for the analysis of this article reflects this reality. For the sample data I can observe that the average deficit soar by around 6 percent of GDP in the years 2007-09 to a combined deficit of 4 percent. From there on the average went steadily downwards and reached negative levels by 2016. This implies that we are dealing with a recovery path that needs to be properly accounted for in the empirical analysis.

For the analysis, I opt for a time-series cross-section (TSCS) design that includes year dummies to control for unobserved time-effects in the panel. This sufficiently addresses the recovery trend in the data and leaves the remaining variation the result of factors endogenous to the model. Given

Table 2: Countries and fiscal monitoring, 2009-2017.

Country	Independent Fiscal Institutions	Years of off. Monitoring	Monitoring Instruments [a] Fcst	CoE	Brf	Hear
Australia	Parliamentary Budget Office	2012-	–	–	–	✓
Austria	Gov. Debt Committee/Fiscal Council	2002-	–	–	–	✓
Belgium	High Council of Finance	1989-04, 06-	✓	✓	–	–
	Federal Planning Bureau	1994-				
Bulgaria	Fiscal Council	2015-	–	✓	✓	–
Canada	Parliamentary Budget Office	2008-	–	–	✓	✓
Chile	Advisory Fiscal Council	2014-	–	–	–	–
Colombia	Advisory Committee for the Fiscal Rules	2012-	–	–	–	–
Croatia	Fiscal Policy Commission	2014-	–	✓	✓	–
Cyprus	Fiscal Council	2014-	–	✓	✓	✓
Denmark	Economic Council	2014-	–	✓	–	✓
Estonia	Fiscal Council	2014-	–	✓	–	✓
Finland	National Audit Office (section)	2013-	–	✓	✓	✓
France	High Council of Public Finance	2013-	–	–	✓	✓
Germany	Council of Economic Experts	1964-	–	✓	–	–
	Advisory board to the Stability Council	2014-				
Greece	Parliamentary Budget Office	2013-	–	✓	✓	✓
	Hellenic Fiscal Council	2016-				
Hungary	Fiscal Council	2009-10, 12-	–	✓	✓	✓
Ireland	Fiscal Advisory Council	2011-	–	✓	✓	✓
Italy	Parliamentary Budget Office	2013-	–	–	✓	✓
Korea	National Assembly Budget Office	2004-	✓	–	✓	✓
Latvia	Fiscal Discipline Council	2014-	–	✓	✓	✓
Lithuania	National Audit Office (section)	2015-	–	–	✓	✓
Luxembourg	National Council of Public Finance	2015-	–	–	–	✓
Malta	Fiscal Advisory Council	2015-	–	–	✓	–
Mexico	Center for the Study of Public Finances	1999-	–	–	✓	✓
Netherlands	Bureau for Economic Policy Analysis	2015-	✓	–	✓	✓
Peru	Fiscal Council	2015-	–	–	✓	–
Portugal	Public Finance Council	2012-	–	✓	✓	✓
Romania	Fiscal Council	2011-	–	–	–	✓
Serbia	Fiscal Council	2011-	–	–	✓	✓
Slovakia	Council for Budget Responsibility	2012-	–	–	✓	✓
Slovenia	Fiscal Council	2010-12, 17-	–	✓	✓	✓
South Africa	Parliamentary Budget Office	2013-	–	–	–	–
Spain	Indep. Authority of Fiscal Responsibility	2014-	–	✓	✓	✓
Sweden	Fiscal Policy Council	2007-	–	–	–	✓
United Kingdom	Office for Budget Responsibility	2011-	✓	✓	✓	✓
United States	Congressional Budget Office	1975-	–	–	✓	✓

Note: [a] occurrence anytime during observation period between 2009 and 2017.
Fcst = Forecasting, CoE = Comply or Explain, Brf = Budget briefings, Hear = Hearings.

that in this analysis I want to estimate changes in the level of deficits based on the specifics of the fiscal governance framework one is advised to refrain from country dummies as this would suppress these effects (Plümper and Troeger, 2019). The time structure chosen for the analysis is as follows: the dependent variable is the deficit of the *subsequent* year as the budget process concludes in a budget bill for the next fiscal year. I remove outliers in the dependent variable when their values are larger than the double Interquartile Range (IQR). Moreover, for the model specifications I calculate corrected standard errors to account for time-wise heteroscedasticity (Beck and Katz, 1995).

Scholars have raised concerns over potential reversed causation in studies on the effectiveness of fiscal monitoring. It is claimed that fiscal monitoring may only impact the fiscal performance of those governments that created fiscal watchdog bodies and that stick to a fiscally sound agenda in the first place (Beetsma and Debrun, 2016, p. 7; von Hagen, 2013, p. 43). These claims are subject to the empirical tests in this article as through the TSCS design I can directly address the link between fiscal outcomes, ideological orientation and monitoring activities. The lagged dependent variable and the inclusion of year-dummies partially deals with the issue that fiscal monitoring bodies were often created as reaction to, and not independent from, high deficits. However, I acknowledge that non-trivial reverse causation cannot be ruled out completely.

What is more, earlier studies have dealt with issues of temporal auto-correlation by including the deficit of the previous year as part of the set of explanatory variables (e.g. Debrun and Kinda, 2014). However, given the time trend in the data the inclusion of deficit on both sides of the regression model would result in seriously upward-biased estimates (Plümper et al., 2005, pp. 334-336). Given the limited time-scale of this investigation I abstain from including the deficit of the previous year as explanatory variable and accept that temporal auto-correlation is not fully accounted for by the models.

I construct interaction terms that contain partisan orientation and the presence or absence of certain monitoring instruments. Nizalova and Murtazashvili (2014) state that an interaction term can be interpreted causally if at least one of the interaction variables is exogenous. In this analysis this is arguably the case for the two variables on partisan orientation (*Right Cabinet*, *Right Support*) as there is no evidence for a directional effect between deficits and the electoral success of right-wing parties (Bjørnskov and Rode, 2018, p. 8).

Results

We now turn to the analysis of the effectiveness of fiscal monitoring in altering fiscal performance. In a first step let us focus on fiscal monitoring efforts at the budget formation stage via *comply or explain* clauses in legislation. Are ministers and MPs of liberal-conservative parties more inclined to listen and adhere to the analysis of fiscal monitoring bodies? In hypothesis 1 I argue that the larger the share of cabinet portfolios that goes to right-wing parties (*Right Cabinet*) the more likely the government listens to forecast assessments and expert analyses if they need to respond. This will eventually affect the planned deficit that is setting the ceiling for parliaments with limited amendment powers.

Table 3 displays the results for the whole sample and distinguished by legislative budget powers. We can see that the presence of *comply or explain* clauses in itself does not alter the fiscal behaviour of governments, neither in the whole sample (model 1) nor in its subsets (models 3 and 5). Crucially, there is no evidence that governments with mainly liberal-conservative ministers are more likely to listen. Based on the model specifications I can therefore refute hypothesis 1. Instead, in settings in which parliaments have limited amendment power, right-wing governments go along with significantly lower deficit levels regardless of fiscal monitoring efforts. In turn, when parliaments hold unrestricted amendment powers, right-wing government incumbencies correspond with higher levels of deficit, indicating that crucial changes are made in the legislative that governments cannot control.

Let us have a brief look at the control variables in the model specifications. Another obvious distinction between the two legislative settings is the effects of budget rules. We observe that national deficit and revenue rules are effective in bringing down the budget deficit - but only in countries in which parliaments do not have to adhere to the planned deficit band that comes with the government budget draft. In countries with limited chambers revenue rules appear to go along with higher deficit levels. It appears that revenue rules are ineffective to prevent overspending, at least if not combined with other rules. Debt rules go along with higher deficits across the board which indicates that, unless the debt level is already critical, this ceiling does "not provide clear short-term guidance for policy makers" (Schaechter et al., 2012, p. 8).

For measures on the political system I find that in the presence of limited chambers federal countries observe higher deficit levels whereas under presidential systems the deficit is significantly lower. This confirms earlier observations (Cheibub, 2006; Persson and Tabellini, 2004), however, contrary to these studies I identify much lower deficit levels in countries with proportional electoral systems. Technocratic governments who often step in under conditions of fiscal or economic calamity reduced the deficit in countries in which parliaments are restrained. The opposite effect is observable when parliaments have the prerogative over the planned budget, indicating fierce budget negotiations in the absence of a stable government majority.[7]

The correlations between monitoring tools and legislative budget powers from figure 2 already suggest that monitoring efforts follow the power balance between executive and the legislature. Are there corresponding paths of influence for fiscal monitoring based on legislative amendment powers

[7]Robustness checks were performed with other control variables on government attributes (type and size of government majority, coalition government, cabinet size, left-wing cabinet members) and further regional specifications (EU/OECD membership). These checks ought to ensure the absence of an omitted variable bias and yielded no substantially different results. The same applies to the model specifications of table 4.

Table 3: Regression results for effects on deficit in percent of GDP

	All		Limited		Unrestricted	
	(1)	(2)	(3)	(4)	(5)	(6)
Comply or Explain	−0.03	−0.28	0.31	0.04	−0.28	−0.42
	(0.41)	(0.63)	(0.53)	(0.95)	(0.37)	(0.53)
Comply or Explain * Right Cabinet		0.56		0.47		0.34
		(1.00)		(1.41)		(0.93)
Right Cabinet	-0.93^{**}	-1.04^{**}	-1.38^{***}	-1.45^{**}	1.03^{**}	0.96^{*}
	(0.43)	(0.47)	(0.52)	(0.58)	(0.48)	(0.53)
Deficit Rule	−0.45	−0.50	0.37	0.32	-0.94^{***}	-0.93^{***}
	(0.42)	(0.42)	(0.56)	(0.58)	(0.36)	(0.36)
Debt Rule	0.69	0.66	1.15^{**}	1.10^{*}	1.78^{***}	1.77^{***}
	(0.44)	(0.44)	(0.57)	(0.59)	(0.53)	(0.53)
Expenditure Rule	1.12^{**}	1.13^{**}	0.40	0.45	0.58	0.54
	(0.45)	(0.45)	(0.43)	(0.46)	(0.61)	(0.62)
Revenue Rule	0.12	0.13	1.20^{*}	1.15^{*}	-1.94^{***}	-1.90^{**}
	(0.73)	(0.73)	(0.61)	(0.64)	(0.74)	(0.74)
Federalist	0.61	0.65	1.34^{***}	1.39^{***}	0.09	0.10
	(0.42)	(0.43)	(0.43)	(0.47)	(0.44)	(0.43)
Proportional	-2.66^{***}	-2.58^{***}	-3.68^{***}	-3.60^{***}	-3.94^{***}	-3.95^{***}
	(0.75)	(0.76)	(0.69)	(0.74)	(0.74)	(0.73)
Presidential	-1.32^{*}	-1.33^{*}	-1.96^{***}	-1.96^{***}	0.49	0.47
	(0.73)	(0.73)	(0.54)	(0.55)	(0.65)	(0.64)
Technocr. Gov.	−0.26	−0.30	-2.74^{***}	-2.78^{***}	2.09^{**}	2.09^{**}
	(1.02)	(1.03)	(1.05)	(1.07)	(0.88)	(0.89)
Eurozone	0.65	0.63	2.19^{***}	2.15^{***}	0.57	0.55
	(0.49)	(0.48)	(0.62)	(0.63)	(0.56)	(0.57)
Latin America	1.07	1.07	3.07^{***}	3.02^{***}		
	(0.96)	(0.95)	(0.92)	(0.94)		
Lag Debt	-0.01^{**}	-0.01^{**}	-0.03^{***}	-0.03^{***}	-0.01^{*}	-0.01^{*}
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
GDP Growth	-0.22^{***}	-0.22^{***}	-0.41^{***}	-0.41^{***}	-0.25^{***}	-0.26^{***}
	(0.05)	(0.05)	(0.06)	(0.06)	(0.09)	(0.09)
Constant	4.58^{***}	4.57^{***}	4.27^{***}	4.26^{***}	4.77^{***}	4.82^{***}
	(0.84)	(0.84)	(0.78)	(0.78)	(1.21)	(1.21)
Time Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Countries	36	36	19	19	14	14
Observations	319	319	170	170	124	124
R^2	0.47	0.47	0.64	0.64	0.64	0.64

Note: Panel-corrected standard errors in parentheses.
Significance: *p<0.1; **p<0.05; ***p<0.01

Table 4: Regression results for deficit in percent of GDP

	Limited		Unrestricted		Limited		Unrestricted	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Briefings	−0.79*		−0.07		−0.22		−0.05	
	(0.47)		(0.60)		(0.63)		(0.77)	
Hearings		−0.66		0.71*		0.08		1.35***
		(0.51)		(0.38)		(0.60)		(0.42)
Briefings * Right Support					−2.37		−0.06	
					(1.78)		(1.61)	
Hearings * Right Support						−3.20*		−3.25**
						(1.66)		(1.35)
Right Support	−1.90**	−1.70**	1.01	1.11	−1.25	−0.71	1.04	3.47***
	(0.80)	(0.83)	(0.91)	(0.85)	(0.98)	(1.00)	(1.12)	(1.33)
Deficit Rule	0.71	0.63	−1.03***	−1.41***	0.73	0.62	−1.03**	−1.32***
	(0.55)	(0.56)	(0.40)	(0.39)	(0.55)	(0.54)	(0.40)	(0.36)
Debt Rule	1.01**	1.05**	1.97***	1.84***	1.24**	1.39**	1.96***	1.52***
	(0.51)	(0.52)	(0.53)	(0.43)	(0.55)	(0.55)	(0.54)	(0.41)
Expenditure Rule	0.61	0.43	0.45	0.36	0.56	0.31	0.45	0.34
	(0.42)	(0.43)	(0.63)	(0.61)	(0.43)	(0.42)	(0.64)	(0.55)
Revenue Rule	0.88	1.27**	−2.07***	−1.82***	0.74	1.27**	−2.07***	−1.90***
	(0.61)	(0.64)	(0.76)	(0.63)	(0.63)	(0.59)	(0.76)	(0.55)
Federalist	1.37***	1.56***	0.15	0.67	1.46***	1.75***	0.15	0.48
	(0.45)	(0.49)	(0.68)	(0.54)	(0.45)	(0.47)	(0.68)	(0.48)
Proportional	−4.05***	−4.07***	−4.08***	−4.42***	−4.50***	−4.63***	−4.08***	−4.28***
	(0.71)	(0.74)	(0.84)	(0.67)	(0.77)	(0.75)	(0.84)	(0.59)
Presidential	−1.43**	−1.47**	0.45	−0.22	−1.29**	−1.30**	0.44	−0.14
	(0.58)	(0.58)	(1.20)	(0.63)	(0.59)	(0.55)	(1.24)	(0.55)
Eurozone	2.08***	2.28***	0.26	0.17	2.23***	2.50***	0.25	0.29
	(0.59)	(0.62)	(0.64)	(0.55)	(0.59)	(0.60)	(0.66)	(0.50)
Latin America	2.19**	2.45***			2.13**	2.44***		
	(0.95)	(0.95)			(0.96)	(0.90)		
Lag Debt	−0.03***	−0.03***	−0.01*	−0.02***	−0.03***	−0.03***	−0.01*	−0.02***
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
GDP Growth	−0.37***	−0.39***	−0.26***	−0.25***	−0.38***	−0.39***	−0.26***	−0.22**
	(0.06)	(0.06)	(0.09)	(0.09)	(0.06)	(0.06)	(0.09)	(0.09)
Constant	4.67***	4.53***	5.37***	5.77***	4.87***	4.75***	5.37***	5.24***
	(0.82)	(0.81)	(1.37)	(1.13)	(0.82)	(0.77)	(1.37)	(1.05)
Time Dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Countries	19	19	14	14	19	19	14	14
Observations	170	170	124	124	170	170	124	124
R^2	0.63	0.63	0.62	0.63	0.64	0.64	0.62	0.65

Note: panel-corrected standard errors in parentheses.
Significance: *p<0.1; **p<0.05; ***p<0.01

at the budget negotiation stage? Table 4 displays the effects of budget briefings and hearings and captures models separated by legislative budget powers.

