

Submission to the Joint Select Committee on the Parliamentary Budget Office

Civil Liberties Australia would like to contribute to the inquiry of the Joint Select Committee on the Parliamentary Budget Office by providing a knowledgeable commentary on how equivalent systems are structured, and operate, in the US Congress, and draw out possible lessons for Australia.

CLA is in contact with Dr William G. Jack, who is an Australian and Associate Professor of Economics at Georgetown University in Washington DC with specific interests in public economics and development. He has first-hand experience in the US Congress, having worked as an economist for the Joint Committee on Taxation over the three years 1992-94, during President Clinton's budget reforms and his ultimately unsuccessful health care reform attempts. Subsequently, Dr Jack has been involved with many public system design initiatives worldwide, particularly in health.

In making these comments, CLA draws heavily on his knowledge/experience.

From the Terms of Reference (ToR) for the Parliamentary Budget Office (PBO), there are a number of bodies in the US that could serve as useful comparators, although there appears to be no direct match between any one of them and the proposed PBO. It may well be that the PBO hopes to engage in a range of activities that are currently undertaken by separate offices in the US Congress: if so, it will be most important to clearly delineate which precise aspect of which office(s), in the USA (or in the UK, or elsewhere) are meant to be duplicated in the work of the PBO.

There is an inherent danger in misinterpreting what actually makes each office work effectively and, in relation to the US Congress offices, how their interaction is a crucial aspect of the general positive outcomes from their work.

Firstly, it is useful to establish a basic understanding of three relevant US bodies, the Joint Committee on Taxation (JCT), the Congressional Budget Office (CBO), and the General Accounting Office (GAO).

Joint Committee on Taxation

The staff of the JCT consists of PhD economists, attorneys and accountants who provide what might best be called prospective advice to Members of Congress on matters of tax policy. That is, the staff help congressmen and their staffs design tax-related legislation: JCT staff draft the statutes, and estimate the revenue (and sometimes distributional) effects of changes in the tax laws.

The revenue estimation function is a particular crucial one, especially in the context of various congressional rules that require budgets to be balanced (in some often ill-defined sense).

Given these tasks, the JCT is jealously independent: it works for Congress, but must stay entirely objective and adopt transparent and scientifically sound procedures. (This is one of the reasons it is staffed mostly by high-achieving academics). In addition to the work described above, the legal staff draft relevant legislative histories in order to put changes in tax policy into context, and to assist in their interpretation by the executive arm of government. In general then, the JCT provides forward looking advice on new proposals, as well as doing some investigative work.

Congressional Budget Office

The CBO is similar to the JCT, but – broadly – operates on the expenditure side of the budget process, as opposed to the revenue side. It provides analyses of all budget issues considered by Congress. It defers to the JCT on legislative actions that involve changes to the Internal Revenue Code, but it does its own estimates of the revenue impacts of non-tax changes, as well as estimating the costs and potential effects of spending proposals.

Each year, it sets the budgetary scene for Congress, by producing estimates of the federal budget (revenues and expenditures) over the next 10 years, under the assumption that current law remains in place.

On many occasions (such as the recent – successful – health care reform legislation), the CBO and the JCT cooperate closely in their work, as legislative changes can affect both taxes and other revenue sources, and spending. The CBO staff, like that of the JCT, is well-known to be non-partisan and objective, and made up of highly-trained economists, lawyers, and accountants.

General Accounting Office

The GAO provides oversight of the way the executive branch implements congressional legislation. It is often referred to as the "congressional watchdog",

which sounds like it is watching over Congress, but it is more accurate to say that Congress is the owner of this dog, and uses it to watch over the people who carry out Congress' intentions.

The GAO has less power in a way, as it is not in much of a position to influence policy, but it does audit the actions of agencies to ensure federal funds are spent "efficiently and effectively", investigates allegations of improper use of federal funds, and assesses the extent to which agencies are achieving the goals set. Again, most of this is, in a sense, ex post auditing; by contrast, the JCT and CBO perform ex ante analysis of proposed changes in federal budgetary legislation.

The proposed PBO is probably well described as a mix of the JCT and the CBO of the US Congress. These institutions are well regarded in the USA (amongst those who know what they are – not many people are really that interested in the detail of developing legislation and tax initiatives). The extent to which they are well regarded is that the *Washington Post* will semi-regularly refer to the "highly respected JCT", for example.

There is never much 'political' debate about the analyses themselves that the JCT produces...because of its reputation: people think of the JCT as a black box that would reliably spit out estimates of the impact of legislation. This reputation was earned over the 85-year history of the JCT (started in 1926). Similarly, the CBO is seen as an impartial umpire, although it is more often challenged, maybe for the simple reason that people find tax/revenue policy a little more obscure than expenditure policy.

