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Varieties of technocracy and the diffusion of national fiscal councils in the European Union: Agents, trustees or orchestrators of fiscal discipline?

Tobias Tesche



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**‘The troika is dead, long live the domestic troikas?’
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Abstract

This article shows that the troika institutions—the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF)—formed a technocratic consensus about the desirability of establishing national fiscal councils in the European Union (EU). Considerable disagreement existed, however, with regards to their design features. Each institution promoted a distinct mode of indirect governance by ranking national fiscal councils depending on their adopted governance model (agent, trustee or orchestrator). This persuasion through *entrepreneurial benchmarking* constitutes an important mechanism by which member states were nudged to adopt a distinct fiscal council model. Preference heterogeneity among the troika members ultimately prevented the spread of a one-size-fits-all fiscal council in the EU.

Keywords

Fiscal policy, independent fiscal councils, indirect governance, international organisations, orchestration

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Introduction

The euro area crisis triggered a reform effort tailored towards fixing dysfunctional fiscal institutions with a focus on addressing the compliance gap that plagued the Stability and Growth Pact (SGP). But how could the Economic and Monetary Union's (EMU) fiscal architecture regain its credibility given that the European Commission had proven to be too lenient as a fiscal watchdog? Decentralisation of fiscal surveillance by creating expert fiscal councils at the national level was proposed as a potential remedy. The International Monetary Fund (IMF) defines a fiscal council as

a permanent agency 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, short-medium-term macroeconomic stability, and other official objectives (Debrun et al. 2013, 8).

If these new technocratic bodies could build up a reputation for 'unbiased' analysis and disseminate their reports to the public, they could govern fiscal discipline indirectly through enabling intermediaries (i.e. voters, media, credit rating agencies or parliamentarians) to adequately judge the government's fiscal competence (Beetsma and Debrun 2017). As a result, the compliance gap would be narrowed and negative externalities for the whole eurozone contained because existing informational asymmetries would be evened out leading to a more prudent fiscal policy.

The first fiscal council in Europe was established in 1945 in the fiscally hawkish Netherlands, followed by others in Denmark (1962), Austria (1970), Belgium (1989) and Sweden (2007). It was, however, not until the 2008 financial crisis that the number of fiscal councils rose in the European Union (EU) (see Beetsma et al. 2018, 6-7; Debrun et al. 2013, 11). The sovereign debt crisis subsequently accelerated the spread of fiscal councils even more. The diffusion of fiscal councils constitutes the second wave of delegation to technocratic non-majoritarian institutions after the rise of independent central banks and regulatory agencies in the 1990s (McNamara 2002). But in contrast to the previous wave, it did not result in the spreading of a one-size-fits-all governance model. What explains this variance in the design features of fiscal councils in the EU? An explanation based on coercive pressures exerted by powerful member states attempting to impose constraining institutions on fiscally profligate governments through EU-wide regulations would lead us to find such a one-size-fits-all fiscal council. Yet, this is not what we observe empirically. Fiscally hawkish Germany has set up a fiscal council that leaves too much space for political meddling and lacks the financial resources to build up sufficient analytical capacity (Kopits 2013; Fromage 2017). In contrast, the repeated SGP-violator Portugal has exceeded the minimum legislative requirements and created an effective vanguard fiscal council (von Trapp, Lienert, and Wehner 2016; Horvath 2018). This article contends that by focusing on the influence of different international organisations (IOs) in the diffusion of fiscal councils this puzzle can be solved. Broome and Seabrooke (2012) have shown that IOs use 'analytic

institutions' to make their member states 'legible', which in turn allows them to construct cognitive authority in certain policy areas. Thus, IOs have the capacity to instigate domestic institutional change indirectly. As this article will show, this task becomes harder as different IOs compete in the same policy area to assert their cognitive authority over others. In the case of fiscal councils, IOs have relied on indices to interpret their member states' experience with them and to promote a certain conceptual model that is in line with their own institutional self-interest and policy goals. This type of persuasion through *entrepreneurial benchmarking* constitutes the key mechanism by which member states were nudged to adopt a specific conceptual model. While the troika institutions—the European Commission, the European Central Bank (ECB) and the IMF—formed a technocratic consensus about the desirability of establishing a fiscal council, considerable disagreement existed with regards to their design features. As a result, the respective benchmarking indices proposed by IOs differ markedly with regards to the rankings. The Estonian fiscal council, for instance, is ranked above average by the IMF's index but only below average by the Commission's index. The three troika members ultimately undermined each other's persuasion efforts and, thereby, prevented the emergence of a one-size-fits-all fiscal council model.

This article will derive three conceptual models of fiscal councils from the literature and categorise them according to a specific mode of indirect governance (i.e. delegation, trusteeship and orchestration). Subsequently, the main transmission mechanism of each model to foster fiscal discipline will be elucidated. The following section shows why each troika institution supported a distinct mode of indirect governance, which ultimately undermined the emergence of a one-size-fits-all conceptual model of a fiscal council. Finally, the article concludes with a summary of the main findings and its wider implications for EMU governance.