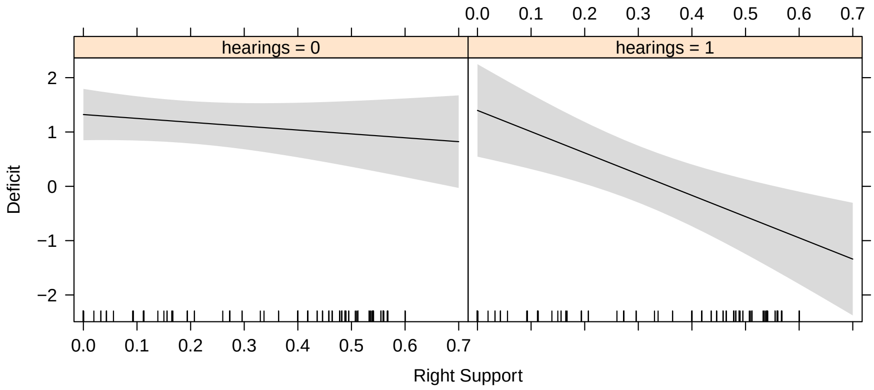
In hypothesis 2 I suppose that parliaments chiefly rely on expert input when facing trade-offs in deciding which policy priorities they should attain through budgetary spending. When accepting the deficit band determined by the government these trade-offs become virulent. Here parliament-related monitoring efforts seem to bear fruit. Model 1 shows that budget briefings decrease the level of deficits by an average 0.79 percentage points. Hearings with the IFI leadership in turn do not show significant results (model 2). Nonetheless, I can partly confirm hypothesis 2 as the results illustrate that parliament members that rely on expert input for preparing amendments are more open to IFI analyses.

Interestingly, one can take from model 4 that IFI hearings correspond to higher deficit levels in settings with unrestricted chambers. Arguably, committee hearings can also be used to obtain budget information without committing to sound public finances in exchange. In addition, I find strong evidence that statutory deficit rules are a functionally equivalent surrogate to deficit ceilings determined by the government. In line with hypothesis 3 these external boundaries go along with much lower deficits throughout all three model specifications with deficit levels of more than one percentage point below countries with unconstrained chambers and no deficit rules.

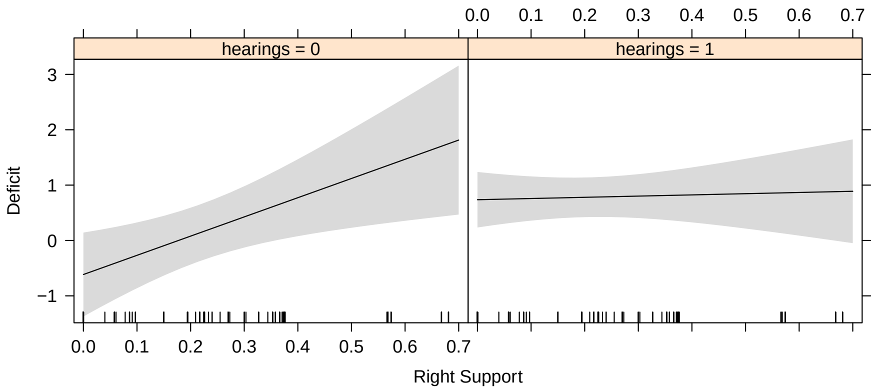
Let us turn to the role of right-wing MPs in support of the government (*Right Support*). Hypothesis 4 suggests that MPs of ruling right-wing parties are guards of the government budget and rely on the input of the independent experts. Yet I find that briefings by fiscal watchdogs to be insufficient to alter the fiscal behaviour of parliament members in any setting (models 5 and 7). There is nonetheless evidence that liberal and conservative members respond particularly well to committee hearings with watchdog experts. This is not only the case for chambers with unrestricted amendment powers as the hypothesis suggests (model 8). Model 6 shows that even in parliaments that have to accept the pre-set deficit limit these MPs contribute to lower deficit levels. Notably, the kind of influence on the fiscal behaviour of right-wing MPs differs depending on the amendment power of parliament.

This becomes clear in the marginal effect plot in figure 4 that depicts the interaction between their seat share and the presence of committee hearings.[8] If the deficit limit is already defined by the government that these MPs are backing, then committee hearings foster adherence to a fiscally conservative agenda: we observe a drop of the deficit level by around 0.4 percent for every 10 percent increase of right-wing MPs in support of the government. In the absence of amendment limits, hearings with watchdog experts are a reminder for these MPs to keep spending restrained

[8]For the linear interaction model, I follow the guidelines of Brambor et al. (2005). Hainmueller et al. (2018) offer a set of diagnostic tools to test whether the linearity assumption is violated. I provide linearity checks as part of the supplementary material.



(a) Limited budget power



(b) Unrestricted budget power

Figure 4: Marginal effects of right-wing government MPs on the deficit in the context of legislatures with limited and unrestricted powers. 95% confidence intervals.

as the deficit remains roughly at the same level. This confirms hypothesis 4 on the guardian role of right-wing parliament members in support of the government. Somewhat surprisingly, however, without committee hearings in place, a higher number of right-wing MPs corresponds with higher deficit levels. This indicates that in the absence of any external restraint, vote maximising behaviour among these MPs becomes virulent.

Discussion

In this article I have laid out the reasons why the effectiveness of fiscal monitoring is likely to differ depending on the powers of the legislature in the budget process. In a first step I have presented correlations between fiscal monitoring, legislative powers and partisanship. I have demonstrated that in chambers with limited amendment powers timely budget briefings are the most prevalent instrument through which expert influence can take place. In turn, committee hearings are the most common instrument for chambers with unrestricted amendment powers. I have also shown that committee hearings and timely briefings are more frequent during the incumbency of right-wing governments. These insights help to understand potential interactions that affect fiscal behaviour.

In a second step I have investigated if and how these factors contribute to changes in the overall deficit level. This analysis differs from previous statistical models that focussed on institutional aspects of fiscal monitoring (Horvath, 2018; Debrun and Kinda, 2014) as I distinguish between countries with limited and unrestricted legislative amendment powers to the budget. I find no monitoring effects on the (executive) budget formation stage, yet there are significant effects for budget briefings and committee hearings for the (legislative) budget negotiation stage. Hearings of experts in parliamentary committees goes along with the largest effects on the deficit, but is moderated by partisan orientation of parliament members.

Arguably the most unexpected result relates to the interaction between fiscal monitoring and partisan orientation. In previous studies it was argued that ideological differences in spending and consolidation efforts have broadly dissipated but made a return in the aftermath of the financial crisis (Armingeon et al., 2016a; Herwartz and Theilen, 2014). The results partially confirm the suspicion that these priorities are reflected in the responsiveness to monitoring experts during the budget process. Le Maux et al. (2019) remark that elected politicians are both loyalists that follow the party line and electoral vote maximisers that answer to constituency demands. It appears that party loyalty is less required the more ideologically homogeneous the government majority is with MPs staring to pursue vote maximising strategies in budget negotiations. The results suggest that without committee hearings and budget limitations in place these MPs are more freely demanding discretionary spending for their constituents which in turn result in higher deficit levels.

To my knowledge this is the first investigation that considers the effects of fiscal monitoring as conditional upon the structure of the budget process. In this article it was possible to discover how fiscal monitoring relates to the budget process and whether it can be deemed to have an impact on fiscal outcomes. Yet the results come with two important caveats. First, the time frame that was chosen for this analysis is short and covers the years in which most countries were recovering from the shock waves of the financial crisis. This certainly affects the inter-temporal validity of the results; nevertheless it offers new insights in the effectiveness of fiscal monitoring that can be taken up by future research. Second, most fiscal monitoring bodies were created during that period, often as a reaction to high deficits. Despite best efforts to account for reverse causation through including temporal lagging and year fixed effects in the models, the problem cannot be ruled out completely.

Conclusion

The objective of this article has been to investigate how political motivations and the structure of the budget process shapes how fiscal monitoring bodies can influence policymakers and eventually fiscal outcomes. Based on insights regarding the effects of budget institutions from previous studies

(Wehner, 2010b, 2006; Alesina and Perotti, 1996; von Hagen and Harden, 1995) I hypothesise that there is no uniform effect of fiscal monitoring on the deficit. Instead, the success of the activities of Independent fiscal Institutions (IFIs) hinges upon the power balance between government and parliament in the budget process.

The analysis offers three key insights: first, fiscal monitoring activities that target the government at the budget formation stage, for example by requiring the government to answer to fiscal assessments of the watchdog body, have no effect on the deficit level. Second, activities that target the parliament at the budget negotiation stage can be effective – but only if the parliament cannot increase the planned deficit beyond what the government has already agreed. In these cases, I find that budget analyses by IFI experts just in time for budget negotiations improve fiscal performance. Parliaments with unrestricted powers are not responsive to monitoring activities but strongly adhere to deficit rules in national legislation. Third, I find indications that experts can raise the awareness for sound fiscal policies of parliament members of ruling right-wing parties.

In this article I fused scholarship on fiscal monitoring with that of budget institutions. Avenues for future research relate to some of the results of the model estimation. First, the operations of fiscal monitoring bodies during the budget process need further attention, especially in relation to the direct political reactions to reports, briefings and committee statements. This will help us to develop a better understanding of the mechanisms of influence and persuasion at work. Second, future research needs to investigate the fiscal behaviour of policymakers in the budget process more closely. Whether politicians act according to ideological principles or as vote maximisers seems critical for a better understanding of their responsiveness to independent expert advice. Third, investigations in the effectiveness of outside strategies of fiscal monitoring are promising. Due to insufficient data this aspect could not be addressed here. Nevertheless, informing the public is a key aspect of IFI operations and by now less is known about its impact on voter preferences and electoral behaviour.

Empirically, despite being reliable first-hand sources, existing datasets by the IMF and OECD on attributes of the fiscal governance framework only cover most recent legislation of their respective member states. In contrast, with data for 36 countries in which fiscal monitoring is present and covering legislative changes during the observation period this article shows the potential of research that goes beyond the restricted scope of these datasets.

Appendix A. Data sources

Independent Fiscal Institutions – Institutional features, monitoring remits and instruments:

- Own analysis of legislative documents, consolidated in the Comparative Independent Fiscal Institutions Dataset (CifiD). Data sources for validation:
  - OECD Independent Fiscal Institutions Database: www.oecd.org/gov/budgeting/oecdnetworkofparliamentarybudgetofficialspbo.htm

  - IMF Fiscal Council Dataset: www.imf.org/external/np/fad/council/ (Debrun et al., 2013)
  - von Trapp, L., Lienert, I., and Wehner, J., 2016. Principles for independent fiscal institutions and case studies. OECD Journal on Budgeting 15(2).
  - Kopits, G., 2013. Restoring public debt sustainability: The role of independent fiscal institutions. Oxford: Oxford University Press.

Budget procedure – legislative budget power, bicameral budget:

- OECD International Budget Practices and Procedures Database (2007/2008 and 2012 vintages): www.oecd.org/governance/budgeting/internationalbudgetpracticesandproceduresdatabase.htm
- Wehner, J., 2010b. Legislatures and the budget process: The myth of fiscal control. Basingstoke: Palgrave Macmillan.
- Santiso, C., 2005. Budget institutions and fiscal responsibility: Parliaments and the political economy of the budget process. Washington, D.C.: World Bank Institute.
- Case studies in the OECD Journal on Budgeting for Bulgaria (2009), Croatia (2006), Latvia (2009), Lithuania (2010) and Romania (2005).
- Budget System Law of Serbia, 2009, translated into English by the Ministry of Finance, Serbia.
- IPU Parline database: data.ipu.org

National fiscal rules:

- IMF Fiscal Rules Dataset, 1985-2015: www.imf.org/external/datamapper/fiscalrules/map/map.htm
- Lledó et al., 2017. Fiscal rules at a glance. Washington, D.C.: International Monetary Fund.
- Fiscal Rules Database by the European Commission (version of March 2017)

Polity structure and government – electoral system, federalism, government composition:

- Comparative Political Data Set, 1960-2016 and Supplement to the Comparative Political Data Set – Government Composition, 1960-2015: www.cpds-data.org/index.php (Armingeon et al., 2016b)
- For Latin American countries, Serbia, Korea, South Africa: own coding based on
  - The Ideology of Heads of Government, 1870–2012: www.heads-of-government.github.io (Brambor and Lindvall, 2017)
  - González Ferrer, E., Velasco, Q., 2013. Izquierda y derecha: Formas de definirlas, el caso Latinoamericano y sus implicaciones. America Latina Hoy 65, 79–105.
  - Latin America and the Caribbean Political Dataset, 1945-2012: www.huberandstephens.web.unc.edu/common-works/data/
  - IPU Parline database: data.ipu.org
  - Rulers: www.rulers.org

Macro-economic and fiscal data – public deficit, gross debt, GDP growth:

- IMF World Economic Outlook (October 2018): www.imf.org/external/pubs/ft/weo/2018/02/weodata/index.aspc

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A New Dataset on the Political Independence of Fiscal Monitoring Institutions[1]

Daniel Belling

Abstract. This research note introduces the *Comparative Independent Fiscal Institutions Dataset* (CifiD) which contains information on the institutional characteristics of forty-four independent expert bodies that are mandated to monitor fiscal policy and performance. Based on coding of legislative documents it describes the institutional design of IFIs in mainly developed countries at different points in time. It comprises indicators and indices on formal political independence, expert proficiency and powers to intervene into the budget process. I report empirical variations between different models of IFIs such as fiscal councils and parliamentary budget offices. The novelty of this dataset it its focus on the relationship between experts and policymakers when it comes to appointments and dismissals, monitoring activity, and conflict of interests.

Introduction

Scholars of public finance agree on the perils for state budgets that result from an injudicious use of public money by governments. In this context a policy invention to promote fiscal discipline has gained traction. In recent years scholars discussed the potentials of independent bodies staffed with non-partisan experts that help to provide fiscal forecasts, evaluate budget proposals and fiscal policy reforms, and give regular input for the budget process and political debate. Discussions on the responsible management of public budgets regained momentum in the aftermath of the global financial crisis. Independent fiscal monitoring has since become a reality as many fiscal and structural reform packages included Independent Fiscal Institutions (IFIs) as part of the remedy against persistent deficits and rising levels of public debt.

This research note introduces the Comparative Independent Fiscal Institutions Dataset (CifiD) which comprises information on the powers and institutional properties of forty-four bodies that have been mandated with fiscal monitoring tasks. These IFIs are mostly found in industrialised countries with the most recent ones appearing in EU member states. The CifiD offers three key advantages to researchers: it is based on the coding of statutory documents at different points in time which permits a temporal examination of IFIs; its geographical reach goes beyond that of existing

[1] A later version of this article was published in *European Political Science*, see: Belling, D., 2019. A new dataset on the political independence of fiscal monitoring institutions. European Political Science, pp. 1-19.

datasets; it recognises IFIs as public agencies in vicinity to state authorities and therefore provides new measures on composition, appointment and term rules.

Older datasets consider monitoring experts as unbiased; however, as the institutional description provided by the CifiD illustrates, this assumption needs to be put into question. In turn, the new measures enable scholars to address questions regarding the politicisation of these and similar policy monitoring bodies. Composite indices on formal political independence and proficiency permit researchers to investigate the roots of fiscal monitoring as well as its effects on government performance more thoroughly. I report some empirical patterns that emerge from the data such as the relationship between powers conceded, political inclusion and political independence.

Contributions

The virtues and obstacles of fiscal monitoring have attracted interest of the research community and supranational organisations alike. Over the last years the amount of research contributions on the functioning and effectiveness of fiscal monitoring has risen in sync with the number of fiscal watchdog bodies. These Independent Fiscal Institutions (IFIs) are defined as "publicly funded, independent bodies under the statutory authority of the executive or the legislature which provide non-partisan oversight and analysis of, and in some cases advice on, fiscal policy and performance" (OECD, 2014, p. 1).

