Debt and Deficit in the Age of Fiscal Councils

The Role of Institutions in Belgium and Slovakia, 1990-2018

by
Ákos Máté

CEU CENTRAL EUROPEAN UNIVERSITY

Submitted to
The Doctoral School of Political Science,
Public Policy, and International Relations
Central European University

In Partial Fulfillment of the Requirements
for the Degree of Doctor of Philosophy

Supervisor:
Distinguished Professor László Csaba

Budapest, Hungary
2019

Noéminek, Daninak és Grétának

Declaration

I, the undersigned Ákos Máté, candidate for the degree of Doctor of Philosophy at the Central European University Doctoral School of Political Science, Public Policy and International Relations, declare herewith that the present thesis is exclusively my own work, based on my research and only such external information as properly credited in notes and bibliography. I declare that no unidentified and illegitimate use was made of work of others, and no part the thesis infringes on any person's or institution's copyright. I also declare that no part the thesis has been submitted in this form to any other institution of higher education for an academic degree.

Budapest, June 25, 2019

Ákos Máté

Signature

Word count: ∼ 62 400

Abstract

The stubbornness of high public debt and volatility in deficits motivated many policy solutions to fight the root causes of these issues. Recently a new breed of fiscal institutions were introduced to complement fiscal rules, called independent fiscal councils. The dissertation explores when and how these new institutions can work to fulfill their mandate in the European Union.

I argue that the effectiveness of fiscal councils are highly context dependent and cannot be separated from their respective domestic and international institutional environment. In the dissertation I show that in order to have an impact on policy direction, fiscal councils need to be perceived as supporting institutions by the government in order to have their recommendations taken into account. When the government's preferred policy trajectory diverges from the recommended policy actions by the councils they are viewed as adversary institutions and due to a lack of enforcement tools on the part of the fiscal watchdogs their policy advice can be ignored by the government. The effectiveness is also conditional on the presence of external pressure such as the market pressure on the governments and the supranational fiscal framework of the European Union. I find that the reformed European framework does present a considerable amount of peer pressure and the European Commission can serve as an external support for the domestic fiscal councils. I also introduce a novel approach to the field by analyzing the policy network structure in which these new fiscal councils are embedded. I find that their position in the network facilitate their role by having access to the key governmental agencies and ministries.

Combining a case based approach with network analysis I investigate institutional reforms and fiscal policy developments through the cases of Belgium and Slovakia from 1990 to 2018. The two countries provide a diverse set of cases with different levels and complexity of fiscal institutions as the Belgian High Council of Finance is the oldest fiscal council in Europe as opposed to Slovakia which performed an impressive institutional leapfrogging starting in the early 2000's. This methodological approach allows to shed light on how key institutional and political changes impacted fiscal policy. By including Slovakia in the dissertation, the research contributes to the literature by adding a detailed analysis of how institution building affected fiscal policy in a post-transition Central Eastern European member state. Both the case studies and the network analysis relies on original data collected via interviews and institutional surveys.

Acknowledgments

Writing a PhD dissertation is usually assumed to be a solitary task but my experience could not have been more different. During my years at CEU I found friends and mentors whose presence helped dampen the lows and elevate the highs. I am grateful for my supervisor, László Csaba, for his careful attention to my research and gently nudging the project along in times of uncertainty. I owe similar thanks to my supervisory panel members, Thomas Fetzer and Julius Horváth, who were always ready to discuss my research and provide their valuable insights. My academic journey benefitted greatly from discussions and collaborations with Levi Littvay, Evelyne Hübscher and Michael Dorsch.

I was fortunate to be part of the Political Economy Research Group (PERG) at CEU which is a truly outstanding institution. For the great discussions I would particularly like to thank Kristin Makszin, Bálint Gergő-Medve, Ekaterina Paustyan, Alfredo Hernandez Sanchez and Dominik Brenner. In PERG I also had the chance to meet Zbigniew Truchlewski, whose friendship and kind mentorship helped me along my path. For the shared coffees, conferences and laughs I would like to thank the companionship of Péter Márton, András Gál, Burtejin Zorigt, Nemanja Batricevic, Nemanja Stankov, Alberto Fierro, Elettra Repetto, Sanja Hajdinjak, Kata Ámon, Milos Resimic, Erna Burai, Adrienn Nyircsák and Péter Visnovitz. Special thanks are due to Alex Moise and Nena Oana whom I shared the last miles of this journey. I am grateful for the help of Dániel Kovarek and Alberto Stefanelli for their teaching assistantship during my first steps of teaching. I would like to thank the CEU staff for making life easier, particularly, Kriszta Zsukotynszky, Éva Lafferthon, Ildiko Tropa, Robi Sata and Ivett Molnár. During my stay at KU Leuven, André Decoster and Andras Avont made sure that I would feel at home.

This PhD would not have been possible without the safety net of friends and family. Árpád, Gábor and Balázs, thank you. The support and encouragement of my parents cannot be overstated and for this I will be always grateful. This dissertation is dedicated to my family, who were my anchor and kept me grounded even in the most turbulent times. The loving companionship of Noémi and the joyful moments with Dani and Gréta illuminated every step of this journey.

Table of Contents

List of Tables

List of Figures

1 Introduction

There's nothing to prevent the federal government from creating as much money as it wants and paying it to someone.

Alan Greenspan

Public debt has been the subject of numerous academic and policy debates on and off, depending how recent the memory is of the latest crisis. Data shows that public debt has been on a secular rising path in the last five decades despite numerous policy innovations intended to manage its ever increasing expansion. Debt and deficit became a topic of heated debates during the firefighting after the 2008 European sovereign debt crisis and the "fiscal cliff" moment of the United States also put a spotlight on the fact that economic development and debt management does not walk hand in hand. The root causes of deficits are widely explored in the literature, where opportunist politicians and common resource pool problems dominate the discussion. The answers to these structural factors were institutional reforms in the forms of centralizing the budgeting process, creating fiscal rules and lately, establishing fiscal councils who would act as watchdogs over the fiscal process issuing warnings should it get derailed.

The discussion on the relations between discretionary fiscal policy and rules have long been part of the literature (Kydland and Prescott, 1977). The rise of the independent fiscal institutions (also called fiscal councils) is a more recent policy innovation. As taxation and government spending (on education, infrastructure, health care) redistributes resources in the economy it is a political process to the very core. The idea that fiscal policy making should behave akin to monetary policy is one that is floated in the academic discussion but which results in the inevitable conclusion that democratic norms make it impossible to carry it out (Wren-Lewis, 2013). This tension motivates my research, as I seek to understand how the power dynamic between the political will and the moderating influence of the institutional setting affects policy processes and outcomes. While there are many influential research which deals with the question of delayed stabilization and the likely explanatory variables, many of these studies have been conducted prior to the exponential rise in the quantity and quality of dedicated fiscal safeguards.[1]

In my dissertation I look at when fiscal councils are working as they are intended to and when and how they are sidelined by the governments. The research delves into this aspect as it is important to understand the particular contextual elements that determine *when* fiscal councils can carry out their mandate and then under these conditions *how* they are able to affect policy. In addition to examining the domestic contextual factors I also analyze how the development on the European level affected member state fiscal policy conduct over the past three decades.

The motivation behind examining the institutional context within which fiscal policy is made and structural outcomes are shaped is not rooted in a normative argument. While there is an ongoing debate in the academic literature on the effects of debt on growth my research does not try to speak directly to that field. Nevertheless, fiscal policy choices are affecting the structure of redistribution in a given country, it affects taxpayers expectations and a reliance on external funding does create crisis moments when markets are not accommodating to the governments' financing needs. One key debate was centered around the work of Rogoff and Reinhart (2010). Their finding of a negative association between debt and growth spurred wide media coverage and follow up studies that called into question their main findings. Herndon et al. (2014) shows that the Rogoff and Reinhart (2010) findings were based on selection bias and coding errors and they could not replicate the results which showed decelerating growth above 90% debt to GDP. While the dramatic cliff could not be replicated, an important contribution showed that it might not be the debt levels that matter, but debt *trajectory*. Pescatori et al. (2014) showed that countries with high

[1]For seminal contributions on these topics, see Alesina and Drazen (1991) and Roubini and Sachs (1989).

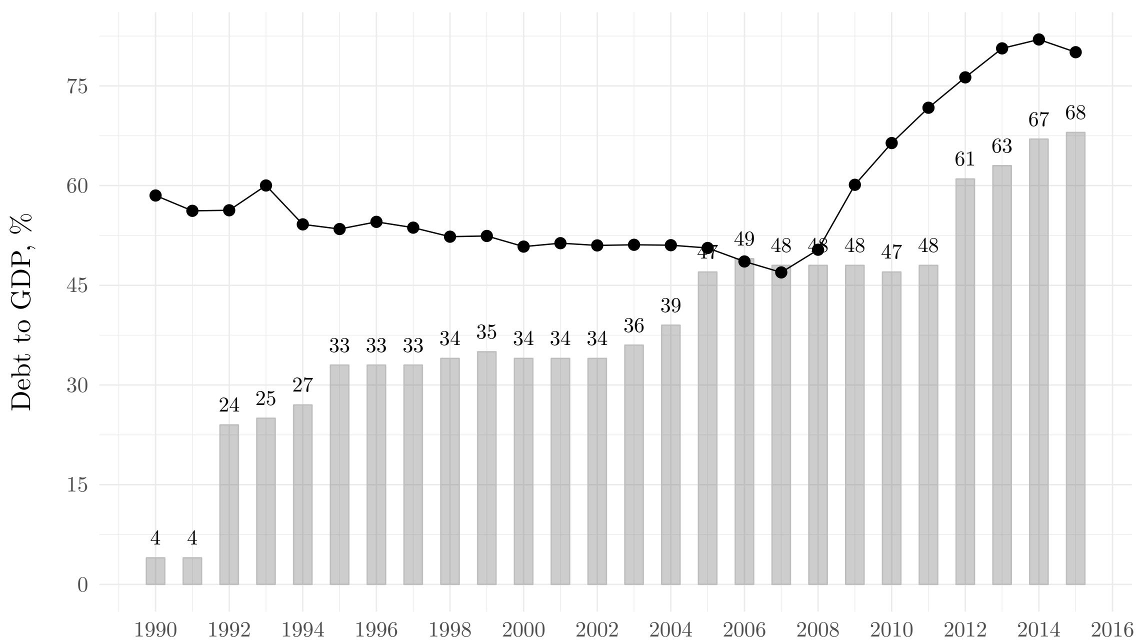
levels of debt with decreasing trajectory achieved the same growth performance as their peers. Related to this debate is the merits of expansive fiscal policy and the advances in research on fiscal policy analysis is summarized by Ramey (2011, 2019).

1.1 Fiscal councils: the end of deficits?

Fiscal councils are envisioned to be an effective tool for achieving high level fiscal objectives and an effective way to depoliticize the fiscal process by having a neutral watchdog which issues warnings if the fiscal situation warrants it and otherwise offers policy support for the governments (Calmfors, 2011; Debrun et al., 2013). They are also expected to overcome the main problem with fiscal rules as if they are too rigid or too lenient they cannot fulfill their role properly. Fiscal councils in turn can play a supporting act to these rules which might soften their tightness if necessary (Wyplosz, 2005). The concept gained traction within policy makers as is evidenced by the proliferation of fiscal rules and later the widespread establishment of fiscal councils. The European Union was among the leading actors who advocated for these new institutions and later on pushed for their establishment in each member state.

Both fiscal rules and councils are associated with lower debt and deficit levels and the evidence underpinning this association is plentiful in the literature (Eslava, 2011). However, there are several reservations in the literature that alters this picture. Firstly, the used econometric models (mostly panel regressions) are not able to decisively determine a casual relationship between institutions and macroeconomic variables. This is due to the inherent endogeneity problem with institutions, where it is hard to know if they are set up as a result of already existing fiscal preferences or as a means to create a straight jacket for the government (Alesina and Passalacqua, 2016). Secondly, there are evidence that many non-significant finding does not make it out of the peer review process, dooming these research findings to collect dust in the drawer (Heinemann et al., 2018). Thirdly, fiscal councils come with widely varying attributes and mandates which means that their effectiveness is highly contextual. Regression based analysis suffer from the same problem, that overcoming endogeneity is still problematic (in lieu of strong and valid instruments for fixed effects

Figure 1.1: Public debt and fiscal rules in the Euro area 12, 2000-2016



Note: The EA-12 countries are Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain
Source: IMF Historical Debt Database, IMF Fiscal Rules Dataset, author's compilation

estimation) as well as limited sample size, as these institutions are relatively new and mostly limited to the OECD and European Union countries.

1.2 Europe and domestic budgets

Among the developed countries, the European Union has been a front-runner in developing a rules based fiscal coordination system with the introduction of the Stability and Growth Pact to ensure that member states can meet their obligations under the Maastricht Treaty in 1991.[2] The race to enter the Euro area in the first wave triggered a quick increase in the number of fiscal rules and a slight decrease of public debt (for illustration, see Figure 1.1).

While fiscal rules proliferated and the new Stability and Growth Pact also provided a supranational rules based framework the results were heavily criticized in the literature. The early criticism focused on the arbitrary thresholds of the SGP and the heavily politicized

[2] The non-European countries that had fiscal rules in place since the 1980s are the United States, Singapore, Malaysia and Japan

process of its conceivement to match the preferences of the fiscally more conservative member states such as The Netherlands and Germany (Heipertz and Verdun, 2004a). The failure to lunch an excessive deficit procedure against France and Germany in 2003 prompted the 2005 reforms of the SGP which did not manage to create a better enforced framework (Hallett and Hougaard Jensen, 2012). It took the 2008 financial crisis which morphed into the European sovereign debt crisis to have the second overhaul of the Pact coupled with other institutional reforms that put emphasis on the establishment of fiscal councils in each member state. These new reforms, commonly referred as the Two-Pact, Six-Pact and the Fiscal Compact, makes up the post crisis European fiscal framework. The renewed framework has increased the complexity of the fiscal governance system greatly which can undermine its effectiveness (Ódor and Kiss, 2017). While Wyplosz (2017) theorizes the possibility to build a fiscal union from the templates of the Banking Union and the reworked fiscal framework he also highlights that such developments would need to greatly simplify the existing rules and to establish a European Fiscal Council.

1.3 Outline

Throughout the dissertation the questions that motivate the research flow from these two factors of institutional innovations at both the national and supranational level in the Euro area. The dissertation offers new insights into the conditional effectiveness of fiscal councils and broadens the scope of the literature by examining Slovakia and Belgium's experience with fiscal reforms and the impact on their policy process by the changing European environment.

The dissertation is composed of three main sections. In the first, the aim is to lay the theoretical and methodological foundations of the research. In Chapter 2 I provide a current overview of the state of the literature on how fiscal councils and fiscal rules can counteract the driving forces of debt and deficit. This chapter shows that the combination of watchdogs and rules can be effective in constraining fiscal policy, an association which is confirmed by a number of empirical research. However, the aforementioned shortcomings are also pointing to the need of better understanding the conditional nature of this effect. Based on the review I hypothesize that fiscal council effectiveness is largely dependent on their perceived role by their governments. If a council is viewed as a supporting institution its reports and goals will have more traction. If in turn it is viewed as an adversary institution, the council's recommendations will diverge from the government's preferred course and will try to sideline the institution. These effects are amplified and mitigated (respectively) by the presence of strong fiscal rules. Focusing on the fiscal councils I also hypothesize that their institutional position within their respective policy networks should affect their effectiveness and the older an institution is the more connection it has. The chapter also provides the case selection justification of choosing Belgium and Slovakia as the cases for the research.

Chapter 3 provides a brief reasoning behind the chosen methodology of case study research and how the use of network analysis can uncover a previously unseen dimension of fiscal policy. That is, institutions do not exist in vacuum and their connections to their peers in the policy process can have important consequences. I use original data for my cases, collected in the forms of semi-structured interviews and for the network study I use data from an institutional survey I conducted. In addition to these original data sources I also make use of primary policy documents and macroeconomic databases. Interviews greatly increased the data that the case studies could draw on. I also had the opportunity to have talks with former and current (respectively) heads of the Hungarian fiscal council, George Kopits and Árpád Kovács and high ranking officials in both the Slovak and Belgian fiscal policy circles.

In the second section of the dissertation I conduct the two in-depth case studies on Belgium and Slovakia to examine how the political economy of institutional reforms contributed to the fiscal processes. In Chapter 4 the impressive fiscal performance of Belgium in the 1990's is underpinned by the political consensus on the need to be in the first wave of Euro members as well as as reforming the fiscal council as part of the federalization process. The chapter later finds that despite the highly praised developments backsliding happened in the 2000's great moderation period and the primary surplus position of the budget started deteriorating. A key finding from this chapter is how the status of the fiscal council changed as the governments' goals started to diverge from its recommendations. The case concludes with Chapter 5 which shows how the post crisis developments affected fiscal policy making.

This period is characterized by reluctant compliance with the Excessive Deficit Procedure lunched by the European Union to correct the ballooning deficit and debt. The role of the fiscal council in this time period is mixed as governments often paid lip service to their importance but later ignored and circumvented their recommendations. Finally the chapter concludes with findings on the increased impact of the reworked European fiscal framework.

The Slovak case differs from Belgium fundamentally. In Chapter 6 the historical and transitional experiences shape how fiscal policy is conducted. The case also presents the puzzle of the continued fiscal policy direction despite political rhetoric of the left parties. The 1990-2008 period is characterized by a drive for international recognition and integration which was paralleled by domestic institution building. The second half of the case in Chapter 7 takes stock of how the fiscal council and rules were established as a result of a homegrown policy initiative. The fiscal policy continuity despite government changes are also reviewed. I found that a key answer to this puzzle is rooted in Slovakia's historical experiences, the influence of the European peer pressure and later the newly developed fiscal institutions.

The third section is dedicated to situating the sample cases in the broader universe and drawing more general conclusions. Chapter 8 presents a novel methodological approach to study fiscal policy making by introducing a network based analysis, based on an original dataset collected via survey. The network analysis is used to tease out the micro level connections between various member state and EU and international institutions. The data also contains observations on information flows and perceived importance in the policy process which allows me to make a more fine grained assessment of the weight of these specialized institutions. This section closes the dissertation with a conclusion in Chapter 9 and stating the how the findings contribute to the literature and the policy implications they carry.

2 State of the field and open questions

Fiscal institutions in general has been part of the academic discussion for quite a while although that mostly focused on the rules and role of ministries and party systems. In this chapter the goal is to enumerate the root causes of non-cyclical debt, that is the sources of discretionary fiscal policy. By listing these it will be clear what are the institutional niches that the fiscal councils would need to fill. The question of why governments would run persistent deficits has been around in the political economy field and many seminal contribution has advanced our knowledge on how politicians, special interest groups and their collusion lead to increasing debt and then postponing actions to reduce the deficit. A more recent thread of the literature is exploring the political costs of fiscal consolidation which might account for delayed (or missed) action to reduce debt.

The literature on fiscal councils is more empirical than theoretical and this research project does not deviate from this pattern. This overview serves as a starting point for a mostly exploratory endeavour that seeks to understand when and how fiscal institutions work in different political economy environments. As it is shown, a general theory of the political economy of fiscal institutions is not something that can be achieved within the means of a PhD dissertation's frame, but nonetheless expanding the empirics behind the workings of these new innovations can certainly further the field's research agenda.

The chapter is structured into five main sections. After the introduction the second section reviews the core literature on the main theoretical accounts of governments running deficits and skipping fiscal consolidation. The two most influential idea covered is the political business cycles and socioeconomic group struggles. This section concludes with summarizing the general concepts in the literature. The following two section provides the backbone of the chapter and examines the role of fiscal institutions (rules and councils) in general and in Europe in particular. This review reveals the current advances and shortcomings of the field and shows the general arguments in favour of these specialized institutional setups. In the fifth subsection, based on the reviewed evidence, I formulate the main research questions of the dissertation and the following hypotheses that will be tested in the case studies and in the comparative chapter. Finally, the chapter closes with a case selection and discussing the theoretical and methodological considerations behind the selected cases.

2.1 Sources of public debt

2.1.1 Opportunistic politicians

Explanations for deficit bias are centred on various conflicts between actors (politicians, interest groups, voters). According to this logic, deficit is the result of conflicts that arise from different preferences. This approach highlights that fiscal policy and public debt is highly exposed to political processes and cannot be examined through the often sterile lenses of economic modelling. One explanation within the literature is the opportunistic political business cycle (PBC) theory that claims that politicians increase public spending in order to secure re-election (Nordhaus, 1975). In order for this hypothesis to work, the voters must 'suffer' from fiscal illusion: the illusion that increasing spending will not result in increased taxes further down the line. It means that voters are naive enough to fall for the same political tricks repeated times. However, this assumption goes against rational choice, which made it unpopular since mainstream theories discount such ideas (Wagner, 1976). The more recent advances in the political business cycle literature made considerable headway and draws a more fine grained picture of this process. One key issue is that elections cycles are not homogeneous across countries and the differences in institutional, legal (political) and economic developments could exacerbate or tame discretionary spending in election years (De Haan and Klomp, 2013). It has been demonstrated that fiscal transparency is associated with lower levels of public debt and deficits. Alt and Lassen (2006) found that the presence of fiscal transparency diminishes the effects of the electoral cycle. It shows that informed voters and publicly available information can curb discretionary spending that is politically motivated. While such actions were usually associated with developing countries, a number of studies demonstrates that there are credible evidence of PBC conduct in the OECD countries and in the EU as well.[1]

In Europe, the Stability and Growth Pact (SGP) is a supranational fiscal rule that prescribes a set of fiscal targets for EU members to meet.[2] If these targets are breached, the European Commission can recommend opening an Excessive Deficit Procedure (EDP) against the member states. Despite having a European Union wide fiscal rule in addition to country level rules, evidence shows that pro-cyclical fiscal policy did not disappear among the member states. An early review of the SGP effectiveness showed that election cycles contributed significantly to discretionary fiscal policy in the EU, between 1999 and 2003 (Buti and Van den Noord, 2004). This early finding was validated by further research, putting emphasis on how fiscal rules and democratic institutions are insufficient in eliminating pro-cyclical discretionary fiscal policies in election years (Mink and De Haan, 2006; Tujula and Wolswijk, 2007). An important additional finding is that these effects are more pronounced within the Euro area members (Efthyvoulou, 2012), which shows that the nominally stricter institutional boundaries do not translate into actual policymaking.

2.1.2 Socioeconomic groups and the common-pool problem

Another large body of literature explores the stubbornness of high public debt from the perspective of socioeconomic conflict, where different interest groups compete for resources. This line of explanation enjoys support from both the economics and political science part of the political economy field. From the economics literature comes a seminal contribution, the war of attrition (Alesina and Drazen, 1991). In this model, stabilization is delayed because socioeconomic groups try to shift the costs of distributive effects to other parties and stall the process as long as possible. There are two main implications from this model for the dissertation project. Firstly, it shows that respective societies are heterogeneous in their composition and preferences and this heterogeneity can lead to indecisive policies

[1] The resilience of old democracies against political budget cycles are explored in Brender and Drazen (2005). Rose (2006) also finds evidence of the PBC in some states from the USA.

[2] The two "red lines": budget deficits below 3%, and government debt to GDP ratio below 60%.

and politics. Secondly, to overcome this fragmentation, fiscal stabilisation often coincides with political consolidation. However, this model does not take into account the effects of fiscal institutions and other governance indicators. Nevertheless, one key conclusion can be distilled: consolidations with large distributional effects and political polarisation will lead to protracted stabilisation (Roubini and Sachs, 1989). The political economy literature has established a powerful explanation that uses the socioeconomic competition as its main independent variable as well. Frieden and Rogowski demonstrates how government policy is a function of sectoral or class preferences. In their model, coalitions form along the lines of distributional gains (Frieden, 1991; Frieden and Rogowski, 1996). These seminal contributions work with an in-depth case study methodology which demonstrates the effectiveness of the technique and showcases how large-N research can be complemented in order to pin down exact mechanisms. Moreover, the fact that these works are not centred on fiscal issues does not mean that their framework cannot be applied. For an alternative explanation Győrffy offers a compelling hypothesis on how economic policies in general, and fiscal measures in particular, are affected by institutional trust. She forcefully argues that in the European context trust can act as a tip of the scale between vicious and virtuous cycles. A high trust environment encourages long-term planning and dampens uncertainty that is vital for conducting sound policies (Győrffy, 2012). Trust is an important component in policy reforms, since a high trust environment is more conductive towards reform process and generally decreases the influence of special interest groups. In a high trust environment institutional constraints are also less of a paralyzing factor (with adding new veto players) since a high level of societal trust fosters consensus building decision making even in the presence of numerous veto players (Leibrecht and Pitlik, 2015). This literature clearly articulates that the socioeconomic context of policymaking is an essential part of any story told about public debt and policy making. It is a forceful demonstration that fiscal policy is political in its very nature and institutional setting aimed at managing fiscal matters should reflect these conflicts.