Three conceptual models of fiscal councils

The three troika institutions formed a technocratic consensus that propagated fiscal councils as a panacea for fiscal profligacy (European Commission 2006; European Central Bank 2010; Debrun and Kumar 2007; Debrun, Hauner, and Kumar 2009; Debrun 2010; Debrun et al. 2013). Yet, they had very different motivations for promoting fiscal councils in the first place: (1) the Commission wanted to improve compliance with the SGP and increase local ownership of the fiscal rules but without endangering its monopoly power as the 'fiscal rule interpreter of last resort' (European Commission 2006, 2014); (2) the ECB wanted to anchor monetary dominance more firmly in EMU's governance architecture and prevent negative spillover effects from fiscal profligacy (cf. Henning 2016); and (3) the IMF wanted to maintain global financial stability and ensure repayment of their financial assistance by reinforcing EMU's fiscal discipline. But which fiscal council design would best achieve these diverse policy goals? After all, eurozone member states were in charge of implementing EU legislation that mandated the creation of a 'functionally autonomous' fiscal council

(Jankovics and Sherwood 2017, 10; Fromage 2017, 111)¹. Especially the ECB and the IMF favoured a more independent fiscal council because they had less leverage over member states than the Commission. Thus, a fiscal council managed in a non-hierarchical fashion and insulated from governmental pressures would be more likely to achieve their policy goals. However, the Commission was adamant that a fiscal council’s mandate should be limited to the monitoring of compliance with the fiscal rules and the assessment of macroeconomic forecasts tightly controlled by the government (agent model). The ECB argued in favour of a highly independent fiscal council with direct control over fiscal instruments to target a specific deficit or debt level in order to limit the available fiscal policy choices of governments (trustee model). The IMF argued that fiscal councils should indirectly govern fiscal policy by providing ideational support to intermediaries (like voters, the media or parliament) that would then be empowered to adequately judge the fiscal competence of the government (orchestrator model). These heterogeneous views on fiscal councils rendered it more difficult for any of the troika institutions to impose its preferred model.

In each case the policy goal of the respective IO determines the preferred institutional design of the fiscal council. A principal initiating a new indirect governance relationship has to make two fundamental choices. First, she has to decide whether to grant authority to a new institution or to enlist a pre-existing one. Second, she has to decide whether to manage this relationship through hierarchical or non-hierarchical controls (Abbott et al. forthcoming). In choosing the appropriate indirect governance arrangement the principal faces a ‘competence-control trade-off’ because fully autonomous agents are likely to use their competencies to turn against the principal’s initial preferences, whereas less competent agents can be easily controlled but increase the chance of policy failure. As a result, Abbott et al. (forthcoming) distinguish four modes of indirect governance.

		MANAGEMENT (EX POST)	
		Hierarchical	Non-hierarchical
INITIATION (EX ANTE)			
Granting authority		<i>Delegation</i>	<i>Trusteeship</i>
Enlisting authority		<i>Cooptation</i>	<i>Orchestration</i>

Figure 1: Modes of Indirect Governance (Abbott et al., forthcoming)

¹ In the intergovernmental Treaty on Stability, Coordination and Governance in the EMU (TSCG), which entails the so-called Fiscal Compact, it was the amendment to the preventive arm of the SGP (EU Regulation 1466/97), the ‘Six-pack’ (EU Directive 2011/85) and the ‘Two-pack’ (EU Regulation 473/2013) that instructed eurozone members to create a fiscal council (Fromage 2017, 111).

Delegation constitutes the dominant mode of indirect governance. It describes a regime in which a principal grants authority to an agent that is subject to ex ante and ex post controls (Hawkins et al. 2006). The principal can write a detailed delegation contract and assign certain tasks to the agent. If the agent acts outside of his mandate, he will be sanctioned under the ultimate threat of revoking the granted authority. A fiscal council that is supposed to give an impartial assessment of the government's fiscal policy might find it hard to build up a reputation if it is obvious that any confrontation with the government would trigger immediate sanctioning. This hierarchical type of ex post control stands in marked contrast to the non-hierarchical way. The latter type gives the agent more degrees of freedom and, thus, reaps the benefits of relative policy autonomy. In a trusteeship, a trustor (principal) grants authority to a trustee (agent) who has considerable discretion in interpreting its mandate (Abbott et al. forthcoming; Majone 2001). As a consequence, the initial authority relationship might be inverted ex post (Abbott et al. forthcoming; Thatcher and Stone Sweet 2002). A government that creates a trustee fiscal council might find that it will gradually lose its ability to conduct fiscal policy through taxing and spending. If the trustee fiscal council interprets its mandate broadly, it will expand its competencies related to various aspects of fiscal policy. A third mode of indirect governance is orchestration which describes 'the mobilization of an intermediary by an orchestrator on a voluntary basis in pursuit of a joint governance goal' (Abbott et al. 2015, 722). Orchestrating fiscal councils rely on parliamentarians, voters and rating agencies (intermediaries) to disseminate their assessments about the true state of the government's public finances to govern fiscal policy choices (target). Finally, co-optation describes a mode in which the co-optor (principal) enlist a co-optee (agent) with the goal to reverse pre-existing authority relationships and, thereby, empower itself at the expense of the agent (Abbott et al. forthcoming). Co-optation is a constant threat for fiscal councils and has led to a significant weakening of the authority of the Hungarian fiscal council by the Orbán government (Kopits and Romhányi 2013). Beyond the Hungarian case no empirical evidence exists, which is why this mode of indirect governance will not be further explored here. This section presents the key features of three ideal types of fiscal councils: the agent, the trustee and the orchestration model.