Lessons from the experience with early advisory bodies such as the U.S. *Congressional Budget Office* or the Belgian *High Council of Finance*, endorsements by the IMF (2013) and the OECD (2014), and provisions of the EU's Two-Pack Regulations[2] render IFIs an attractive policy instrument to promote budget discipline and sustainable fiscal policies. And yet differences in the institutional design of existing IFIs remain insufficiently studied despite the availability of empirical data.

Until now information on institutional properties of IFIs is provided by supranational organisations. The first comprehensive survey was conducted by the European Commission as early as 2006 (updated in 2008 and 2013) with responses from public officials in EU member states (European Commission, 2015; 2009, pp. 93-94). The dataset features forty-five institutions and measures focussing on their functions, remits and composition, including assessments on their media and policy impact. Due to the imprecise concept of fiscal monitoring at that time this dataset includes a range of institutions that would not meet today's standards, for example research departments and audit offices without legal mandate.

Another dataset is provided by the IMF and is based on earlier studies on fiscal performance by in-house economists (Debrun and Kinda, 2014; Debrun et al., 2017). The dataset summarises

[2]Regulation (EU) 473/2013 makes the creation of independent bodies for fiscal monitoring binding for Eurozone countries. Until 2018 all EU member states except Poland had created fiscal monitoring bodies.

characteristics of thirty-nine fiscal councils[3] primarily with a focus on key functions in relation to fiscal policies and macroeconomic objectives, including forecasting powers and policy assessments. These measures are accompanied by indicators for safeguards to their operational independence and a general overview on the professional background and the selection of members. However, it lacks detail on membership rules and procedures of appointment and dismissal and is therefore of limited use for political science studies.

Finally, the OECD dataset on Independent Fiscal Institutions (OECD, 2019) is developed along the lines of twenty-two principles that "codify lessons learned and good practices and aim to assist countries to design an enabling environment conducive to the good governance and performance of an IFI and to ensuring its long-term viability" (von Trapp and Nicol, 2017, p. 10). In its 2019 version the dataset describes features of thirty-five IFIs in OECD member countries. Indicators relate to the functions, remits, institutional design and the relationship with legislators, which are based on eighteen in-depth case studies and interviews with IFI officials. Its advanced insights into the structures and operations of IFIs and its relationship with policymakers come with constraints regarding membership rights and obligations.

All three datasets have in common that they reach limits in terms of concepts and indicators as well as country and time coverage. Conceptual limits come naturally as the underlying concept is chosen in accordance with the objectives of these organisations: the IMF investigates the effectiveness of fiscal monitoring; the OECD is concerned with implementation. In turn, the CifiD dataset presented here aims to contribute to a better understanding of the political aspects of fiscal monitoring. As such, it employs a well-balanced selection of indicators to offer fine-grained information on provisions and safeguards against undue political interference. Thus, the CifiD supplements existing datasets on fiscal monitoring bodies as it provides essential and time-variant information on the institutional properties of IFIs without being limited to a specific domain of countries.

Coding of institutional properties

The bulk of items in the CifiD describes institutional properties that allow for a comprehensive description of IFIs as independent bodies in direct vicinity to policymakers. For this purpose, I reviewed case studies on fiscal monitoring (in particular Kopits, 2013; von Trapp et al., 2016) and on other independent public agencies such as central banks and regulatory bodies (Cukierman et al., 1992; Hanretty, 2010; Hanretty and Koop, 2013; Maggetti, 2007). Through this review I identified a remarkable gap in existing IFI datasets: the absent coverage on incompatibility and conflict of

[3]The related term fiscal council as used by the IMF is not different in its definition (Debrun et al., 2013, p. 8) yet it is ambiguous.

interest rules as well as on the inclusion of policymakers and external groups into the process of nomination, selection and delegation of IFI members.

I have therefore developed a new catalogue that also encompasses new indicators on institutional properties of IFIs that emphasise the institutional distance between IFIs and policymakers. The coding scheme for the new dataset is based on the OECD's *Principles for Independent Fiscal Institutions* (OECD, 2014) and the minimum standards and recommendations defined by the EU Network of Independent Fiscal Institutions (2016). As these standards insufficiently account for membership duties and appointment rights – mainly regarding incompatibility and conflict of interest rules and integration of external groups into the nomination process – I drew on existing research on independent agencies to identify suitable indicators. A questionnaire developed for measuring the independence of media regulatory bodies served as a template for these new indicators of the CifiD coding scheme (Irion and Ledger, 2013).

The coding material was limited to statutory legislation as adopted by parliament. In anticipation of the composition of an independence index this approach assumes the "preferred degree of independence will be reflected in statutory provisions on the appointment and removal of the head and board members, the possibility for politicians to overrule the agency's decisions, the legal status of the organization, and its financial and organizational autonomy" (Hanretty and Koop, 2013, p. 196). I integrated legislation that establishes or amends the IFI mandate and institutional design. Relevant sections of other legislation, e.g. of public service acts, were also included in the coding, and similarly, if the IFI mandate was stipulated by another document, for example by a fiscal framework act. In turn, I excluded memoranda of understanding and similar unilateral declarations or bilateral agreements that are grounded on political discretion without long-term commitment. Between mid-2016 and early 2019 it was possible to retrieve, translate and manually code eighty-nine documents.

For the validation of the coding I made use of OECD and IMF datasets and case studies. The order of the coding categories generally follows the typical structure of sections within legislation. Furthermore, the CifiD provides general information on the legislative documents under investigation and information on the monitoring remits and intervention powers which are not part of the independence and proficiency indices.

Developing new indices on independence and proficiency

Given the detailed record of institutional properties and IFI powers the CifiD enables researchers to measure various concepts discussed in the literature on fiscal monitoring, in particular on independence, expert integration, transparency and accountability. In this section I lay out the stages in the development of two new indices that focus on the former two concepts.

The concept of formal independence from political interference comes with important conceptual delineations: independence is the degree of freedom from interference by external actors, and here *political* independence identifies governments, parliaments and parties as source for the distortion or corruption of external fiscal monitoring. I do not consider effects on political independence if discretion lies with non-political actors such as research departments and other public agencies.

Importantly, we need to distinguish between the *formal* and *de facto* independence of fiscal monitoring bodies. *Formal* independence is "inherent in those legal instruments which constitute and govern the agency" (Hanretty and Koop, 2013, p. 199). In turn, *de facto* independence is shaped by unwritten conventions, political moods and strategic considerations. Absent any legal guarantees and provisions, the discretion granted to IFIs is contingent upon the favours of principals and the public reputation and support for IFIs.

Existing indices conflate both *formal* and *de fact* independence and take the current situation as a yardstick for a permanent state of affairs. However, in the absence of legislative safeguards the freedom granted by a well-intended government can be revoked by a succeeding coalition that is hostile to fiscal monitoring, as it was the case for the Hungarian Fiscal Council (Kopits and Romhanyi, 2013). The index presented here focusses exclusively on formal independence to emphasise that weak legal provisions and the existence of regulatory loopholes facilitate political obstruction.

Let us turn to the measurement of the formal political independence of IFIs and the choice of indicators that characterise related institutional characteristics. These properties were taken from the existing body of case study literature and are reflected in the OECD Principles for Independent Fiscal Institutions (2014). Literature on agency independence highlights legal provisions that prevent conflicts of interests and define nomination and appointment procedures (e.g. Hanretty, 2010; Irion and Ledger, 2013). These and similar aspects are integrated in the CifiD. In total, we can identify twenty indicators that correspond to five channels of political interference (see table 1):

- *Statutory guarantees* refer to legal assurances on the institutional division from political bodies.
- *Operational autonomy* denotes legal provisions and safeguards to enable monitoring operations.
- *Leadership autonomy* considers the (freedom from) exposure of members to external influences and coercion that could corrupt professional sovereignty.
- *Membership safeguards* covers measures preventing an arbitrary use of appointment rights.
- *Non-political composition* identifies whether members were appointed by political representatives and whether these policymakers are excluded from membership.

Table 1: Indices and components for the formal independence and formal proficiency.

INDEPENDENCE (max. 20)	**PROFICIENCY** (max. 10)
Statutory guarantees (2) • Separate legal entity/ autonomous body[*2] • Independence recognised by legislation[*1,3] **Operational autonomy (6)** • Own initiative analysis[*] • Own work program[*1] • Information collection powers[*1] • Right to select own staff [*1] • Safeguards on IFI budget[*1,3] • Secure source of income[*3] **Leadership autonomy (6)** • Full-time commitment[*] • Remunerated position[*] • Incompatibility rules at the appointment stage[2] • Extension of incompatibility rules to relatives[2] • Rules preventing conflicts of interest[2] • Cooling-off period for posts in government and related agencies[2] **Membership safeguards (4)** • Non-concurrence with electoral cycle[*1] • Staggered appointments[2] • Limited renewals[2] • Strict rules of dismissal[*1] **Non-political composition (2)** • IFI members appointed by other than government or parliament[2,3] • Exclusion of policymakers as IFI members[*]	**Integration (3)** • Inclusion of external stakeholders[2] • Inclusion of independent public agencies[2,3] • Inclusion of research and advisory bodies[2,3] **Knowledge (4)** • Legal requirement for professional expertise[*] • Legal requirement for qualifications[*] • Possibility of non-citizenship[3] • Legal option to seek external advice[2] **Transparency (3)** • Periodical publications[*1] • Key publications addressed to public[*] • Legal requirement on external audit[*]

Note: maximum score in brackets. Items marked with [*] match OECD Principles of Independent Fiscal Institutions (2014); Items also covered by [1] von Trapp and Nicol (2018); [2] INDIREG Project (Irion and Ledger, 2013); [3] IMF Fiscal Council Dataset (see Debrun and Kinda, 2014, p. 11).

Following the advice of Hanretty and Koop (2012, p. 204) I abstain from a direct assignment of weights, include only items whose effect on independence is unimodal, and do not discriminate between the executive and the legislative branch in assessing political independence. I normalised items with more than two response categories and chose an additive approach (Goertz, 2006, pp. 35-39). The resulting independence index ranges from 0 to 20.

In addition to this index the CifiD offers an assessment of expert capacity for each Independent Fiscal Institution. The ability to provide substantial policy solutions and inputs to the budget process hinges on the professional competence and the ability to connect with a wider community of non-partisan researchers and agencies (von Trapp et al., 2016, pp. 21-23; OECD, 2014). A novelty of the dataset is the index of proficiency which comprises items that refer to legal provisions that are essential for high-quality monitoring:

- *Integration* indicates whether legislation foresees the nomination and selection of members by groups and agencies other than the legislative and executive branch.
- *Knowledge* refers to provisions that uphold the academic quality of monitoring operations through recruitment and the link to the scientific community.
- *Transparency* defines the relationship with the media and the public at large and helps to increase accountability and reputation as an independent agency.

Contributions on fiscal monitoring assume that these aspects are positively related to independence (von Trapp and Nicol, 2018, p. 53; OECD, 2014; EU IFI Network, 2016). This seems reasonable from a technocratic point of view: connections into the scientific community, unbiased academic rigour and publicity could reinforce the critical persistence of IFI experts and safeguard against undue interference. From a descriptive point of view these aspects do (if at all) only indirectly contribute to IFI independence, subject to empirical investigations. Possibly, provisions for high transparency not only increase IFI accountability towards the public but similarly to the (political) principal. In the extreme, the principal, instead of being monitored, uses reporting obligations to control the fiscal watchdog (Strøm et al., 2000, p. 271), thus corrupting the monitoring process.

Treatment of absent legal provisions

In the absence of legal provisions previous datasets assigned values through case knowledge obtained from country officials and former IFI members (Debrun and Kinda, 2014; OECD, 2019). Though this approach arguably provides a precise picture on the actual institutional state of an IFI, it coalesces permanent legal provisions with volatile inter-institutional agreements and political concessions. This makes it harder to distinguish between legally provided and actual institutional properties. By contrast, in the CifiD absent provisions are either avoided subject to the phrasing of the question (i.e. 'does the law specify') or otherwise coded as a missing value.

By the same token, the specific institutional and political context determines whether the absence of provisions indicates the existence of unwritten customary laws or regulatory loopholes. This renders the interpretation particularly challenging as absence can signal either the permissibility or the prohibition of an action with ramifications for the overall assessment of independence (Hanretty and Koop, 2012, pp. 202-203). Precedent events around IFI independence show that the misuse of regulatory loopholes is more frequent and severe, particularly when it comes to appointment, renewal and dismissal rights (Kopits and Romhanyi, 2013; Page and Yalkin, 2013). For this reason, the absence of provisions is interpreted as detrimental to the independence from political interference.

Missing values that resulted from the coding were recoded respectively in the generation of the independence index. The same applies to the coding of the proficiency index.

Cross-validation with alternative indices

Let us now compare the CifiD independence index with existing measures of IFI independence from interference. Until today two measures are available:

- Franek (2015) employs an unweighted index of twelve criteria based on IMF data and a European Commission survey for institutions in twenty-five EU member states. The author compensates for the low number of full-fledged IFIs by adding national audit offices to the sample. This leads to problems for the comparability if the mandate is not executed by a dedicated section within an audit office. Another issue results from the conflation between the breath of powers with independence from political interference in his index (Hanretty and Koop, 2012, p. 202).
- Von Trapp and Nicol (2018) released an index that is based on the OECD IFI dataset and which covers twenty-seven OECD countries. The authors use an additive composition of sixteen items that are organised along four pillars of independence. However, their concept of independence treats every external group, which also includes non-political actors such as other independent agencies, as equally hazardous to political independence. The index falls short in identifying the gateways of political interference such as rules that restrict policymakers to detrimentally alter the IFI composition. Instead the index includes measures on IFI transparency and rules relating to the merit and competence of IFI members despite insufficient proof on the relationship with political independence.

In consequence, differences in the composition of indices are reflected in the scores for IFIs when comparing the CifiD independence index with these alternative indices. Figure 1 displays cross-tabulations grouped into upper, middle and lower thirds of the respective distribution of scores. For the index provided by Franek I find a correlation coefficient of 0.48 and accordance in the classification of eleven of the nineteen IFIs surveyed by both indices (figure 1a). Deviations are observable primarily for IFIs in the middle third of the distribution. This is mainly due to the distorting effects of including intervention powers in the Franek-index.

In comparison with the index by von Trapp and Nicol I observe a correlation with the CifiD independence index with a coefficient of 0.64. We find accordance in the classification for eleven of the twenty-six IFIs under investigation. The cross-validation of the indices (figure 1b) displays strong correspondence on the higher and lower ends of the distributions. Some IFIs are relegated in the CifiD index for the lack of provisions that exclude policymakers from appointment and dismissal procedures and *ex officio* membership.

CifiD Independence Index (scoring)	upper	middle	lower
upper third -	.57 (n=4)	.14 (n=1)	.29 (n=2)
middle third -	.17 (n=1)	.66 (n=4)	.17 (n=1)
lower third -	.33 (n=2)	.17 (n=1)	.50 (n=3)

(a) Comparison with Franek (2015). N = 19.

CifiD Independence Index (scoring)	upper	middle	lower
upper third -	0.56 (n=5)	0.33 (n=3)	0.11 (n=1)
middle third -	0.44 (n=4)	0.22 (n=2)	0.33 (n=3)
lower third -	0.00 (n=0)	0.50 (n=4)	0.50 (n=4)

(b) Comparison with Von Trapp/Nicol (2018). N = 26.

Figure 1: Cross-validation with alternative indices. Note: Cell entries are proportions of IFIs by thirds of the scoring in the CifiD Independence Index (rows). Entries on the diagonal indicate matches; off-diagonal entries indicate mismatches.