2.1.3 Key general concepts

While the above section details various mechanisms and key factors that affect fiscal policy and fiscal outcomes, some general concepts contributing to the debt bias of democracies can be distilled. Following Von Hagen (2003, 2005) four such concepts can be identified. Firstly, *opacity*, which refers to the information asymmetries between governments and the public. By creating complex and opaque processes politicians are able to use public funds to their own ends instead of furthering *"the common good of the country or the electorate"* (von Hagen, 2013, 37). Secondly, as was detailed above, governments are often unable to formulate medium-term, credible fiscal policy commitments that would come from the textbook application of counter cyclical fiscal policy. This is termed *time inconsistency*, since governments neglect consolidation in boom years as it is a politically risky move. Thirdly, the socioeconomic and interest based literature is describing a *common pool problem*, where fiscal policy is targeted at specific groups, while financed from a general tax. This results in uneven distribution of gains and costs, which the various interest groups try to shape as favourably for them as possible. Finally, in relation to the political business cycle literature, public finance often suffers from a *principal-agent problem*, which *"resembles an 'incomplete contract' leaving politicians with considerable residual powers"* (Von Hagen, 2005, 2).

2.2 The role of (fiscal) institutions

So far the overview of the literature focused on various institutional, political and governance failures that could lead to steadily increasing public debt. As was demonstrated, the main reasons for such a debt bias are mainly political, rather than economic. To contain the adverse effects of self-centred politicians and powerful interest groups, a special set of institutions are proposed in the academic and policy literature, called fiscal and budget institutions. This work follows the definitions already in the literature. Poterba and von Hagen (1999, 14) define budgetary institutions as *"all the rules and regulations according to which budgets are drafted, approved, and implemented."* The definition for fiscal institution is much looser in Von Hagen (2005, 3): *"institutions governing the decisions over public finances."*. There are a number of specific institutions that would fall under these definitions. First, ex ante rules, such as balanced budget rules and constitutional debt and deficit limits are part of the fiscal rules. They present an ex ante control on fiscal policy by constraining discretionary measures before they can be legislated into the budget rule. Second, electoral rules fall into this institutional category if they focus on transparency and political accountability. Third, procedural rules for budgeting which can tame the common resource pool problem by giving control to just a few key actor and preventing ad hoc additions to the budget (i.e.: centralized vs fragmented budget process). Fourth, the latest generation of fiscal institutions are fiscal councils which are independent governmental bodies tasked to monitor compliance with the rules.

Ex ante rules are simple and straightforward constraints on politicians since they formulate numerical targets on deficits and debt. However, implementing these rules runs the risk of governments turning to creative accounting in order to circumvent the budgetary limitations. Some research highlights the fact that these institutions are not mutually exclusive, but rather reinforce each other. Debt ceilings and other ex-ante rules without fiscal transparency make creative accounting more likely (Von Hagen and Wolff, 2006; Milesi-Ferretti, 2004). This is why von Hagen Von Hagen (2005) proposes electoral rules enhancing personal accountability of politicians, as well as political competition that could mean more control over fiscal outcomes by the electorate. While rules can be circumvented by governments using off-budget items, in general fiscal rules have been found to have been positively associated with limiting the political business cycle (Heinemann et al., 2018).

In their seminal contribution Kopits and Symansky (1998) highlighted the role of fiscal rules in dampening the deficit bias by ensuring long term macroeconomic stability. Their paper argued for the need to establish long term fiscal policy commitments by enacting various fiscal rules that would limit the successive governments ability to increase deficits. The biggest advantage of fiscal rules is time consistency which would make them more effective than the ad hoc discretionary policies. This would entail some degree of depoliticization of the fiscal processes, as the rules should eliminate deficit bias over the multiple governments. Kopits and Symansky (1998, 18) identify nine key characteristics for the ideal type fiscal rules. Such rules are *"well defined, transparent, adequate, consistent, simple, flexible, enforceable, and efficient."*

The combination of ex ante and ex post rules should be able to counter the adverse effects of the principal agent problem and the common pool problem. However, rules based fiscal policy comes with important trade-offs. Fiscal rules are often referred as intermediary objectives, that are a means to achieve a fiscal objective and not an end. In this view, fiscal councils are viewed as institutions for higher level fiscal objectives, such as long run fiscal sustainability, intergenerational equity, and social efficiency (Calmfors and Wren-Lewis, 2011; Calmfors, 2011). Earlier literature confirms this relationship between rules and fiscal councils. Relying solely on fiscal rules and weak peer pressure clearly failed to prevent the European sovereign debt crisis. The failure of the Stability and Growth Pact provided a reminder that numerical targets invite creative accounting and power plays from the member states. At the time of this writing, the consensus in the literature is articulated by Wyplosz (2013, 523): *"[...] lasting rules cannot be too tight, but they become useless if they are too soft. The fine line between tight and soft is extremely hard to determine and may change as circumstances change. This difficulty can be alleviated through the setting up of institutions that support the rule."* In addition to their complementary role in enforcing fiscal rules, they also enhance fiscal transparency by publishing reports publicly and providing policy costing analysis. This is a crucial role since increased transparency is one of the largest contributing factors against discretionary fiscal policy (De Haan and Klomp, 2013).

Independent fiscal institutions could serve as independent watch dogs or even have legislative power to directly counteract government action. In an exhaustive edited volume, Kopits (2013) contrasts these different roles: one way is the scorekeeper approach practiced by the US Congressional Budget Office, which is a nonpartisan institution making forecasts and assessment based on policy proposals. The other end is proposed by Wren-Lewis (2013) with the theorizing about delegating fiscal policy similarly how monetary policy has been delegated to central banks. In an early review article on the independent fiscal institutions, Debrun et al. (2009) proposed a typology based on the mandates of the institutions. Independent Fiscal Authorities (IFAs) are institutions that are capable of setting binding targets and long-term objectives. There is some theoretical consideration behind IFAs, claiming that they could make fiscal policy more prudent and eliminate debt bias by making it a technical issue rather than political. However, these institutions are unlikely to emerge, since there are no consensus on how to set the optimal levels of public debt or what (if there are one) is the threshold for the deficit that should be avoided. A more pressing issue is that fiscal policy elements (taxes, public expenditure) play a central distributional role and delegating this responsibility to an independent expert body would pose serious questions about democratic accountability. However,Wyplosz (2005) makes the case for such an independent body, since budget deficits have an intergenerational income redistributive effect. Setting the optimal level and targets for budget deficits should not require democratic control since the people affected by the decision are not even born. Nevertheless, no IFA is in existence in the time of writing the dissertation, therefore I will focus on fiscal councils and rules in the remainder of the research. To define a fiscal council I use Debrun et al. (2009) and Debrun and Takahashi (2011) approach: *a fiscal council is a publicly funded national body, explicitly mandated by the government or parliament to carry out its legal mandate of fiscal oversight.*

The theorizing on the roles of these councils have been ongoing in the literature both from the academic and policy makers side. In Table 2.1 the summary shows that these set of roles by and large form a consensus. The Pench et al. (2015) report highlights that for the EU member states, there are six core tasks that the fiscal councils have to carry out: monitoring of fiscal policy, costing of policy measures, macroeconomic forecasting, long-term sustainability analysis, promotion of fiscal transparency and normative recommendations.

Fiscal councils can be evaluated on several bases. In a brief comparative study, Debrun and Takahashi (2011) uses mandate (or remit), channels of influence, and determinants of independence to further categorise FCs. This step makes important contributions about the various channels of influence and determinants of independence of the councils. All of these attributes should be legally regulated by the founding document of the institutions. There are multiple channels that allow the fiscal council to affect policy decisions. One of the most influential and widespread is publishing reports on compliance with the rules and fiscal goals. Another type of public report is the long term assessment of fiscal sustainability, which in most European countries focuses on age related fiscal pressures. The least common item is

Table 2.1: Tasks and roles of fiscal councils

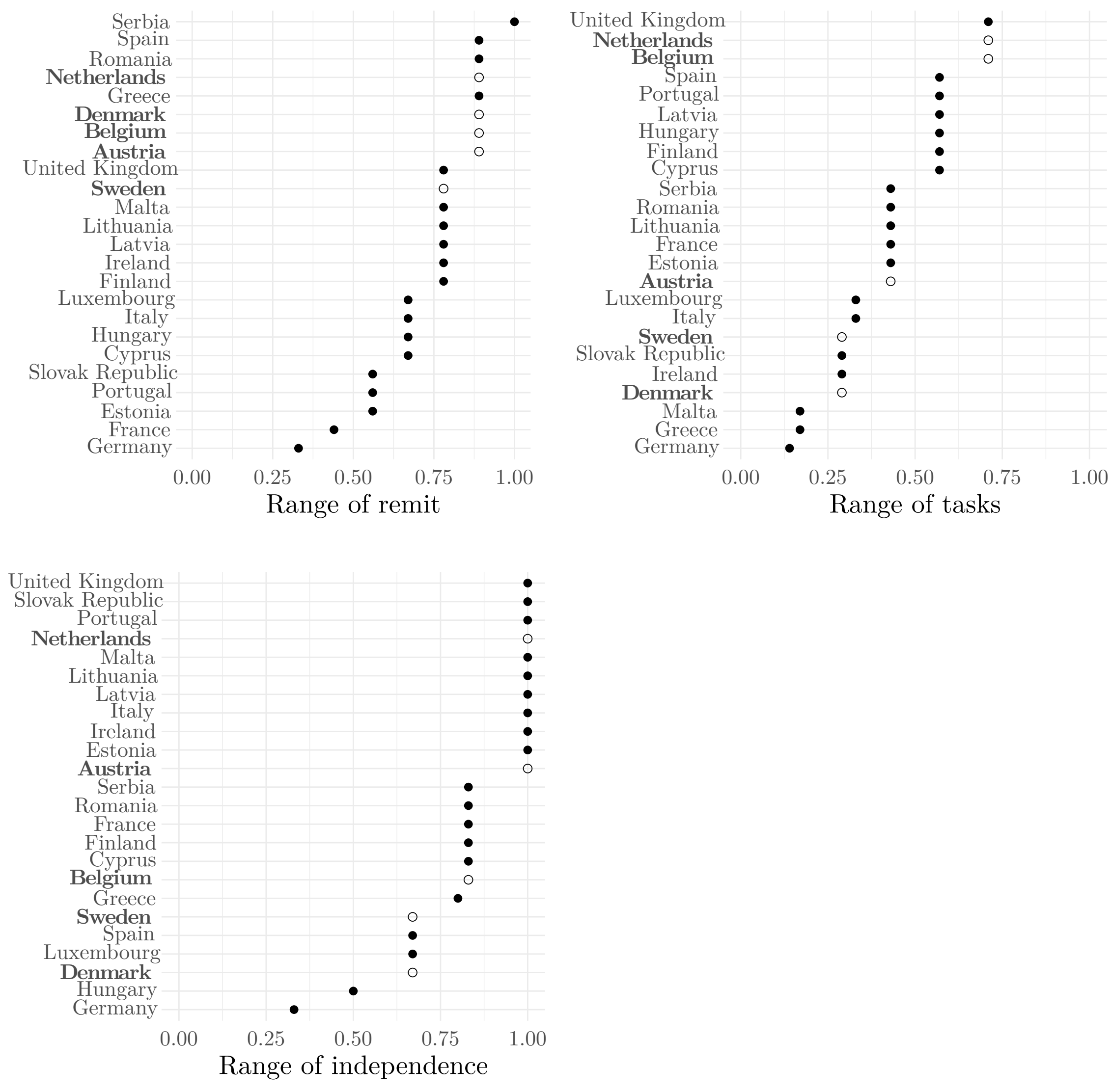
Task	Calmfors (2011)*	Debrun and Takahashi (2011)	European Commission (2014)
Monitoring of fiscal policy and rules	×	×	×
Policy costing	×	×	×
Macroeconomic forecasting	×	×	×
Analysis of long-run sustainability of public finances	×	×	×
Promotion of fiscal transparency	×	×	×
Normative recommendations on fiscal policy	×		×
Monitoring off-budget items	×		
Foster cooperation in fiscal policy between different government entities		×	

*This paper contains the summary of proposals from Debrun et al. (2009); von Hagen (2013); Mihály (2010).
*Source:*Calmfors (2011); Debrun and Takahashi (2011); Pench et al. (2015), author's compilation

the stalling of budgetary processes which would enable the council to force the hand of the government as long as it does not comply with the recommendations and meet the proposed targets. While formally they are called independent fiscal councils, this independence does vary across institutions. For example the Belgian High Council of Finance was chaired by the Minister of Finance and its resources (secretariat, offices and budget) came from the Ministry of Finance. Opposed to this, the Central Planning Bureau in the Netherlands is staffed by experts which would mean higher institutional independence. The heterogeneity of institutions is illustrated in Figure 2.1, which shows that across the three dimensions (remit, tasks and independence) we can see considerable variance across countries in the European Union. This observation also extends to the age of the institutions since the new generation fiscal councils (established after 2008) do not show systematic differences compared to the old ones.[3]

[3]Remit includes: *Positive Analysis, Normative Analysis, Forecast Preparation, Forecast Assessment Recommendations Long-Term Sustainability, Consistency with objectives (beyond fiscal rules), Costing of Measures, Monitoring of Fiscal Rules, Ex-Post Analysis, Fiscal Policy Coordination, Mandate Beyond Fiscal Policy.* Tasks include: *Public Reports, High Media Impact, Forecasts used in Budget, Binding Forecasts, Comply or Explain, Formal Consultation or Hearings, Can Stall the Budget Process.* independence measures include: *Legal, Operational,Safeguards on budget, Right to Select Staff, Own Staff Commensurate to Tasks, Access to Information.*

Figure 2.1: Institutional diversity in European fiscal councils



Note: Countries in bold and hollow points indicate fiscal councils established before 2008. For Belgium and the Netherlands, the two fiscal council were collapsed to get a combined measure. The scores for each countries were computed by averaging the IMF's Fiscal Council dataset's respective subcategories.
Source: Debrun et al. (2017), author's compilation

The literature is faced with a fundamental empirical problem, that is aptly summarized by Debrun and Takahashi (2011, 48) as *"assessing the effectiveness of FCs is vexingly difficult."* Two main methodological approach is prevalent in the field: case studies and large N regression analysis. Both case studies and regression analysis points towards the fact that fiscal councils are associated with lower debt. The body of regression analysis is relatively small, because the short time-span of the observations (fiscal councils and rules are recent policy innovations) and limited data. In their seminal work, Debrun and Kumar (2007) construct a de jure influence index and fiscal rule index. Their results show considerable variation across the influence of fiscal councils on fiscal policymaking, political independence and perceived impact. Using panel estimation they find evidence that improved fiscal performance is linked to fiscal institutions (both rules and councils). However, reverse causality still remains an obstacle since it is possible that better fiscal outcomes lead to institutions used for commitment signalling. A more recent follow up study using a new dataset further confirmed that fiscal councils are associated with improved fiscal position and better macroeconomic forecasting (Debrun and Kinda, 2014).

Another confirmatory evidence comes from Nerlich and Reuter (2013) who uses a dynamic panel regression. They find that fiscal rules are associated with lower public expenditure. This effect is magnified if the rules are enshrined in the constitutions and fiscal councils are present. Debrun et al. (2012) scrutinised the policy effects through public discourse and finds that fiscal councils in general can issue timely statements about fiscal policy. Unfortunately, they do not find statistically significant evidence that this public media exposure channel translates into actual policy influence. Moreover, they acknowledge the limitations of their approach and using panel regression in general for studying fiscal councils: these institutions display a high level of heterogeneity and data scarcity makes large-N research problematic.

The literature does have some case studies on fiscal councils and their effects. However, some of these are found as a rather short ending sections of review papers.[4] The example is the short, descriptive cases in Wyplosz (2013) and Debrun and Takahashi (2011). These

[4] In an OECD report, Hagemann (2011) provides short overviews of a number of fiscal council but does not go beyond describing their remit and channels of influence.

assessments do not go into details and processes and does not provide a convincingly detailed description of the mechanisms in play. On the other hand, there are some detailed case studies that contrast how different remit (mandate) yields different results. In their comparative section, Calmfors and Wren-Lewis (2011) finds that in the case of the UK, there is a strong connection between the government and the fiscal council, whereas in Sweden, the two operates in an arm's lengths. These differences can account to using different channels of influence. In Sweden, it is done via public debate and normative recommendations, whereas in the UK the Office for Budget Responsibility consults frequently with government bodies and provides important forecasting.[5]

A seminal case based contribution from Hallerberg (2004) shows how different forms of fiscal governance can impact budgetary outcomes. In this work he examines country cases and finds that delegation to a key minister or commitments to fiscal contracts can effectively counteract the common resource pool problem. In a follow up work, Hallerberg et al. (2009) explore how domestic party political landscape and past crises explain (in addition to the form of fiscal governance from Hallerberg (2004)) the variance in institutions adopted. Another key finding is that the efficacy of fiscal institutions heavily depend on the domestic political landscape. The two volumes demonstrate how different research designs and methods on this topic can be applied, since one is a detailed case study approach with process tracing while the latter is working with a large-N approach.

However, it would be naive to claim and believe that fiscal councils and rules are the holy grail of contemporary institution building and fiscal policy regulation. There is ample evidence that other factors can nullify their effects. For example, in the case of European Union member states, Győrffy (2012) demonstrated how the presence of institutional trust could make or break fiscal performance, regardless of a country being a member of the Euro area or not. Győrffy also lists moderating factors that can influence policy success in a low trust environment, such as leadership and the role of ideas. Furthermore, some recent research found that even the bastion of rules based fiscal policy, Germany itself, is subject to domestic political realities, when fiscal adjustment would cause election risks. In line with Alesina and Drazen (1991), Kemmerling and Truchlewski (2015) find that political

[5] A more detailed case study of the Swedish fiscal council is presented in Calmfors (2012)

success is a precondition for successful fiscal adjustments, which indicates the difficulties of a rules based framework to work efficiently in lieu of political will. The success of fiscal adjustments (measured in lasting improvement in the deficit and debt position) has also other determinants. The fiscal literature has been exploring how composition matters. Over the course of the last two decade, mounting evidence shows that the effects of increasing taxes or cutting expenses are not the same. This heterogeneity in fiscal policy outcome was explored by Giavazzi and Pagano (1990); Alesina and Perotti (1997); Alesina et al. (2002) and further theorized by Benczes (2008). The puzzle of fiscal adjustment having a positive effect on growth was dubbed the ”expansionary austerity” in the literature. The main claim is that cuts are can stimulate growth whereas revenue side adjustments (e.g.: tax increases) are hampering growth efforts. As a further decomposition, Benczes (2008) finds that these cuts usually the ones which are politically the most sensitive items, such as welfare related spending items. While the topic is still contested from numerous angles it does point towards the importance of the composition of fiscal policy and highlights the non-institutional factor behind lasting fiscal changes.

Another recent contribution from policymakers and academics points towards the fact that one-seize fits all solutions are too broad to explain fiscal performance. In Nowotny et al. (2018), contributors show how regional experiences can shape outcome. More specifically, they show that structural reforms in Central Eastern Europe contributed to increased rule of law, better institutions and enhanced growth. They highlight how the transitional reforms of the CEE region contributed to convergence and how it was achieved through various structural reforms. Csaba (2018a) argues that despite the perceived straight jacket of the European Monetary Union we can observe considerable heterogeneity in the fiscal responses to the 2008 crisis amongst the Euro area members. These findings show how fiscal policy is a product of multiple environmental variables besides the constraining factors of rules and watchdog institutions.

On the measurement side, both the case based and regression based inquires are faced with a the overarching problem of endogeneity. It is not limited to only the effects of fiscal councils but to fiscal rules as well. Heinemann et al. (2018) finds that rules are in general show constraining effect on fiscal aggregates but there are severe problems within the literature. First, the literature on fiscal rules do not account for the fact that fiscal rules might not be exogenous to fiscal outcomes as some institutions are only feasible under certain political regimes. Second, there exist the problem of publication bias. They show that analyses published in peer reviewed journals are more likely to have negative and statistically significant results on the impact of fiscal rules, whereas works published in working paper format are more likely to have insignificant results. These findings are in line with Eslava (2011) and Alesina and Passalacqua (2016), who find that the effects of fiscal councils might be more ambiguous than reported in the literature. Both review article lists endogeneity as an open and unsolved problem as fiscal institutions might be a result of voter preference, culture or political environment.[6]

In summary, the broader literature on fiscal institutions and rules contains a rather extensive theoretical body that details how they should work and what they should do. However, the empirical research so far largely relies on panel regression techniques that cannot account for the actual mechanisms. Nevertheless, the findings support the theories that fiscal councils and rules are associated with lower debt and more accurate forecasting. There are important caveats to this result, that context matters for success, because not every fiscal council is created with the same mandate into the same institutional environment.

2.3 Fiscal policy and institutions in the European Union

As the introductory chapter mentions, the European Union provides an environment with nominally strong supranational fiscal rules and ever increasing fiscal coordination mechanisms. Fiscal policy making is one of the sacred cows of member state sovereignty that has been vigorously guarded. Prior to reforms made after the 2008 crisis, there were two key European level institutional constraints that governments had to keep in mind: the Stability and Growth Pact (SGP) and the Broad Economic Policy Guidelines (BEPG). As Hodson (2015, 183-184) highlights the Treaty on the Functioning of the European Union (TFEU)

[6] *"It is virtually impossible to establish causality from budget institutions fiscal outcomes, although the correlations are interesting."* and *"Overall, the argument that budget institutions "cause" fiscal discipline is virtually impossible to make empirically given the endogeneity of these institutions."* (Alesina and Passalacqua, 2016, 53)

"claims economic policy as neither an exclusive, shared, nor supporting competence of the Union." Unlike with monetary policy, fiscal policy coordination is an intergovernmental process. The SGP came into effect in 1998 and contains a preventive arm and a dissuasive arm. The former is aimed at creating a hard ceiling of 3% budget deficits, while the latter is the Excessive Deficit Procedure (EDP) which enables the European Commission and European Council to make binding recommendations on the medium term budgetary targets. In addition to the numerical rules, Euro area member states should prepare Stability Programmes which detail the actions taken to meet the prescriptions of the SGP targets and meeting the medium-term objectives.

The SGP framework is subject to widespread criticism. After the French and German governments failed to comply with the rules in 2003 the Commission recommended the use of the EDP but the ECOFIN Council overruled the recommendation and suspended the EDP process. This episode illustrates a key problem with the SGP, where larger member states (political clout can be reasonably proxied by the size of GDP in the EU) would try to get out of their obligations rather than meeting the targets.[7] It was demonstrated through a number of years that the same supranational fiscal framework will yield different fiscal outcomes for large and small member states. De Haan et al. (2004) shows that small to intermediate sized members were more successful in meeting the Maastricht criteria and then after adopting the Euro, meeting the SGP targets. Similarly, Baerg and Hallerberg (2016) finds that larger member states were more successful in getting politically sensitive items off from their Country Specific Recommendations (CSRs). In addition to the double standard use of the Pact, the policy coordination framework of the Broad Economic Policy Guidelines underperformed and failed to create peer-pressure. Another account for the pre-crisis years is how the European level governance tools proved ineffective at regulating member states and how national level institutional changes were the differentiating factor. This view is strongly expressed, with prominent scholars expressly claiming that *"European Union–level rules were not effective in maintaining deficits below 3%"* (Hallerberg et al.,

[7] A recurrent critique of the original SGP is that it was designed through a politicized process whose drivers were traditionally fiscally conservative member states like the Dutch and Germans. The rules based framework of the SGP was seen as an appeasement of the German Bundesbank and German public opinion (Heipertz and Verdun, 2004b)

2009, 3).

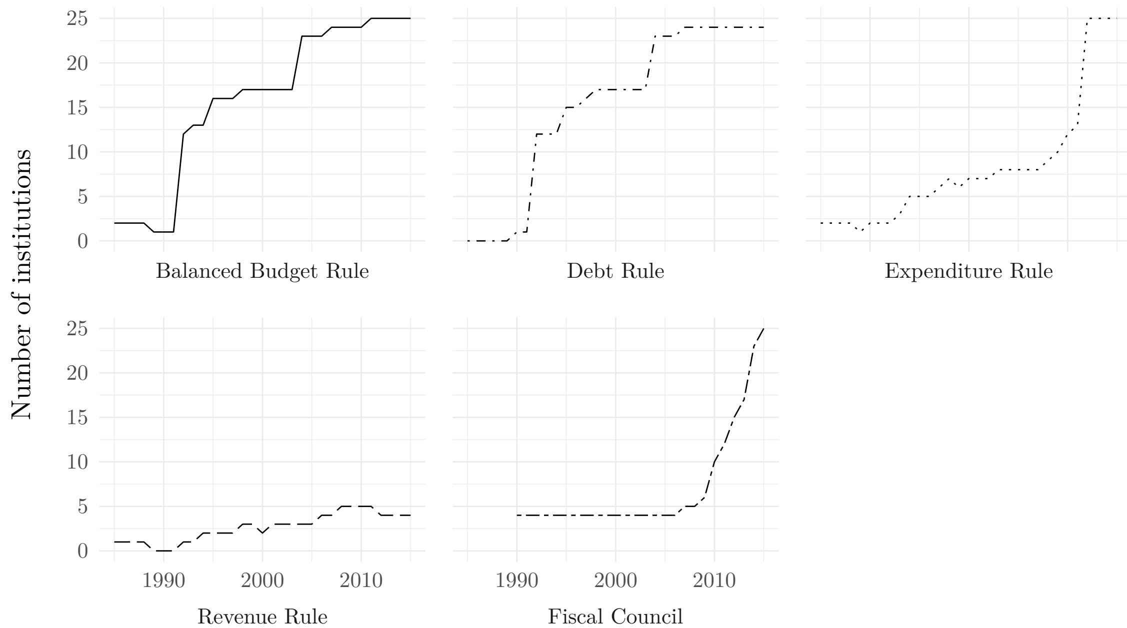
The apparent failure of enforcing the strict numerical rules prompted the reform of the Pact in 2005.[8] The reforms of the SGP were incremental and were relaxing the original stringency of the framework. First, the formulation of the medium-term objective took into account country specific circumstances and proposed national reform plans. Second, the excessive deficit procedure got overhauled and member states got more time to correct their macroeconomic imbalances before the EDP would kick in. The excessive debt evaluation would take into account cyclical factors as well as major structural reforms and most notably the undergoing pension reforms (Buti, 2007). Long term assessments of the SGP present a mixed picture. Multiple results claim that even with the reforms the SGP failed to foster compliance from member states. Ioannou and Stracca (2011) using a difference in difference estimation find no evidence that the SGP had an impact on fiscal performance in the EU. Similarly, Hallett and Hougaard Jensen (2012) conclude that member states simply ignored the prescriptions of the Pact as before the 2008 crisis half of the Euro area members breached the deficit limit and after the crisis most members were also not compliant. However, there are some structural factors that put the effectiveness of the SGP in a better light. When distinguishing between donor and recipient countries (i.e.: northern and southern member states), the SGP was generally constraining fiscal imbalances better in the donor countries, whereas the track record is mixed in the case of the recipient members (Koehler and König, 2015).[9]

The 2008 global financial crisis and the following European sovereign debt crisis forced the European Union into a number of institutional reforms and innovations. One was the formation of the Banking Union where some early signs of fiscal transfers are visible. While this development made banking regulation and bank resolution (which is the fiscal leg) a supranational issue, fiscal policy by and large still remained national competence with added intergovernmental supervision and policy coordination. The two main innovation in that regard is the European Semester and the so called Two-Pack. Under the European

[8]The underperformance of the SGP was admitted by one of its chief architects as well by noting that *"[...]the SGP has apparently failed to eradicate the underlying - and ultimately unsustainable - deficit bias of fiscal policies."* (Buti, 2007, 162)

[9]In this typology, donors are Germany, the Netherlands, Belgium, Finland, France and Austria. The recipient countries are Greece, Portugal, Italy, Ireland and Spain.