Fiscal councils as agents: fiscal rule monitoring and forecast assessment

A stripped-down version of a fiscal council acting as an agent on behalf of a principal would limit its role to the monitoring of the fiscal rules and/or assessing macroeconomic and budgetary forecasts. Such a minimalist version would have several benefits for the principal. First, an agent would operate hierarchically under the control of elected representatives. Second, it would not be in direct control of any fiscal instruments. Thus, it would not cause any issues related to democratic legitimacy. Third, the principal would have the right to sanction the agent if it overstretched its mandate (hard control). Herein lies a major risk for the credibility of a fiscal council acting on behalf of a political principal. Even though agents can pursue strategies to enhance their autonomy (Hawkins and Jacoby 2006), it is harder when the costs of

revoking the delegation of competences are low for the principal. A hawkish fiscal rule monitor that does not shy away from publicly voicing its concern about a government's fiscal policy stance could face fiscal starvation. Fiscal councils require relatively little financial resources to operate but are still susceptible to budget cuts. If the financial and operational independence is not sufficiently guaranteed, a credible monitoring of the fiscal rules is not achievable. It would also make it harder to reduce the forecasting error in the government's macroeconomic and budgetary projections. Furthermore, it might be overly costly to write a detailed *ex ante* contract that accounts for all future contingencies in the principal-agent relationship (Kopits 2007). The increased complexity of the fiscal rules has turned monitoring them into a discretionary task. Regulating this discretion in a P-A contract is neither feasible nor desirable. This, however, can lead to agency loss which can be generated if the agent 'shirks' or if the delegation itself provides perverse incentives to go against the principal's preferences ('slippage') (Pollack 1997). In contrast, if the fiscal council seeks to broaden its mandated tasks, it might have an incentive 'to interpret the rules in principal-friendly ways' (Hawkins and Jacoby 2006, 206). The credibility and reputation of the fiscal council would suffer and render it an ineffective fiscal rule monitor and forecaster. In sum, an agent fiscal council is likely to be characterised by the following observable implications: a low level of political, financial and personal independence, a mandate that is limited to fiscal rule-monitoring and forecasting excluding the possibility to make binding fiscal policy choices, and low public awareness. An agent fiscal council usually has only weak ties to other actors like the Parliament because it interacts predominantly with the government.

The trustee model of an independent fiscal council: conducting fiscal policy

The trustee fiscal council is inspired by the independent central bank model (Wyplosz 2005; European Central Bank 2010; Coeuré 2016). It suggests that an independent fiscal council should mimic the success of inflation-targeting central banks (Wyplosz 2005; Blinder 1997). Importantly, it puts a premium on political insulation over reputation building to enhance the credible commitment of the government to fiscal prudence. Accordingly, fiscal policy like monetary policy needs to be insulated from political pressures to overcome the time-inconsistency problem. Politicians facing short-term incentives will deviate from the optimal fiscal policy path (Alesina and Tabellini 1990; Persson and Svensson 1989). To address the inherent deficit bias, politicians can credibly commit to fiscal prudence by delegating authority in the realm of fiscal policy to independent technocrats (Majone 2001). The trustee could then set the overall long-term objectives—for example, debt targets—and determine the short-term fiscal balance that is compatible with them (von Hagen and Harden 1995; Eichengreen, Hausmann, and von Hagen 1999; Calmfors 2003). In an extreme case, a trustee fiscal council could even make binding fiscal policy choices like setting the level of taxation and expenditures to achieve long-term debt sustainability. Existing proposals regarding a mandate differ with respect to the optimal combination of

control over targets and policy instruments (see Debrun, Hauner, and Kumar 2009). According to Wyplosz (2005, 72):

the proposal's main advantage in comparison with budget rules is to replace mechanical limits with judgement, exactly as inflation targeting does in comparison with monetary aggregate rules. The demonstrated success of MPCs [Monetary Policy Committees] to balance their *long-term* objective against shorter-run output stabilization can be replicated in the case of FPCs [Fiscal Policy Committees]. What seems to be squaring the circle, combining short-run flexibility with long-run discipline, can be achieved in the area of fiscal policy in the same way as it has been achieved in the area of monetary policy.