Empirical variations

Let us now turn to the description of empirical variations in the dataset. Figure 2 illustrates the sharp rise in the number of active IFIs, mainly in middle- and high-income countries. We can see that the number of IFIs has quadrupled within the last ten years. Most of these IFIs adopted the fiscal council model, i.e. bodies with an exclusive fiscal policy watchdog mandate which receives structural and financial support from the executive branch. In turn, IFIs that follow the model of the *Congressional Budget Office* in the United States, established as early as 1974, are serving the legislative branch. These parliamentary budget offices account for a fifth of all cases. A few countries chose to extend the mandate of existing economic councils (e.g. Denmark and the Netherlands) or created fiscal monitoring sections attached to the audit office or the central bank.

Regarding the broader characteristics of IFIs I find that the level of formal political independence is subject to the choice of an institutional model. In figure 3a we compare the mean scores of the dimensions of the CifiD independence index as given by the most recent legislation. We see that IFIs that are attached as sections of other agencies benefit from the near absence of political appointments and higher requirements to prevent conflicts of interest as part of leadership autonomy. Buffers against all-out substitutions of members also underpin the high level of independence for economic councils with a mandate that goes beyond fiscal policy monitoring. By contrast, we observe that

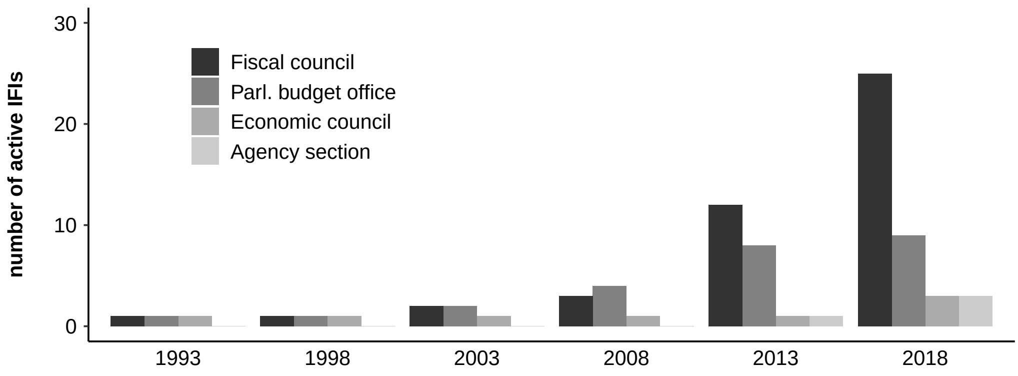


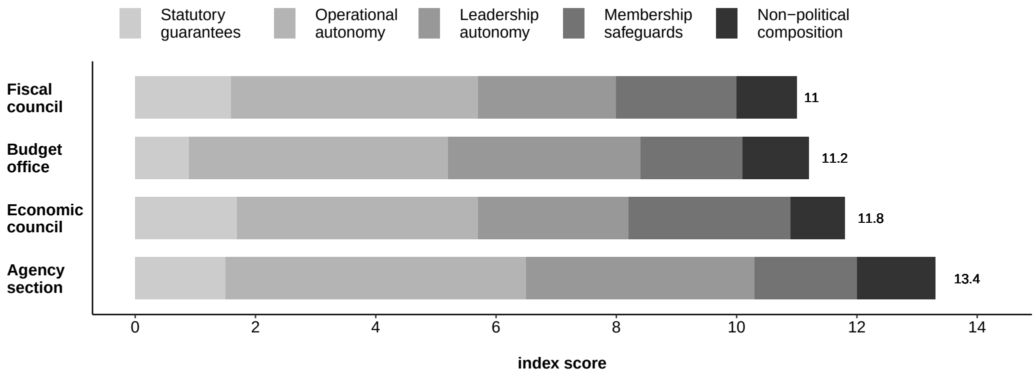
Figure 2: Development of fiscal monitoring by institutional model, 1993 – 2018

parliamentary budget offices are subject to political appointment procedures and weak safeguards against undue dismissals. For fiscal councils as the 'purest' watchdog model we see that legislation does only insufficiently provide leadership autonomy and membership safeguards.

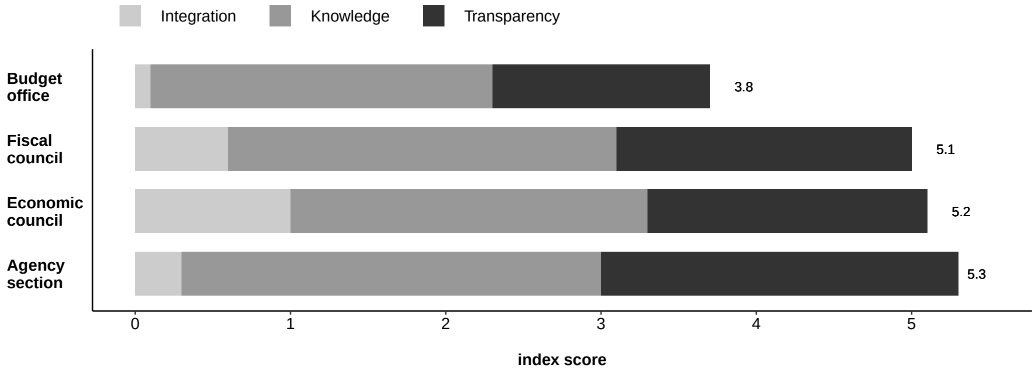
On average, fiscal councils perform less well than other institutional models whereas fiscal monitoring sections that are nested in other independent agencies seem to be most appropriate to protect against undue political interference. The reason for the difference to von Trapp's and Nicol's (2018, p. 56) observation of weakly independent agencies is rooted in their broad conception of independence. When taking only the hazard of political meddling into account safeguards for these agencies as a whole are in fact external firewalls against political meddling and thus equally safeguards for the fiscal policy sections.

Let us briefly turn to the proficiency index and figure 3b. Here we can observe that agency sections generally benefit from higher requirements on membership, mainly the evidence of academic merits, and higher reporting obligations. These provisions are less restrictive for budget offices in particular as correspondence is limited to legislators and budget office membership is part of the civil service. By contrast, members of economic councils in particular are thought to represent various interest groups and policy inclinations and are therefore nominated or delegated by external stakeholders.

We can also observe a difference between models when comparing main monitoring tasks. Figure 4a illustrates that parliamentary budget offices are mainly confided with estimating the costings of policy proposals, which is in line with a more consultative role towards the legislative branch. By contrast, fiscal councils' scrutinising role is emphasised by the assessment of compliance with the government's own targets and with fiscal rules. The latter provision is present in the latest legislation for all twenty-seven fiscal councils and for the three agency sections in the dataset.



(a) Formal independence (max. 20)

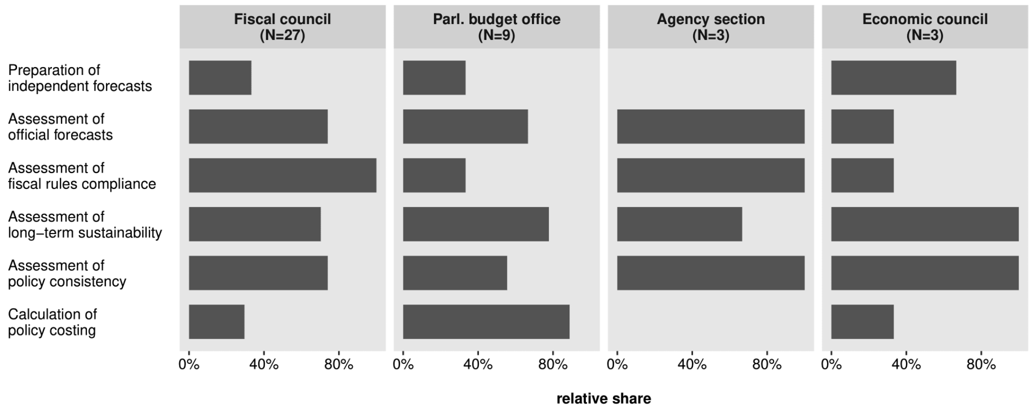


(b) Formal proficiency (max. 10)

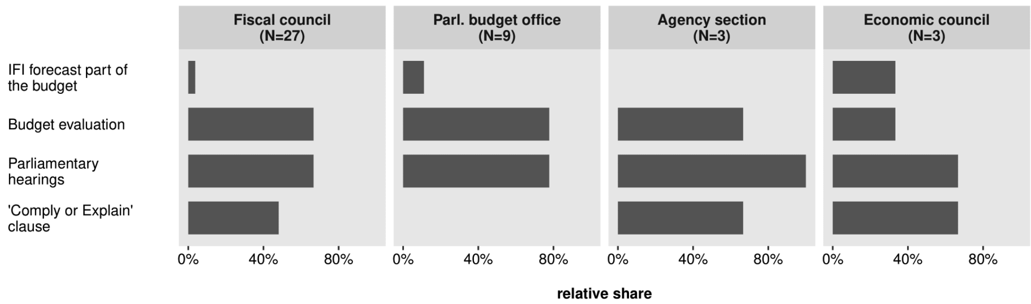
Figure 3: Indices and components by institutional model, average scores. Most recent legislation.

What are the options available to Independent Fiscal Institutions to intervene into the budget process? In general, fiscal monitoring operates on the basis of soft interventions as in all but one case institutions cannot stall the budget process. These include the obligation to use estimates of fiscal forecasts provided by IFIs in the budget draft, timely budget briefings through reports addressed to elected representatives, parliamentary hearings of the IFI leadership, and the duty of governments to either comply with or explain deviations from IFI forecasts, analyses and opinions.

Figure 4b shows that a majority of IFIs is invited to committee hearings at the budget negotiation stage and most IFIs submit reports evaluating the budget draft and associated policies. Notably, ‘comply or explain’ clauses are part of the legislation for almost half of all fiscal councils, yet in none of the observed cases is the government accountable to parliamentary budget offices. Their activities remain almost exclusively in the realm of the legislative branch.



(a) Monitoring powers



(b) Powers during the budget process (de facto)

Figure 4: Powers by institutional model, percentage relative to total number of IFIs of the same model. Most recent state.

Conclusion

The Comparative Independent Fiscal Institutions Dataset (CifiD) comprises information on the institutional properties, powers and political independence of forty-four fiscal monitoring bodies. Compared to existing datasets and indices the CifiD comes with major advantages: it offers a larger geographical coverage than previous datasets; it accounts for changes over time as it is based on a comprehensive coding of legislative documents; it comprises new items on composition, appointment and membership rules that set IFIs in an institutional relationship to political branches. The focus on potential inroads for political influence and the risks of politicised (and thus ineffective) monitoring distinguishes the CifiD from older datasets. We present reliable measures for formal political independence and expert proficiency that aim to support researchers in their analysis of the causes and consequences of politicised monitoring.

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Supplementary Material

Supplementary material to article

"Political Determinants for the Capacity of Fiscal Monitoring"

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Part A: Tables and Figures

Table 1: Overview of cases and components of the capacity index.

				Powers		Independence					Proficiency			**Capacity**	
Case ID		Name (English)	Year of legislation[a]	Evaluation	Access to policymakers	Statutory guarantees	Operational autonomy	Leadership autonomy	Membership safeguards	Non-political composition	Integration	Knowledge	Transparency	**Score**	**Rank**
AT	FISK	Gov. Debt Committee/Fiscal Council	2002	3.0	1.0	1.7	5.0	0.5	0.5	1.3	1.0	2.0	1.5	17.5	22
BE	HRF	High Council of Finance	1989	0.0	0.0	1.2	2.5	0.5	1.0	0.3	1.0	3.0	0.5	10.0	27
BG	FC	Fiscal Council	2015	3.0	2.0	1.2	3.5	2.5	2.2	1.0	0.0	3.0	2.5	20.8	17
CY	FC	Fiscal Council	2014	3.0	3.0	1.7	4.5	3.5	2.7	1.0	0.0	2.0	2.5	23.8	12
CZ	NBC	National Budget Council	2017	2.0	3.0	1.7	5.5	4.0	3.2	0.0	0.5	3.0	2.5	25.3	6
DK	DOR	Economic Council	2012	4.0	1.0	1.7	3.5	1.0	3.0	0.7	2.5	2.0	1.5	20.8	17
EE	FC	Fiscal Council	2014	3.0	2.0	1.7	6.0	2.0	1.7	2.0	1.0	3.0	2.0	24.3	10
ES	AIREF	Indep. Authority of Fiscal Responsibility	2013	4.0	3.0	1.2	4.5	5.0	2.7	1.0	0.0	2.0	2.5	25.8	4
FI	NAO	National Audit Office (section)	2012	3.0	3.0	1.2	4.5	5.0	1.7	1.0	0.0	3.0	2.5	24.8	8
FR	HCFP	High Council of Public Finance	2012	3.0	2.0	1.2	3.0	1.5	2.7	1.7	2.0	2.0	1.5	20.5	18
GB	OBR	Office for Budget Responsibility	2011	5.0	4.0	1.7	5.5	3.0	2.7	1.0	0.0	3.0	2.5	28.3	1
GR	FC	Fiscal Council	2014	3.0	2.0	1.7	3.5	4.0	3.7	1.0	0.5	3.0	3.0	25.3	6
HR	FPC	Fiscal Policy Commission	2013	3.0	2.0	1.7	3.5	2.5	1.7	0.0	2.0	2.0	2.0	20.3	20
HU1	FC	Fiscal Council (2009-10)	2008	4.0	1.0	1.7	4.5	4.0	2.7	1.3	0.5	2.0	2.5	24.2	11
HU2	FC	Fiscal Council (2012-)	2011	3.0	4.0	1.7	3.5	1.5	1.3	1.7	1.0	2.0	0.5	20.2	21
IE	FAC	Fiscal Advisory Council	2012	3.0	3.0	1.7	5.0	2.5	2.2	1.0	0.0	2.0	2.5	22.8	14
LT	NAO	National Audit Office (section)	2015	3.0	2.0	1.7	4.5	4.5	1.8	1.0	0.0	2.0	2.5	23.0	13
LU	CNFP	National Council of Public Finance	2014	3.0	1.0	1.7	2.5	1.0	0.0	1.3	2.0	3.0	1.0	16.5	25
LV	FDP	Fiscal Discipline Council	2013	3.0	3.0	1.7	5.0	2.5	3.2	1.0	1.0	3.0	1.5	24.8	8
MT	FAC	Fiscal Advisory Council	2014	3.0	1.0	1.7	3.5	3.0	0.8	1.0	0.0	2.0	1.0	17.0	24
NL	CPB	Bureau for Economic Policy Analysis	2013	3.0	3.0	1.7	4.0	3.5	2.2	1.0	0.0	2.0	2.0	22.3	15
PT	CFP	Public Finance Council	2011	3.0	2.0	1.7	5.5	3.0	3.2	1.0	0.5	2.0	2.5	24.3	10
RO	FC	Fiscal Council	2010	5.0	1.0	1.7	6.0	3.5	2.7	1.0	1.5	2.0	3.0	27.3	3
SE	FR	Fiscal Policy Council	2007	3.0	1.0	1.3	4.5	1.0	2.0	1.0	0.0	2.0	1.5	17.3	23
SI1	FC	Fiscal Council (2010-12)	2009	3.0	0.0	1.7	2.0	1.0	1.8	1.0	0.0	3.0	2.0	15.5	26
SI2	FC	Fiscal Council (2017-)	2015	2.0	3.0	1.7	4.5	1.5	2.2	1.0	0.0	3.0	1.5	20.3	20
SK	CBR	Council for Budget Responsibility	2011	3.0	2.0	2.0	6.0	4.0	3.2	1.0	0.5	4.0	2.0	27.7	2

Note: Rounded cumulative values. [a]Year in which legislation on fiscal monitoring came into force, disregarding previous activities and later legislative changes.

Table 2: Raw data.