Figure 2.2: Fiscal institutions in the European Union, 1985-2015



Source: IMF Fiscal Rules Dataset, Debrun et al. (2013); Beetsma et al. (2019) author's compilation

Semester member states are obliged to submit their medium-term fiscal plans to the Economic and Financial Affairs Council (Ecofin) which then makes recommendations based on these. However, these recommendations are not mandatory and rather serve as a tool for peer pressure and consensus building. On the other hand, for the Euro area member states, the Two-Pact means a stricter supervision. They need to submit a draft budget to the European Commission, which can veto the draft and request a second draft if it finds the initial one in conflict with the goals of the Stability and Growth Pact (Hodson, 2015). While these changes represent a substantially changed European environment for policymakers it still leaves the member state politicians in the driver's seat when it comes to fiscal policy. There are certainly some parallels between the current state of regulation of fiscal matters and the pre-crisis financial regulations. Both were regarded as the bastion of national competence, with a rather weak EU level institutionalisation, which left national regulatory authorities considerable discretionary power. Parallel to the supranational institution building member states have increasingly turned to adopting various fiscal rules and from the 2000's fiscal councils as well. This process is illustrated in Figure 2.2.

The above detailed developments further underline the importance of domestic institutions and politics and serve as a justification for the attention to fiscal institutions. However, as Hallerberg et al. (2009) forcefully demonstrate, the role of the European Union should not be neglected. The European level fiscal policy coordination should achieve a balancing act, where the goal is short-run stabilisation and long-run budget discipline (Buti, 2016). However, this is a coordination problem that is not easy to solve, since the EU does not have any far reaching fiscal competence. This finding is reiterated in the most recent literature as well, which notes how coordination problem and diverging national interest caused the Stability and Growth Pack to hollow out (Baerg and Hallerberg, 2016). The authors show how strong and big member states (and sometimes smaller ones as well) were able to circumvent and water down the recommendations of the European Commission by using their influence in the Council of Ministers.

While the key contributions focused on how supranational fiscal framework constrains member states there are important omissions in the literature. Similarly to the PBC field, the endogeneity problem of cooperation with supranational fiscal rules is unanswered. Moreover, this literature does not examine in detail how supranational rules and policy coordination mechanisms work together with member state level institutions. As the majority of the fiscal rules and the fiscal councils themselves are member state level this distinction is key to make a fine grained assessment. As fiscal policy is at its core an intergovernmental aspect of the EU and Euro area it is prudent to explore further how domestic institutions amplify or diminish the effects of external institutional pressures.

Furthermore, the classical European studies field questions still apply, since supranational and intergovernmental fiscal and financial governance has been a pivotal issue in the literature. As the above cited literature shows the question of intergovernmental power relations are still relevant in the post-crisis institutional setting. However, the EU has long been criticised for perpetuating the so-called democratic deficit by creating opaque institutions for governance. One prominent critique for the pre-crisis period comes from Puetter (2006) by examining how the informal Eurogroup made up by finance ministers were able to shape discourse and agenda for formal institutions. By using discourse analysis, he shows how the Eurogroup made budgetary consolidation a key agenda point and showing how an informal, consensus building forum could have a formative impact for the application of the Stability and Growth Pact. Following up on this consensus building nature of the EU, a new intergovernmentalist approach has been developed. It's main aim is to demonstrate how the EU moved towards intergovernmental solutions by consensus, rather than becoming more and more supranational and delegating more power to the commission (Bickerton et al., 2015). Although this approach and the debate it sparked is focused on European integration it provides additional confirmation that governance in the contemporary EU is biased towards an intergovernmental approach and creating additional institutions instead of using existing ones. This paragraph coupled with the previous one showcases how international coordination problems is still part of the currently ongoing academic debate when it comes to policy coordination. However, the analysis of such international relations became more challenging since the recent years saw the EU expand its institutions greatly, both in numbers and in complexity.

While the aim of the reforms were (contrary to the 2005 overhaul) to strengthen the Stability and Growth Pact the result was a complex set of rules and regulations that created a politicized process with the European Commission as the arbiter of fiscal policy soundness.[10] In their seminal contributions, Ódor and Kiss (2017) and Wyplosz (2017) argue that this complexity of rules is detrimental to compliance and the targets set by the SGP are still inadequate to deal with the fiscal coordination of the European Monetary Union. Parallel to the institutional reconstruction of the European fiscal framework a debate opened in the literature on the role and future of fiscal institutions in the Euro area. One side sees the solution in an eventual fiscal union, preceded by an ever deepening political union to create a politically legitimate foundation for the fiscal union. This scenario is explored by Kopits (2017), who notes that the expansion of the European budget cannot happen realistically without considerable political will and deeper integration. On the other hand of the debate are Wyplosz (2017), following the ideas laid out in Wren-Lewis (2003) and argues that the European Banking Union provides a template for a possible fiscal union. In this form, national fiscal rules and fiscal councils are supplemented by a significantly more simplified

[10]The leniency on the French budget exceeding the targets in 2014 by the Commission highlights how the reworked SGP is still subject to powerful member state influence.

European level rules and a European Fiscal Council.

2.4 But (how) do they work?

The preceding sections highlighted how fiscal policy is affected by specific institutions, such as rules and watchdogs as well as structural reform processes. In addition to the considerable variation in fiscal experiences in the Euro area, we can observe this heterogeneity in the institutional setup as well on the member state level. Adding into the mix of the regional idiosyncrasies (such as the transitional experience of the 2004 enlargement wave countries) it is clear that assessing the role of this mix is a challenging task. One key open question in the literature is when do fiscal councils work? The cited studies exploring their effects suffer from a number of shortcoming. Chief among those is the publication bias exposed by Heinemann et al. (2018), who demonstrates that statistically insignificant findings do not make past the chopping board of peer reviews, as opposed to studies which find significant effects. This creates a lopsided representation in the literature leading the cursory observer to the conclusion that fiscal councils are the silver bullet solution. Second, most of these research concentrates on the average effect of a large panel which neglects the conditional question of *when does fiscal institutions actually work?* Just after this step one can proceed to look into the follow up and examining *how do they work and through what mechanisms they can influence policy making?*

Exploring these questions necessarily brings in the role of the European Union and its fiscal framework. While there are extensive research on the past iterations of the Stability and Growth Pact, the reworked framework which finished in 2013 has not yet been systematically evaluated. However, the effect of the EU on member state policy is crucial as the new regulations place increased monitoring and sanctioning power in the hands of the European Commission and European Council. It is important to understand how the national policy making is integrated with the European level in order to assess the effectiveness of the reforms.

While these questions are interesting research puzzles they also show the dissertation's contribution to the international political economy literature. First and foremost, it speaks to the ongoing debate on the role and effect of the fiscal councils under the current European legislative environment. This is a key area where discussion is still ongoing and careful, empirically rich analysis on fiscal councils can shed light on more nuanced insights. The research adds value to the field by exploring the conditions under these new institutions can have impact and showing if these conditions are met how they can achieve this impact. Furthermore, it also extends the current debate by examining how fiscal policy can evolve when these institutions are missing.

Following the main research questions laid out above I formulate the testable hypothesis. These are informed by the above surveyed literature on possible conditions on the effectiveness of fiscal councils as well as their channels of influence. The political business cycle literature shows how politics can make or break fiscal consolidation (many of that research were done before the widespread establishment of fiscal councils). From this follows the hypothesis, that the impact of fiscal councils are conditional on political will.

H1a: *Fiscal institutions are able to affect fiscal policy when the government views them as "supporting insitutions"*

H1b: *Fiscal institutions are circumvented by the government when viewed as "adversary institutions"*

A second hypothesis is also needed to account for the external pressure emanating from the European Union, which can force governments to comply with fiscal rules, as reported by (Wyplosz, 2017). Another source of external pressure can be market based as governments might react to the deteriorating investor sentiment which can manifest in the widening spread on the interest rate of the given country's and the usual US or German benchmark treasury bonds.

H2a: *Fiscal institutions are able to affect fiscal policy in times of external pressure*

The literature, and particularly the one on fiscal councils and fiscal rules offers a hypothesis that ties in with the above formulated H2:

H2b: *Fiscal institutions are able to affect fiscal policy when they are supported with fiscal rules*

This four hypotheses systematically explore the question of when do fiscal institutions work. Fiscal institutions are not just the narrowly defined rules and watchdog councils but procedural rules, government agencies tasked with coordination, monitoring or informal institutions that also affect how fiscal policy is made.

As evidence suggests that institutions and fiscal performance is associated somehow it is worth exploring this angle. As the literature focused on this question largely failed to present a convincing causal argument using large-n methods I use a mixed method approach, combining in depth case studies using the narrative approach to identify non-cyclical fiscal policy actions. In addition to the more traditional case studies I also use a network based approach to analyse how the connections of the key institutions of the policy process affect their ability to be influential. For this, I use the toolset of social network analysis and network science (two very closely related field, one originating from sociology and the other from statistical physics). It has been demonstrated that the policy network structure has profound implications for effectiveness for the network as a whole (Sandström and Carlsson, 2008). From this, I hypothesize that fiscal councils are central in the policy network for communicating with each policy actor in order to receive and send information. This role would allow them to carry out their watchdog mandate and serve as an early warning system if needed.

H3: *Fiscal councils are occupying a central role in their respective policy networks that allows them to carry out their mandate.*

The last hypothesis on the functioning of fiscal councils concerns their age. This angle is not really featured prominently in the current research apart from some notable exemption such as Debrun and Takahashi (2011) who finds that newly established fiscal councils are largely similar in their mandate to their older peers. My research digs deeper into this temporal divide and seeks to explore if there is a significant difference between the embeddedness of the older institutions than the newer ones. This hypothesis is supported by theoretical evidence from network science which claims that network connections form on a preferential basis where older network members have more connections than the latecomers (Barabási and Albert, 1999).

H4a: *Fiscal councils with longer tenure have more institutional ties*

H4b: *Fiscal councils with longer tenure are more central in the policy network than their more recently established peers.*

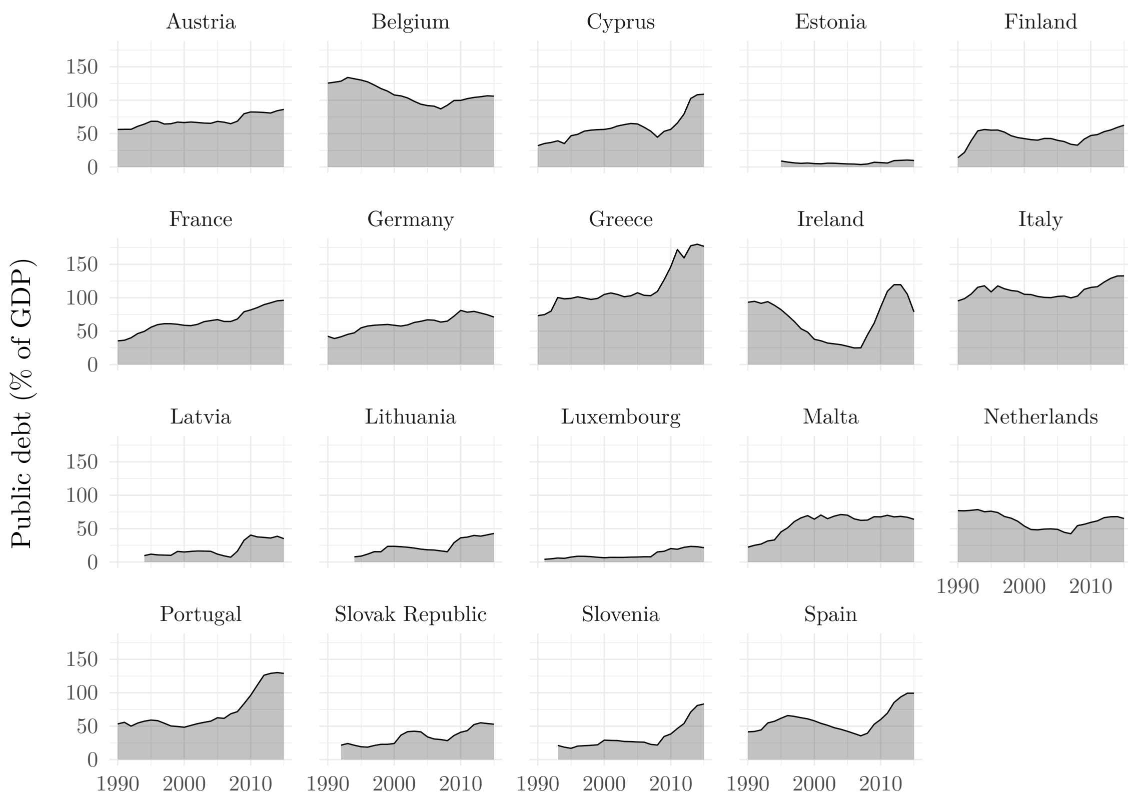
2.4.1 Case selection motivation

The main method chosen to investigate the hypotheses laid out above is using process tracing on two distinct cases. The two chosen cases are Belgium and Slovakia. Belgium represents a case with a highly institutionalized core European Union member where fiscal institutions have long (but not always meaningful) tradition. While Belgium has been among the first to adopt the Euro and also early in establishing a modern fiscal council it still struggles with institution building during its transition from a unitary state to a federal one.

Slovakia is a case where transition from a socialist economy to a Euro area member offers an interesting path which was covered with institution building, fluctuating politics and convergence to Europe. This case also offers a perspective where fiscal policy is not constrained by formal institutions throughout the whole case. This within case variance ensures that the results from the case studies are not false positives stemming from selection bias. Moreover, it also enables me to trace institution building and observe how newcomers to the EU and Euro area designed their new set of institutions and how they compare to the old member states'.

As it has been demonstrated by seminal works in the political economy field small states and their studies can bring valuable insights as they are not simply smaller big states (Katzenstein, 2003; Hallerberg, 2004). Furthermore, while small states can form coalitions for increased policy impact and decision making in the EU has been documentedly consensual, it has also been shown that member states with bigger economies can alter certain aspects of supranational fiscal oversight (Baerg and Hallerberg, 2016). This would mean that smaller countries are generally more likely to be rule takers in the EU, so the recommendations coming from the European Commission and European Council present a more binding environment. While 'transitology' has received decreasing attention from academic and policy practitioners in hindsight it is apparent that performance of the Central Eastern European region does not hinges on purely institutional or ideational factors and progressions are just as likely as regressions. The swinging pendulum of CEE political

Figure 2.3: Public debt in the Euro area countres, 1990-2017



Source: Eurostat, author's compilation

economy has been most recently documented by Csaba (2018b) who offers an account of the region in which path dependence shaped by institutions is not the key force behind convergence or laggard performance.

In addition to having the European Union and the Euro area provide a uniform external environment for the selected cases I also needed to observe variance between and within my cases in key areas that would let me observe the causal mechanisms. These areas were the debt to GDP ratio, institutional constraints (measured as EU and Euro area membership and number and quality of fiscal institutions), political systems. Looking at the debt per GDP in current Euro area members as a crude measure of fiscal performance, Figure 2.3 shows that Belgium performed a decade of debt reduction (only paralleled by the Irish performance), while Slovakia did not experienced such a fiscal roller coaster.

This figure also demonstrates that the cases are not selected on variance in the dependent variable as it is often the main critique of case based research (Geddes, 1990; King et al., 1994). The theoretical underpinnings of my case selection follow the typology laid out by Seawright and Gerring (2008) and termed as *diverse case* selection strategy. The cases selected should cover the range of variance in the key variables of interest and their relationships. The Slovak case represent a time period where a transitional economy entered into successively more binding supranational arrangement and integration, while still being comparatively underinstitutionalized when it comes to fiscal policy. The cases are broken into two parts: one that spans from 1990 (one year prior to the draft of the Maastricht treaty) to 2008 (the global financial crisis); the other is from 2008 to 2018 (end of the crisis and solidification of EU reforms).

The two time period for Slovakia allows me to examine how gradually tightening fiscal institutions and integration affects policy processes and outcomes. It also offers an insightful glimpse into the somewhat puzzling phenomena that the country managed to evade increasing its public debt without a strong institutional framework and through rather turbulent political competitions. The Belgian case shows a core EU member with ballooning debt which has been successfully tamed by domestic institutional reforms. However, the reforms fizzle out in after the Euro adoption and the 2008 crisis creates a persistent increase in the debt. A key feature of these cases are the depth and width of institutions already established and how their reform affects fiscal policy making. The ongoing Belgian constitutional reforms (marking the milestones of the transformation from a unitary to a federal state) also provide empirical evidence of the policy preferences of political sides and test the strength of institutions in a fragmented political environment.

Taken together these two cases represents a diverse range of economic, institutional and political variables. This allows me to observe how pre-existing institutions and their reform can shape fiscal policy making and outcomes. There is also opportunity to examine the effect of various EU fiscal coordination measures (most notably the various iterations of the Stability and Growth Pact, the Two and Six Pacts and the Fiscal Compact) on member state fiscal policies, conditional on their domestic institutions. However, the pairing of the a Western EU member with a new member state from Central Eastern Europe might seem odd. This pairing is also an attempt to bring more diversity into the literature by moving away from the old tropes and avoiding the highly covered outlier cases, such as Greece or Italy. While Belgium being a core member of the EU has been covered in various studies in the political economy field (most notably by Hallerberg (2004); Hallerberg et al. (2009)), research focusing on the political economy of fiscal policy in Slovakia (and in CEE in general) has been scarce.[11] Moving away from a more traditional intra-regional case selection I also provide a fresh perspective and a current account of the Slovak fiscal policy processes.

[11] A more recent work is done by Kopits (2013), which contains a chapter on the Hungarian fiscal council.

3 Methodology

3.1 A mixed method approach

The literature has been struggling with eliminating endogeneity concerns when assessing the impact of fiscal institutions using either panel regressions or time series analysis. To circumvent this problem I apply a mixed method approach that mixes qualitative case study approach with quantitative network analysis. Case study approaches are widely used in all fields of social sciences.

As the introductory chapter already described I have Belgium and Slovakia between 1990 and 2018 as cases, punctuated by the 2008 crisis. This type of case selection can be used when one is building or testing correlational hypothesis on cross-case and within case level. An important conceptual note is that while case studies use a small n as the number of cases, within those cases there are a high number of observations based on primary sources, interviews and source documents. Thus, following Campbell (1975), *"it is then evident that n can be fairly large in case studies."* (Rohlfing, 2012, 28). Additionally, qualitative analysis does not mean a disregard of quantitative techniques. My research rests on a positivist ontology and uses case studies to qualitatively process the quantitative and qualitative data (such as statistical data as well as interviews and primary policy documents). This means that the analysis is sensitive towards the complex nature of reality and tries to take into account a wide range of data. It is also important to situate the research within the broader literature as it can also increase the validity of the case based findings. As the seminal work of King et al. (1994, 1995) established and then reiterated, when case studies fit into a particular research agenda, their findings can be generalised beyond the small cases investigates based on the prior findings of the field.

I am using a mixed method approach and one key leg of this is the case studies, which employ process tracing to investigate my hypotheses on the effectiveness of institutional framework on fiscal policy. This approach uses primary policy documents, observational data and semi-structured interviews as data sources. The cases establish how institutions work and under what conditions. This improves upon the econometric modelling approach by giving an in-depth country level account. The second leg of the mixed methods is a quantitative analysis of policy networks within the two countries.

This is a novel approach to give a micro level (in this case, institutional level) view of how information flows between actors who make fiscal policy happen. Analysing the network structure of the institutions can also help quantify the relative importance of each institutions. It has been acknowledged in the political science method literature that qualitative and quantitative methods can be used together to their complement (Brady and Collier, 2010). Process tracing is one particular tool to bridge these two approaches. Another tool is is triangulation, which helps connect the quantitative and qualitative parts as "*Within a single research project, the combination of qualitative and quantitative data increases inferential leverage*" (Tarrow, 2010, 104).

3.2 Narrative approach and process tracing

Process tracing has been the workhorse method for case based research in political science research. The commonly accepted definition of this tool is formulated by George and Bennett (2005, 206) as *"attempts to identify the intervening causal process – the causal chain and causal mechanism – between an independent variable (cause) and the outcome of the dependent variable"*.[1] The process-tracing method is mainly used for within-case inferences and not for cross-case causal inference. In the two cases that I delve into, I focus mainly for the within-case causal inference for which process tracing is an ideal choice of analytical tool.

Illustrating the logic behind the method, causal mechanisms are more than just inter-

[1] Beach and Pedersen (2013) distinguish between three variants of the method: theory testing, theory-building, and explaining outcome process tracing.

vening variables. Following Beach and Pedersen (2013), such a mechanism can be written as the following, where $*$ is the logical *and*, and n_x is the xth part of the mechanism, leading to the Y outcome.

$$X \rightarrow [(n_1 \rightarrow) * (n_2 \rightarrow)]Y \tag{3.1}$$

While the method has been used in all manner of research, it has seen great use in EU related works where it was used to investigate European integration, institutional building or European social policy. As highlighted in Bennett and Checkel (2015), the key debates in European research implicitly or explicitly turn to this tool, such as the one between the intergovernmentalist and supranational integration theories (Moravcsik, 2013; Pierson, 1996). As I have two cases studies in the dissertation, my case selection technique and subsequent research methods should also take advantage. Process tracing satisfies this requirement, as Tarrow (2010, 105) notes that *"If there is time for two process tracing analyses, the study of diverse cases that illuminate the full range of variation in the population is also advisable."*

I combine the now well established process tracing toolset with new advances in fiscal research, called the narrative approach. It was pioneered by Romer and Romer (2010, 1) *"to identify the size, timing, and principal motivation for all major postwar tax policy actions"* by examining the narrative record. In their work, they operationalize the narrative record as presidential speeches, Congressional documents and other executive-branch documents. This narrative approach has been widely utilized by the economics literature to identify exogenous fiscal policy changes, instead of relying on the also often used cyclically adjusted primary balance measurement. Usually this identification method is applied together either with a time series approach or a panel regression method. Ramey (2019) reviews the range of applications for this technique, which include revisiting the fiscal multipliers debate (Guajardo et al., 2010, 2014), fiscal consolidation plan (Alesina et al., 2018). It is also used in both academic research and by government and international organisation research departments, such as the the Congressional Budget Office in the US (Demirel, 2016), or the IMF (Guajardo et al., 2014). In these cases, the observations are country-years, but unfortunately that still does not allow for a robust analysis for my selected two cases. This is why I opted for using the narrative approach to identify fiscal consolidations and combine this with process tracing to see how these episodes are related to the political economy of the given country and the institutional environment.

3.2.1 Data for case studies

Process tracing requires a large amount of data to be reliable and valid which means far more resource has to be used than for a comparative analysis (George and Bennett, 2005). This also presents the dangers of infinite regress into details trying to fill out every informational void in order to get to the ideal case of uninterrupted casual path (Bennett and Checkel, 2015). In line with the above cited literature, I use a range of data sources in order to have stronger proofs for my observations. A template for data collection is provided by the narrative approach developments. The first large dataset using this approach was the Action-Based Dataset of Fiscal Consolidation compiled by the IMF's research department for 17 OECD countries over the period of 1978-2009 (Devries et al., 2011). To identify fiscal policy consolidations I look at a wide variety of historical sources for each case. The main sources used are central bank reports, IMF Article IV consultation reports, Convergence and Stability Programmes, OECD Economic Surveys. In addition to these, I also review case specific sources such as reports published by fiscal councils or country specific recommendations from the European Commission. If there are differences between the sources, I also include additional data in order to get a clear and unequivocal position. The careful examination of these primary documents allow me to identify fiscal policy changes that were not motivated by cyclical factors (thus eliminating one key source of endogeneity). In addition to improvements in identification strategy over the widely used cyclically adjusted primary balance approach, the narrative method also brings the policymakers reasoning and thinking to the forefront.