A trustee fiscal council would exhibit the following observable characteristics: a high level of political, financial and personal independence, and a mandate that goes beyond merely fiscal rule-monitoring and forecasting explicitly allowing for the possibility to make binding fiscal policy choices with high distributive consequences, thus raising the level of public awareness (European Central Bank 2014, 96; Coeuré 2016). However, the trustee model would need to overcome serious obstacles to be implemented in practice. First, time-inconsistency as the sole origin of the deficit bias in fiscal policy might be misleading. The political economy literature on the deficit bias points to a panoply of potential origins (Debrun et al. 2013, 43; Larch and Braendle 2018) but no straightforward methodology exists to correctly identify them. Second, the trustee model leaves the control of fiscal policy instruments in the hands of unelected technocrats. The right to tax and spend is a sovereign prerogative of elected representatives and cannot be easily delegated without constitutional amendments ('no taxation without representation') (Wren-Lewis 2013). Third, there is no proven track record of a fiscal council controlling fiscal instruments instead of the government (Wren-Lewis 2013). This is not surprising given the lack of consensus regarding the goals of fiscal policy (Ódor 2014, 7; Leeper 2010). While monetary policy theory has steadily evolved, only recently a trend towards the 'scientisation' of fiscal policy has emerged. Fourth, politicians prefer not to fully lose control over fiscal policy because redistribution allows them to build winning coalitions of voters to boost their re-election prospects (Alesina and Tabellini 2007). Thus far, these hurdles have prohibited the implementation of the trustee model.

Fiscal councils as orchestrators: nudging governments towards fiscal discipline

Orchestration defined as 'the mobilization of an intermediary by an orchestrator on a voluntary basis in pursuit of a joint governance goal' (Abbott et al. 2015, 722) is perfectly suited to illustrate the transmission mechanism of a fiscal council. First, orchestrating fiscal councils lack hard control over the targets they want to govern (Abbott et al. 2015, 720). They neither possess decision-making authority nor do they have legally-binding enforcement powers (Kopits 2011; Hemming and Joyce 2013). A fiscal council might want to reduce the budget deficit to meet the Maastricht criteria

but has no control over the fiscal instruments to directly achieve this goal. This allows other actors to dismiss the orchestrator's recommendations, yet, it might be politically costly to do so if the latter possesses a high reputation and a degree of focality in budgetary politics.

Second, an orchestrator enlists a voluntary intermediary whose goals are aligned. Fiscal councils (orchestrator) can enlist voters, the media, credit rating agencies or parliamentarians with a strong preference for fiscal discipline (intermediaries) by providing ideational support, such as nonpartisan budgetary forecasts, normative assessments and recommendations or costing of specific fiscal policy measures (soft inducements) to influence the fiscal policy choices of the government indirectly (target). Informational asymmetries or imperfect information often hinders voters and opposition parties from fulfilling their role in a system based on checks and balances. The average voter struggles to verify whether a fiscal policy measure will be budgetary neutral (Calmfors and Wren-Lewis 2011). Thus, the electorate may not be able to observe the 'true' fiscal position of the government. In the absence of a sufficient understanding of the intertemporal budget constraint ('fiscal illusion'), voters might be prone to succumb to over-optimism regarding the true state of public finances (Calmfors 2010, 2015). If governments exploit this informational asymmetry for electoral gain, the well-known political business cycle will ensue and create persistently high budget deficits ('deficit bias'). Fiscal councils can break this vicious circle by sending a credible signal to voters about the 'true' fiscal stance of a government. The credibility of the signal will be stronger if the fiscal council enjoys a reputation for non-partisanship. The main difference between a fiscal council as a trustee and as an orchestrator is then that the former can make binding fiscal policy decisions, whereas the latter cannot.

Third, by enhancing fiscal transparency, better informed citizens will make better decisions when judging the government's fiscal competence (Beetsma and Debrun 2017). Governments target individual groups through increased spending to reward the loyalty of their constituency (Weingast, Shepsle, and Johnsen 1981; Calmfors 2010; Calmfors and Wren-Lewis 2011; von Hagen 2013). 'Unbiased' information and public recommendations might reinforce the *ex-ante* and *ex-post* scrutiny on budgetary matters. In sum, a fiscal council can 'nudge the intermediary toward governance goals that are compatible with its own goals' (Abbott et al. 2015, 722) and, thereby, influence fiscal policy indirectly. An orchestrating fiscal council is characterised by the following observable implications: a relatively lean budget compared to other independent agencies, high public awareness due to a well-developed network of intermediaries and communication strategy and sufficient access to information. In contrast to an agent under hierarchical control, an orchestrating fiscal council has strong ties to other actors like the parliament because it tries to enlist as many intermediaries as possible to trigger a reaction from the government. If an orchestrator can build up a reputation for non-partisanship, it can enjoy high levels of public support which, in turn, will bolster its institutional independence.

Explaining the diffusion of heterogeneous models of fiscal councils in the EU

International Organisations can play an important role in domestic institutional change. They can rely on ‘analytic institutions’ to interpret the experience of their member states, which allows them to construct cognitive authority in a wide array of policy fields (Broome and Seabrooke 2012). However, IOs are not neutral observers but self-interested players that try to advocate institutional change in line with their own agenda. They often use their ‘analytic institutions’, such as different indices, to promote their preferred conceptual model. This *entrepreneurial benchmarking* is defined here as the indexing of institutional models according to selected criteria to persuade actors of the benefits of a specific conceptual model preferred by the respective organisation. The IMF often makes use of ‘associational templates’ that compares the experiences of a regional peer group like the EU to make its advice to member states more palatable (Broome and Seabrooke 2007). If different IOs simultaneously promote heterogeneous conceptual models, member states have more wiggle room to ‘pick and choose’ from the available menu options.