Case ID	Country / monitoring body		Date of legislation (promulgation)	Start of operations	Cessation of operations	Capacity of fiscal monitoring	Two-Pack regulation in place	Ongoing Excessive Deficit Procedure	Legislative budget power[a]	Right-wing cabinet seats (in %)	Government changes in previous 10 years
AT	Austria	FISK	08 Jan 2002	1970		17.5	0	0	unrestr (1.00)	50.0	1
BE	Belgium	HRF	20 Jun 1989	1989		10.0	0	0	unrestr (1.00)	0.0	0
BG	Bulgaria	FC	21 Apr 2015	2015		20.8	0	0	limited (0.75)	92.4	6
CY	Cyprus	FC	21 Feb 2014	2014		23.8	1	1	limited (0.25)	79.7	1
CZ	Czech Republic	NBC	17 Jan 2017	2017		25.3	0	0	limited (0.75)	35.3	4
DK	Denmark	DOR	18 Jun 2012	1962		20.8	0	1	unrestr (1.00)	26.3	1
EE	Estonia	FC	19 May 2014	2014		24.3	1	0	limited (0.75)	57.1	2
ES	Spain	AIREF	14 Nov 2013	2014		25.8	1	0	limited (0.75)	0.0	2
FI	Finland	NAO	21 Dec 2012	2001		24.8	0	0	unrestr (1.00)	42.5	2
FR	France	HCFP	17 Dec 2012	2013		20.5	0	1	limited (0.25)	0.0	1
GB	United Kingdom	OBR	23 Mar 2011	2010		28.3	0	1	limited (0.25)	100.0	1
GR	Greece	FC	28 Jun 2014	2015		25.3	1	1	limited (0.00)	80.0	4
HR	Croatia	FPC	18 Dec 2013	2013		20.3	0	0	limited (0.50)	22.7	2
HU1	Hungary	FC	26 Nov 2008	2009	2010	24.2	0	1	unrestr (1.00)	0.0	1
HU2	Hungary	FC	30 Dec 2011	2012		20.2	0	1	unrestr (1.00)	74.6	2
IE	Ireland	FAC	27 Nov 2012	2011		22.8	0	1	limited (0.00)	0.0	1
LT	Lithuania	NAO	26 Mar 2015	2015		23.0	1	0	unrestr (1.00)	13.3	3
LU	Luxembourg	CNFP	12 Jul 2014	2014		16.5	1	0	unrestr (1.00)	38.9	1
LV	Latvia	FDP	12 Sep 2013	2014		24.8	1	0	limited (0.75)	100.0	6
MT	Malta	FAC	08 Aug 2014	2015		17.0	1	1	limited (0.25)	0.0	1
NL	Netherlands	CPB	11 Dec 2013	1945		22.3	1	1	limited (0.75)	53.8	1
PT	Portugal	CFP	20 May 2011	2012		24.3	0	1	unrestr (1.00)	0.0	2
RO	Romania	FC	20 Apr 2010	2011		27.3	0	1	unrestr (1.00)	47.1	3
SE	Sweden	FR	28 Jun 2007	2008		17.3	0	0	unrestr (1.00)	68.2	1
SI1	Slovenia	FC	26 Jun 2009	2009	2012	15.5	0	0	limited (0.75)	31.5	4
SI2	Slovenia	FC	24 Jul 2015	2017		20.3	1	1	limited (0.75)	58.8	4
SK	Slovakia	CBR	08 Dec 2011	2012		27.7	0	1	unrestr (1.00)	45.3	4

[a]Scores for legislative budget power according to Wehner (2010) in brackets.

Table 3: Summary statistics for raw variables.

Statistic	N	Mean	St. Dev.	Min	Pctl(25)	Median	Pctl(75)	Max
Cap	27	21.88	4.25	10.00	20.25	22.80	24.80	28.30
Tp	27	0.37	0.49	0	0	0	1	1
Ed	27	0.52	0.51	0	0	1	1	1
Lb	27	0.44	0.51	0	0	0	1	1
Rc	27	41.40	33.16	0	6.7	42.5	63.5	100
Gt	27	2.26	1.61	0	1	2	3.5	6

Table 4: Fuzzy data.

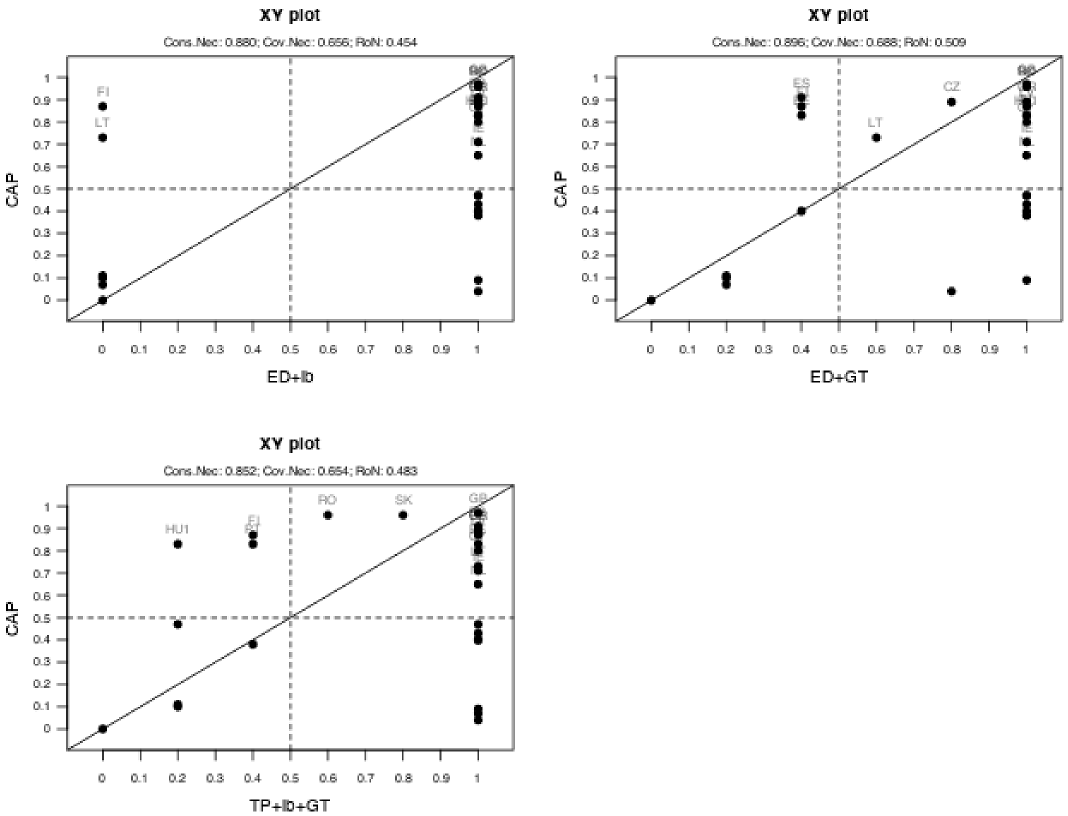
Case	CAP	TP	ED	LB	RC	GT
AT	0.11	0.00	0.00	1.00	0.47	0.20
BE	0.00	0.00	0.00	1.00	0.04	0.00
BG	0.47	0.00	0.00	0.00	0.94	1.00
CY	0.80	1.00	1.00	0.00	0.87	0.20
CZ	0.89	0.00	0.00	0.00	0.26	0.80
DK	0.47	0.00	1.00	1.00	0.17	0.20
EE	0.83	1.00	0.00	0.00	0.59	0.40
ES	0.91	1.00	0.00	0.00	0.04	0.40
FI	0.87	0.00	0.00	1.00	0.36	0.40
FR	0.43	0.00	1.00	0.00	0.04	0.20
GB	0.97	0.00	1.00	0.00	0.96	0.20
GR	0.89	1.00	1.00	0.00	0.87	0.80
HR	0.40	0.00	0.00	0.00	0.14	0.40
HU1	0.83	0.00	1.00	1.00	0.04	0.20
HU2	0.38	0.00	1.00	1.00	0.82	0.40
IE	0.71	0.00	1.00	0.00	0.04	0.20
LT	0.73	1.00	0.00	1.00	0.08	0.60
LU	0.07	1.00	0.00	1.00	0.31	0.20
LV	0.87	1.00	0.00	0.00	0.96	1.00
MT	0.09	1.00	1.00	0.00	0.04	0.20
NL	0.65	1.00	1.00	0.00	0.53	0.20
PT	0.83	0.00	1.00	1.00	0.04	0.40
RO	0.96	0.00	1.00	1.00	0.42	0.60
SE	0.10	0.00	0.00	1.00	0.75	0.20
SI1	0.04	0.00	0.00	0.00	0.22	0.80
SI2	0.40	1.00	1.00	0.00	0.61	0.80
SK	0.96	0.00	1.00	1.00	0.40	0.80

Table 5: Analysis of necessity.

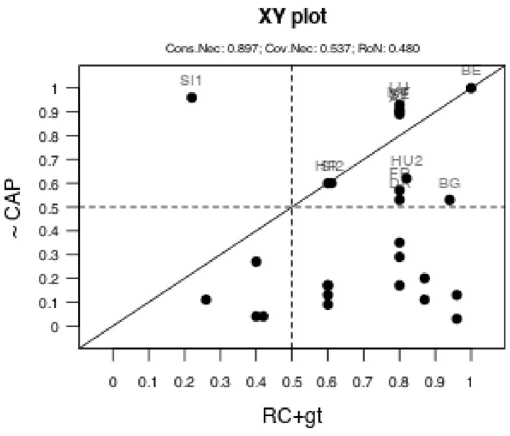
	High monitoring capacity (CAP)			Low monitoring capacity (cap)		
Condition	Consistency	Coverage	RoN	Consistency	Coverage	RoN
TP	0.398	0.624	0.819	0.332	0.376	0.731
ED	0.598	0.669	0.737	0.408	0.331	0.581
LB	0.403	0.526	0.725	0.502	0.474	0.704
RC	0.527	0.750	0.853	0.483	0.498	0.743
GT	0.609	0.808	0.870	0.528	0.508	0.723
tp	0.602	0.554	0.569	0.668	0.446	0.515
ed	0.402	0.484	0.676	0.592	0.516	0.690
lb	0.597	0.623	0.680	0.498	0.377	0.562
rc	0.647	0.634	0.653	0.757	0.537	0.598
gt	0.629	0.648	0.688	0.800	0.597	0.658
ED+lb[1]	0.880	0.656	0.454	-	-	-
ED+GT[1]	0.896	0.688	0.509	-	-	-
TP+lb+GT[1]	0.852	0.654	0.483	-	-	-
RC+gt[1]	-	-	-	0.897	0.537	0.480

RoN = Relevance of Necessity.
[1]No necessary condition: at least one deviant case consistency in kind.

No single or complex necessary conditions meet the consistency (0.9) and triviality criteria (RoN above 0.5). Tested for all possible supersets of CAP and cap.



(a) Necessary conditions for high monitoring capacity (CAP).



(b) Necessary conditions for low monitoring capacity (cap).

Figure 1: Necessary conditions for combinations for high and low monitoring capacity. Cases in the top left are deviant case consistencies in kind.

Table 6: Truth table for outcome CAP.

TP	ED	LB	RC	GT	CAP	Consistency	PRI	Cases
0	1	0	1	0	1	1.000	1.000	GB
0	1	1	0	1	1	1.000	1.000	RO,SK
1	0	0	0	0	1	1.000	1.000	ES
1	0	0	1	0	1	1.000	1.000	EE
1	1	0	1	0	1	1.000	1.000	CY,NL
1	0	0	1	1	1	0.936	0.915	LV
0	1	1	0	0	1	0.889	0.827	*DK*,HU1,PT
1	1	0	1	1	1	0.886	0.767	GR,*SI2*
0	1	1	1	0	0	0.848	0.703	HU2
1	0	1	0	1	0	0.838	0.717	LT
0	1	0	0	0	0	0.720	0.483	FR,IE
0	0	0	0	0	0	0.640	0.200	HR
0	0	0	0	1	0	0.626	0.460	CZ,SI1
1	1	0	0	0	0	0.590	0.165	MT
0	0	0	1	1	0	0.583	0.188	BG
1	0	1	0	0	0	0.431	0.173	LU
0	0	1	1	0	0	0.352	0.180	SE
0	0	1	0	0	0	0.346	0.235	AT,BE,FI

Limited diversity: 14 out of 32 configurations are logical remainders (43.8%). Raw consistency threshold: 0.885 (HU2 is deviant case consistency in kind). Logical contradictory cases above threshold in italic.

Conservative solution:
$TP * lb * RC + tp * ED * LB * rc + TP * ed * lb * gt + ED * lb * RC * gt \longrightarrow CAP$
(solution consistency 0.902, solution coverage 0.580)

Parsimonious solution:
$TP * ed * lb + ED * lb * RC + ED * LB * rc \longrightarrow CAP$
(solution consistency 0.883, solution coverage 0.625)

Enhanced parsimonious solution:
$TP * ed * lb + ED * lb * RC + tp * ED * LB * rc \longrightarrow CAP$
(solution consistency 0.883, solution coverage 0.625)

Table 7: Simplifying assumptions for analysis of CAP.

TP	ED	LB	RC	GT	*Easy counterfactual (used for enhanced parsimonious solution)*
0	1	0	1	1	✓
1	0	0	0	1	✓
1	1	1	0	0	-
1	1	1	0	1	-

Table 8: Truth table for outcome cap.

TP	ED	LB	RC	GT	cap	Consistency	PRI	Cases
1	1	0	0	0	1	0.919	0.835	MT
0	0	0	0	0	1	0.910	0.800	HR
1	0	1	0	0	1	0.881	0.827	LU
0	0	1	1	0	1	0.858	0.820	SE
0	0	1	0	0	1	0.799	0.765	AT,BE,*FI*
0	0	0	0	1	0	0.682	0.540	CZ,SI1
0	1	1	1	0	0	0.641	0.297	HU2
0	0	0	1	1	0	0.641	0.300	BG
1	1	0	1	1	0	0.622	0.222	GR,SI2
1	0	1	0	1	0	0.588	0.283	LT
0	1	0	0	0	0	0.543	0.157	FR,IE
1	1	0	1	0	0	0.508	0.000	CY,NL
0	1	1	0	0	0	0.379	0.031	DK,HU1,PT
0	1	1	0	1	0	0.370	0.000	RO,SK
1	0	0	1	0	0	0.333	0.000	EE
1	0	0	0	0	0	0.257	0.000	ES
1	0	0	1	1	0	0.243	0.000	LV
0	1	0	1	0	0	0.125	0.000	GB

Limited diversity: 14 out of 32 configurations are logical remainders (43.8%). Raw consistency threshold: 0.798 (above consistency benchmark of 0.75, see Schneider & Wagemann, p. 292). Logical contradictory cases above threshold in italic.

Conservative solution:
$tp * ed * LB * gt + tp * ed * rc * gt + ed * LB * rc * gt + TP * ED * lb * rc * gt \longrightarrow cap$
(solution consistency 0.882, solution coverage 0.546)

Parsimonious solution: The logical minimisation yields an ambiguous result with tied logically prime implicants. This in turn allows for more than one parsimonious solution, in this case displayed in two models that differ in the last path:

M1: $tp * ed * gt + TP * ED * rc + (TP * LB * gt) \longrightarrow cap$
(solution consistency 0.882, solution coverage 0.582)

M2: $tp * ed * gt + TP * ED * rc + (ed * LB * gt) \longrightarrow cap$
(solution consistency 0.882, solution coverage 0.582)

Enhanced parsimonious solution:
$tp * ed * gt + ed * LB * gt + TP * ED * lb * rc \longrightarrow cap$
(solution consistency 0.882, solution coverage 0.582)

Table 9: Simplifying assumptions for analysis of cap.

TP	ED	LB	RC	GT	*Easy counterfactual (used for enhanced parsimonious solution)*
0	0	0	1	0	✓
1	0	1	1	0	✓
1	1	0	0	1	✓
1	1	1	0	0	-
1	1	1	0	1	-
1	1	1	1	0	-

Table 10: Post-QCA case discussions (see Schneider and Rohlfing, 2013).