For the Belgian case, the narrative based data is available from (Devries et al., 2011) until 2011, which was updated by (Alesina and Passalacqua, 2016) until 2014. However, this update takes a different approach and identifies fiscal plans, instead of consolidation events, which causes discrepancies between the two dataset. While I use these two dataset for validating my findings I also carry out the process tracing relying on the above mentioned primary sources. Slovakia is not included in either of these datasets, which made validating my findings harder, as there was no baseline to compare to. This also means that the Slovak case represents a significant value added to the narrative based identification literature as as far as I know there are no previous attempt to carry out this exercise for the 2004 enlargement wave member states or the more recent Euro members.

In addition to relying on primary policy documents I also collected original data via a series of semi-structured interviews and with an online survey. The goal of the interviews is twofold. First, they help with corroborating the evidence from the narrative approach and they can serve as tie-breakers should the primary sources contradict each other. With the interviews I also got a first hand insider account of the role and workings of key institutions and their place in the policy process. I also inquired about who are the other important institutions that they collaborate either formally or informally. The semi-structured questions helped to guide the interview but leave considerable space for the interviewees to ”wander”. This approach is useful to stumble upon previously unknown information. I have conducted 21 interviews during the course of the research, between 2017-2018. The list of interviews is presented in the Appendix, in Table A.1.

The sampling for the interviews were non-random and I employed the snowball method to identify all relevant institutional actors in each case.[2] I also used the interviews as opportunities to get a better response rate for the institutional survey, which would ask similar questions to the interviews, thus further validating the results. The considerations behind the survey and the data provided by it is elaborated in the following section which discusses the network based approach. The initial step to establish the population of relevant institutional actors for fiscal policy was to check the OECD's Journal on Budgeting's 2015/2 Volume which contains short cases of fiscal policy making in OECD countries (OECD, 2015). The institutions named in the short cases here formed the first round for the interviews and survey (also called the seed set in the network literature) (Robins, 2015).

During this first round I prompted the interviewees to nominate the top five most

[2]While random sampling is generally understood as key for generalisations, in this case the population of institution was so small that I opted to try and get interviews with all relevant parties. In addition, as Mosley (2013, 40-42) suggests, non-random sampling is appropriate in the case of process tracing research designs and for testing mechanistic hypotheses.

important institutions in the policy cycle and also nominate the top five of their most important partners. These nominations then formed the second wave of the interviews. During conducting the second wave, I reached the boundary of relevant actors, as the nominations were not containing new institutions. The interviews contained an item on EU influence on domestic fiscal policy, which allows me to triangulate the (perceived) effect of the EU and its rules on member states by comparing answers from the key institutions for each case. For a detailed list of questions, see the Appendix Table A.2.

Finally, to make my process transparent I use footnotes to highlight the relevant texts from the policy documents and from interviews that I use as evidence in my research. This help alleviate concerns of quoting out of context passages as well as taking the researcher on face value that the cited document in general contains the claimed text evidence. This also transparently displays how each policy document is interpreted and evaluated.

3.3 Network analysis and institutions

The second pillar of my mixed methods approach is conceptualizing the policy making process and subsequent fiscal policy as an outcome of an institutional network. To analyse this structure I will use the toolset of network analysis. This network based approach has a number of advantages over other quantitative methods. First, it incorporates the idea that policy outcome is a product of a highly dependent process between a set of institutions. This means that these so called network dependencies can be taken into account when analysing the network structure.In a typical regression setting, these network dependencies cause a violation of key assumptions, as observations are not independent from each other and not identically distributed. Furthermore, neglecting the network dependencies can lead to the omitted variables bias. Ignoring dependencies are especially problematic in research which looks at interest group success, memberships and lobbying. My research would also fall into this category, as I seek to explain how various institutions affect policy.

The network analysis field in the social sciences has been originating from the sociology field, whereas the other thread of network science originates from statistical physics.[3]

[3] For a brief summary of this duality, see Borgatti et al. (2009) and Newman (2010)

Figure 3.1: Undirected and directed networks

(a) Undirected network (b) Directed network

Networks can be present in all types of interactions, from social or political to economic (Jackson, 2010). In political science, the concept of policy networks dates back to the 1970's and the first use is generally attributed to Katzenstein (1976). Following Kenis and Schneider (1991) and Knoke (2014, 210) I define policy networks as *"a bounded set of public and private actors linked by communication ties for exchanging information, expertise, trust, and other political resources"*.[4] The boundary for a policy network is defined by the policy domain in which the actors (individuals, interest groups, institutions, public agencies, etc.) operate. The primary interest (unit of observation) with this method is not the individual actor but rather the ties between them. Having connections between one or more actor is not independent from the network itself and how these ties are formed and how they shape the policy network can tell what sort of influence a specific institution has.[5]

Networks are represented as a set of nodes (actors) and edges (ties). Mathematically:

$$G(N, E) \tag{3.2}$$

Where, graph G has a node set $N = \{1, 2, ..., n\}$ and an edge set E. In my research I use both directed and undirected networks, based on the data available. A visual representation of the two types of network is in Figure 3.1.

3.3.1 Data for policy network analysis

The most common way to obtain data on policy networks is usually done in two steps. First, identifying the boundary conditions of the network (i.e.: who are the relevant actors) and then surveying them for relational data (Marsden, 2014). In my research, due to time and resource constraints I combined my data collection efforts with the needs of the case

[4] For alternative definitions and evolution of the concept, see Börzel (1998).
[5] For a wide range of applications, see Robins (2015); Knoke (2014); Victor et al. (2018).

studies. I constructed and pre-tested a survey, with key items concerning the variables of interest. The survey contained "*name generator*" items (where respondents should name new network members), "*name interpreter*" items (where respondents evaluate some quality of other network members) and "*position generator*" items (which allows respondents to qualify their relationship with other network members). The items are designed in a way that a variety of networks can be constructed based on them. The information exchange items make it possible to construct a network which shows how various types of information flows and if there are key actors within the structure.

During the interviews I conducted at key institutions I also mentioned the survey and asked if the interviewee or another person with similar relevant knowledge of the field would fill it out. In the case of a positive answer I provided them electronically the survey. In many most cases the interview subjects and the survey respondents were the same. Thus, the sampling considerations were similar, and I similarly opted to collect data from all the relevant actors in the policy domain. In some cases I was unable to get an interview or survey response, but these institutions can still show up in the network data, due to having been named by other respondents (these instances are noted accordingly). The institutions which provided survey responses are shown in the Appendix Table A.1. The validity of the data can be assessed by cross referencing it to the interview answers which also asked about similar topics, such as importance of other institutions, quality of cooperation.

3.4 Tools for analysis

For creating the figures and tables and carrying out the network analysis I used the R programming language (R Core Team, 2018). The figures were created with the ggplot2 package (Wickham, 2016), and they were exported by the tikzDevice package (Sharpsteen and Bracken, 2018). The data cleaning and processing was done using the dplyr and tidyr packages (Wickham et al., 2018; Wickham and Henry, 2018) and the tables exported with xtable package (Dahl et al., 2018). The network analysis relies on the igraph (Csardi and Nepusz, 2006) and ergm (Hunter et al., 2008) packages.

3.5 Conclusion

The methods section in connection with the surveyed literature outlines the chosen strategy to improve upon some of the shortcomings of the literature when it comes to fiscal policy. First, moving away from the large n based panel and time series regression models I turn to process tracing. This choice of case study analysis tool enables me to have a more precise look at each case and embark on uncovering the causal relationship between institutions and fiscal policy making. This enables me to assess if fiscal institutions are endogenous or exogenous to fiscal policy and whether their effect is matches the previous findings in the literature.

Second, applying a network view of the policy process acknowledges the interdependent nature of institutional coordination within member states and with the EU institutions. While using policy networks is a well established practice in the political science and public policy literature, it is certainly less used in the political economy field. With my research I contribute a new point of view of a long researched problem which provides additional insights on how interconnectedness and the differing institutional weights affect policy making.

4 Changing perception of fiscal councils: Belgium, 1990-2008

If there is an undisputed success story of fiscal consolidation in the European Union this title surely belongs to Belgium for managing a spectacular turnaround from the heights of debt accumulated in the 1980's to the balanced budgets reached by 2000. However satisfying this happy ending would be, the Belgian case looks beyond this timescale and investigates this performance in the context of waning attention to maintaining a balanced budget and eventually stopping consolidation or structural reforms for more than a decade. The case covers Belgian fiscal policy from 1990 to 2017 split into two chapters, with 2008 being the dividing line. This is a deliberate choice as the two sections have different focus and helps to answer the research questions from a different perspective.

In this first half, the case study focuses on the transition from a unitary to a federal state which prompted a wave of institution building and was frequently accompanied by political struggles. While it is customary to write off the high indebtedness of Belgium as an artifact of the numerous veto players in the policy process this case study shows that this interpretation is superficial and federal fiscal policy was not held hostage to the regions. As the transition was made new institutions were established or refurbished to suit the changed need of the state. One of these was the overhaul of the High Council of Finance, which is the longest serving fiscal council in Europe. The chapter examines the effects of the evolving internal environment and also brings in the European Union's external influence to see how these combined forces shaped policy. The High Council of Finance is largely acknowledged to be a key part of the fiscal performance of the 1990's and the Belgian case will provide an excellent ground to examine hypotheses 1 and 2, that fiscal institution's ability to carry out their purpose is dependent on how they are viewed from the government and also a function of external pressure and supporting fiscal rules.

The impact of fiscal institutions is measured by examining original policy documents and primary sources from interviews and seeing instances where the government's fiscal policy is explicitly dependent on the fiscal institutions (be they rules, procedures or watchdog councils). The supporting or adversarial position is also defined in relation to the government's underlying policy preference revealed by consultations with the IMF or annual reports from the National Bank of Belgium. When the government expresses a need for a change in fiscal course in line with the institutional constraints I view these instances as supporting and when the government ignores or only pays lip service to the recommendations I categorize those as adversary.

External pressure can be both institutional, like in the case of the European Union regulations and treaty obligations, and it can be market based which can manifest in increasing spread between a benchmark government bond or increased interest payment on debt. Such market pressure is a result of investors viewing the fiscal policy a liability for the future repayment of outstanding debt and a premium put on the continued debt financing.

As detailed in the methodology section, I use a wide variety of data sources. Firstly, I use the datasets from the Eurostat, International Monetary Fund and the OECD to get reliable macroeconomic statistical data. The main indicators are the cyclically adjusted primary balance (CAPB)[1] and the structural balance[2] of the Belgian federal government. The use of these statistics are in line with the fiscal literature. However, they might still capture exogenous effects, so in order to have a more robust framework I also use an alternative action-based IMF data set and it's more recent update which identifies deliberate fiscal consolidations (Alesina et al., 2018; Devries et al., 2011).

[1]This indicator captures the primary balance (revenues - expenditures, without interest payments on outstanding public debt) and accounts for cyclical factors, such as business cycle effects. It is widely used to infer the fiscal stance of an administration since a change in the CAPB is more likely to be a result of a deliberate policy decision rather than the effect of exogenous shocks.

[2]The structural balance is different from the CAPB in that it eliminates non-recurring expenses and revenues, thus focuses on the underlying structure of the government balance. The difference between the structural balance and the CAPB shows the extent a government relies on one-off measures to balance its budget.

Secondly, following the practice laid out in the literature in process tracing, I identified key publications that have the highest likelihood of containing information about fiscal policy intentions of the federal government. These are the evaluations of the High Council of Finance (HCF), the yearly Article IV country reports of the IMF and finally, the yearly reports of the NBB.[3] All three of these sources are independent from the government and all three publication shares the aim of assessing fiscal policy in Belgium. I selected this three sources based on their independence and based on the example set by Alesina et al. (2018) and Devries et al. (2011) who also scan similar documents to compile their datasets.

This chapter has two goals. First, to test the hypothesis about when institutions present a constraint on fiscal policy making. Second, to lay the groundwork and set the historical background for the second half of the Belgian case study, dealing with the period after the crisis. In doing so, this case expands on earlier case studies by rigorously examining the post-Euro area accession years and relying on careful process tracing. The milestones are provided by consecutive state reforms and EU institutional changes.[4]

The chapter is structured into the following sections: a brief overview on the drivers of Belgian federalization and its cornerstones until 1990. This is followed by an assessment of the 1989-1990 state reform and the institutional changes that coincided with the drive to be in the first wave of Euro area member states. The last third of the chapter deals with the deepening (fiscal) federalization of Belgium and the maintained balanced budgets on the tailwinds of non-recurring factors, alongside with an incremental but continuous softening in the fiscal stance.

4.1 Historical background

The driving force (at least initially) for federalization were cultural: the inter ethnics conflicts between the Flemish (Dutch speaking) and Walloon (French speaking) was further complicated with the animosity between the French speaking Brussels and the rest of the

[3] The Belgian fiscal council that issues two documents in a year: one is an evaluation the budgetary performance in relation to the budget, the other is an evaluation and recommendation of the medium term objectives for the stability programmes.

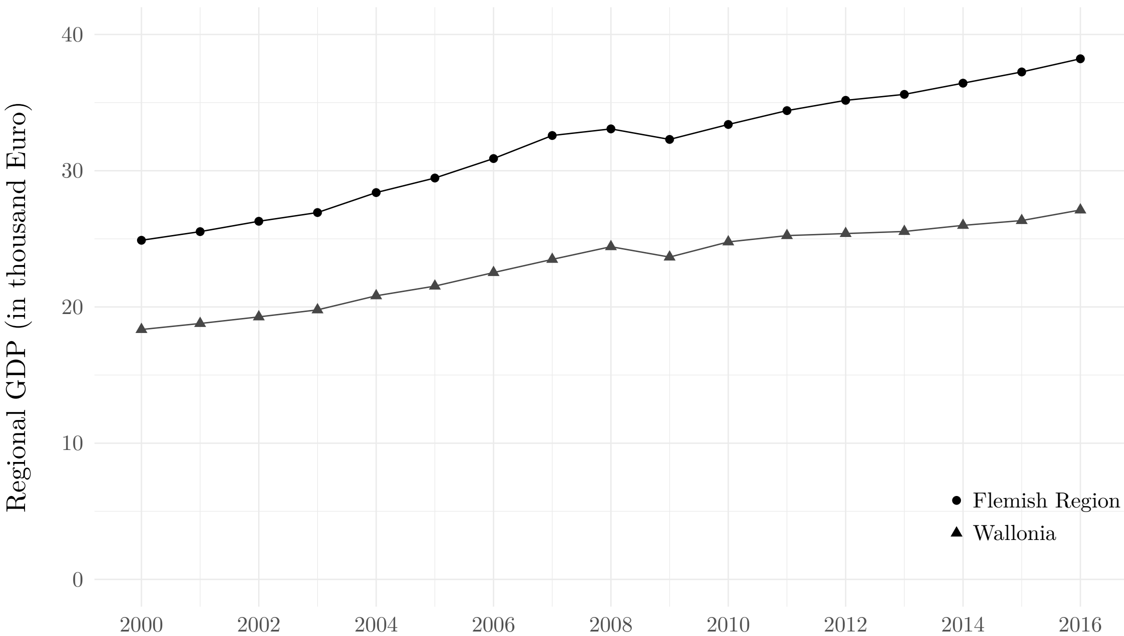
[4] Throughout the Belgian cases I will use constitutional reform and state reform interchangeably. During the 1990-2007 period there were three state reform in Belgium, the 3rd in 1989-1990, the 4th in 1995 and the 5th in 2001.

country (adding a center-periphery struggle). This resulted in the surge of Flemish nationalism that pushed for recognizing Dutch as the official language alongside the French. This cultural issue was the platform that allowed the Flemish nationalists to advocate the transformation of Belgium from a unitary state to a federal one. The Walloons had different motivations for increasing regional autonomy. The Walloon nationalism was rooted in the economic decline of the region after the Second World War, as the steel and coal industry declined. In addition to the economic struggles, they feared a demographic shift that would favor the Flemish and would upset the political representation status quo. This two factor fueled a belief that any sort of economic restructuring of the country would favor the more populous and wealthier Flemish region. With more regional autonomy, and eventually with federalization, the Walloon nationalist movement hoped to turn the tides of their socio-economic woes. However, given these different push factors for federalization, the desired outcome varied slightly.

The fragmentation did not stop at the cultural and economic issues, it spilled over to the political space as well. In Flanders, the push for devolution towards communities were championed by the Christian democrats (CVP) and the Christian democratic trade union, while in Wallonia it was the Parti Socialiste (PS) and the socialist trade union that campaigned for the cooperative federalism. The combination of cultural, socio-economic and political divides meant that regional interests dominated the politics (Leibfritz, 2009). The persisent and widening gap in economic performance is shown in Figure 4.1. This illustrates that the post-war gap between the two region did not close and even widened throughout the last three decades which confirms the Walloon anxiety over being left behind.

The first major constitutional reform took place in 1970 which was the first of many steps in moving away from a unitary state to a federal one. Although at this stage, it is more apt to speak about regionalization than federalization, the French, Dutch and German communities received cultural autonomy by establishing cultural councils. At this stage, the socio-economic autonomy of the three regions (Flanders, Wallonia and Brussels) were only plans which did not get implemented. It took a decade to make regions operational and set up regional governments as part of the second state reform in 1980. These regional governments, just like the communities, were filled with the language group members of the

Figure 4.1: Regional GDP in Belgium, 2000-2017



Source: OECD Regional Statistics, author's compilation

federal parliament instead of being directly elected. Another peculiarity of this arrangement was that the competencies of each level were exclusive to them and legislation and implementation happened on the same administrative level (Hooghe, 1993). The design of the communities and regions made cooperations on policy goals inevitable with the distributed system of competencies and splitting constituencies between regions and communities. This special arrangement is one of the idiosyncrasies of Belgian federalism and it also means that communities and regions do not have clear cut territorial boundaries between them. A somewhat simplified view of the emerging federal system is that communities represent the drive for cultural autonomy (goals of the Flemish nationalists), while the regions are a manifestation of the Walloon desire for economic autonomy that would mitigate the effects of being in the (political) minority.

Other notable institutional changes during the second state reform includes the establishment of the Court of Arbitration as a constitutional court (albeit with rather limited powers for review of compliance federal and regional legislation) and the merger of the governments of the Flemish region and community (Peeters, 2003). The Walloon and the

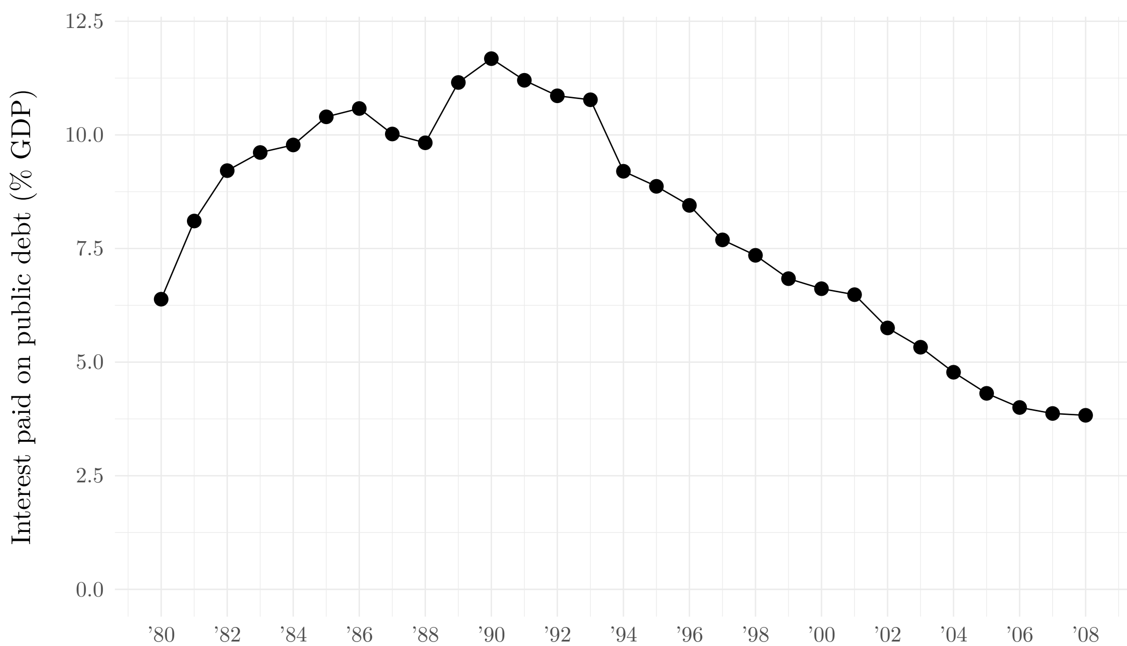
French Community maintained their separation. In addition to making regions operational, communities also gained autonomy in cultural fields, education and some parts of health policy and youth protection. At this point the revenues of federal entities (both regions and communities) were mainly provided by block grants from the federal government. During the 1980's the federalization process did not involve fiscal powers below the federal government. This means that debt accumulation and running deficits were the results of the policy choices (at least partly) of the federal government.

In this time period, Belgium was long seen as a country with exorbitant public debt and untamed deficits, as the country struggled with the consequences of the oil shocks of the 70's and pro-cyclical fiscal policy of the 80's. The public debt level would reach its peak in 1993 at 133.4% of the GDP, while interest payments were at their highest in 1990, when they amounted to 11.6% of the GDP. These statistics show the fiscal burden Belgium faced as it's policy space was severely limited by the debt and deficit.

Hallerberg (2000, 2004) documents this part of Belgian fiscal policy making as a fiefdom approach: when each spending minister is responsible for drafting the expenditures for their respective departments they aim to maximize their funding. Similarly, on the revenue side they are mainly interested what taxes are levied on their constituency. This leads to a classical common resource pool problem, where the resources are paid by all members of the community but the spoils are unevenly distributed. These spending ministers then treat their ministries and field of competence as their fiefdom. Moreover, Roubini and Sachs (1989) puts forward a forceful explanation, where large coalitions with short tenures are susceptible to deficit bias because of they do not have to face the (political) consequences of their spending. This finding highlights the importance of the time horizon for an incumbent government and also implicitly hints at the political costs of consolidation versus spending. In this period subsequent governments embraced Keynesian policies and expanded public employment's share rose to 32% by 1982 (Hemerijck and Visser, 2000).

The above factors, coupled with weak or non-existent fiscal institutions, resulted in the explosion of public debt in Belgium. The 1980's were marked by a hike in the share of interest payments from 6.3% to 11.6% of the GDP between 1980 and 1990. The steady increase in interest payment continued throughout the 1980's and peaked in 1990, which

Figure 4.2: Interest payment on public debt (% GDP), 1980-2008

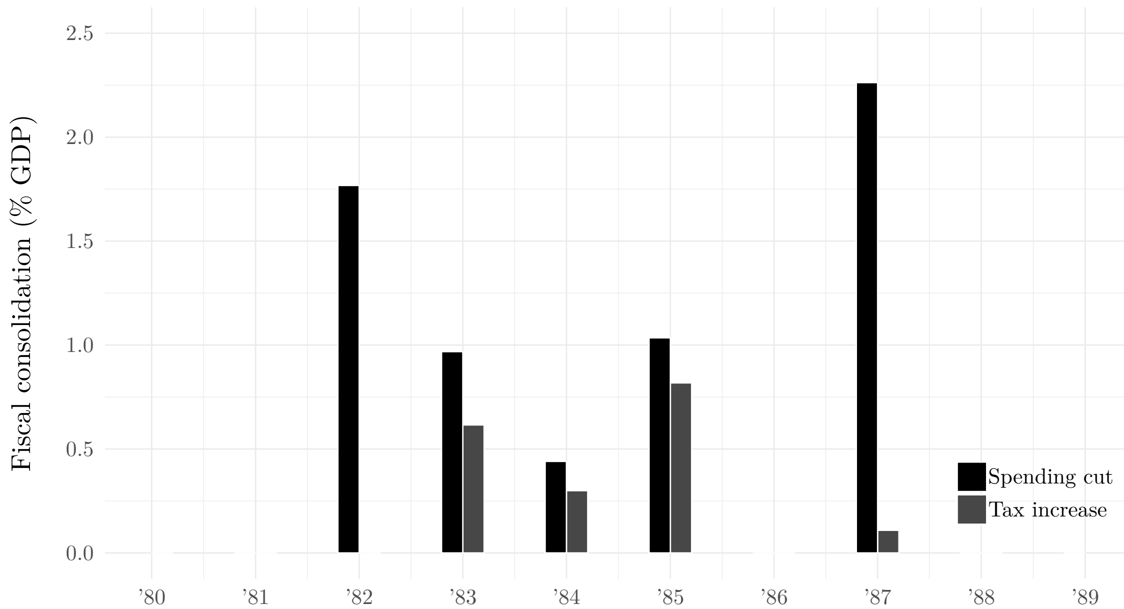


Source: IMF Fiscal Prudence and Profligacy database, author's compilation

turned out to be an inflection point. Coincidentally, this was also a period where the Belgian governments tried to introduce fiscal targets, but *"the targets failed miserably"* (Hallerberg, 2000, 18). An evidence of this problem is summarized by Smits (1987, 373): *"Not only the opposition parties, but also spokesmen for the majority parties expressed their dissatisfaction with the little care the Government was showing about budget orthodoxy"*.