Before the 2008 global financial crisis only five fiscal councils existed in the EU. When Hungary became the first country to ask for financial assistance in November 2008 it provided a window of opportunity for the Commission and the IMF to put pressure on the Hungarian government to install a fiscal council. A loan agreement with the IMF allowed the country to tap the EU’s balance-of-payment facility for non-euro area countries, which gave the IMF and the Commission additional leverage to enforce its conditionality. However, even under maximum external pressure it was not clear which conceptual model of a fiscal council should be adopted (Kopits and Romhányi 2013, 216). Ultimately, the Hungarian Parliament passed the Fiscal Responsibility Law that foresaw the creation of an orchestrating fiscal council that would have sufficient ‘dissuasive authority’ to put pressure on the government in case of fiscal profligacy (Kopits and Romhányi 2013). During the Romanian bailout programme in 2010, the IMF also explicitly demanded the creation of a fiscal council and staged a public intervention in support of the latter when the Romanian government was about to co-opt the new fiscal watchdog’s authority (Ban 2016, 224-5). Thus, early adopters were small open economies like Romania, Hungary, Ireland, Greece and Portugal that were particularly vulnerable after the financial crisis and depended on external financial assistance. Especially for the latter three countries the creation of a fiscal council was an iron-clad provision of the memoranda of understanding (MoU) negotiated by the troika (Fromage 2017, 121) but this did not lead to the diffusion of a one-size-fits-all fiscal council.

Such a power-based explanation of the diffusion of fiscal councils in the EU would emphasise external coercion as the main independent variable. Member states experiencing fiscal stress turned to the troika for financial assistance who then imposed a fiscal council on them as part of its conditionality. While the troika format provided an important enforcement vehicle to create fiscal councils in the first place, it fails to

explain the variance in the design features. Some member states without a troika presence imposed a fiscal council on themselves overshooting the EU's legislative requirements, whereas other countries with a troika programme only reluctantly implemented the minimum requirements.

A functional rational choice institutionalist (RCI) explanation would argue that fiscally stressed member states were eager to credibly commit to fiscal prudence to avoid having to implement the politically costly conditionality of a financial assistance programme. Fiscally profligate countries with clientelistic regimes could promote fiscal transparency through setting up fiscal councils (Wyplosz 2008). When the troika comes knocking on your door and confronts you with the prospect of having to implement tough austerity measures, political parties face strong incentives to quickly form a cross-party consensus to create an independent fiscal council to reaffirm their commitment to fiscal discipline (see the Portuguese example). Under these circumstances, it might be politically expedient to delegate some fiscal policy tasks to technocrats for future blame avoidance. Even if these watchdogs would turn out to be mere smokescreens, it would be worth to set them up to receive a short-term boost in fiscal credibility until financial markets would call off the bluff.

A constructivist explanation would explain the fiscal council variance with the role of ideas. Especially, *ordo-liberal* ideas have constituted an important driver behind the new EMU fiscal architecture (Nedergaard and Snaith 2015). However, this explanation would lead us to expect the German fiscal council to be particularly hawkish which is not the case. In sum, the above listed explanations shed light on important factors that have facilitated the rise of fiscal councils but fail to explain why no one-size-fits-all fiscal council model has emerged. The following section will elaborate on the rationale behind the support for a particular fiscal council model by the respective troika member and will show how they have promoted their preferred model.

The actors and their interests behind the creation of fiscal councils

The European Commission: closing the SGP compliance gap and increasing local ownership

The European Commission had been an advocate of fiscal councils ever since member states started to dilute the SGP (European Commission 2006, 2014). First, it wanted to improve the compliance record with the fiscal rules. Second, many member states concluded that a 'political' Commission lacked the credibility to fulfil its role as the 'guardian of the treaties'. Partially outsourcing a task that had become too politicised was the attempt to re-establish its own credibility. But it also meant creating potential challengers to the Commission's monopoly power as the 'fiscal rule interpreter of last resort'. Competing compliance assessments by the national fiscal councils and the

Commission could lead to conflicting interpretations of the rules (Jankovics and Sherwood 2017, 29). To avoid such conflicts the Commission would have ideally preferred to set up a ‘European System of Fiscal Councils’ in which the supranational European Fiscal Board (EFB) as its agent would have coordinated the work of independent national fiscal councils (Asatryan et al. 2017; Asatryan and Heinemann 2018). However, member states and their national fiscal councils opposed such a system.