Case	*Type of case*	*Comparison with*	*Question*
CZ	Most deviant case for coverage with high monitoring capacity (CAP)	Case with similar configuration of conditions and low monitoring capacity: SI1	Which additional conditions distinguish CZ from SI1, leading to high monitoring capacity?
DK	Deviant case consistency in kind: configuration of conditions falsely implies high monitoring capacity (CAP).	Cases with similar configuration of conditions and low monitoring capacity: HU1, PT	Which additional condition distinguishes DK from HU1 and PT, leading to high monitoring capacity?
FI	Deviant case consistency in kind: configuration of conditions falsely implies low monitoring capacity (cap).	Cases with similar configuration of conditions and high monitoring capacity: AT, BE	Which additional condition distinguishes FI from AT and BE, leading to positive outcome?

Supplementary material to article
"Political Determinants for the Capacity of Fiscal Monitoring"
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Part B: Calibration and Robustness Tests

Among the most important principles in QCA research is the identification of qualitative differences through formal logic and theoretical considerations. In other words, setting a qualitative cut-off purely through descriptive statistics is highly problematic as "[m]easures like the mean or median are properties of the data at hand and, as such, void of any substantive meaning vis-à-vis the concept that one aims to capture with a set" (Schneider and Wagemann, 2013, p. 33). For example, adding or removing a case changes these measures and would thus impact the membership scores of all other cases in the sample. We are therefore advised to choose thresholds driven by theory and logic and in the best case decide on a calibration as if the sample has not been determined. In the application to the sample there can be limitations to a purely theory-driven approach, especially if the calibration decision leads to a problematically skewed set membership: generally a set needs to cover 25 to 75 percent of the sample to be deemed acceptable (see Schneider and Wagemann, 2013, pp. 232-235). These adjustments of the calibration however need to be secondary to theory-driven specifications.

In the following, I will go through the considerations behind the calibration of the sets.

Capacity of fiscal monitoring (outcome)

The composite index of the capacity of fiscal monitoring relates to the legally provided capacity to act as an effective fiscal watchdog. This is different from existing measures on independence (von Trapp and Nicol 2018, Franek 2015) and effectiveness (Horvath 2018) who also include informal arrangements between policymakers and monitoring bodies, and which only cover most recent legislation. The capacity index is composed of forty items in three dimensions: powers, independence and proficiency.

The scale of the Capacity Index ranges from 0 to 40 as all forty items are cumulated without a weighting scheme. Logically, we can consider expert bodies that score more than half of the possible scores as having high monitoring capacity. As a side effect, this also assures us that a monitoring body cannot be considered with high monitoring capacity purely through all twenty items of the independence dimension – for that it has to score in the powers and proficiency dimension as well. The cut-off to distinguish high and low monitoring capacity is therefore set at 21. Cases below this threshold are considered limited as these bodies rely on the discretion and readiness of policymakers or on public reputation in order to be effective policymaking. Stating that these monitoring bodies have low capacity does therefore not exclude the possibility that they can be effective watchdogs – only that it is subject to factors other than legal guarantees and safeguards (see also Hanretty and Koop 2013).

In the sample we identify 12 of 27 bodies with high monitoring capacity (55.6 percent). The Dutch monitoring body (NL) is the next higher case with a score of 22.3. An alternative cut-off score of 22.5 allows for an exclusion of this case, yet a robustness check with this new delimiter does not lead to a substantially different result (see table 2).

Two-pack regulation (TP)

Regulation (EU) 473/2013 as part of the Two-pack legislation entered into force on 30 May 2013. Article 5(1) states that "Member States shall have in place independent bodies for monitoring compliance with (...) numerical fiscal rules (...)". This regulation only applies to eurozone member states. In consequence, if a fiscal monitoring body in a Eurozone member state was legislated after May 2013 it is in compliance with this regulation. This applies to 10 cases (37 percent) in the analysis.

Excessive Deficit Procedure (ED)

Excessive Deficit Procedures (EDPs) describe the corrective arm of the Stability and Growth Pact (SGP) and are launched through a decision by the European Council against EU member states that do not comply with the debt and deficit criteria of the Maastricht Treaty. This was the case in 14 instances at the time that fiscal monitoring was passed at the legislation stage (51.8 percent). We validate this measure with an alternative indicator which in addition accounts for the elapsed time since the launch of the procedure. This leads to a slightly different solution as displayed in table 3.

Legislative Budget Power (LB)

The theoretical consideration behind the use of this measure is that it indicates whether a parliament is strong or weak vis-à-vis the government during the budget procedure. We assume that this has implications on the bargaining power and the behaviour of elected representatives in the negotiations on the structure of fiscal monitoring.

Wehner (2010) states that "the scope for a legislature to shape budget policy is defined by its powers to amend the executive [budget] proposal" (p. 20). In accordance with previous authors Wehner finds that budgetary powers of legislatures as defined in legislation are "remarkably stable and indicate a strong status quo bias" (p. 90). Despite the robustness of this indicator I update Weiner's data with more recent information on the legislature by the OECD International Budget Practices and Procedures Database (2012) and the Parline Database of the Inter-Parliamentary Union (2018). I extended the index with data for Croatia and an update on Greece.

In the sample we identify 12 instances in which parliaments have unrestricted amendment powers during the budget process (44.4 percent) and which are assigned 1 in a crisp set coding. An alternative measure also accounts for the degree of constraints to parliamentary power (i.e. cap on deficits but the ability to increase spending, 0.75; cap on total spending, 0.48; only amendments to cut spending, 0.25; only accept or reject the budget proposal as a whole, 0). This measure changes the membership of eight cases but still leads to a solution term that hardly deviate from the original solution term (see table 3). From a theoretical viewpoint the severity of limitations does not add substantially to the argument and only leaves us with questionable cut-off points.

Right-wing cabinet (RC)

To determine the impact of fiscal preferences based on partisanship of ministers on government positions I use the share of cabinet seats held by parties of the right, including the party affiliation of the prime minister and the finance minister. I draw the data from the Comparative Political Data Set (Armingeon et al. 2016) and also employ their coding of parties as right, centre and left. Many scholars prefer to base their studies on more fine grained measures of ideological distance based on scores derived from party manifestos or expert judgements (e.g. the Comparative Manifesto Project or the Chapel Hill Survey). However, this is not an option for this study. I am interested in veto majorities within the cabinet, therefore average cabinet positions are irrelevant.

Following the example of Hinterleitner et al. (2016) I choose a cut-off point at 52 percent of senior ministers since being in a majority allows these ministers to have a decisive impact on policymaking and implementation of fiscal policies and the budget. In the sample we find 10 instances (37 percent) in which a majority right-wing cabinet pushed the legislation of fiscal monitoring bodies. There is also one instance of a tied cabinet – the Austrian coalition between the Austrian People's Party (ÖVP), classified as centrist, and the right-wing populist Freedom Party (FPÖ). With an alternative cut-off score at 49 percent we included the Austrian case into the set of right-wing majority cabinets, yet with no substantive effect on the results.

Government Turnover (GT)

In this analysis we use government turnover as an indicator for political instability. I consider it a change in government if the party of the Prime Minister changes disregarding other cabinet reshuffles. This concept also captures what Horowitz et al. (2009) consider as ideological turnover.

Based on the data from the Comparative Political Data Set (Armingeon et al. 2016b) and own calculations I identify the number of government changes in the ten years prior to the date that the legislation on fiscal monitoring came into force. The typical length of electoral cycles is four to five years. This implies that hence in 'normal' times without disruption due to political crises the electorate has the chance to vote down an incumbent government on two occasions. Government changes three times or more therefore indicate political instability.

The qualitative cut-off is therefore reasonably set at 2.5 which leaves us with 9 cases in which government turnover is high (33.3 percent). A higher cut-off at 3.5 was tested leading to a problematically skewed set membership despite no substantially different results. I also tested a longer time frame of twenty years prior to legislation, yet here again no substantially different results were found.

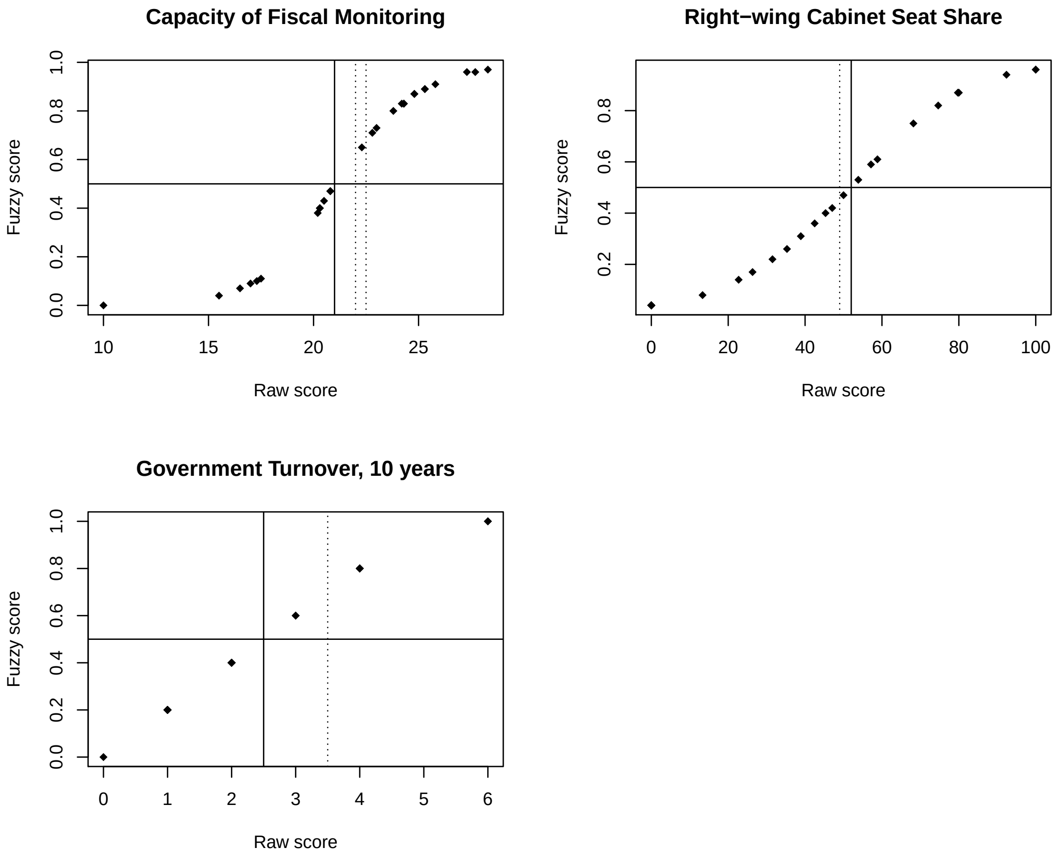


Figure 1: Calibration and raw score distribution. Dotted lines indicate alternative crossover points that were tested

Table 1: Characteristics of alternative sets.

Set	*Set type*	*Change to original set*
CAP2	fuzzy set	change of crossover point: 21.0 to 22.0
CAP3	fuzzy set	change of crossover point: 21.0 to 22.5
ED2	fuzzy set	change in data: time since launch of EDP in years change in set property: crisp set to grouped fuzzy set (0.52 for ongoing EDP, incremental increase of 0.1 for each additional year since launch)
LB2	fuzzy set	change in data: degrees of legislative budget power (Wehner, 2010) change in set property: crisp set to fuzzy set
RC2	fuzzy set	change of crossover point: 52.0 to 49.0
GT2	fuzzy set	change of crossover point: 2.5 to 3.5
GT3	fuzzy set	change in data: 20 years of government turnover

Table 2: Step-wise robustness check (see Hinterleitner et al., 2016).

Step	Alternative crossover point plausible?	Crossover point	Empirical cases within new plausible range	Skewness (% of cases with set membership > 0.5)	Different results for necessity?[a]	Different truth table row membership?	Different raw consistency threshold?	Different solution terms?	Super- or subset relation with old solution terms	Preferred calibration
CAP	✓	21.0		55.6						✓
CAP2		22.0	0	55.6	-	-	✓	✓	✓	-[1]
CAP3		22.5	1	51.9	-	-	✓	✓	✓	-[2]
TP	-	*	1	37.0						✓
ED	✓	*		51.9						✓
ED2		> 0	0	51.9	-	-	-	✓	-	-[3]
LB	✓	*		44.4						✓
LB2		0.48	8	74.1	-	✓	-	✓	-	-[3,4]
RC	✓	0.52		37.0						✓
RC2		0.49	1	40.7	-	✓	✓	-		-[2,3]
GT	✓	2.5		33.3						✓
GT2		3.5	2	25.9	-	✓	✓	✓	✓	-[4]
GT3		4.5	2	33.3	-	✓	✓	✓	✓	-[3]

* crisp set coding (membership 0 or 1).

[a] Substantive differences occur when consistency (0.9) and triviality criteria (RoN > 0.5) are met.

[1] Qualitative difference criterion: The calibration does not result in a different qualitative calibration and thus does not affect the substantial result.

[2] Crossover criterion: The calibration uses descriptive statistics rather than conceptual criteria which are qualitatively not meaningful and thus unnecessarily contradicts recommendations of good practise (Schneider & Wagemann, 2012).

[3] Interpretation criterion: The set or the results derived from the alternative calibration have a less meaningful interpretation than the preferred set.

[4] Skewness criterion: problematically skewed set could lead to severe problems for the analysis.

Table 3: Deviant results of robustness tests for sufficiency.

	Conservative solution	*Consistency*	*Coverage*
ED2	$TP*lb*\mathbf{RC}+tp*ED2*LB*rc+ED2*lb*RC*gt \longrightarrow CAP$	0.934	0.519
LB2	$tp*ED*LB2*rc+TP*ED*lb2*RC+TP*ED*RC*gt+TP*ed*\mathbf{LB2}*GT+ED*lb2*RC*gt \longrightarrow CAP$	0.925	0.590

Deviant conditions are highlighted in bold.

Supplementary material to article
"Policy Monitoring and the Ally Principle of Expert Appointments"

Table 1: Members of the Swedish Fiscal Policy Council, 2007-2018.