However, this does not mean that this period was without deliberate fiscal consolidation. As the fiscal consolidation dataset shows, there were sizable corrections throughout the 1980's (Alesina et al., 2018). In response to the increase in deficit the Belgian government began implementing a new medium-term objective, under which it cut spending by 1.66 and 1.10% of the GDP in 1982 and 1983, respectively. In addition to cuts, in 1983 and 1984 there were some relatively minor tax increases, that amounted to 0.69 and 0.28% of the GDP. The largest fiscal effort of this decade happened in 1987 when the federal government cut the budget by 2.80% of the GDP (see Figure 4.3). The composition of the cut was made up of reduction in social transfers, subsidies and decreasing public investment. This list shows that the debt and deficit persevered despite continued attempts to stabilize and reverse their

Figure 4.3: Deficit driven fiscal consolidation, 1980-1990



Source: Alesina et al. (2018), author's compilation

growth. The fact that five instances of fiscal consolidation with the explicit aim of reducing deficit failed to curb the debt accumulation speaks volumes of the institutional problems present in the decade. It also forcefully underlines the previously detailed deficiencies in fiscal governance and the centrifugal forces of regional politics. The futile cuts and tax increases in the 1980's are particularly contrasting with the next decade: the average total fiscal consolidation was 1.71% of the GDP during the 80's, while during the 90's it was 1.06%.

The domestic checks and balances for curbing the common resource pool problem were inadequate to limit the vicious cycle of increasing public debt and interest payments. The early efforts to introduce fiscal targets was in part a response to quell the anxious Europe about Belgium's participation in the EMS. The country was called upon at the European Summit, 1980, to *"modify its prejudicial system of wage indexation if it wants to stay in the EMS"* (Hemerijck and Visser, 2000, 245). Unfortunately, the implementation of the plans did not fully succeed, owing primarily to political bargaining and often secretive policymaking process. This lack of wide consensus and deliberation also meant widespread opposition from political adversaries and labor unions.

The third state reform in 1989 marks the onset of further profound institutional changes in Belgium. For the purposes of this paper two particular reform stand out regarding fiscal governance and institutions. First, a transfer of competencies to the regions in international relations, foreign trade, environment, scientific policy and agriculture. In addition to these competencies, the share of the budget dedicated to regions increased from 8.4% to 33%. This decentralization made it possible to lessen the pressure on the federal government, although Hallerberg (2004) points out that the debt burden remained with the federal government. Without matching institutional reform nothing ensured that excess spending would not be replicated on the regional level instead of the federal one. Second, the reform of the High Council of Finance (HCF) to a fiscal council to draft and monitor fiscal contracts. Although it has been established in 1936 it did not play a significant role prior to its in-depth reform. However, in parallel with the finalization of the federalization the High Council of Finance received new mandates and responsibilities. Its 1989 reform created a modern fiscal council with wide range of tasks.[5] It would monitor fiscal policy of the regional and federal government, recommend a yearly fiscal plan and evaluate the short, medium, and long term fiscal targets. The legal basis was established in a 1989 special law, the Special Finance Act, relating to financing of regions and communities (Bogaert et al., 2006).

Establishing the High Council of Finance as a credible fiscal watchdog required the support of the National Bank of Belgium. This support manifested in various ways. The HCF gained access to data even before it was published which made the timely analysis easier. In addition to data it also received additional resources from the NBB's research department as well which further added credibility and reliability to the Council's recommendations. As a former member of the council highlighted, the three delegates from the NBB established moral authority behind the reports and recommendations (HCF3, 2018). While the institutional support of the NBB was instrumental in establishing the HCF as a credible new institution there were a personal element to this effect, as the governor of the NBB, Alfons Verplaetse was also strongly supportive of the project. The downside of the NBB

[5]In fact, in their paper Hallerberg and Wolff (2008) construct an institutional quality index for fiscal institutions and found that starting from the reform, Belgium consistently scored as having the highest quality in the European Monetary Union.

umbrella was that the impact of any recommendation of the High Council of Finance was conditional on agreement from the national bank.

The High Council of Finance also provides normative assessment to the budgeting process, alongside of the positive analysis of the National Accounts Institute and the Federal Planning Bureau. It is important to note, that while the reformed HCF met many of the criteria towards fiscal councils, its composition did not fully provided it independence. As Bogaert et al. (2006) details the members of the Council were academics, National Bank members, representatives from federal and regional governments. Moreover, the HCF secretariat was hosted at the research department of the Ministry of Finance. The HCF is composed of three sections, where the Public Sector Borrowing Requirements section is responsible for the monitoring. This reform is widely credited to be the backbone of the fiscal turnaround of Belgium that led to a decrease in public debt and solid budgeting. Hallerberg (2004) particularly highlights the role of the National Bank representatives as key agents: they were perceived as honest brokers by both the various governments (regional and federal) and the European Commission.

This finding is echoed in a ECFIN paper, which also highlights the role the HCF plays in coordinating the different levels of governments. Its recommendations were the basis for the budgetary conventions that served as a sort of internal stability programmes. Furthermore, the medium term budgetary targets were also integrated into the Belgian convergence program, and after 1999 to the stability programmes (Bethuyne, 2005). The HCF publishes two reports during a year: one in March for assessing the ongoing implementation of the current stability programme (and gives recommendations for the next year's); and one in June which contains the analysis and evaluation of the various governments' fiscal plans and budgetary policy.

4.2 Meeting Maastricht

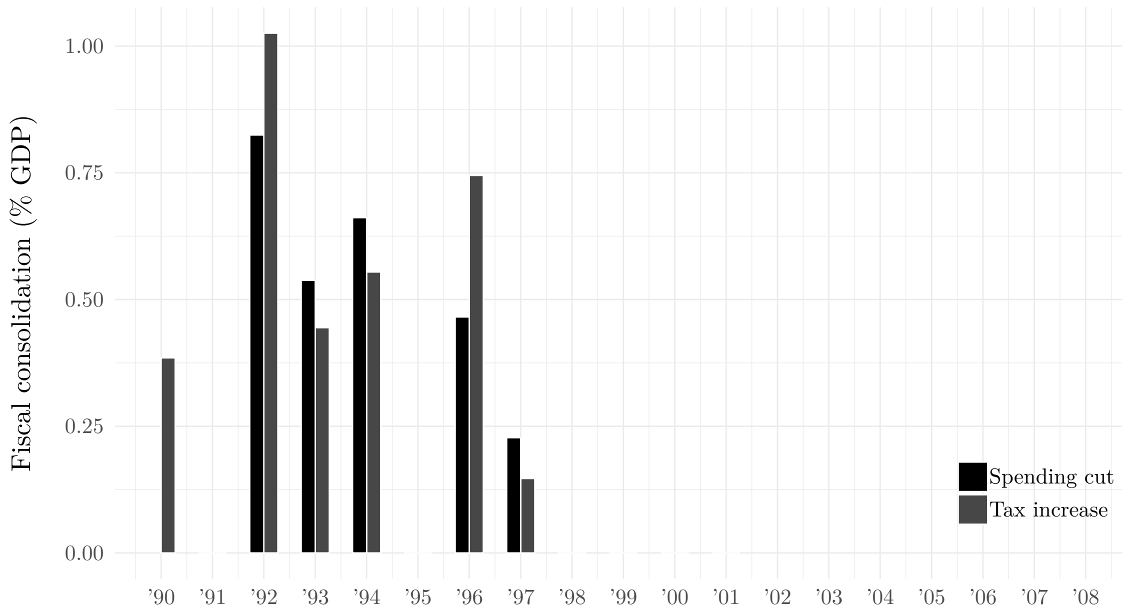
During the 1990-2000 period Belgium successfully achieved a balanced budget, reduced its debt dramatically and enjoyed continuously declining interest payments. These developments happened in a favorable environment with robust economic growth. Nevertheless, the data shows that in addition to the cyclical effects, the government actively engaged in fiscal corrections.

There are some key developments that facilitated this remarkable fiscal adjustment. First, the reformed High Council of Finance developed into an influential fiscal council, whose recommendations were taken as the baseline for the government's budgetary targets. These recommendations were also adopted by the regions and communities. While regional and federal representatives were members of the HCF and its Public Sector Borrowing Requirements section, the overall recommendations and assessments were non-partisan and fairly even handed. Based on interviews Hallerberg (2004) reports that two main factors contributed to removing the budget from the field of heavy political contestation. First, due to the reforms and articulated commitment to fiscal targets that now could be publicly assessed by an independent institution politicians perceived higher electoral risk for violating these targets. Governments after the reform directly tied their coalition agreements to the proposals of the High Council of Finance. In addition to the creating the Public sector borrowing requirement section, the National Account Institute was established in 1994 with the aim of providing an umbrella for some of the activities of the Federal Planning Bureau, the National Bank of Belgium and Statistics Belgium (European Commission, 2012b). This meant a better coordination between organizations who provide and use data. The Federal Planning Bureau was tasked by providing the macroeconomic forecasts for the budget planning process.[6] These changes meant a deep and meaningful overhaul of the fiscal institutions both in their mandate and in their day to day operation.

Not only the organizational side were affected by the sweeping changes in the beginning of the 1990's, Belgium implemented rules that would prescribe that above expectation revenues should be spent towards reducing debt. This combination led to a comment by a National Assembly staffer saying that the *"Parliament isn't interested anymore in the budget"* (Hallerberg, 2004, 135). Indeed, a series of fiscal rules were introduced: in 1992 a revenue rule, balanced budget rule and debt rule, and subsequently in 1993 an expenditure rule (Schaechter et al., 2012).[7] The revenue rule stipulated that growth of revenues has

[6]The FPB has been in existence since the 1950's.
[7]The 1992 revenue rule was implemented from 1995

Figure 4.4: Deficit driven fiscal consolidations, 1990-2008



Source: Alesina et al. (2018), author's compilation

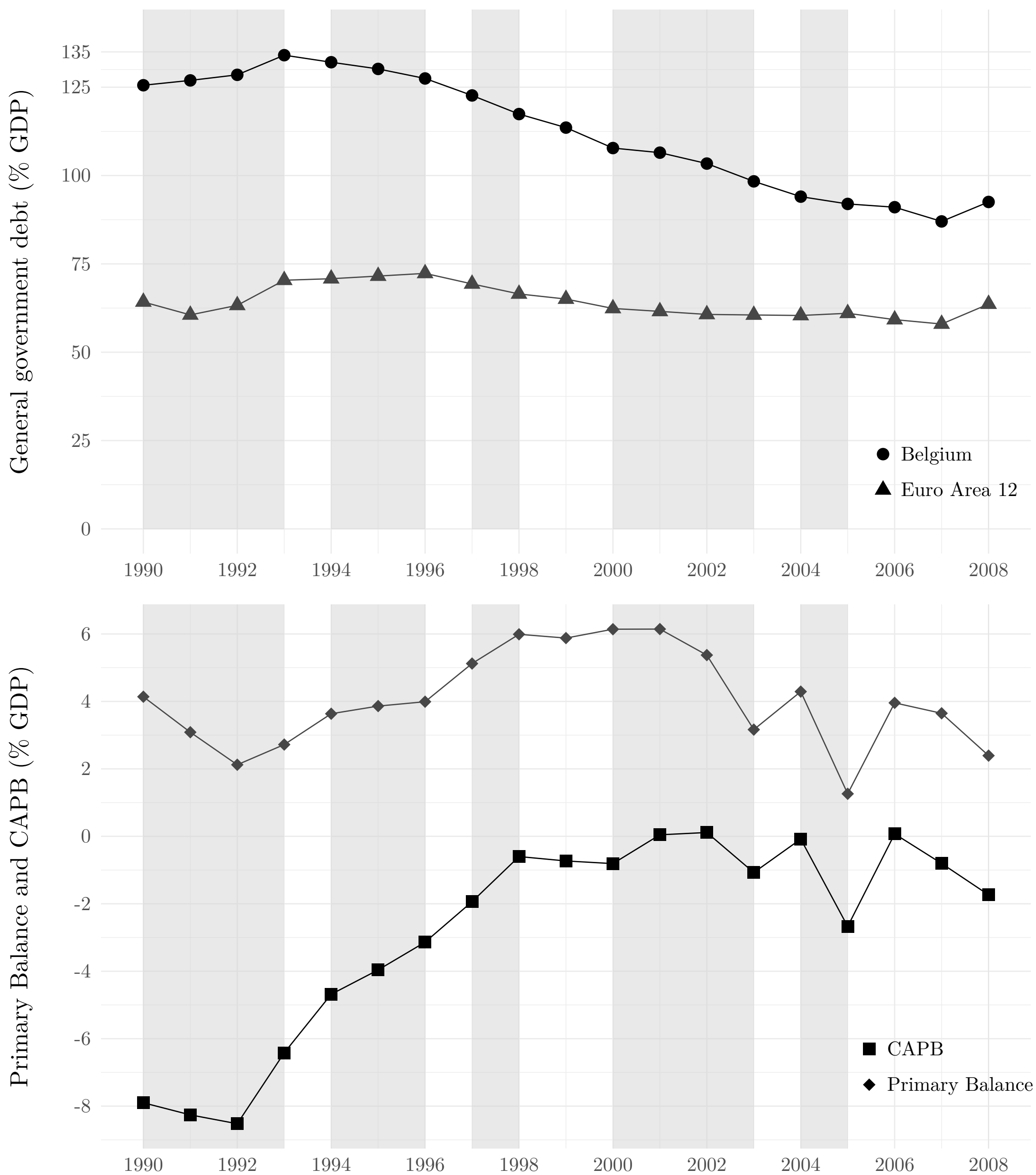
to be "in line with" GDP growth, which was open to interpretation by various parties due to the ambiguous wording. The expenditure rule specified that the real growth of primary expenditure of the central government should be 0% or less. These rules are considerably weaker than the institutional change, since their wording leaves space for debates about interpretation and their legal basis was a coalition agreement. This meant that they were subject to the changes in political cycles. Both the expenditure and revenue rules ended in 1998 and 1999, respectively. While the rules were weak and did not bind the government, phasing them out meant that the Belgian fiscal framework became less robust. There were no more domestic fiscal rules in Belgium after 1999, and only the supranational European rules of the Stability and Growth Pact remained.

The driving force behind the consolidations in the period between 1992 and 1997 was the Convergence Plan win 1992 that set out to meet the Maastricht criteria of the 3% budget deficit and the 60% debt ratio. The High Council of Finance's opinion on the Plan highlights that it encompasses all levels (federal, regional and community) and caution against some overly positive growth estimates of the government. The fiscal council also notes that these goals have both endogenous and external motivation, as the Maastricht criteria put a clear goal in sight (High Council of Finance, 1992). The consolidation efforts were a policy mix of spending cuts and tax hikes. In 1992 it amounted to 1.79% of the GDP, with indirect tax increases (0.99% of GDP) and cuts in public investment, national defense and civil servants' compensation. The following years saw additional cuts and tax hikes around 1% of the GDP (see Figure 4.4). The underlying motivation for these cuts was reducing the debt and deficit in order to comply with the Maastricht criteria. In addition to the sources quoted before, this view is supported by reports from the OECD, the IMF and the European Commission (OECD, 1997; Alesina et al., 2018; European Commission, 2012b).[8] The political will behind these measures meant that they continued even in times of severe economic headwind, such as the -1% drop in GDP growth in 1993 and the decelerating growth in 1996 (dropped from 3.2 to 1.4%).

In addition to strengthening the institutional pillar of fiscal policymaking and committing to meeting the Maastricht criteria the federalization of Belgium neared its final phase with the fourth state reform. The first article of the new Constitution declares that *"Belgium is a Federal State composed of the Communities and the Region"* (Alen and Peeters, 1995, 15). The regions and communities gained treaty-making powers under the new Constitution. The bicameral system also saw a rework, with budgeting being transferred to the competence list of the House of Representatives in an unicameral manner (the Senate had no legislative power over it). However, the revision of the financing of the regions and communities were postponed for the next state reform, which would happen eventually in 2001 (Alen and Peeters, 1995). For the Belgian federalization, institutions and constitutional system the fourth state reform was perhaps the most important as it reworked the bicameral system and ended the unitary state. However, it did not expand the fiscal powers of regions and did not contain any major rework of their finances.

[8] The European Commission's (2012b, 85) paper explicitly states that "*it needs to be highlighted that the political will to secure this membership certainly played an important a role.*". The OECD's report on Belgium (2009, 6) also states that "*the main driving force for fiscal consolidation in the 1990s was the convergence plan to fulfill the Maastricht criteria of the EMU.*" As the third source, the IMF's assessment (2011, 19) matches the previous two, by concluding that "*Fiscal consolidation in 1997 was, as in previous years, motivated by debt reduction and meeting the Maastricht criteria.*". The NBB's (2000, 86) report also points out that *"the financing requirement of general government has fallen continuously, mainly as a result of the consolidation policy conducted with a view to joining EMU, and was converted to a balanced position in 2000."*

Figure 4.5: Public debt and deficit in Belgium (% GDP) , 1990-2008



Note: Shaded areas are recessions in Belgium.
Source: IMF Fiscal Prudence and Profligacy database, IMF Historical Debt Database, OECD Composite Leading Indicators, author's compilation

The result of these policies were sustained reduction in the debt, as it improved from 130.5% in 1995 to 108.8% in 2000. This change is the outcome of the combined effects of reduction in the budget deficit and the build-up of primary surplus. The deficit was by and large eliminated by 2000 when the federal budget was balanced and in 2001 it recorded a slight surplus of 0.2% of the GDP. In order for that to happen, the government initially needed to run large primary surpluses to offset the interest payments that would gradually decline to 6.5% of the GDP by 2001 from its above 10% level during the early 90's (it was 10.8% in 1993). The reduction in interest charges were due to the fall in the implicit interest rate and the decreasing debt to GDP ratio.[9] According to the calculations of the National Bank of Belgium, the main component of the reduction in the interest charges were the decreasing debt ratio, while the decreasing interest rate played a comparatively minor part (National Bank of Belgium, 2002). The primary surpluses of the federal government peaked at 6.4% of the GDP by 2000, from the 3.6% in 1992. The structural balance also improved to reach a balanced position by 2001.[10]

The composition of the adjustments show that the governments relied more on tax increases as opposed to cutting spending. The picture is not entirely lopsided as spending cuts were bigger than tax increase in 1993, 1994, and 1997. In Figure 4.4 the trend is clear that the government was devoted to carry out fiscal consolidation using all available tools to meet the Maastricht criteria. The Euro was seen as a strong external anchor for the Belgian economy which united the government and the national bank and by proxy, the fiscal council as well (HCF3, 2018).

In summary, the prospect of joining the forming Euro area created a strong domestic pressure and consensus on the need to meet the Maastricht criteria by 2000. This goal coincided with profound institutional and political reforms in Belgium, which resulted in a stronger set of fiscal institutions (both in terms of fiscal rules and the fiscal council) and continued devolution of fiscal responsibility to federated units. The mandate and composition of the fiscal council allowed it to effectively monitor the government's Convergence

[9] The implicit interest rate is defined as the ratio between the interest charges during the subject year and the debt at the end of the previous year.

[10] The structural balance is a more restrictive indicator than the cyclically adjusted primary balance, as it also adjust for the non-recurring, one-off changes in expenditures and revenues.

Plan and it also exerted its influence on the communities and regions. The strong political will and institutional support resulted in a continued buildup of primary surpluses over the decade of 1990, while interest charges were coming down.[11] The results were a decreasing debt ratio and a balanced budget by 2000. The presented evidence shows that external pressure by the forming monetary union's entrance criteria and domestic pressure by political consensus resulted in a tight fiscal stance, which at the end allowed Belgium to join the Euro area in the first wave.

4.3 The end of consolidations and the great moderation

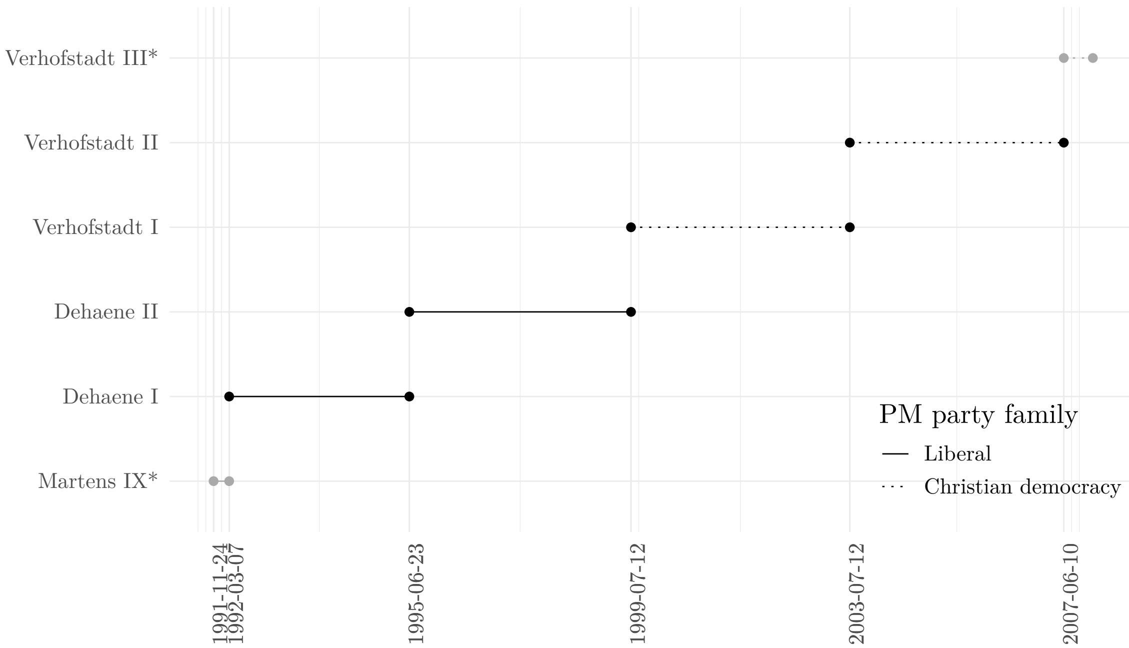
While the balanced budget and falling debt ratio was due to the Maastricht criteria the federal government looked to exploit the fiscal space created by the primary surpluses and introduced a personal income tax reform (decreasing tax rates) which would eventually amount to 1.3% of the GDP in 2001. As Figure 4.4 demonstrates, fiscal consolidation grounded to a halt in 1997 with no further action in the next decade. In this section I fill out the details and the background to the change in the previous policy direction. This inflection point in policy also serves as an important episode to investigate what caused the slow deterioration of the primary surplus and how the previously praised institutional setup could not stop this process.

The key reform of this period was the fifth state reform in 2001 which addressed the financial resources of the regions and further extended their fiscal autonomy. Political polarization increased, as after the 1999 election *"views in the north and the south of the country were diametrically opposed"* (Peeters, 2003, 3). The parliamentary election in 1999 upset the previous status quo with the Christian democratic party (CVP/PSC) now finding themselves in the opposition to the so called six party 'rainbow' coalition of the liberals, socialists, and greens (for the elections timeline see Figure 4.6).[12] The political tectonic movement was repeated at the regional level as well, putting the Christian democrats out

[11] The NBB's report (2000, 89) finds, that *"the reduction in the debt ratio over the past two years is in fact exclusively endogenous, i.e. it is due to the interaction between the primary surplus, economic growth and the level of interest rates."*

[12] The main reason behind the change in the governing parties was the Dioxin crisis, when the administration failed to investigate reports of contaminated animal food products until media reports surfaced.

Figure 4.6: Change in governments, 1990-2008



Source: Döring and Manow (2012), author's compilation

of government after 8 years at both the federal and at the regional level. The coalition negotiations to finalize the agreements that served the basis of the constitutional reform were difficult to conclude given the range of the party platforms in the coalition and the proposed reforms.

The eventual reform would transfer new powers to the regions and communities, most notably autonomy to set certain tax rates, such as the television and radio license fees and various registration fees. The regions also gained the autonomy to levy surcharges or grant rebates on the PIT, up to 3.25% from 2001 January (which increases to 6.75 in 2004). The continued fiscal devolution was the outcome of a tit-for-tat process, since in order to agree to the refinancing of the French Community's debt, the Flemish parties demanded the expanded fiscal powers (Peeters, 2003). In addition to these incomes, the communities and regions are financed by a federal transfer of tax revenue, as per the 1989 Special Financing Law. The communities are financed from the value added tax (referred to as shared tax), while the regions are financed from the personal income tax (referred to as joint taxes). The 2001 reform increased the share of VAT transferred to the communities considerably.

