



# Introduction to the Public Sector Economics 2018 Conference – Fiscal Openness: Transparency, Participation and Accountability in Fiscal Policies

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Editors' introduction  
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## 1 WHY FISCAL OPENNESS?

The Institute of Public Finance, publisher of the journal *Public Sector Economics*, together with the Friedrich Ebert Stiftung and the International Budget Partnership, held its third annual conference in Zagreb on 26 October 2018. The main theme of the conference was fiscal openness: transparency, participation and accountability in fiscal policies.

Openness is widely recognized as an important feature of good fiscal policy. By enhancing governments' accountability, citizens' trust, and reducing opportunities for corruption, greater fiscal openness may contribute to a more efficient collection and distribution of public resources. Researchers around the world and international organizations such as the International Monetary Fund, the OECD, the World Bank, the International Budget Partnership, the Global Initiative for Fiscal Transparency, and the Open Government Partnership are showing growing interest in fiscal openness. Although expanding, this field of inquiry is still new, and many basic questions remain open. Which aspects of fiscal openness should be targeted? Where does demand for fiscal openness come from? Why are some governments more fiscally open than others? What are the effects of greater fiscal openness in practice? What is the role of technology, in particular of the internet and social media, in generating the demand for more and better fiscal information? How can we harness technology to provide such information? How can countries without extensive experience in fiscal openness benefit from those that have seen its positive effects?

The Institute of Public Finance has been involved in research on fiscal openness for many years, particularly with respect to budget transparency and public participation at national and sub-national levels. Currently, the Institute is coordinating a project "Understanding, monitoring and analysing local government budget transparency: Case study of Croatia and Slovenia – Open Local Budget Index (OLBI)", funded by the Croatian Science Foundation (IP-09-2014). One of the most visible outcomes of our research has been the constant improvement of the average online budget transparency of Croatian counties, cities and municipalities and increased interest in the topic within Croatia. Therefore, it seemed natural to focus on fiscal openness and invite contributions on the topic from around the world.

## 2 ABOUT THE 2018 PUBLIC SECTOR ECONOMICS CONFERENCE

The program committee – Francisco Bastida (University of Murcia and American University of Armenia), Bernardino Benito (University of Murcia), Mihaela Bronić (Institute of Public Finance), Juan Pablo Guerrero (Global Initiative for Fiscal Transparency), Paolo de Renzio (International Budget Partnership), Joachim Wehner (London School of Economics and Political Science) and Ronnie Downes (OECD) – evaluated over sixty submissions, 17 of which were presented at the conference.<sup>1</sup> The topics included transparency practices in different institutions;

<sup>1</sup> The conference was supported by the European Commission Representation in the Republic of Croatia, Croatian Science Foundation, Croatian Ministry of Science and Education, Association of Cities in Croatia, Croatian Chamber of Economy, Association of Municipalities in Croatia, Croatian County Association, Croatian Bank for Reconstruction and Development, Zagrebačka banka, OTP Bank, and Privredna banka Zagreb.

determinants and effects of fiscal transparency; international exchange of tax information; fiscal audits, transparency and accountability; the role of technology in fiscal policy; public participation in budget processes; and openness of local government budgets. This issue provides a selection of keynotes and papers from the conference; more are expected in subsequent numbers.

*James E. Alt* in his conference keynote traces the evolution of the concept of fiscal transparency in academic and policy agendas over the past three decades. As the turning point in this evolution, Alt sees the idea of Kopits and Craig (1998) that timely publication of clearly presented budget documents facilitates market discipline, by allowing market participants to properly assess governments' intentions.<sup>2</sup> From there on, academic research has focussed on designing, compiling and analysing transparency indicators, and studying their relationship with fiscal and political outcomes. Alt highlights a number of lessons from this rich literature: we have become more aware of the complexity of fiscal transparency issues and the importance of institutional detail; realised how effects of transparency depended on the socio-political context; and learned to respect the unintended consequences of transparency, notably those resulting from the use of internet information.

Some of these takeaways are echoed in the second keynote and two empirical papers that were presented at the conference and are published in this issue. *Francisco Bastida's* keynote highlights the "quality" rather than "quantity" aspects of transparency as the key to the strengthening of public trust in government: to be effective, transparency should not overload citizens with budget documents that are too technical; information in these documents should be fair and unbiased; and data comparable and objective. Otherwise, piles of data provided under transparency initiatives will remain sterile and irrelevant, triggering no citizen or taxpayer response to government policies.

*Sandra Švaljek, Ivana Rašić Bakarić* and *Marijana Sumpor* test some conclusions from the transparency literature in a case study of participatory budgeting in the city of Zagreb, Croatia's capital. They note that a handful of Croatian cities apply various forms of active citizen participation in deciding on the allocation of at least a fraction of the local budget. However, the city of Zagreb hesitates to implement participatory budgeting. As a result, the level of citizens' awareness and interest in the local budget processes is only moderate, while the level of participation is extremely low. The authors ask whether this outcome could be explained by barriers erected in the city administration, or those existing in citizens themselves. They find that low participation can be partly explained by demographic and socio-economic characteristics of the population. However, an important factor is also the perception that city authorities ignore citizens' opinions, so in the current political setting involvement in the budget process is a waste of time for individuals. Unlike the earlier studies, however, they find that individuals who are not supportive of the

<sup>2</sup> See George Kopits and Jon Craig, 1998. Transparency in government operations. *IMF Occasional Paper* No. 158.

current state or the local political system and intend to vote are more likely to consider themselves informed about actions of the local government.

The last contribution from the conference in this issue looks at the transparency of law making and fiscal democracy in the Middle East. *Lobna M Abdellatif, Mohamed Zaky, Mohamed Ramadan, Jad Mazahreh and Ibrahim Elghandour* use the Open Budget Index dataset to measure the quality of the law-making process for government budgets in Egypt, Jordan and Tunisia. They identify a specific limitation to fiscal democracy in these countries: the lack of attention to financial impact assessments in the process of budget law making. In particular, the inclusion of mandatory out-of-budget allocations – which do not require parliamentary approval – in the regular budgeting process reduces the flexibility of the budget and its responsiveness not only to macroeconomic developments, but also to other national priorities and citizens’ preferences. Greater attention should therefore be given to assessing the financial implications of proposed budget laws, and balancing them against expected benefits using efficiency and effectiveness measures.

### 3 CALL FOR PAPERS FOR THE 2019 CONFERENCE ON WEALTH AND PROPERTY TAXATION

The Institute of Public Finance and Friedrich Ebert Stiftung has already announced the *Public Sector Economics 2019 Conference – Wealth and property taxation: where do we stand?* to be held on 24 October 2019 in Zagreb, Croatia. The goal of this conference is to provide a state-of-the-art assessment of the profession’s thinking on the potentials and limitations of these taxes and their role in a modern economy. The call for papers invites submissions of historical reviews, studies of experience, as well as theoretical, empirical and policy papers on different aspects of wealth and property taxation.