Member		Position at the time of appointment	Profile	Prior policy functions in public capacity	Affiliation to think tanks tied to business or labour unions	Party of FM[a]
Torben Andersen	2007 - 2011	Professor, Aarhus University	labour markets, public policy		**SNS** Econ. Policy Council (2014)	Moderates
Lars Calmfors	2007 - 2011	Professor, Stockholm University	International Economics	Economic Council of Sweden, chair (1993-2001)	**SNS** Research Fellow (1972-73), **SNS** Econ. Policy Council (1982, 85-88) ***IFN** Research Fellow (2015-)* **FIEF** Editorial Committee (1986-91) **FIEF** Research Associate (1988-89)	Moderates
Karolina Ekholm	2007 - 2009	Associate Professor, Stockholm University	International Economics	Economic Council of Sweden (2001-07) *State Secretary, Ministry of Finance (2014).*	**SNS** External Researcher (2004-) **IUI** Researcher (1996-2000)	Moderates
Per-Ola Eriksson	2007 - 2008	Former politician, Centre Party		Chairman of parliamentary finance committee (1991-94)		Moderates
Martin Flodén	2007 - 2010	Lecturer, Stockholm School of Economics	Macroecon.	Economic Council of Sweden (2006-07)	**SNS** Econ. Policy Council (2004, 2012)	Moderates
Laura Hartman	2007 - 2011	Researcher, Institute for Evaluation of Labour Market and Education Policy (IFAU)	labour markets	Research Director, State Treasury (2008-10) Project manager at the Ministry of Finance (2007)	**SNS** Researcher (2004-08, 10-11)	Moderates
Ann-Sofie Kolm	2007 - 2009	Associate Professor, Stockholm University	labour markets	Economic Council of Sweden (2000-02)	***SNS** Econ. Policy Council (2015)* ***FIEF** Visiting Researcher (1997)*	Moderates
Erik Åsbrink	2007 - 2011	Former politician, Social Democrats		Finance minister (1996-99)		Moderates

Continued on next page

Table 1: (continued)

Member		Position at the time of appointment	Profile	Prior policy functions in public capacity	Affiliation to think tanks tied to business or labour unions	Party of FM[a]
Lars Tobisson	2008 - 2011	Former politician, Moderates		Party group leader in finance committee (1979-2001)		Moderates
Michael Bergman	2009 - 2012	Associate Professor, University of Copenhagen	Macroecon.			Moderates
Helena Svaleryd	2009 - 2012	Researcher, Research Institute for Industrial Economics	labour markets, public policy		**IFN** Associate Professor (2009-2011)	Moderates
Lars Jonung	2010 - 2013	Professor em., Lund University	Macroecon.	Chief Economic Advisor to Prime Minister Bildt (1992-94)	**SNS** Econ. Policy Council (1985-88, 96)	Moderates
John Hassler	2011 - 2016	Professor, Stockholm University	Public Finance, environmental economics		***FIEF*** *Research Assistant (1987)*	Moderates
Steinar Holden	2011 - 2014	Professor, University of Oslo	labour markets			Moderates
Eva Lindström	2011 - 2014	Auditor General, National Audit Office		*State Secretary to the Minister of Enterprise (since 2014)*		Moderates
Anders Björklund	2012 - 2015	Professor, Stockholm University	labour markets, inequality		**IUI** Research Fellow (1982)	Moderates
Irma Rosenberg	2012 - 2015	Governor, Debt Office				Moderates
Oskar Nordström Skans	2013 - 2016	Research Assoc., Institute for Evaluation of Labour Market and Education Policy	labour markets	Special Advisor at the Ministry of Finance (2009-11)	***SNS*** *Econ. Policy Council, chair (2017)*	Moderates

Continued on next page

Table 1: (continued)

Member		Position at the time of appointment	Profile	Prior policy functions in public capacity	Affiliation to think tanks tied to business or labour unions	Party of FM[a]
Hilde C. Bjørnland	2014 - 2017	Professor, BI Norwegian Business School	Macroecon.			Moderates
Yvonne Gustafsson	2014 - 2017	Director General, State Treasury				Moderates
Cecilia Hermansson	2015 - 2018	Guest Researcher, KTH Royal Institute of Technology	Banking, household finance			SAP
Harry Flam	2016 - [2022]	Professor em., Stockholm University	International Economics		**SNS** Econ. Policy Council, chair (2009, 16)	SAP
Peter Englund	2016 - [2020]	Professor, Stockholm School of Economics	Banking, insurance		**SNS** Econ. Policy Council, chair (2015)	SAP
Bertil Holmlund	2016 - [2020]	Professor, Uppsala University	labour markets		**IUI** Research Associate (1976-85) **FIEF** Research Associate (1985-87)	SAP
Kari Lotsberg	2017 - [2019]	Managing Director, Svaneli AB (Company)	EU financial affairs	State Secretary in the Ministry of Finance (1997-99)		SAP
Ragnar Torvik	2017 - [2019]	Professor, Norw. University of Science and Technology	Development economics			SAP
Åsa Hansson	2018 - [2021]	Senior Lecturer, Lund University	Public Finance		**SNS** Econ. Policy Council (2018) **IFN** Affiliated Researcher (2012-)	SAP

Note: Positions as visiting researcher or assistant and after council activity in italic. These activities are not considered in the total count.
[a]Party of finance minister: Moderates = Conservative Party, SAP = Social Democratic Party.

Supplementary material to article
"Independent Fiscal Monitoring and the Budget Process"

Table 1: Summary statistics for the sample of 36 countries, 2009-17.

Statistic	N	Mean	St. Dev.	Min	Pctl(25)	Median	Pctl(75)	Max
Deficit (t+1)	319*	0.64	2.23	−5.78	−0.96	0.44	1.90	7.96
Comply or explain	324	0.21	0.41	0	0	0	0	1
Reporting	324	0.39	0.49	0	0	0	1	1
Hearings	324	0.49	0.50	0	0	0	1	1
Right Cabinet	324	0.38	0.36	0	0	0.3	0.7	1
Right Support	324	0.24	0.22	0	0	0.2	0.4	1
Deficit Rule	324	0.55	0.50	0	0	1	1	1
Debt Rule	324	0.25	0.43	0	0	0	0	1
Expenditure Rule	324	0.34	0.47	0	0	0	1	1
Revenue Rule	324	0.08	0.28	0	0	0	0	1
Federalist	324	0.25	0.43	0	0	0	0.2	1
Proportional	324	0.89	0.31	0	1	1	1	1
Presidential	324	0.19	0.40	0	0	0	0	1
Technocr. Gov.	324	0.01	0.08	0	0	0	0	1
Eurozone	324	0.49	0.50	0	0	0	1	1
Latin America	324	0.11	0.31	0	0	0	0	1
Debt (t-1)	324	60.59	35.17	4.49	35.92	53.66	82.47	183.45
Real GDP Growth	324	1.42	3.56	−14.81	0.58	1.91	3.02	25.01

* = 5 observations removed (> 2 times interquartile range).

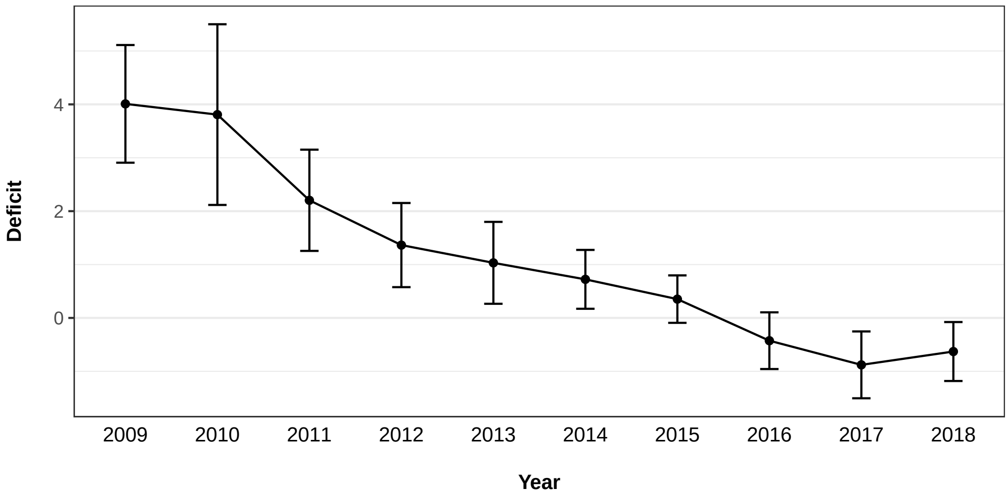


Figure 1: Heterogeneity and development of deficit in 34 countries by year, 2009-18.

Table 2: Budget institutions and right-wing cabinet participation, 2009-2017.

Country	Legislative Budget Power	Deficit Rule [a]	Coalitions by Year [b]	Deficit *Mean (sd)*
Australia	Cuts only limit	✓	4/0/5	2.28 (1.37)
Austria	No limit	✓	0/0/9	0.06 (1.02)
Belgium	No limit	–	3/6/0	0.09 (0.76)
Bulgaria	Deficit limit	✓	7/1/1	1.10 (1.89)
Canada	Cuts only limit	–	7/0/2	1.17 (1.44)
Chile	Cuts only limit	✓	4/0/5	0.83 (1.35)
Colombia	Cuts only limit	✓	9/0/0	-0.05 (0.96)
Croatia	Total spending limit	✓	0/8/1	0.90 (3.02)
Cyprus	Cuts only limit	✓	5/4/0	-0.79 (3.38)
Denmark	No limit	✓	6/3/0	0.60 (1.49)
Estonia	Deficit limit	–	8/1/0	0.03 (0.50)
Finland	No limit	–	4/5/0	1.81 (0.94)
France	Cuts only limit	✓	3/0/6	2.07 (1.07)
Germany	No limit	✓	0/4/5	-1.30 (1.30)
Greece	Accept or reject	✓	3/3/3	-0.33 (3.26)
Hungary	No limit	✓	8/0/1	-0.68 (1.21)
Ireland	Accept or reject	–	2/0/7	0.36 (2.47)
Italy	Deficit limit	✓	3/4/2	-1.30 (0.63)
Korea	Cuts only limit	–	4/0/0	-0.56 (0.65)
Latvia	Deficit limit	✓	9/0/0	0.36 (2.00)
Lithuania	No limit	✓	4/4/1	0.82 (3.28)
Luxembourg	No limit	✓	0/4/5	-0.71 (0.75)
Malta	Cuts only limit	✓	0/0/9	-1.79 (1.97)
Mexico	No limit	✓	4/5/0	0.03 (1.40)
Netherlands	Deficit limit	✓	5/2/2	0.78 (2.02)
Peru	Total spending limit	✓	2/5/2	-0.40 (1.95)
Portugal	No limit	–	5/0/4	0.38 (2.16)
Romania	No limit	✓	3/4/2	1.67 (1.56)
Serbia	Deficit limit	✓	6/3/0	0.85 (3.19)
Slovakia	No limit	✓	0/5/4	1.76 (2.05)
Slovenia	Deficit limit	✓	4/5/0	1.07 (2.45)
South Africa	Accept or reject	–	0/0/9	1.39 (0.57)
Spain	Deficit limit	✓	0/0/9	4.03 (3.03)
Sweden	No limit	✓	6/0/3	0.01 (0.96)
United Kingdom	Cuts only limit	✓	7/0/2	3.22 (2.31)
United States	No limit	✓	1/8/0	3.40 (2.12)

Note: [a] in nat. legislation; [b] right-wing majority/minority/no participation.

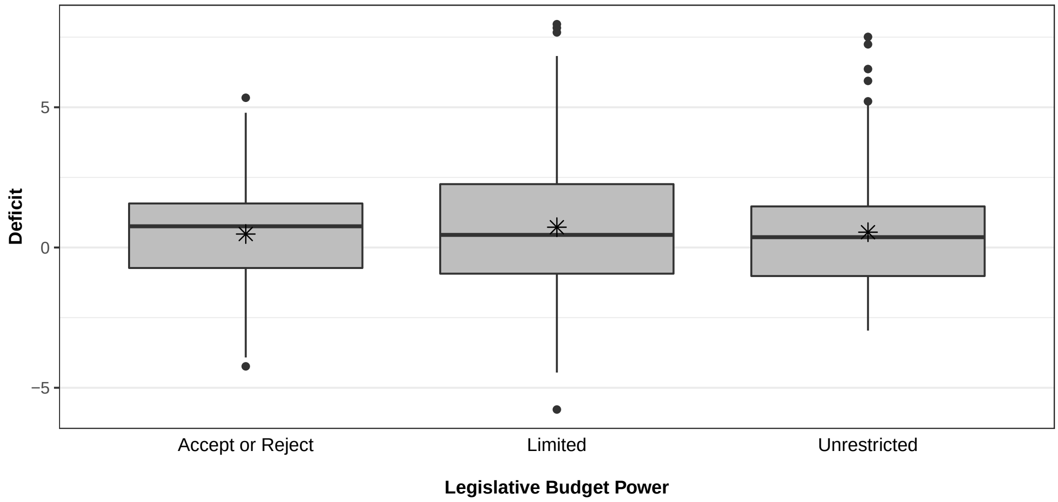
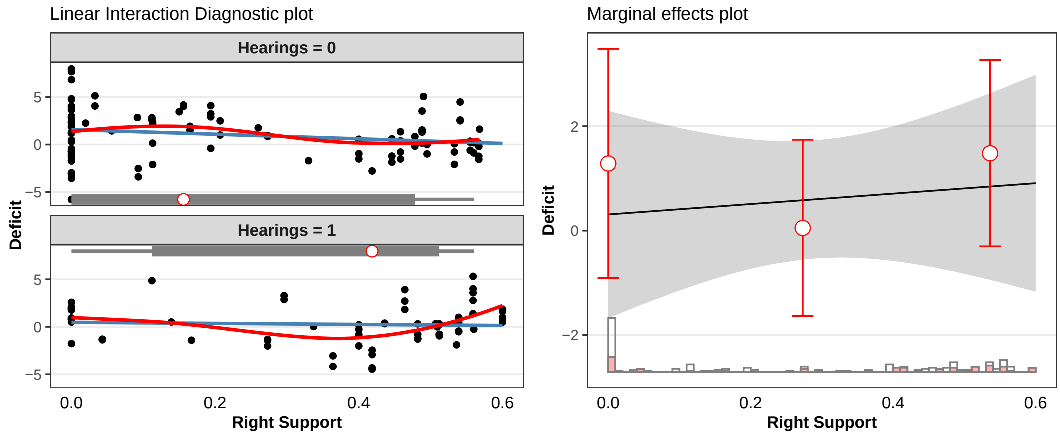


Figure 2: Distribution of deficit by legislative budget powers. Indications for mean values (asterisk) and outliers (dots).

Linear interaction diagnostics

Table 3: Linear interaction diagnostics (Hainmueller, Mummolo and Xu, 2018).

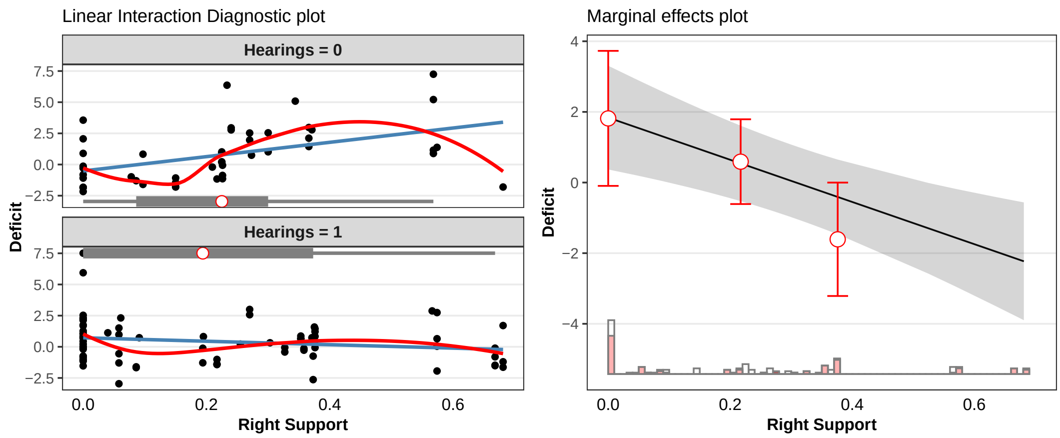
		Checks	
Interaction Term	**Sample**	Conditional relationship well approximated by linear fit?	Equivalence between linear IA model and binning-model?
Hearings * Right Support	Limited budget power	Hearings = 0: good fit; Hearings = 1: upward trend for higher values; see figure 3a (left)	Wald-test: p = .000; *Linearity assumption violated*; see figure 3a (right)
Hearings * Right Support	Unrestricted budget power	Hearings = 0: higher order trends in raw data; Hearings = 1: good fit; see figure 3b (left)	Wald-test: p = .738; *Linearity assumption confirmed*; see figure 3b (right)



Linear estimation (straight), LOESS estimation (curved).

Linear model (line), binning estimator (dots).

(a) Limited budget power.



Linear estimation (straight), LOESS estimation (curved).

Linear model (line), binning estimator (dots).

(b) Unrestricted budget power.

Figure 3: Interaction diagnostics: Hearings * Right Support.

Supplementary material to article

"A New Dataset on the Political Independence of Fiscal Monitoring Institutions"

Table 1: Overview of IFIs in the dataset.

