

Preface

by

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Right across the OECD, public policy over the past decade has been dominated by the challenges of steering the public finances through troubled times. The fundamental national debate over resources – how they should be raised, allocated and prioritised – often takes precedence over sector-specific concerns, and most particularly when resources are under pressure and even shrinking.

Indeed, the severe economic shock and the accompanying pressure on public finances, as experienced by a large majority of OECD economies, have had a number of repercussions for public governance. The fact that the public finances veered so badly off course, often with negative impacts on people’s living standards and traditional public entitlements, has undoubtedly undermined public confidence and trust in government and in policy-making. The question of supporting and restoring trust in government is thus a central organising theme of the OECD’s work in recent years.

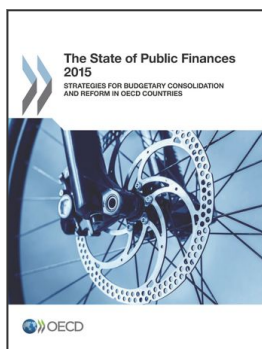
Budgeting itself, as a principal tool of policy making, has also come under closer scrutiny. It is understandable that citizens ask why public financial management processes did not guard, in a more effective way, against the vagaries of the economic cycle? One response to this legitimate challenge is set out in the OECD’s recent Recommendation on Budgetary Governance, which spells out a number of simple, clear yet ambitious principles for how countries should manage their budgets and fiscal policy processes. The principles, to which all OECD countries have lent their wisdom and to which all can subscribe, emphasise the need for clear, credible fiscal-policy objectives, an open and accessible budget framework, and the need to identify and manage “fiscal risks” of the sort that have blown the national finances off course in many countries. This is closely intertwined with work, nationally and internationally, to re-think public policies, to make them more resilient, effective and affordable, and ultimately to promote sustainable, inclusive growth.

Against this background, this OECD report on *The State of Public Finances 2015* is a welcome and timely addition to the international library of policy makers and the interested public. What is distinctive about this publication is how it traces the fiscal impacts of the economic and financial crisis across the various OECD countries, and sketches the diverse range of policy approaches adopted in each country to respond analysis. What emerges is a rounded picture that effectively conveys some real insights into the practical challenges to which policy makers and politicians have had to respond.

The range of responses highlighted in the report is highly thought-provoking. It is notable how virtually all OECD countries have identified the need to protect and support economic growth, in the face of fiscal retrenchment, as a key priority; while the specific policy tools to achieve this objective have varied considerably from one country to another. It is also notable how countries have sought to diagnose the deficiencies in their budgetary frameworks, and address these apparent deficiencies in a number of ways: whether through new independent fiscal institutions, new fiscal rules (either simpler and clearer, or more complex, depending on the country and culture in each case), or more broad-based reforms across the various dimensions highlighted in the OECD's Recommendation.

Perhaps the most salient lesson is also the simplest, and in a way the least surprising. The challenge for policy makers is not to seek to avoid altogether the fiscal shocks and cyclical downturns, to which our economies are subject from time to time. The real challenge is to build resilience into our national frameworks, both to mitigate these fiscal shocks insofar as it is within our power, and to introduce greater agility and flexibility to allow our policies to adapt to these challenges, in proportion to their scale and gravity. As to fiscal resilience, this report underpins the wisdom of counter-cyclical fiscal policies as the norm – not as a mere ideal or aspiration – with fiscal rules or fiscal objectives designed to anchor this policy imperative. As to policy flexibility, the report gives a flavour of the varying expenditure, regulation, taxation and other responses adopted by OECD governments under each heading.

As a primer on perhaps the most important policy concern of recent times, *The State of Public Finances 2015* is also, perhaps, an entrée to the rich analysis and country-to-country dialogue being pursued by the OECD Senior Budget Officials, its various policy and regional networks, and indeed the expert policy communities working together to promote better policies for better lives.



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