

# **Making Fiscal Policy Flexibly Independent of Government**

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The art of good government is to constantly review practices to see where improvements can be made. The guiding principles should be to design systems that make it clear what the medium-term goals are, to choose

The central problem is that fiscal expansion is generally more politically popular than contraction, which generates a bias towards expansion.<sup>2</sup> There are at least three ways (not all of them mutually exclusive) to constrain governments' control of fiscal policy: to develop institutions which maximise the transparency of fiscal policy; to distance governments from the management of fiscal policy; and to establish and/or constitutionally entrench rules governing the conduct of fiscal policy. The first and third of these options have attracted most attention. Yet in the area of monetary policy the second approach has been most prominent: in several countries monetary authorities either control or heavily influence the management of monetary policy with some degree of independence from governments.

### **Mandating Fiscal Transparency**



cent. To introduce the scheme being outlined here, legislation would be enacted which would specify that the effective tax rate to be charged would be the legislated rate *multiplied by the taxation parameter* which would initially be set at 1. As the new arrangements were introduced, it would become possible to vary the taxation parameter away from its initial value with consequent effects on tax rates and so, other things being equal, the stance of fiscal policy. Table 1 illustrates the effect of changes in the taxation parameter.

These rates could be changed within a pay day or so for PAYE and indirect

discretion in the way the rule is satisfied. But it is also subject to some of the drawbacks of rules: for example, the rule involving budget balance over the cycle

because institutional arrangements prevent rapid changes of fiscal policy. Indeed, if changes to the stance of fiscal policy could be implemented rapidly, they would have important advantages over monetary policy: they can influence the economy more quickly and in a less sector-specific way than monetary policy, which has very uneven effects concentrated in investment, capital-intensive consumption and

deliver lower interest rates than their opponents. But they respect the institutions of independence by not promising that they will lower them directly under s.11 of the Reserve Bank Act, or that they will dismantle the institutions of monetary independence. This has a salutary effect: politicians who want to argue

Here no public alternative to the private tollway was considered, because it

Second, it is possible that, despite their isolation from day-to-day politics and

quickly to moderate inflationary pressures. (Increases in indirect tax will reduce demand but their first-round effect will be to raise prices and so exacerbate inflation.) However, I am uncertain why Ball excludes company tax from the