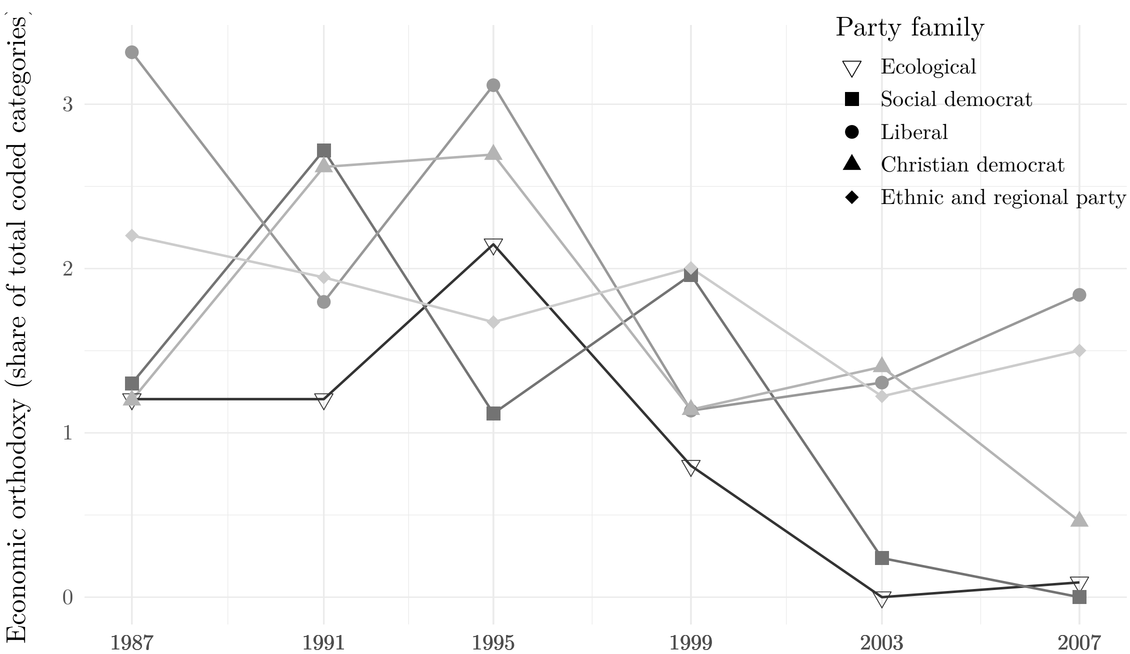
At the end of the reform, the communities and regions gained control over 47% of their resources (National Bank of Belgium, 2001). The increased fiscal weight of the regions would introduce new risks for the indebtedness of the country, but due to the increase in revenues and tight fiscal governance environment this did not materialized during the early 2000's. However, a new domestic driving force emerged that put emphasis on increasing primary surpluses and achieving balanced budgets: the future cost of ageing society. The Belgian government realized the current unsustainable trajectory of their social security without matching the future expenses with present primary surpluses. This long-term view is confirmed by both the NBB (2001) and the IMF's reports (2002) and by the establishment of the Study group of ageing at the High Council of Finance as well as the creation of the Ageing Fund in 2001.

Despite the establishment of the Ageing Fund, the PIT reform and the continued erosion of primary surplus is a strong sign of the loss of political will to maintain the fiscal momentum of the previous decade. This is also reflected in the parties election platforms, as their election manifestos started to pay less and less attention to these issues as before. The drop in political attention is visible accross all party families that gave at least one government party over the 1990-2008 period. This is illustrated in Figure 4.7, which shows that by the 2007 election, all big party families were paying less attention to this topic than at the start of the 1990's.

While fiscal consolidations halted, the government stayed the course of balanced budgets, while the primary surplus decreased as real government expenditure was growing (mainly due to the growth in health care expenses) and to finance the personal income tax reform. Government officials highlighted their dedication to maintain balanced budgets to keep their fiscal credibility and to avoid the reemergence of growing debt (International Monetary Fund, 2003a).[13] A somewhat contradictory evaluation is drawn from the National Bank of Belgium's annual report (2002), which highlights the erosion of the structural primary surplus, due to the tax cuts by the federal and federated governments. The Flemish regional government exercised it's fiscal autonomy by granting a one-off flat rate PIT reduc-

[13]In fact the IMF Article IV (2002) report documents that the Belgian administration was advocating for a tighter fiscal policy than the IMF staff recommendations, for the above mentioned reasons.

Figure 4.7: Economic orthodoxy in election manifestos, 1987-2007



Note: Economic orthodoxy (Manifesto code: per414) is coded from party manifestos and represents a support for *reduction of budget deficits*; *retrenchment in crisis*; *Thrift and savings in the face of economic hardship*; *traditional economic institutions such as stock market and banking system*; *strong currency.*
The individual parties in each party family is in Table B.1
Source: Volkens et al. (2018), author's compilation

tion. However, the balanced budget remained, as well as the influence of the High Council of Finance in setting the budgetary targets.[14] Despite the initial adherence to the fiscal council's recommendation, the relaxation of the fiscal stance continued as evidenced by the decreasing primary structural balance. The balanced budget was only maintained by one-off measures, such as the auctioning of Belgacom. The gap between the government's rhetoric and policy preferences started to widen, which is especially apparent when one looks at the conflicting reports of 2003 and 2004 published by the IMF and the NBB.[15] From the mid-2000's the waning influence of the fiscal council is noticeable, both in the structural primary balances, both in the non-compliance with their recommendations and numerous reports.

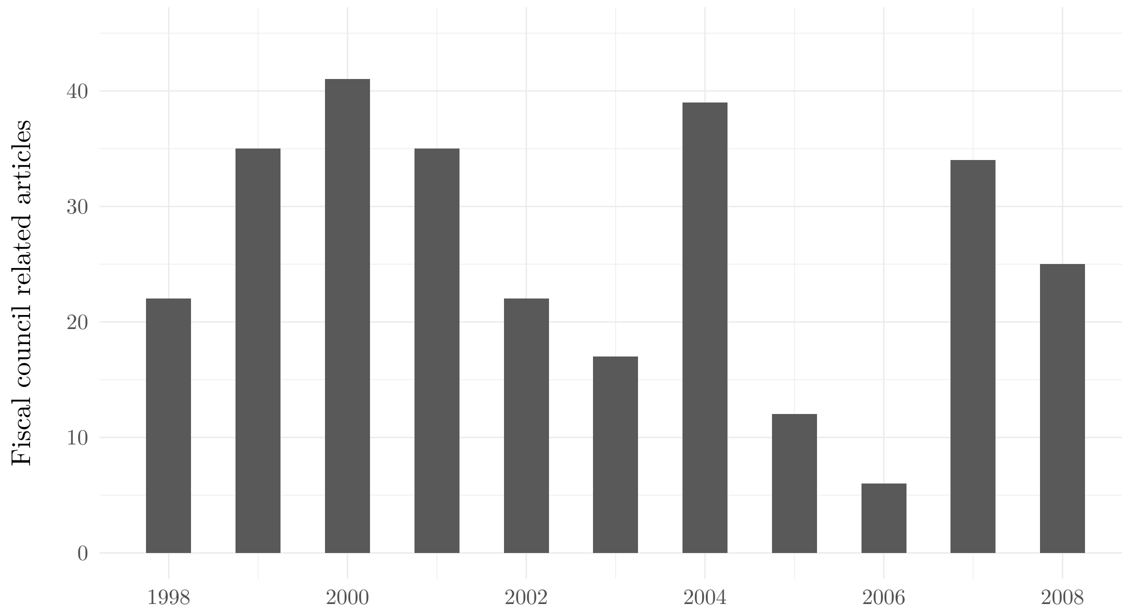
One example of the non-compliance is when the government decided to keep the proposed 1.5% surplus target, but push the date which it aimed to achieved it to 2013. In addition, a paper co-authored by the chairman of the HCF's Public Sector Borrowing Requirement section and an NBB senior researcher noted the drop in compliance with the HCF recommendations by the government. Based on their composite index indicator, there is a marked drop in the effectiveness of the Council after the Euro accession (Coene and Langenus, 2013).[16] This further strengthens the evidence presented based on the selected reports and empirical data. In response to these development the tone of the High Council of Finance's 2004 assessment was harsher than the previous ones, strongly highlighting the unrealistic nature of the medium-term fiscal scenarios and attributing the deterioration of the structural primary balance to discretionary policies, such as the tax breaks and increased

[14] *"In the longer term, the latest update of the stability programme provides for continuation of the consolidation process and endorses the key recommendations made by the (HCF)"*(National Bank of Belgium, 2002, 72)

[15] In 2003, both institutions reported strong commitment: *"federal government explicitly confirmed that the strategy of speeding up the reduction of the public debt, as is required in order to cater, in the future, for the impact of the ageing population on public finances, must continue to be based on the creation of budget surpluses in the medium term*" (National Bank of Belgium, 2003, 72) and *"The authorities are keen to continue to post a balanced budget and do not intend to allow stabilizers to work on the downside to avoid deficits and preserve fiscal discipline"*(International Monetary Fund, 2004, 3). Whereas in 2004, a different picture emerges: *"fiscal consolidation efforts have yielded impressive results, but recently, the underlying effort has been relaxed"* (International Monetary Fund, 2005, 10) and *"This substantial deterioration (in the budget balance) is due to the disappearance of the non-recurrent factors already mentioned"*(National Bank of Belgium, 2004, 107)

[16] They have four questions: (1) presence of budget recommendations, (2) consistency with earlier recommendations, (3) deviation from government plans, (4) adoption of recommendations by government and (5) compliance with recommendations.

Figure 4.8: Media coverage of the HCF, 1998-2008



Note: The figure shows the number of articles that mention (in French) the High Council of Finance and either of the selected key-words (*report*, *public debt*, *budget**, *deficit*).
Source: Factiva database, author's compilation

expenditures. However, the government failed to nominate new a chair for the Public Sector Borrowing Requirement section in 2005 and 2006. This resulted in the absence of reports from the council. This dynamic is also underscored by the uptick in the 2004 news coverage about the fiscal watchdog and then the sudden drop after (see Figure 4.8). As this episode is not covered by any secondary sources (it is mentioned but not elaborated by Curristine et al. (2014))

I conducted multiple interviews with former members of the HCF whose mandate expired in 2004. Both interview accounts were confident in their assessment that the lapse in nomination was not a deliberate attack on the fiscal council (HCF3, 2018; HCF4, 2018). As one former member put it, there were no hidden agenda, just "sloppiness" and "lack of care" on the side of the government to ensure continuity. Another contributing factor was the lack of agreement at the regional level on who to nominate as new members from the regions. The interviews also offered a more personal view of the waning influence of the HCF, confirming the analysis of Coene and Langenus (2013). A key change in the institutional environment was a newly appointed governor at the National Bank of Belgium after 2000 who had a more optimistic outlook on the future fiscal path and this led to decreased pressure from the NBB. As the fiscal council's influence was largely shaped by the position of the central banks view this also contributed to the political neglect. The change in NBB direction also impacted the cooperation between the two institution, as there were less contact and cooperation between the two. The cyclical component of this process was the secular decrease of the interest rates which meant that the disciplinary impact of the debt was reduced. The interviews also confirmed that after 2005 political interest in the HCF further diminished.

Simultaneously with the domestic developments of political conflicts and deteriorating institutional influence, a similar process was playing out on the European level. The role of the European Union and its institution is less tangible and more indirect. In general, the literature is rather critical towards the Stability and Growth Pact (SGP) and its enforcement mechanisms to create fiscal policy convergence.[17] A common recurring critique is the early modification of the Excessive Deficit Procedure (EDP) in favor of France and Germany, when exceeded the 3% budget deficit ceiling. The numbers referred as the Maastricht criteria were not rooted in any particular theory or model and this arbitrary setting draw constant criticism (Buiter, 2006). As a recent study clearly demonstrates, Member States could shift the Commission recommendations if it did not suited their domestic policy goals. This ability to change the country specific recommendations before the final approval of the Council was more pronounced, but not limited to, in the case of powerful Member States. The two best known cases of this sort of bargaining is France and Germany when they avoided the EDP in 2002-3 by negotiating a deal in the ECOFIN Council (Baerg and Hallerberg, 2016; Von Hagen, 2003). Buiter (2006, 5) captures the fundamental problem with the SGP's main deterrence tool: *"It has become abundantly clear that, although fines formally remain part of the enforcement instrumentarium of the EDP, fines will in practice never be imposed on transgressors of the EDP"*. These very public shortcomings and failings triggered an amendment of the SGP in 2005, with differentiated (on a country by country

[17] The main goal of the SGP is make Member States to commit to the 3% budget deficit ceiling and to the 60% debt to GDP ratio, as well as an explicit commitment for a medium-term budgetary objective.

basis) medium term budgetary objectives (MTOs) that take into account country specific potential growth rates and debt ratios. The concept of exceptional cyclical circumstances were introduced that granted justification for exceeding the deficit targets due to external shocks and other cyclical conditions. As a result officials at the National Bank of Belgium and High Council of Finance found that post-Euro accession the impact of the HCF has decreased significantly as the government complied less with the recommendations. Coene and Langenus (2013) also observe that the recommendations themselves were less independent from government announced plans as well. Another evidence for the possibility to game the EU's rules based fiscal governance framework comes from Baerg and Hallerberg (2016) who shows how member states used their influence in the Council to alter the Commission recommendations to avoid policy decisions that were not in line with their domestic agenda. This means that the SGP and the Excessive Debt Procedure can be discarded as the key external policy driver for Belgium's post Euro adoption phase, as it's lack of enforcement capacities are well documented and evidenced. However, some indirect effects can be seen from the European Union. After becoming a member of the Euro area Belgium became part of the intergovernmental fiscal policy harmonization discussion, that was very much focused on debt reduction. The Eurogroup was one of such institutional vehicle, that made budgetary consolidations its main agenda point. The nature of consensus building intergovernmentalism signaled general agreement with this stance from national fiscal ministers, including Belgium's (Puetter, 2006; Bickerton et al., 2015).

The post Euro accession saw Belgium with balanced budgets and considerable primary surpluses. However, fiscal consolidation ended in 1997 with no added measure during the observed time period and it was replaced by a reduction in the personal income tax, increased fiscal authority devolution to regions and growth of the expenditures on the federal level. These three factors meant a slow but steady deterioration of the structural primary balance which indicated a more relaxed fiscal policy orientation from the government. These development were possible due to a number of factors. Firstly, with the adoption of the Euro and the apparent softness of the Maastricht enforcement mechanisms a powerful external (and party domestic) political pressure disappeared. This was coupled with a tectonic shift in the governing coalitions with the Christian democrats losing power to the 'rainbow coalition' both at the federal and regional level. Despite the political difficulties, the fifth state reform considerably increased the fiscal autonomy of communities and regions. The regions maintained a balanced budget so the perceived risks that they would run deficits did not materialize. However, there are implications of a soft budget constraint as the bailout of the French Community shows in 2001. The decrease in the influence of the fiscal council and the fact that it was caught up in the middle of political fights shows the deterioration in the institutional environment. The above listed evidence points towards a confirmation of the hypothesis by showing how the lack of pressure resulted in a softening fiscal policy position and a need for reliance on one-off measures to keep the budget balanced.

4.4 Conclusion in the middle

The preliminary evidence provided by this chapter confirms the hypothesis on when fiscal councils can be effective institutional vehicles for informing and constraining policy making. The preliminary evidence in this chapter shows that the fiscal council's effectiveness was indeed higher when the government and it's main institutional supporter, the NBB's views on fiscal policy aligned with the HCF's recommendations. The 1990-2000 period of deleveraging was also driven by the need to meet the Maastricht criteria and join the Euro. This finding is in line with the literature highlighting the one-off effect of the run-up to Euro accession (Wyplosz, 2017). It also provides preliminary evidence for the hypothesis concerning with external pressure, in which case the pressure came from meeting the entry criteria for the Euro area.

The second part of the chapter shows how the Maastricht fatigue and declining debt ratio created complacency and led to a personal income tax reform that eventually led to the decrease of primary surplus. This turn was not only supported by the successive governments but also with the tacit acknowledgement of the central bank. This change meant that while the High Council of Finance kept issuing increasingly stronger warnings and evaluations, the government and politics ignored these episodes, despite the media coverage of the reports. These events and the corresponding data provides a preliminary evidence that despite the well established and high quality institutional framework the fiscal council had less and less influence over policy as it became viewed more and more an adversarial advocate.

However, the effect of fiscal rules points towards a mixed results. They were established during the fiscal consolidation episodes but they did not have any effect as their wording left many outs for the governments and they were a product of coalition talks and thus their legal status were weak. After the rules expired at the end of the 1990's Belgium did not have any more domestic rules. While just looking at the correlation between rules and key macroeconomic indicators one might draw the conclusions that fiscal rules were positively associated with consolidation in Belgium. This conclusions does not have any support in the empirics as this chapter demonstrated: nor the primary policy document, nor the interviews mention the rules as an effective fiscal institution.

5 The political and economic crossfire: Belgium, 2008-2018

This chapter continues the investigation into the Belgian case. The time period in focus is from 2008 to 2017, as this time frame encompasses a number of exogenous and endogenous forces shaping Belgian fiscal policy and institutional change. The Sixth State reform which stirred up domestic political tensions and the global financial crisis hit the country at the same time in the year of 2008. The constitutional reform debate ended in 2011 but consumed four governments between 2007 and 2011. The global financial crisis caused comparable disruptions in the economy and banking sector of Belgium as the country bailed out Dexia, Fortis and KBC for 25 billion Euros (federal and regional bailouts combined). In parallel to these development the European Union put the country under the Excessive Deficit Procedure between 2010 and 2014 and carried out fundamental reforms of fiscal governance in the Union. These include the Two-Pack and the Fiscal Compact which had direct and immediate impact on the fiscal policy and institutional setup in the member states.

The goal of this chapter is to examine how the 2008 crisis affected domestic institutional reforms and the federalization project which was decades in the making. As the crisis had thrown the European economy into turmoil it also stirred a wave of reforms for the European fiscal framework, including - but not limited to - a rework of the Stability and Growth Pact. Much of this chapter is focused on tracing how the previously established fiscal policy institutions functioned during this political economy upheaval. I also provide a detailed overview of the Belgian fiscal policy cycle as well as a descriptive account of how each institution fits into it. This chapter finds that on the side of Belgium, policy focus was mostly consumed by the constitutional reform fights in the face of which institutions could maintain some of the previous status quo. On the side of the European Union there was a series of measures aimed at strengthening fiscal governance. However, despite being put under the Excessive Deficit Procedure, Belgium was unable to produce fiscal results comparable to the late 1990's and early 2000's.

In addition to the process tracing exercise I also take stock of how the fiscal framework looks like in contemporary Belgium and how the reforms and developments outlined in the previous chapter shaped the policy making process. This includes a detailed look into the place of the High Council of Finance as well as other institutions that have a key role in fiscal policy coordination. This means an in-depth look at how various committees influence the coordination of fiscal policy. These are the Consultation committee which is responsible to bringing together the federal and regional governments to agree on the medium term objectives for their respective levels. The other committee with high impact is the Monitoring committee which brings together experts from various ministries to aggregate macroeconomic forecasts and monitor the budgeting process. Many of these key institutions have received less attention in the literature which I try to rectify and establish their importance based on interviews with all the relevant institutions.

This chapter follows a similar methodology in terms of process tracing to the previous case study on Belgium: annual reports from the National Bank of Belgium, annual Article IV reports and Selected Issues reports from the International Monetary Fund, and yearly recommendations from the High Council of Finance. To reflect the changes in the fiscal governance landscape I added the European Commission as a source since it had extensive communication during the Excessive Deficit Procedure (between 2010 and 2014) and it also comments on the draft budgets submitted by the member states. In addition to the institutional policy documents, I also include secondary sources from academic and policy research. This chapter relies on primary interview data more heavily than the preceding one as most of the experts interviewed had commented on the current state of the Belgian fiscal policy processes. This rich source of primary data allows me to draw a picture of how the transformed political and institutional environment affects policy making and what are the unique or overlapping roles of each institution.

The chapter is organized as the following. After the introduction, in the second section I provide an overview of the budgetary process in Belgium and introduce the key institutions and their role in the policy cycle. This introduction is necessary to illustrate the disruptions and changes that were caused by the political and economic crisis, as well as the changing EU fiscal governance framework. The third section deals with the political crisis and the slow process of formulating the political agreement on the Sixth state reform. In parallel I also detail the impact of the financial crisis and the subsequent European sovereign debt crisis. Both of these events had profound ramifications for fiscal policy in Belgium. This section provides a detailed account of fiscal developments in Belgium. The fourth section takes inventory of the presented evidence and discusses the results and their implication for evaluating the two hypotheses. Finally, the last section concludes the chapter.

5.1 Fiscal policymaking during and after the reforms

5.1.1 Fiscal councils

In function, there are two fiscal councils in Belgium: the High Council of Finance and the Federal Planning Bureau. Although Bogaert et al. (2006) provide a nice clear cut picture, where the Council is responsible for the normative evaluation and the Bureau for the positive analysis, the reality of these institutions are more complicated. The secretariat of High Council of Finance receives all of it's funding and resources from the Ministry of Finance: the experts who work at the secretariat also have a position at the Ministry. This also means, that there are no budget items dedicated to it's continued funding. According to Von Trapp et al. (2016, 71) this is not a problem as *"unlike in countries where fiscal councils have been threatened with budget cuts when they have been perceived as overly critical of the government, this is not a possibility in Belgium."* However, there are other, contesting views on this phenomena, expressed by a Belgian public finance expert, who noted that there is a revolving door between ministerial cabinet and ministry administration positions (KUL1, 2017). This means that the High Council of Finance (or at least it's secretariat, which prepares the reports) is highly dependent on the Ministry of Finance, which in turn is exposed to the political revolving door problem. In addition to these human resource problems, the independence of the HCF is also questionable, as it is chaired by the Minister of Finance.[1]

Table 5.1: Overview of the Belgian fiscal councils

Institution	Mandate	Channels of influence	Determinants of independence
High Council of Finance	Normative analysis	Consulted by government	Diverse membership
	Issuing recommendations	Auditioned by parliament	Legal mandate
		Ex-ante evaluation	Explicitly defined mandate
		Ex-post assessment	
		Public reports	
		Media coverage	
Federal Planning Bureau	Positive analyis	Public reports	Independent budget
	Macro forecasting	Media coverage	Legal mandate
			Explicitly defined mandate
			Independent staff

Source: European Commission (2017); Bogaert et al. (2006), author's compilation

As Table 5.1 shows, there are key differences in the roles and mandates of the two fiscal councils which does not stop at the positive/normative analysis matching. The tasks of the Federal Planning Bureau is more mechanical. It provides the macro fiscal framework that includes forecasts for key economics measures, such as GDP growth and inflation. These are compiled into the medium term projections that serve as an input and baseline for the High Council of Finance and for the Ministry of Finance. During interviews, experts from the Planning Bureau underlined a key institutional strength: the government has to use it's forecast numbers as their baseline figures for the budget drafts. In addition to providing data for the general government, the Planning Bureau also distributes it's projections to the regional governments as well. However, the Bureau's numbers are a point of disagreement in the Consultation Committee (Comité de Concertation), which would be responsible for facilitating consensus between the general and regional governments (FPB1, 2017).

[1] For example, the Court of Audit's independence is guaranteed constitutionally as it is an institution of the Parliament, not the executive branch.

The Federal Planning Bureau also enjoys some privileges over its peer, since it has it's own budget and own staff members (Von Trapp et al., 2016). The strong institutional status is a result of the EU's Two-Pack and Six-Pack policy reforms, which grants national importance to independent fiscal institutions. This also means that the FPB is also providing the baseline numbers for the Belgian Stability Programmes' Medium Term Objectives (MTOs). This is another forceful demonstration of the increased institutional powers of independent fiscal institutions after the 2008 crisis, since these MTOs are evaluated by the High Council of Finance. Only after this groundwork by the fiscal councils can the government choose from the proposed alternative MTO scenarios. While the independence of the FPB is enshrined in legislation, it has a close relationship to the National Accounts Institute (which is an institutional vehicle for aggregating statistical services) and to the National Bank of Belgium. Indeed, the Planning Bureau has a good rapport with the other fiscal council and with the government, due to it's old institutional establishment (it was founded in the 1960's) (FPB2, 2017).

The High Council of Finance is a fiscal institutions with a wider portfolio of activities and due to this it is generally seen as a driving force behind the decrease in budget deficits (Hallerberg, 2004). According to a Federal Planning Bureau expert (FPB1, 2017), the institutional clout of the High Council of Finance was strengthened considerably after the EU passed the Fiscal Compact in 2012. The mandate or remit of the Council goes well beyond those of the FPB.[2] Based on the overview in Table 5.1, the HCF represent the fiscal council characteristics detailed in the literature (see Table 2.1 in Chapter 2 for the list of various attributes). The key contribution of the High Council of Finance is it's ex-ante recommendations for the Stability Programmes, which serves as a blueprint for the government. Furthermore, it also provides ex-post assessment of the Programmes. In close relation to this activity, the HCF also serves as a key point of contact for the European Commission and the DG ECFIN (FPS Finance 1, 2017). In the interviews it was highlighted that the alignment of goals between the EU and domestic institutions make this relationship a deep and truly functioning one. In this regards, the mandate of the HCF is backed up by

[2] *"The Council is responsible for advising the Minister of Finance and the Minister of Budget in the development of fiscal, financial and budgetary policy."* as stipulated in Article 2 of the 2006 decree (Von Trapp et al., 2016, 69)

the EU itself, which might deter politically motivated attacks.

The channels of influence for the HCF include the two main reports, the ex-post assessment for the multi-annual budgetary paths for both the general government and the regional governments. Similarly to the Planning Bureau it also submits it's recommendations to the Coordination Committee. In addition, the HCF issues ex-post assessments of these recommendations and goals set in the Stability Programme. The European Commission (2017) survey based database indicates that the HCF is regularly consulting the government and the parliament. While the government part is confirmed by two interviews with HCF and Ministry of Finance experts, a member of the Belgium parliament who is also sitting in the Chamber Committee on Finance and Budget said that the HCF is rarely represented in person in the Committee.