Country	Name (English)	Institutional Model [a]					History [b]				Scores [c]			
		FC	PBO	EC	AS	Oth.	Est.	Leg.	Act.	Reform years	Independ.		Proficiency	
Australia	Parliamentary Budget Office		✓				2012	2011	2012		12.3		5.0	
Austria	Fiscal Council prior Gov. Debt Committee	✓					1970	2002	2002	2013	9.0	▲	4.5	•
Belgium	High Council of Finance	✓					1989	1989	1989	2006, 2013	5.5	▲	4.5	▲
Belgium	Federal Planning Bureau					✓	1994	1994	1994		8.7		2.0	
Brazil	Indep. Fiscal Institution		✓				2016	2016	2017		8.3		4.0	
Bulgaria	Fiscal Council	✓					2015	2015	2015		10.3		5.5	
Canada	Parliamentary Budget Office		✓				2008	2006	2008	2017	12.2	▲	3.0	▲
Chile	Advisory Fiscal Council	✓					2013	2013	2014		5.2		2.5	
Colombia	Advisory Committee for the Fiscal Rules	✓					2011	2012	2012		3.2		5.5	
Croatia	Fiscal Policy Commission	✓					2013	2013	2014		9.3		6.0	
Cyprus	Fiscal Council	✓					2014	2014	2014		13.3		4.5	
Czech Rep.	National Budget Council	✓					2017	2017	2018		14.3		6.0	
Denmark	Economic Council			✓			1962	2012	2014	2016	9.8	•	6.0	▲
Estonia	Fiscal Council				✓		2014	2014	2014		13.3		6.0	
Finland	National Audit Office (section)				✓		2001	2012	2013		13.3		5.5	
France	High Council of Public Finance	✓					2013	2012	2013		10.0		5.5	
Germany	Council of Economic Experts			✓			1964	1963	1964	2006	13.2	•	5.0	•
Germany	Advisory Board to the Stability Council					✓	2013	2009	2014		6.3		7.5	
Greece	Parliamentary Budget Office		✓				2012	2010	2013	2014	7.7	•	3.5	•
Greece	Fiscal Council	✓					2015	2014	2016		13.8		6.5	
Hungary	Fiscal Council (2009-10)	✓					2009	2008	2009		14.2		5.0	
Hungary	Fiscal Council (2012-)	✓					2012	2011	2012	2014	9.7	▲	3.5	▲
Iceland	Fiscal Council	✓					2016	2015	2016		10.2		4.5	

Continued on next page

Country	Name (English)	Institutional Model [a]					History [b]				Scores [c]	
		FC	PBO	EC	AS	Oth.	Est.	Leg.	Act.	Reform years	Independ.	Proficiency
Ireland	Fiscal Advisory Council	✓					2011	2012	2011	2013	12.3 ▲	4.5 •
Italy	Parliamentary Budget Office		✓				2013	2012	2013		15.5	4.0
Korea	National Assembly Budget Office		✓				2003	2003	2004	2006, 2014	11.7 •	3.0 •
Latvia	Fiscal Discipline Council	✓					2014	2013	2014		13.3	5.5
Lithuania	National Audit Office (section)				✓		2015	2015	2015		13.5	4.5
Luxembourg	National Council of Public Finance	✓					2014	2014	2015		6.5	6.0
Malta	Fiscal Advisory Council	✓					2015	2014	2015		10.0	3.0
Mexico	Center for the Study of Public Finances		✓				1999	1998	1999	2006	10.0 •	4.5 •
Netherlands	CPB Bureau for Economic Policy Analysis			✓			1945	2013	2015		12.3	4.0
Peru	Fiscal Council	✓					2015	2013	2015		9.5	3.0
Portugal	Public Finance Council	✓					2012	2011	2012	2014	14.3 •	5.0 •
Romania	Fiscal Council	✓					2011	2010	2011	2015	14.8 •	6.5 •
Serbia	Fiscal Council	✓					2011	2009	2011		11.8	6.5
Slovakia	Council for Budget Responsibility	✓					2012	2011	2012	2013	16.2 •	6.5 •
Slovenia	Fiscal Council (2010-12)	✓					2009	2009	2010		7.5	5.0
Slovenia	Fiscal Council (2017-)	✓					2017	2015	2017		10.8	4.5
South Africa	Parliamentary Budget Office		✓				2013	2009	2013		9.5	3.5
Spain	Indep. Authority of Fiscal Responsibility	✓					2014	2013	2014	2014	14.3 •	4.5 •
Sweden	Fiscal Policy Council	✓					2008	2007	2007	2009, 2011, 2017	9.8 ▼	3.5 ▲
United Kingdom	Office for Budget Responsibility	✓					2010	2011	2011		13.8	5.5
United States	Congressional Budget Office		✓				1974	1974	1975		12.7	2.5

Note: [a] Fiscal council (FC); parliamentary budget office (PBO); economic council (EC); agency section (AS); other arrangement (Oth.). [b] Year of establishment (Est.); legislation as monitoring body (Leg.); start of monitoring activities (Act.). [c] Scores refer to latest legislation; changes to first mandate indicated by tick marks.

Supplementary material

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CifiD Codebook

The *Comparative Independent Fiscal Institutions Dataset* (CifiD) specifies institutional properties of national fiscal monitoring bodies, so-called Independent Fiscal Institutions (IFIs). It comprises data from legislative documents, country reports and case studies to cover earlier institutional designs. Cases in the dataset are covered from the time that they were officially mandated as fiscal monitoring bodies, including in some cases changes to the mandate of existing bodies.

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1. Basic Information

countryname	Country
year	Year of legislative change
name.eng	English name of IFI
abbr	Abbreviation for IFI
estab	First year of operation
cess	Year in which IFI was abrogated
mandate	Year in which IFI was mandated as fiscal watchdog
active	First year of activity as mandated IFI
recent	Most recent legislation
eu	EU member state at the time of legislation
eurozone	Eurozone member state at the time of legislation
maast	Subject to convergence criteria in the Maastricht Treaty
twopack	Compliance with Two-Pack Regulation 473/2013 (need for fiscal monitoring)
veteran	Veteran institution (created before 2007)
homegrown	Homegrown institution (absent external pressure)
reform	Mandated as part of wider reform on public finance framework? (1) Package of reforms (0) Legislation on IFI
legaldate	Date of publication of legislation
inforce	Date legislation entered into force

2. Institutional Properties of IFIs

model **Institutional model**
What is the institutional model of the IFI?
(4) fiscal council
(3) economic council
(2) parliamentary budget office
(1) attached to independent agency
(0) other

scope **Scope of mandate**
How broad is the mandate of the IFI in relation to core objectives?
(1) includes fiscal, macro-economic and structural policies
(0) limited to fiscal policy

nature **Nature of the highest decision-making organ**
What is the nature of the highest decision-making organ of the IFI?
(1) collegial
(0) individual

media **Media impact**
Estimated media visibility and impact (OECD data)
(1) high
(0) low

Evaluation

ev01 Preparation of own fiscal forecasts
ev02 Assessment of official forecasts
ev03 Consistency with policy objectives of the government
ev04 Calculation of costing of policy measures
ev05 Monitoring compliance with fiscal rules
ev06 Assessment of long-term sustainability of public finances
ev07 Provision of policy recommendations

Access to policymakers

ap01 Forecasts are integrated/referenced in budget
ap02 Written official briefings during the budget negotiations
ap03 IFI leadership participates in parliamentary hearings
ap04 Governments have to respond to assessments ('comply or explain' clause)
ap05 IFI can stall the budget process (budget veto)

Legal status

st01 **Legal structure**
What is the legal structure of the IFI?
(2) A separate legal entity/autonomous body
(1) Not a separate legal entity/autonomous body but existence of sufficient firewalls
(0) Not a separate legal entity/autonomous body and no firewalls

st02 **Legal recognition of independence**
How is independence of the IFI guaranteed?
(3) In the constitution / constitutional act
(2) In an act of Parliament / primary legislation
(1) In a secondary act / internal legislation
(0) It is not recognised

Operations

op01 **Own initiative**
Does the IFI have the right to undertake analysis at its own initiative consistent with its mandate?
(1) Yes; (0) No

op02 **Own work programme**
Does the IFI have the right to determine its own work programme within the bounds of its mandate?
(1) Yes; (0) No

op03 **Information collection powers**
Does legislation specify information collection powers towards the government and public administration?
(1) Yes; (0) No

op04 **Right to select own staff**
Does the IFI have the right to select its own staff?
(1) Yes; (0) No

op05 **Safeguards on budget**
Are there safeguards on the IFI budget (multi-annual funding commitment, separate budget line)?
(1) Yes; (0) No

op06 **Source of income**
What is the main source of income of the IFI?
(2) Funding by an independent agency or fund
(1) Funding by state budget or parliament
(0) Government funding only / own revenues

Leadership

le01 **Leadership position: full-time**
Do IFI members hold full-time positions?
(2) Yes, all
(1) Yes, some
(0) No

le02 **Leadership position: remunerated**
Are IFI members remunerated?
(2) Yes, all
(1) Yes, some
(0) No, or discretionary

le03 **Incompatibility rules at the appointment stage**
Are there rules on incompatibility *at the appointment stage* of IFI members so that the highest decision making organ...
(2) cannot be composed of members of government/parliament and industry/lobby groups
(1) cannot be composed of members of government/parliament
(0) no incompatibility rules / not specified

le04 **Extension of incompatibility rules to relatives**
Are incompatibility rules extended to relatives?
(1) Yes; (0) No; (.a) not applicable: no incompatibility rules

le05 **Rules preventing conflicts of interest**
Are there rules preventing conflicts of interest of IFI members *during term of office*?
(1) Yes; (0) No

le06 **Cooling-off period after term of office**
Is there a period during which former IFI members are limited to work for the government or other related agencies (so-called cooling-off period)?
(1) Yes; (0) No

Composition

cm01 **Ex-officio membership**
Are any IFI members seconded ex officio?
(2) No ex-officio members
(1) Yes, minority of members
(0) Yes, all or majority of members

cm02 **Decision-making rights about appointments**
Which political branches are legally involved in the final appointment decision?
(3) Parliament and government jointly appoint members
(2) Only parliament is involved
(1) Only government is involved
(0) No political body is involved

Note: This excludes the final confirmation of candidates who have already been selected by another body, e.g. presidential approvals.

cm03 **Share of IFI members appointed by political branches**
Over which share of all IFI members do political branches (parliament, government) have the final say in appointments?
(3) All members
(2) A majority
(1) An equal part or minority
(0) No members

cm04 **Membership of policymakers**
Are policymakers members of the IFI?
(2) Membership with voting rights / as chair
(1) Non-voting member
(0) No membership

cm05 **Inclusion of external stakeholders**
How are external stakeholders (e.g. industry associations, interest groups) legally involved in the proposal and selection of IFI members?
(2) Right to select and/or delegate members
(1) Right to propose members
(0) No codified rights

cm06 **Inclusion of independent public agencies**
How are independent agencies (e.g. audit office, central bank) legally involved in the proposal and selection of IFI members?
(2) Right to select and/or delegate members
(1) Right to propose members
(0) No codified rights

cm07 **Inclusion of research and advisory bodies**
How are research and advisory bodies (e.g. research departments, other expert councils) legally involved in the proposal and selection of IFI members?
(2) Right to select and/or delegate members
(1) Right to propose members
(0) No codified rights

Term rules

te01 **Limts to the term of office of IFI members**
Are there legal limits to the duration of IFI membership?
(1) Yes; (0) No

te02 **Concurrence of term of office and election cycle**
Is it possible that the term of office of the majority of IFI members coincides with the election cycle?
(2) Yes, term length is lower than election cycle
(1) Yes, term length equals the election cycle
(0) No, term length above the election cycle
(.a) Term length is undefined

te03 **Staggered appointments**
Does the law foresee that IFI members are appointed at different points in time (staggered appointment)?
(1) Yes
(0) No
(.a) Not applicable: no board members

te04 **Renewals of IFI members' terms of office**
What is the situation regarding renewals of IFI membership?
(2) Allowed in more than one instance
(1) Limited to one instance
(0) Renewal not possible
(.a) Not specified

te05 **Rules on the dismissal of IFI members**
How can IFI members be dismissed?
(3) Dismissal not possible
(2) Dismissal possible only for objective grounds listed in the law, no discretion
(1) Objective grounds listed in the law, margin of discretion
(0) Dismissal possible, but grounds not listed in the law
(.a) No rules on dismissal defined by law

Knowledge

kn01 **Legal requirements for professional expertise**
Are requirements for professional expertise (i.e. knowledge, experience) for IFI members specified in the law?
(1) Yes; (0) No

kn02 **Legal requirements for qualifications**
Are requirements for qualifications (e.g. education, diploma, academic post) for IFI members specified in the law?
(1) Yes; (0) No

kn03 **Possibility of non-citizenship**
Legislation on the membership of the IFI...
(1) Does not exclude non-citizens from membership
(0) Explicitly excludes non-citizens from membership

kn04 **Legal option to seek external advice**
Does the law foresee that the IFI can seek external advice?
(1) Yes; (0) No

Transparency

tr01 **Periodical publications defined in legislation**
Does the law specify that the IFI needs to periodically publish reports?
(1) Yes; (0) No

tr02 **Addressee of key publications**
Who is the primary addressee of key publications of the IFI?
(2) The public at large
(1) Political bodies (parliament, government)
(0) Not specified

tr03 **Legal requirement on external audit**
Is a regular external auditing of the financial situation foreseen by legislation?
(1) Yes; (0) No

3. Indices

All sub-indices are normalised (range 0 - 1).
Inversion of item answer categories is noted by *inv()*.

eval	Evaluation: *ev*01 + *ev*02 + *ev*03 + *ev*04 + *ev*05
acce	Access to policymakers: *ap*01 + *ap*02 + *ap*03 + *ap*04 + *ap*05
stat	Statutory guarantees: *st*01 + *st*02
oper	Operational autonomy: *op*01 + *op*02 + *op*03 + *op*04 + *op*05 + *op*6
lead	Leadership autonomy: *le*01 + *le*02 + *le*03 + *le*04 + *le*05 + *le*06
memb	Membership safeguards: *inv*(*te*02) + *te*03 + *inv*(*te*04) + *te*05
comp	Non-political composition: *inv*(*cm*03) + *inv*(*cm*04)
inte	Integration: *cm*05 + *cm*06 + *cm*07
know	Knowledge level: *kn*01 + *kn*02 + *kn*03 + *kn*04
tran	Transparency: *tr*01 + *tr*02 + *tr*03

Main composite indices, range in brackets:

power	Index on powers (0–10): *eval* + *acce*
indep	Index on formal independence (0 – 20): *stat* + *oper* + *lead* + *memb* + *comp*
profi	Index on formal proficiency (0 – 10): *inte* + *know* + *tran*
capacity	Index on formal IFI capacity (0 – 40): *power* + *indep* + *profi*

Supplementary material
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Sources for the document analysis

The following list contains the primary sources of the document analysis for the creation of the *Comparative Independent Fiscal Institution Dataset* (CifiD). The documents were translated into English and coded manually in accordance with the CifiD questionnaire. Please consult the research note for more information.

Primary sources

Notation:
L – date of promulgation of legislation
F – date of legislation entering into force

Austria, Government Debt Committee / Fiscal Council

2002
Federal Law on the Creation of the Government Debt Committee, 16/2002
L 08/01/2002, F 09/01/2002

2013
Federal Law on the Creation of the Fiscal Council, 149/2013
L 31/07/2013, F 01/11/2013

Australia, Parliamentary Budget Office

2011
Parliamentary Service Amendment (Parliamentary Budget Officer) Act 170/2011 Part 7, Div. 2,3
L 04/12/2011, F 15/02/2012

Belgium, Federal Planning Bureau

1994
Act establishing the Federal Planning Bureau MB 23/12/1994, Title VIII
L 21/12/1994, F 23/12/1994

Belgium, High Council of Finance

1989
Royal Decree on the High Council of Finance 1989-06-20/30
L 20/06/1989, F 28/04/1989

2006
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