The Commission’s second-best solution was then to advocate for a narrow mandate for national fiscal councils so that its discretion in interpreting the various flexibility clauses under the SGP would not be endangered. To persuade member states of the benefits of the agent model of a fiscal council the Commission constructed its SIFI Index (Figure 2), which puts a disproportionate weight on the monitoring of the fiscal rules under the SGP and macroeconomic/budgetary forecasting. This *entrepreneurial benchmarking* leads to a considerably different ranking of fiscal councils compared to the IMF’s ranking (Figure 3). It rewards those fiscal councils that have adopted the agent model, whereas it punishes orchestrating fiscal councils that are ranked lower. An index can provide a soft nudge for member states to undertake institutional change in order to avoid being labelled as the laggard. The political costs of this public shaming can be minimised by adopting the model that would catapult the national fiscal council to the upper ranks.

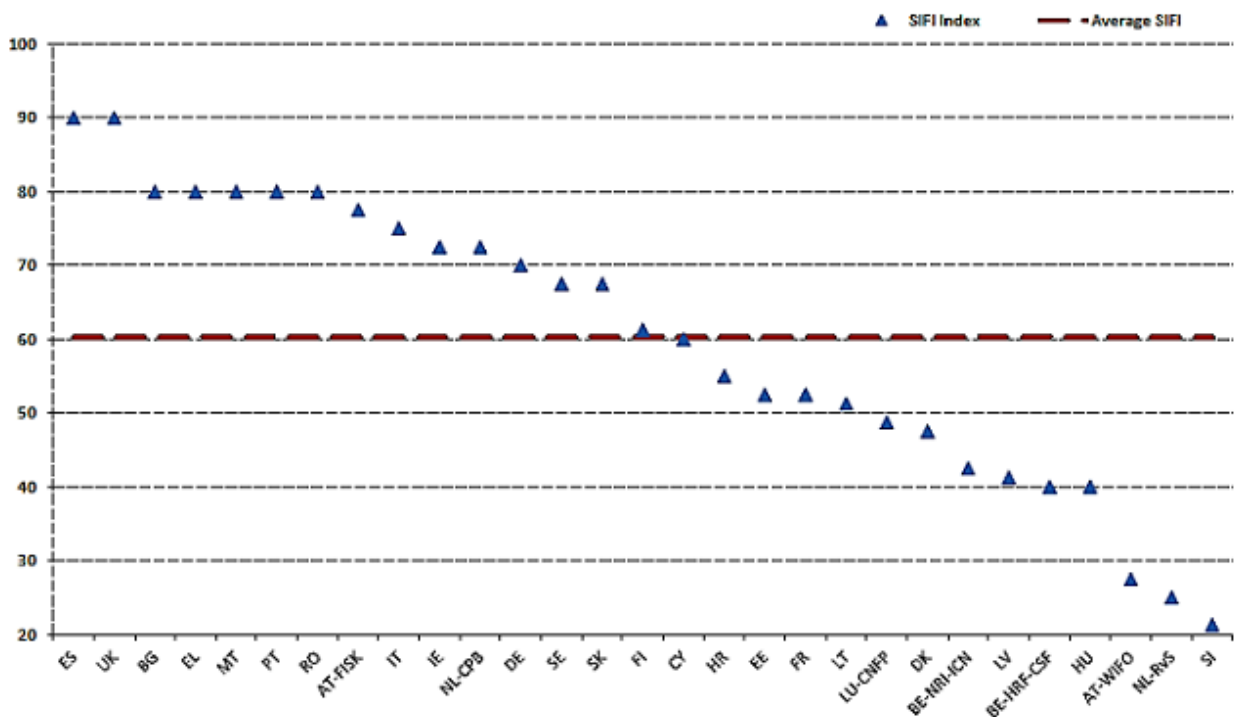


Figure 2: Scope Index of Fiscal Institutions (SIFI) (European Commission 2015)

The eurozone crisis has demonstrated that negative fiscal spill-over effects can bring a monetary union to the brink of collapse. Strengthening the fiscal governance framework was a core task to make EMU more sustainable. This would require a higher degree of local ownership of the fiscal rules, which would in turn make the fiscal measures appear more nationally rooted. It explains why the Commission provided enough leeway in its legislative proposal to account for national idiosyncrasies. In its 2017 report on the implementation of their obligations contained in the Fiscal Compact, the Commission found that all euro area member states were compliant with the Treaty on Stability, Coordination and Governance in the EMU (TSCG) and the common principles (European Commission 2017a). In its stock-taking exercise it pointed out that:

The framework set by the TSCG and the accompanying common principles is one of relatively broad requirements that are principles-based, reflecting compromises needed when negotiating the TSCG and the common principles. In addition, to raise national ownership, margin was given to customise national provisions to the specific institutional budgetary setting of each Contracting Party. (European Commission 2017b, 3)