Finally, one organizational strength of the HCF is it's diverse membership. Within the HCF there are three sections: first, "Public Sector Borrowing Requirements" which is effectively fulfilling the fiscal council role prescribed by the European Semester. Second, the Taxation and Social security which is tasked *"to give opinions about any issues, general or specific, in the field of taxation and social security contributions."*[3] Third, the Study Group on Aging, which is mandated to publish a yearly report on the budgetary and social consequences of aging. The High Council of Finance's fiscal section is made up of three high ranking National Bank officials, one person from the Ministry of Finance and Ministry of Budget each, and also a jointly nominated representative from the two ministry. The regions and communities are also represented in Council, by one or two representative. In addition to the Council itself, the HCF also has a secretariat which is responsible for authoring the reports. The secretariat staff is working in half time at the HCF and half time at the Ministry of Finance.

5.1.2 The fiscal and budget policy cycle

In addition to the fiscal councils there are other important actors in the policymaking process. The key driver behind every budget are the Vice-Presidents who are the Minister

[3] The description is quited from the High Council of Finance's webpage: https://www.highcounciloffinance.be/en/high-council-finance/section-taxation-and-social-security, last accessed: June 25, 2019

Table 5.2: Belgian budgetary process timeline

April	Administration to compile a budget for their department
May	Each federal department composes a draft budget
June-Sept.	Political negotiation
October	Definitive agreement in the plenary session of the executive
Nov.-Dec.	Draft budget is submitted to parliament

Source: Vandenbruwaene (2014, 5), author's compilation

of Budget, the Minister of Social Affairs and the Minister of Finance. The Prime Minister fills the role of the neutral compromise maker. On the administration side, in addition to the fiscal councils, the National Bank of Belgium, the Ministry of Finance and Ministry of Budget are highlighted in the literature (Troupin et al., 2013). The parliament does not play any substantial role in the budgeting process except for accepting the budget and reviewing it in the Chamber Committee on Finance and Budget. As a Member of the Parliament put in in an interview, the draft budget is entirely constructed by the government with *"little to no input from the MPs"* (PCFB1, 2017). However, the Committee on Finance and Budget reviews both the revenue and spending budget, with the respective ministers present. These are open sessions to the public. After clearing the vote, the budget bills can move on to the plenary. Indeed, during the interviews at the fiscal councils and at the ministries for finance and for the budget, respondents highlighted the ministerial cabinets' power for agenda setting. This is in line with the OECD report's remark, that *"significant amendments without the support of the government are unlikely"* (Von Trapp et al., 2016, 69).

The complete budgetary cycle spans roughly three years with the preparation, execution and closure. During the preparatory course, there are four main actors from the government. The main actors who push the party lines are the two powerful ministers responsible for the budget and finance. The Minister of Finance is responsible for the revenue side, while the Minister of Budget is responsible for the expenditures. This two position is usually divided between the Walloon and Flemish nationalities. This can create interesting dynamics. Since they mainly communicate in their respective languages it creates an information barrier: the Walloons only hear from "their" minister's side and the Flemish only care about "their" respective minister (PCFB1, 2017). This can create asymmetries, where voters are only aware of one half of the budget story. In addition to this two powerful Ministerial positions, the Minister of Social Affairs is also a key actor, since she is responsible for the expenditures and revenues of social security.

On the administration side, the there are five main actors: the corresponding ministries, called FPS Budget and FPS Finance, the Federal Planning Bureau, the High Council of Finance, and the Belgian National Bank (Hallerberg, 2004; FPS Budget 1, 2017; Troupin et al., 2013). In addition to the previously detailed fiscal councils, the FPS Budget is seen as a key administration organization. They are crucial in both domestic and EU levels (COREPER1, 2017). There are bilateral meetings between the European Commission's DG ECFIN and the Belgian Ministry of Budget. These meetings happen before the Commission issues its country specific recommendations (CSRs). The FPS Budget's main responsibility is creating the budget draft based on the technical parameters provided by the Planning Bureau. During the interview, a ministry expert said that the main problematic parts of the budgetary process are the June-September political negotiations, since that is the time when political decisions are made (e.g.: on tax policy) without any technical analysis. The Ministry of Finance and Budget are working in close tandem during the budgetary process. Troupin et al. (2013, 9) refers to the other ministries as *"mere objects of the budgetary process."* The National Bank's contribution (in addition to it's membership in the HCF) is similar to the Planning Bureau. It provides macro analyses and statistical input to the process.

Finally, there are two additional bodies that are key to the process, the Coordination Committee and the Monitoring Committee. The Coordination Committee is organized by the office of the Prime Minister and made up of the ministers of the federal government and the governments of the regions and communities. This is a central place for discussing the proposed policies between the different levels of government. However, the heavily polarized

[3]The FPS stands for Federal Public Service, which is what Ministries are called in Belgium. The FPS Finance and Ministry of Finance and the FPS Budget and Ministry of Budget or BOSA are used interchangeably in the chapter

political environment does impede the work of this committee. To make the picture more complicated, it is possible that a party is in the governing coalition at the federal level but it is in opposition in the regional level. The different goals of the regions also create further cleavages, as the Flemish are aiming for more fiscal power while the Walloons advocate the opposite. During the interviews, a budget ministry expert mentioned that it is hard to get information and data from the regions, making fiscal decisions harder (FPS Budget 1, 2017). Another pivotal coordination task at the Committee is to bring the regions and the federal government to agree on the content on the Stability Programme. However, due to the constant political tensions over regional competencies this rarely happens. As one senior expert at the FPB remarked, it is difficult to have constructive discussion at the Committee (FPB1, 2017). Furthermore, there other legal loopholes that undermine the Coordination Committee. Vandenbruwaene (2014) highlights that there are no means to enforce the cooperation agreements between the federal and regional governments. This further exacerbates the animosity between the various governments, since no credible legal action can be taken against regional or local budgets that might violate the agreements. This also means that the Coordination Committee does not play a key role and does not fulfill its namesake role as coordination is not faciliated by it.

The Monitoring Committee was established during the 2007 caretaker government of Verhofstadt (see Figure 5.1). The role of the informal institution was to form an independent committee to monitor the 2007 budget and increase credibility of the budgetary process and create an additional self-binding mechanism for the government. After 2007 the committee was revived by the Leterme III caretaker government for a similar purpose for monitoring. In addition to this role the committee was also tasked with preparing budgetary proposals for 2011 and beyond. The role of the committee was formalized by the incoming Di Rupo headed government which asked the committee to stay together and be a focal point for gathering macroeconomic forecasting and objective setting.

The Monitoring Committee is a central coordinating institution as its high level experts come from the Ministry of Finance, Social Security and Social Affairs, as well as from other health care institutions. The secretariat of the committee is housed at the FPS Policy and Support (Ministry of Budget) which compiles the report of the committee. The secretariat has access to all the relevant data and forecasts from the Federal Planning Bureau, FPS Finance (Ministry of Finance) and all relevant ministry cabinets. While the goal of the committee is to examine the budget proposal and see if it conforms to takes into all expenditures and revenues and meets the structural deficit targets set forth. The Monitoring Committee does not make any normative input on the political discussions of the budgetary goals it only makes sure that the budget proposal does not rests on incorrect figures.

According to Troupin et al. (2013, 10) *"the Monitoring Committee seems to be the most legitimate source of financial information for government."* This assessment is verified by an expert at the European Commission, who also added that the importance of the Monitoring Committee surpasses that of the High Council of Finance. This mainly originates from their position in the policy cycle, as they are able to add their input just before the political bargains begins (DG ECFIN 1, 2018). The role of the Monitoring Committee is to assess and aggregate the three powerful ministries' (Finance, Budget, and Social Security) expected revenue and expenditure forecasts.These are based on the short term macro forecasts of the Federal Planning Bureau.

5.1.3 EU policy innovations after 2008 and their impact on Belgium

The 2008 crisis also prompted a deep overhaul of the European fiscal framework which had profound effects for the member states, both in and out of the Euro area. Many changes to domestic institutions were made to meet the new EU regulations and existing institutions gained new powers and responsibilities under the reworked Stability and Growth Pact and the newly introduced Fiscal Compact. The section below will discuss in details what were the major elements of these reforms and how they affected the member state institutions.

The sovereign debt crisis exposed the limits of the Stability and Growth Pact and the showed that peer-pressure in monitoring cannot substitute a more institutionalized coordination and monitoring framework. The overhauling of the SGP happened in two steps: in 2011 the Six-Pack and in 2013 the Two-Pack reforms. The Six Pack is made up of five regulations and one directive, that allowed the European Commission and the Council to carry out preventive measures under the Excessive Imbalances Procedure (EIP).

Similarly, an early warning system has been implemented to preempt buildup of critical macroeconomic imbalances in the Euro area.

Another key policy change is the mandatory (country specific) medium-term budgetary objectives (MTO), and a supplementary expenditure benchmark (European Commission, 2011). The 2013 Two Pack pushed for a more transparent budgeting process and more notably, Euro area members have to submit their draft budgets to the Commission for a review process, as part of the European Semester cycle. Moreover, the Two Pack regulations required the establishment (if previously not present) of functionally independent fiscal institutions, whose tasks are twofold. First, they provide independent macroeconomic forecasts that serve as the basis for budgetary plans. Second, these independent fiscal institutions should also monitor adherence to the numerical fiscal rules and the national medium term budgetary objectives. Together these two set of regulations and directives make up the renewed SGP. In the preventive arm, there are the medium-term budgetary objectives, the expenditure benchmark and the stability and convergence programmes. In the corrective arm of the SGP only consists of the Excessive Deficit Procedure (European Parliament and European Council, 2013b,a).

In addition to the Six Pack and the Two Pack, in 2012 the Fiscal Compact prescribed EU-wide provisions on fiscal coordination.[4] It contains significant implications for the member states. First, a balanced budget rule should be enshrined in national law (preferably in the constitution). Second, for the Euro area countries, the Excessive Deficit Procedure has been strengthened, by obliging the member states to support the Commission's and ECFIN's recommendations (unless it is voted down in the Council) (European Central Bank, 2012). In theory, this would trigger the EDP more mechanically and take away the politicized edge. These new policy measures and responsibilities are put in the European Semester policy cycle, where the key EU institutions (the Commission, the Council and the EP) works together with the member states on coordinating and monitoring fiscal policy. In the Belgian implementation process there was a political push back against putting the balanced budget rule in the constitution. The workaround solutions for adopting the Fiscal

[4]The Fiscal Compact is a commonly used shorthand for the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG).

Compact was to task the Coordination Committee to *”formally approve and adopt the advice of the High Council for Finance pertaining to the budgetary objectives of the different levels of government”* (Vandenbruwaene, 2014, 36). Moreover, the legal vehicle for implementing the further points of the Fiscal Compact is the Cooperation Agreement, which formally grants the HCF its mandate.

Together these changes significantly change the European fiscal governance framework, by giving both European bodies (the Council and the Commission) and independent national fiscal institutions (fiscal councils and forecasting agencies) an increased role in the fiscal process. Most importantly, the national fiscal councils have their mandate for monitoring the medium-term budgetary objectives and the numerical fiscal rules. Similarly, the Commission recommendations can be used by member state reform agendas as a justification for policy shifts, if there are enough political will. For the Belgian case, during the interviews the unanimous consensus between key institutions in the fiscal policymaking process was that the reworked and enhanced SGP and the European Semester clearly has significant impact on domestic fiscal policy. This view was particularly voiced by experts from the Federal Planning Bureau and from the FPS Finance (that is the renamed Ministry of Finance). The EU backing the need to formalize and institutionalize the MTO process and giving a clear mandate for the HCF is seen as a key factor which was confirmed unanimously through interviews (FPB1, 2017; FPB2, 2017; FPS Finance 1, 2017). In addition to this, the High Council of Finance’s public recommendations on the budget is an important input that is being considered at both the technical and political level. While formally the HCF does not participate in the parliamentary process of the budget drafting, it’s finding are being used in the Standing Committee on Finance and Budget, that reviews the draft before the plenary session (PCFB1, 2017). All interviews point to the direction that the hard power of the EU has increased after the crisis and it’s impact is far from non-consequential, as opposed to the pre-2008 SGP regime. This can mostly be attributed to the Two and Six-Pack for the Federal Planning Bureau (which provides the independent macroeconomic forecasts), and the Fiscal Compact for the HCF (for the monitoring role). In addition to these ’hard’ powers of the EU (and some bestowed on domestic actors), a less visible soft side has also emerged. As a member of the Chamber Committee said, the

EU and Commission recommendations and policy best practices can serve as a foot in the door for reform forces within the government or the coalition (PCFB1, 2017). This view is also shared from the European Commission's side, as such recommendations or background works can often be invoked at later times by member states as external justification for policy change (DG ECFIN 2, 2017).

5.2 Institutions in the shadows of financial and political crises

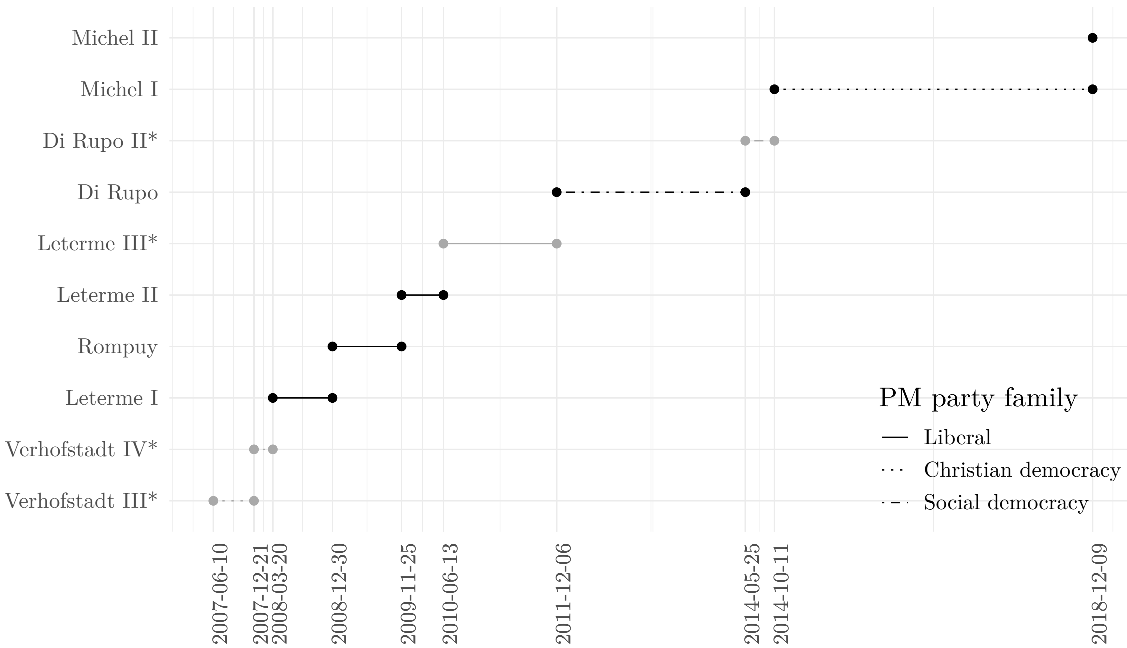
The chapter so far investigated the contemporary setup of the fiscal framework in Belgium and also shown how European regulations impacted the key institutions within it. The following section proceeds with the process tracing analysis and digs deep into the political economy of fiscal policy during times of political and economic crisis. This section will complete the second half of the case study as it will examine the 2007-2018 period where Belgium had to face both internal and external challenges, politically and economically.

5.2.1 The 2007-2011 political crisis and bank bailouts

The political issues started before the global financial crisis begun to unravel and become a full blown sovereign debt crisis in Europe. The political instability meant that between 2007 and 2010 the country had three different governments and coalition formation became deadlocked over the details of the Sixth state reform. Due to these political roadblocks the reform period lasted between 2007 and 2011 when the parties could agree to the final form of the constitutional reform.

After the 2007 elections, the negotiations lasted 194 days before forming the coalition government in March 2008. The process of negotiating the reforms resulted in a permanent political crisis environment. After the Leterme I. government formed in March between the Christian Democratic and Flemish (CD&V), the Open Flemish Liberals and Democrats (Open VLD), the Reformist Movement (MR), the Socialist Party (PS) and Humanist Democratic Centre (CDH) parties stability did not follow. As disputes continued NVA exited the governing coalition in September over discussions on the particulars of power devolution to regions and communities. However, the whole government resigned in 2008 December

Figure 5.1: Change in governments, 2007-2018



Note: * indicates a caretaker government.
Source: Döring and Manow (2012), author's compilation

over the public outcry when the prime minister was accused of trying to influence a court decision on the breakup and sales of Fortis to BNP Paribas (Philip Blenkinsop, 2008). Van Rompuy was tasked to form an emergency government that would ideally could last until the 2011 federal elections. As Van Rompuy was elected to the president of the European Council, Leterme again became Prime Minister. The Leterme II. government was similarly short lived as it collapsed in early 2010 over the electoral reform issues of the Brussels-Halle-Vilvoorde electoral district.

As a result of the early elections, the New Flemish Alliance (N-VA) gained the most votes in the Flemish region, while in the French speaking part, the Socialist Party (PS) won (they achieved 27 and 26 seats). This result produced a coalition forming negotiation that would draw out for 541 days, where the parties could not agree on the reform proposals. The underlying conflict was between the Flemish and Walloon parties, since they had a differing view on the federal reforms: the Flemish parties pushed for increasing regional autonomy, including fiscal competencies. The Walloon parties opposed further decentralization fearing that they will be worse off under these new federal arrangements(Abts et al., 2012; Vandenbruwaene, 2014). A key point in the political debates is that the Special Finance Act was at the center of the debate, which indicates that the cultural and political divisions were put ahead of fiscal considerations. While the new government is in formation, the outgoing coalition still governs, but these caretaker governments are rather limited in their policy space. They usually restrict themselves to current affairs, that would mean that the challenges of the financial crisis caught the Belgium in a political turmoil and lacking effective governments.

The political gridlock was solved in late 2011, when a political agreement was reached on the Sixth state reform between the CD&V, Open VLD, sp.a, Groen! parties and the French PS, MR, CDH and Ecolo parties.[5] Finally, in 2011 December, the Di Rupo I. government formed, ending the almost two years of political crisis and paving the way for implementing the state reform. This round of reform continued the trend from the previous reform rounds as it further increased the fiscal powers and responsibilities of the regions and communities by amending the Special Financing Act.[6] While further fiscal decentralization would mean less strain on the federal level, the limiting of the federal fiscal solidarity mechanism meant that regional economic struggles would hit the regions more severely (Bourgeois and Bayenet, 2013). Regions also gained further autonomy with regards to economic and industrial policy, energy, agriculture, urbanism, housing, and local administration.[7] These competencies amount to 4.4% of the GDP (around 16.2 billion Euros)(International Monetary Fund, 2011a).

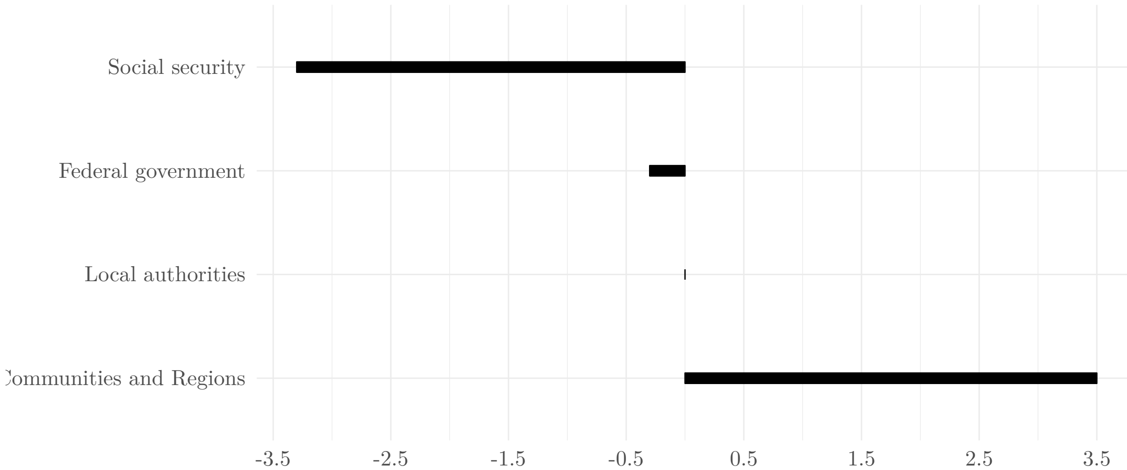
The 2011 revision included more resources for the Communities than the Regions. The bulk of the new Community resources were family allowances, health care and social support and support for elderly care. These new resources amounted to 2.8% of the GDP (1.6% for family allowances, 1.1% for health care purposes). The regions received considerable new powers regarding their employment policies (1% of the GDP) and some additional powers on tax expenditure (0.5% of the GDP) which is a reduction in revenues for the federal

[5] *"A special majority is required for the adoption of institutional reform laws. It implies a majority of two-thirds in the Chamber of Representatives and in the Senate, and a simple majority in each language group (french or Dutch)."* Bisciari and Van Meensel (2012, 65)

[6] In the chapter, in accordance with the official naming scheme, Entity I refers to the federal government and social security and Entity II refers to the Communities and Regions, and local governments.

[7] Social security is still a federal competency, but health care and family allowances are delegated to the communities.

Figure 5.2: Change in primary expenditure due to the Special Financing Act reform (% GDP)



Source: Bisciari and Van Meensel (2012), author's compilation

government (Bisciari and Van Meensel, 2012; National Bank of Belgium, 2013). Regions, under the new Special Finance Act, could set their own personal income tax (PIT) rates and brackets but determining the tax base still rests with the federal government. Figure 5.2 illustrates the changes and their impact on primary expenditure. It shows that the transfers from Entity I came mainly from the Social security, not the federal government.

While the political negotiations over the federal reform were crippling the government the financial crisis hit, which caused a drop in GPD and spike in inflation for Belgium. In addition to these macro shocks the Belgian financial system also experienced considerable duress as the three market leading banks were heavily exposed to the crisis and turned out to be severely lacking the necessary capital to weather the storm. The three biggest institution were Fortis with 31.9%, KBC with 21.4% and Dexia with 14.7% market share (together with ING they accounted 82% of market share in Belgium). As liquidity problems loomed and capital inadequacy became known the Belgian government decided to intervene and bail out the troubled institutions. At the end of 2007 it had to provide rescue funds to all three institution. For Fortis, the federal government spent 9.4 billion Euros to inject capital into the bank. The rescue of Dexia was done through a joint recapitalization effort between Belgium, France, and Luxemburg, which took 1.5 billion Euros of federal funding and 0.5

billion from the Flemish region.[8] For KBC Bank the Belgian federal government spent 3.5 billion Euro on recapitalization and the Flemish region spent 2 billion Euros. Finally, a smaller, mid-range insurance company, Ethias, was also bailed out with a joint effort of the federal, the Flemish and Walloon government, totaling of 0.5 billion Euro. The final tally is around 4% added to the public debt, as 19.4 billion euros had to be financed by borrowing (International Monetary Fund, 2008).[9] In addition to the bail-outs, the government also implemented a small fiscal stimulus package that amounted to 1% of the GDP. It included increased public investment, VAT reduction for the construction sector on certain activities, a limited subsidy on household electricity consumption and boosting the liquidity of the SME sector.

The unfavorable external and internal environment meant that the government missed both the debt and deficit target. These cyclical headwinds and the continued growth in primary expenses led to the deterioration in public finances.[10] However, the cyclically adjusted primary balance also shows a 0.6% increase in 2008, compared to 2007, which can mostly be ascribed to the growth in primary expenditures exceeding the GDP growth rate. Similarly to the post Euro accession period, the recommendations of the HCF serve as a baseline for the medium-term strategy, but these targets to achieve a structurally balanced budget were put off by the government in each year.[11] With expenditures on the rise, revenues being constant, the interest payment component of the public debt also reversed course as investors were increasingly anxious about buying Belgian bonds. This anxiety

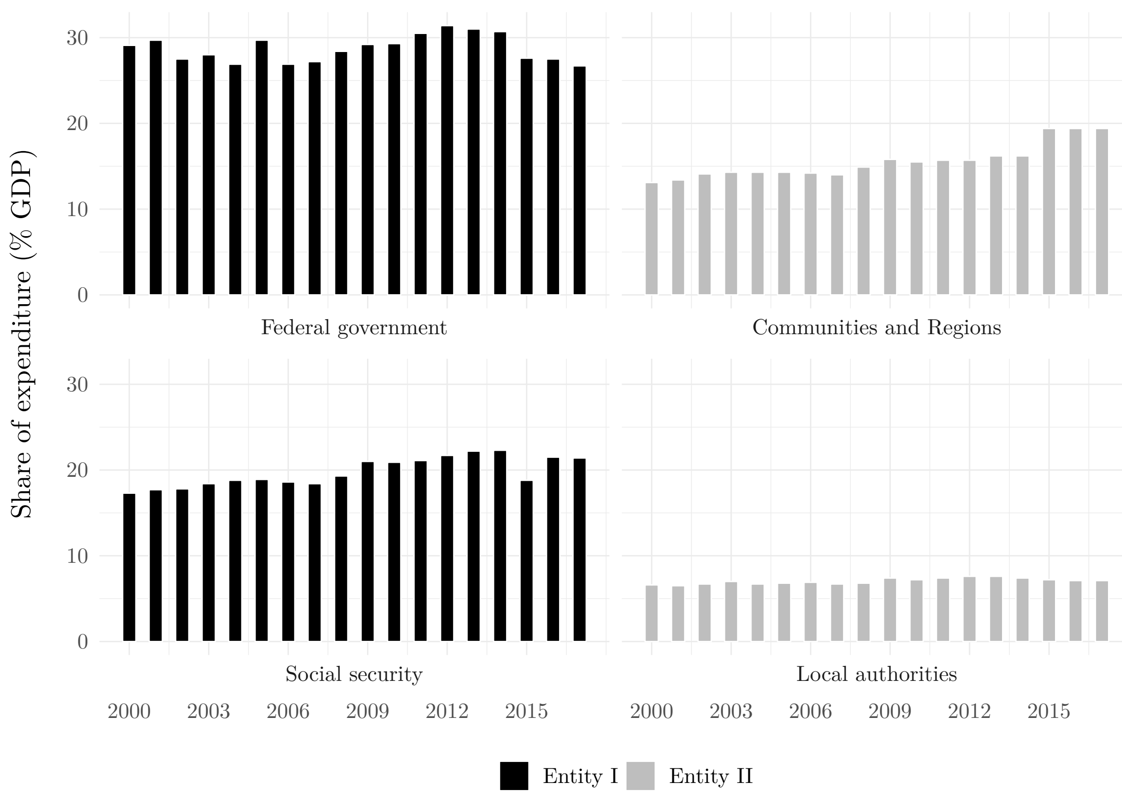
[8]However, as the 2008 Annual report of the Belgian National Bank notes, the Flemish contribution did not have an impact on the consolidated gross debt of the general government as it was made by drawing on the region's own reserves. (National Bank of Belgium, 2008, 170)

[9]The calculations of the Belgian National Bank slightly differs as they take into account that 5.8 billion euros went towards a defeasance structure to cover the take over of Royal Park Investments structured portfolio of Fortis Bank. According to their calculations, the total capital injections, financed by borrowing, were 21.7 billion euros, which equals 6.3% of the GDP (National Bank of Belgium, 2008, 170).