This long and proud history of the JCT and CBO sounds a warning to any attempt to duplicate their work in Australia in a PBO. The PBO will require very high quality staff, and plenty of them, so as to be able to earn a reputation in the first decade for absolutely unimpeachable quality output.

The PBO will need well-trained people with a high level of technical skill, a somewhat academic (although not too theoretical) bent, and senior staff leading with significant experience of the budget process.

Non-partisanship – and the unfettered ability to remain independent – is mandatory. It is a must because often the way to analyze a budget proposal might be open to some debate, and you want the methodological approach to be chosen on the basis of sound judgment, not political expediency. (italic, for emphasis)

For example, the impact of a reduction in the tax rate on capital gains could be to increase revenues over the long run, if it led to more efficient allocation of capital, higher growth, and increases in asset values. But it is more than likely to lead to a revenue loss over the long run, as the impact on the economy would not be that large. On the other hand, in the short run, the impact of such a tax cut may

very well be to increase revenue...because people respond to the reduction to rebalance their portfolios, to finally get rid of that old house, or whatever.

A sensible revenue estimate would account for this short-term blip while recognizing the long-term fall. But a politically strategic approach (by someone wanting to pass the legislation) would be to report only the one-year effect.

It is not unknown for politicians to attempt these kinds of shenanigans in many countries, and one role of the proposed PBO would be to guard against such abuses. (While there may be already an agreed method of estimating revenue impacts, budgetary officials worldwide are bedeviled by specially-chosen 'opportunity windows' of time).

In regards to staffing, the JCT in the USA is formally made up of members of the House Ways and Means Committee and the Senate Finance Committee, the two tax-writing committees of the Congress. These committees have their own majority and minority staffs – ie, they are partisan committees. On the other hand, the JCT has non-partisan staff. None of the staff work for a particular member: they all just work under the Chief of Staff, who reports directly to the members. This helps maintain independence.

The staff do work closely with (partisan) congressional aides, but only as impartial providers of analysis, as much as anyone can be impartial. Everyone has some kind of beliefs about what government should do, but the JCT and CBO staff try to remain above allowing their personal opinions to influence their work, if possible.

CLA's recommendations

CLA believes the committee might be best advised to hasten slowly in coming to final conclusions as to the proposed PBO, and to follow a timeline such as:

- a. Define precisely, in a formal report, what role and workload the proposed PBO will have, and how it will relate to other existing entities (the Parliamentary Library, Senate research staff, Australian National Audit Office, etc)...that is, a., b. c. and d. of the committee's current brief;
- b. Allow 12 months for public discussion and comment on the above report, particularly by agencies affected by the proposed PBO role and work, to help eliminate inter-operability problems; and
- c. Reconvene to determine and report on the recommendations covered by e. (i) to e. (vi) of the brief (that is, the structure and relationships of the proposed PBO).

As we point out above, the PBO is a body which needs to be adequately staffed (both in quality and numerically), very well resourced financially and given resolute support to be able to operate fiercely independent of executive government, political party or other influence.

Given that the PBO is likely to be one of the most significant changes to how the Australian Parliament operates for a century ahead, CLA does not believe that rushing the committee deliberations/reporting is a wise move.

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Microeconomic theory, public economics, game
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2001-2004, Assistant Professor, Georgetown
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2000, Consultant, Development Economics Research
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1996-1998 Research Fellow, Centre for Economic
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1994-1996 Economist, European I Department,
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1992-1994 Economist, Joint Committee on Taxation,
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Professional activities

Referee: *American Economic Review*, *Health Economics*, *Health Policy*, *Health Policy and Planning*, *IMF Staff Papers*, *Journal of Development Economics*, *Journal of the European Economic Association*,

Journal of Health Economics, *Journal of Public Economics*, *Journal of Public Economic Theory*, *Rand Journal of Economics*, *Journal of Economic Theory*, *World Bank Economic Review*,

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Honours and Awards

Jean Monnet Fellowship, European University
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Rhodes Scholarship, Western Australia, 1987

The H.C. Levey Prize (Mathematics) University of
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Publications

Theory/empirical papers

[1] "Conditioning aid on social expenditures,"
forthcoming, *Economics and Politics*

[2] "Protecting the vulnerable: the trade-off between
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Book

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World Bank and IMF reports and papers

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"Power Sharing and Pollution Control: Co-ordinating Policies Among Levels of Government," working paper WPS 887, 1992, Public Economics Division, CEC Department, World Bank.

Policy consulting

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