The European Central Bank: ensuring monetary dominance

In light of the repeated SGP violations the ECB had been struggling to ensure monetary dominance, i.e. a regime in which fiscal policy is determined by its monetary policy stance (Henning 2016). Fiscal profligacy in one member state could put pressure on the ECB to soften its monetary policy stance and in a worst-case scenario lead to monetary financing. If local ownership of the fiscal rules could be increased, it would allow the ECB to step back from the politicised role as ‘policeman and judge’ of the SGP (Howarth and Loedel 2004). Fiscal councils acting as a permanent ‘domestic troika’ would provide an additional prevention mechanism against negative externalities arising from low compliance with the fiscal rules. Thus, they indirectly help to maintain the quality of the ECB’s sovereign bond portfolio. The ECB’s preference for the creation of trustee fiscal councils is most evident in the central bank’s comprehensive blueprint for a deepened EMU entitled ‘Reinforcing Economic Governance in the Euro Area’ (European Central Bank 2010). The report did not only call for an independent EU fiscal agency acting as a watchdog for the fiscal surveillance framework but also strongly encouraged the creation of ‘independent fiscal monitoring institutions’ (European Central Bank 2010, 8). The proposal is later reiterated in the ECB’s legal opinion on economic governance reform in the EU, in which the ECB argues that:

the creation of independent fiscal councils should appear as a priority in the directive, and the directive should also give due consideration to introducing a top-down approach, meaning a prior agreement on the total spending level that is then allocated in spending allotments for different ministries or government agencies. (European Central Bank 2011, 6)

Like the Commission, the ECB was a member of the Van Rompuy Task Force, which submitted its influential report to the European Council setting up fiscal councils ‘to provide independent analysis, assessments and forecasts on domestic fiscal policy matters as a way to reinforcing fiscal governance and ensuring long-term sustainability’ (Van Rompuy Task Force 2010, 11). While the ECB expressed concerns about the limited leverage to force the government to pay attention to the fiscal councils’ policy recommendations (European Central Bank 2014, 99), it contends that:

the effectiveness of fiscal councils will largely depend on whether they are independent from political interference and whether they have functional autonomy. A fully independent and credible fiscal council increases the political cost for the government to deviate from its commitments. It is thus important that political interference is legally prohibited and that the council members are appointed based on competence and experience rather than political preference. (European Central Bank 2014, 99)

The ECB’s view on a fiscal council’s design features is strongly affected by its own experience with the time-inconsistency problem, which provided the rationale for its high level of independence. Thus, it does not come as a surprise that the ECB tries to promote its own institutional design as a template for other technocratic institutions. While the ECB tried to persuade member states of the benefits of the trustee model, the main reason for the ECB’s unsuccessful persuasion attempt was the relative unattractiveness of the trustee model to elected politicians. The ECB only engaged half-heartedly in *entrepreneurial benchmarking* because it shied away from ranking countries, which would have been too overtly political for the ECB. Instead, the ECB chose to rely predominantly on the persuasive power of its legal opinion and its Economic Bulletin in which it published a qualitative fiscal council index that provided an overview of the depth of the mandates, appointment procedures (personal and institutional independence) and whether a comply-or-explain rule (enforcement capacity) had been adopted (see European Central Bank 2014, 97).

The International Monetary Fund: creating a sustainable EMU and ensuring loan repayment

The IOs can rely on ‘analytic institutions’ that perceive their member states purely through the lens of economic policies and can play a key agenda-setting role for their operational policies (Broome and Seabrooke 2012). The IMF sees the transferal of knowledge and diffusion of best practices as a core part of its technical assistance missions. The eurozone crisis opened a window of opportunity for the IMF to persuade EU member states of the benefits of the orchestration model of a fiscal council. In the post global financial crisis period the EU has increasingly relied on the IMF with regards to loan provisioning and economic surveillance turning it into a *de facto* EU institution (Hodson 2015). As a result of the diminished confidence in the Commission, the IMF gained access to various indirect channels of influencing EU policy-making (Henning

2017) and became almost indistinguishable from the traditional ‘engines’ of deeper integration (Hodson 2015, 586-9). Former IMF Managing Director Strauss-Kahn pushed the idea of establishing a ‘more credible judge of fiscal behavior in the euro area’ in Brussels (Strauss-Kahn 2010). A background document prepared for the periodic IMF Article IV consultations with EU officials and euro area member states highlights the important role of intermediaries like rating agencies in orchestrating fiscal discipline indirectly (Harjes et al. 2010, 16). Another IMF Staff report explicitly called for establishing fiscal councils in the euro area (Allard et al. 2013, 17). As a bailout monitor and as a creditor the IMF had a stake in enforcing fiscal discipline in the EMU. Permanently institutionalising fiscal discipline at the national level would increase the chances that the IMF loans would be repaid. The beneficial side effect would be that the IMF could claim credit for its research directly contributing to sound fiscal policies. The IMF had set up a fiscal council dataset to demonstrate the benefits of its preferred model and also published a comprehensive study on the global population of fiscal councils (see Debrun et al. 2013). Four design features were key to orchestrating fiscal councils: (1) a high level of operational independence, (2) the independent assessment of budgetary forecasts, (3) a high media profile (i.e. presence in the public debate), and (4) the monitoring of fiscal rules. According to the IMF’s orchestration model, a fiscal council ‘should be equipped to ensure that public information about the budget sends a clear signal of politicians’ genuine intent and actions’ (Beetsma and Debrun 2016). Thus, the IMF’s Signal-Enhancing Capacity (SEC) Index strongly emphasises the ability to communicate with the public. Countries that have adopted the orchestration model of a fiscal council will therefore be ranked higher in the IMF’s evaluation (Figure 3). This soft nudge has been very successful in promoting the IMF’s orchestration model. It reflects the IMF’s deep knowledge of their member states’ experience with their domestic institutions. To interpret and to distil lessons from this that can be used to persuade others of the superiority of a certain conceptual model is a skill that the IMF has also used in other issue areas. The frequent exchange with its member states through Article IV Consultations is indispensable in this regard. Even though the IMF has no formal rule-making powers in the EU as such, it was able to act as a major driver of institutional change.

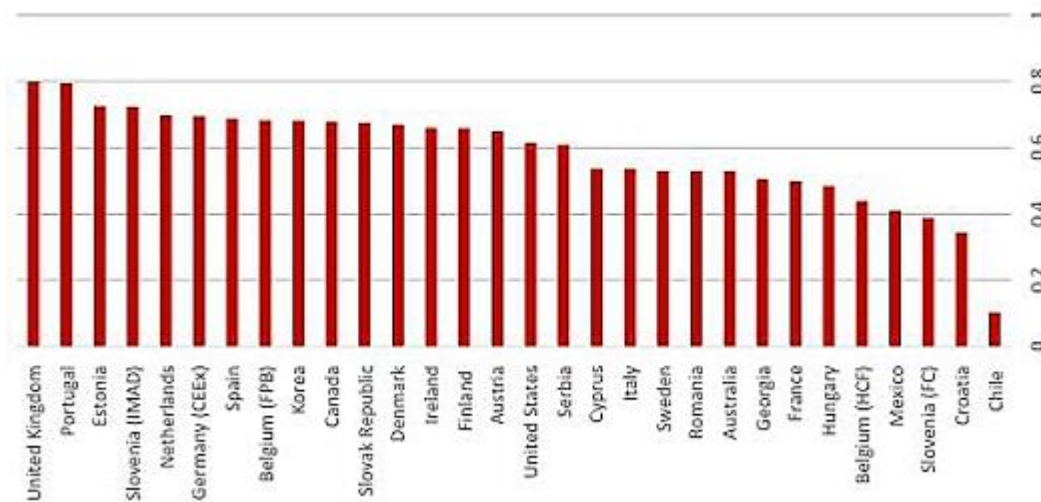


Figure 3: Signal-Enhancing Capacity Index (SEC) (Beetsma and Debrun (2016))

Conclusion

This article has shown that the variance in the design features of fiscal councils can be explained by taking the interests of IOs seriously. The conceptual models developed by the troika institutions were heterogeneous and provided enough wiggle room for member states to make their fiscal councils compatible with their own domestic institutions. The empirical evidence shows that the orchestration and the agent model make up the entire population of EU fiscal councils, whereas no member state has allowed a trustee fiscal council to conduct fiscal policy independently (Horvath 2018; Larch and Braendle 2018). IOs employed tailor-made indices to persuade others of the superiority of their preferred conceptual model. Persuasion through *entrepreneurial benchmarking* is, thus, an important mechanism by which IOs construct their cognitive authority over member states (cf. Broome and Seabrooke 2012). Yet, when different IOs propose different indices this task becomes considerably harder because they undermine each other's persuasive power. As a result, we can observe significant variance in the design features of fiscal councils across the euro area.

The rise of fiscal councils in Europe has also wider implications for EMU governance. First, it casts doubts on whether the Commission can be regarded as the 'winner of the crisis' (Bauer and Becker 2014) given that its monopoly power as the 'fiscal rule interpreter of last resort' will be increasingly challenged by national fiscal councils. Second, the presented evidence confirms the view that fiscal councils are 'neglected siblings of independent central banks' (Larch and Braendle 2018) but definitely not twins given their distinct institutional models. When compared to the diffusion of central bank independence, it becomes clear that a '*strong* institutional isomorphism'—i.e. the spread of a uniform institutional design across different settings of social interaction (McNamara 2002, 62)—is rather exceptional as it requires all actors to converge around a single conceptual model and then collectively enforce its implementation. Third, in areas of 'core state powers' like fiscal policy in which the EU has no exclusive competence according to the EU treaties (Genschel and Jachtenfuchs 2016), its enforcement capacity is significantly weakened rendering indirect modes of governance more attractive. Ultimately, the example of fiscal councils speaks to the growing literature on technocracy (Dargent 2015; Caramani 2017). It shows that 'varieties of technocracy' exist because technocratic institutions can be conceptualised as agents, orchestrators or trustees. As the euro area crisis' overshooting effects recede, fragile 'regime complexes' like the troika that were born out of necessity (Henning 2017) are being gradually replaced by more permanent institutions. At least in the eurozone, fiscal councils together with the supranational European Fiscal Board (EFB) have laid the foundation for an emerging 'technocratic federalism' in fiscal policy (Sánchez-Cuenca 2017).

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