[10]However, the political crisis had an unintended side effect, as during the 2008 caretaker government the growth in the adjusted primary expenditure was 3.6% as opposed to the 2007 4.2%. As the NBB Annual Report (2008, 138) notes: *"This slower increase was due partly to the turbulent political situation in late 2007 and early 2008. Thus, the absence of a budget and the application of provisional twelfths at the beginning of the year exerted a major restraining effect."*. This assessment is also confirmed by the IMF Article IV (2008, 20) report: *"Recent experience indicates that structural deficit reductions are challenging to implement in Belgium. Key factors in this regard are the lack of adequate incentives to keep real spending increases in line with trend economic growth [...]"*

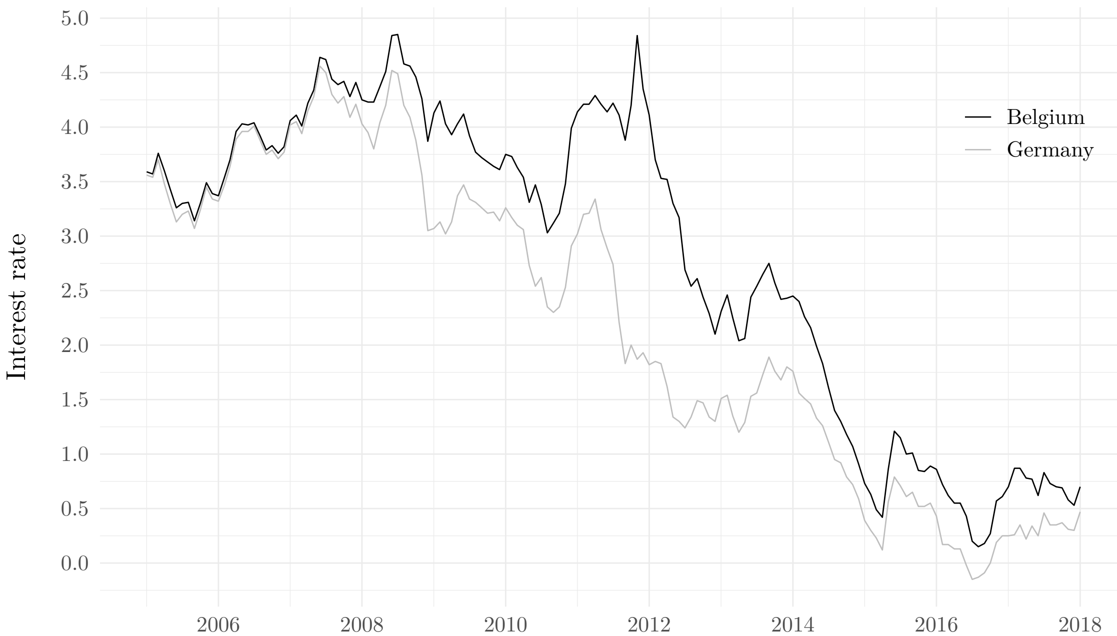
[11]The IMF 2008 Article IV report notes: *"Staff and the authorities recognized that the authorities' stated medium-term strategy, which was based on High Finance Council (HFC) recommendations and centered on a gradual build-up of fiscal surpluses, had proven much more challenging than expected."* (International Monetary Fund, 2008, 20)

Figure 5.3: Share of expenditure by sectors



Source: Eurostat, author's compilation

Figure 5.4: Spread between Belgian and German 10 year government bonds



Source: OECD, author's compilation

was also exacerbated by the situation in Italy, Spain, Ireland and Portugal. The spread between the German and Belgian 10 year bonds widened as a result of the deepening of the sovereign debt crisis in Europe.

The widening spread (shown in Figure 5.4) re-started the snowball effect, that was successfully curbed in the consolidation during the 1990's and 2000's, which effectively means that increasing interest payments fuel the debt, which causes more debt financing. The spread increased to a 100 basis point by early 2011.

During the political and financial crisis between 2007 and 2011 december, the recommendations of the High Council of Finance were more or less disregarded when it came to actual policy implementation.[12] The cornerstone of the recommendations of the High Council of Finance was to reach a budget surplus of 1% by 2011. This was in line with the European Commission's and European Council's recommendation under the excessive deficit procedure. Despite the published reports and recommendations of the HCF the 2008-2011 Stability Programme did not contain any specific structural measure to reach

[12]The IMF Article IV report International Monetary Fund (2008, 5) called for the *"strengthening the role of the High Finance Council, and undertaking comprehensive expenditure and revenue reviews."*

the 2011 target.[13] Other recommendations included the need for plausible assumptions for the budget preparation process which would give fiscal policy a stronger foundation. Similar concerns were voiced over the calculation of possible revenues, which also deviated from reality in the government's budget. Finally, the HCF recommended that the budget should contain detailed and realistic measures that can actually translate into implementation (High Council of Finance, 2008). The political crisis caused to increase the valuation of the HCF, as the caretaker government formulated the 2011-2014 Stability Programme after explicitly seeking out the advice of the fiscal council.[14] Despite these commitments, the targets were not met and the 3.6% deficit target was exceeded in 2011 and the public debt ratio continued to rise by 2.4% to 98.6% of the GDP. The increase in the debt was mainly driven by the bailout of Dexia and the EU loans to Greece, Ireland and Portugal.[15] As a result of inadequate measures taken (despite the fiscal council's recommendation) Belgium entered the Excessive Deficit Procedure (EDP) in 2009. The Commission's recommendations (that were adopted by the Council) prescribed to correct the excessive deficit by 2012, by an average annual structural adjustment of 0.75% between 2010 and 2012. The 2010 report found that the Stability Programme targets were missed (0.25% actual achievement instead of the required 0.5%). The 2012 January Commission report reinforced the earlier findings that Belgium did not make sufficient action to comply with the EDP recommendations, averaging of just half of the fiscal efforts recommended by the Council (European Commission, 2012a).[16]

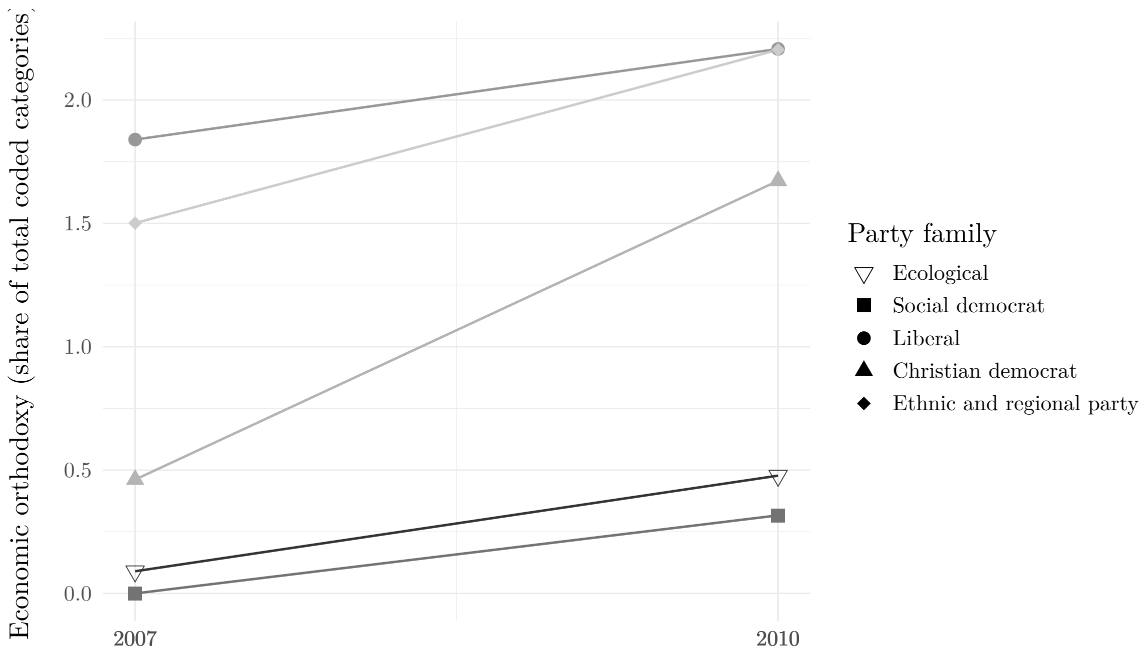
[13]The HCF's report (2008) reiterates this point multiple times: (translated from French) *"The failure to achieve the 2007 targets has had the effect of that the targets announced in the new Stability Program of April 2008 are lower than objectives recommended by the Section." (p.15)* and *"The Section strongly urges that the necessary steps be taken to move closer to the trajectory recommended by the Section." (p.100)*

[14](translated from French) *"In view of the absence of a government with a full mandate, the caretaker government wanted to seek the opinion of the High Council of Finance (HCF) in order to prepare the new consolidation path for Belgium's public finances. [...] This being a caretaker government, the new path proposed in this stability programme by the Belgian government is based on the recommendations of the High Council of Finance"* (Ministry of Finance, 2011, 79).

[15]In their work comparing HCF recommendations and policy implementation, Coene and Langenus (2013) finds that the HCF's effectiveness bounces back from the mid-2000s low, but still not reaching the run-up to meeting the Maastricht criteria.

[16]Despite the government missing the HCF and EDP targets, the fiscal council's annual reports are *"always read carefully"* at the European Commission (DG ECFIN 1, 2018). In the interivews, DG ECFIN experts also named the fiscal council as an important partner in gathering information and discussing fiscal developments. However, for the Commission's Country Specific Recommendations, only the Stability Programme and the Draft Budget Proposal is taken as input.

Figure 5.5: Economic orthodoxy in election manifestos, 2007-2010



Note: Economic orthodoxy (Manifesto code: per414) is coded from party manifestos and represents a support for *reduction of budget deficits*; *retrenchment in crisis*; *Thrift and savings in the face of economic hardship*; *traditional economic institutions such as stock market and banking system*; *strong currency.*
The individual parties in each party family is in Table B.1
Source: Volkens et al. (2018), author's compilation

5.2.2 Political change and (re)start of fiscal consolidation

The end of the political crisis and the agreement on the substantive issues in the Sixth state reform in late 2011 marked a turning point for fiscal policy. The parties were more attentive to fiscal issues in their election manifestos, as Figure 5.5 shows. Each party family put more emphasis on this issue in 2010 elections than in 2007. Unfortunately this rebound cannot be tracked further as the Manifesto dataset does not contain any more coded manifestos from Belgium beyond the 2010 election at the point of writing this dissertation (Volkens et al., 2018).

The Di Rupo I. government vowed to start fiscal consolidation which led to short term consolidation. This was a result of efforts from both the federal and regional governments. Not breaking with previous trends, the consolidation was achieved on the back of revenue growth as a result of various new taxes and phased out tax exemptions. The largest impact item was the lowered reference rate for interest deduction in corporate taxation (0.6% of the

GDP). The Flemish government also phased out the personal income tax reduction, which contributed 0.1% to the revenue gains (European Commission, 2013). The drop in interest charges also provided a tailwind to the consolidation effort as investor pressure eased on the Belgium.[17] The public debt however increased due to the contributions made through the European System of Financial Supervision (ESFS).

The initial, revenue-led consolidation was not enough to reach the proposed targets under the excessive deficit procedure which resulted in the Ecofin Council giving note on the insufficient action. According to the European Commission calculations the structural revenue measures between 2010 and 2012 on average amounted for 0.6% of the GDP, while the structural expenditure measures, on average, contributed nothing to the fiscal efforts.[18] While the targets were not met, the European pressure had some other, institutional effect. In 2013, the federal and federated governments (the communities and regions) resumed to their consultation facilitated by the Consultation Committee.

As a result of the Ecofin notice, in 2013 the Committee agreed that the overall public debt should not exceed 2.5% of the GDP. This is a stricter condition that was formulated in the Ecofin recommendation (which was a target of 2.7% of the GDP), but this was seen as a safety net to actually achieve the target (National Bank of Belgium, 2013, 152). By 2014, it was evident that this target would not be met.[19] The general government deficit stood at 3.1% in 2014, unchanged from its 2013 level. Public debt continued its secular increase and peaked at 107% of the GDP in 2014. The recommendations of the fiscal council were incorporated into the 2014 Stability Programme, namely to achieve a structurally balanced budget by 2016. However, the 2014 elections and the resulted coalition negotiations pushed this target to 2018. This was another instance of the HCF's recommendation nominally taken into account but then during the political process being pushed to a further date.

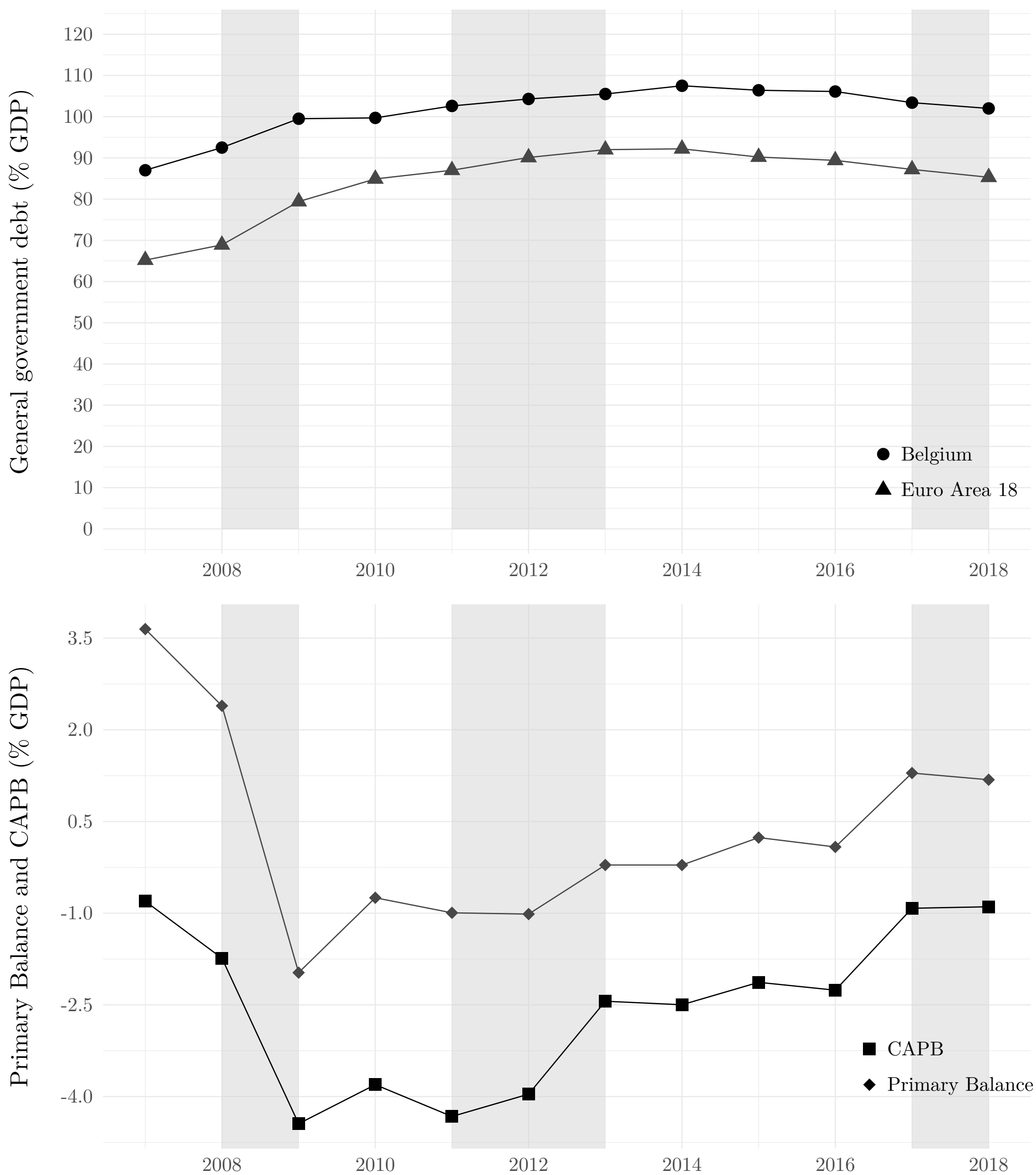
The 2014 election brought a new political alliance into government as the conservative

[17]In fact, the National Bank's Annual Review (2012, 156) cites *"severe financial market pressure on Belgium"* as one of the driving force of consolidation.

[18]Structural revenue efforts (% of GDP) were the following year by year: 2010: 0.4; 2011: 0.5; 2012: 1.0. The structural expenditure measures (% of GDP): 2010: 0.3; 2011: 0.1; 2012: -0.5. (European Commission, 2013, 6)

[19]The National Bank's annual report (2014, 128) lethargically states that *"The modest consolidation that started in 2011 failed to keep going and the benefits of reduced interest charges were lost in a climate of low interest rates."*

Figure 5.6: Public debt and deficit in Belgium (% GDP), 2007-2018



Note: Shaded areas are recessions in Belgium.
Source: IMF Fiscal Prudence and Profligacy database, Eurostat, OECD Composite Leading Indicators, author's compilation

New Flemish Alliance (NVA) succeeded the previous socialist party dominated governments.[20] The new centre-right government initiated a series of reform proposals with the aim of fiscal consolidation (with the noted push back against the HCF target horizon). These new measures were unique as they not only the included revenue side but the continued growth of the expenditures were also curbed. The key expenditure cut was the so called "index jump" that kept the wage indexing in check for Entity II (where most of the expenditure is spent on wage bills) and it also put a break on the continued growth of the social benefits. By 2015, combined with the ever falling interest charges (0.3% point drop compared to 2014), the primary expenditure ended up by 0.7% point lower, which meant a clear break from the revenue led consolidation model pursued between 2010 and 2014.[21] As a result of these efforts, the general government deficit was brought down below 3% and the European Commission ended the excessive deficit procedure against Belgium. While Belgium spent 4 years under the procedure, Figure 5.7 shows that compared to the other member states, it exited faster than the average procedure time (being faster than the Netherlands and Austria). This development demonstrates that while the institutional opinion of the National Bank and the Fiscal Council were voicing a stricter position, the European Commission took the 2014 government's reform proposals as credible.[22]

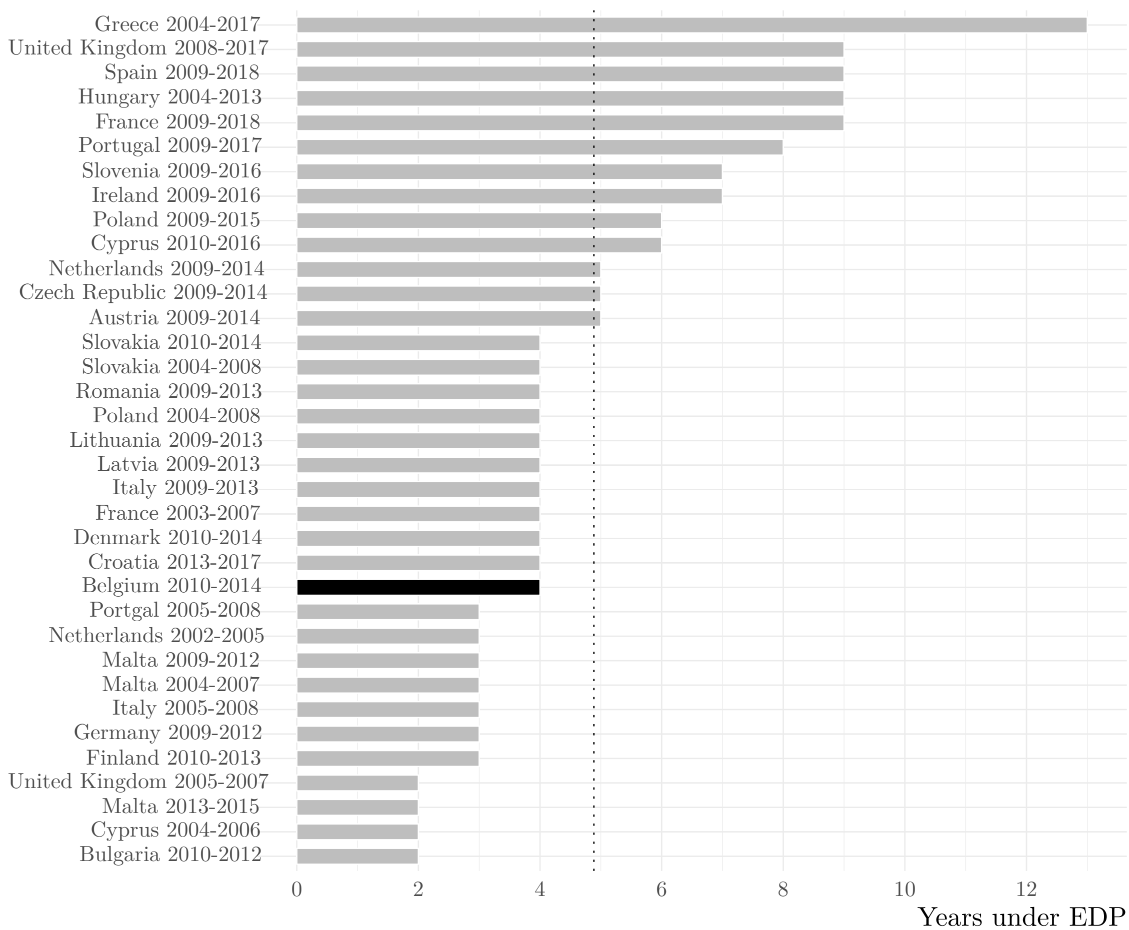
After the country exited the Excessive Deficit Procedure fiscal policy became more relaxed and consolidation stalled in the coming years causing a backsliding of the structural primary balance in 2014 and 2015. Another similarity to the previous years was the inability of the Consultation Committee to carry out its role. Both during interviews and in the annual reports of the National Bank of Belgium and the IMF it was highlighted that the Committee failed to bring the regions and the central government to the table and that the regions and communities only took note of the planned policies but did not adopted them at their level. This episode repeated in 2015, 2016 and 2017 as well. However, the missed deficit target and the rather stagnant debt ratio was a result of the federal

[20] The IMF Article IV country report (2014a, 5) clearly viewed this as a *"significant political shift."*

[21] The National Bank's Annual Report (2015, 145) credits the index jump much of the adjustment: *"This single measure therefore has significant effects on total primary expenditure even if it has failed to improve the overall balance, as government revenue has also fallen in the wake of constrained employee compensation."*

[22] The follow up report from the Commission (2016, 16) reiterates this previous position: *"Belgium made good progress in implementing the structural reforms announced at the beginning of 2015, notably in the area of pensions, taxation and the labour market. They are substantial [...]."*

Figure 5.7: Excessive Deficit Procedures, 2003-2018



Note: Dotted line shows the 4.9 years mean for the EDP durations for the member states.
Source: European Commission, author's compilation

government's fiscal laxity.[23] The decrease in the deficit and debt in the years following 2016 were a result of cyclical effects, which included increased revenues from the corprate income tax and cyclically decreasing expenditures due to the reduced unemployment. The lower interest payments and smaller EU budget contribution were also the part of this process. This meant a decrease of debt from the 106% in 2016 to 103% in 2017. This stop and go fiscal consolidation means that almost a decade after the 2008 crisis Belgium is still stuck above 100% debt ratio and missing flashed out structural reforms for curbing runaway expenditures.[24] These developments show that despite the strengthened role of the HCF and the new government's initial consolidation efforts the fiscal trajectory is not likely to repeat the performance of the 1990's.

5.3 Conclusion

Following up on the half-way results of the previous chapter, this chapter made more headway into investigating the hypotheses set forth. The case showed how the influence of the fiscal council fluctuated and how the crisis years did not seem to motivate greater institutional power before the EU level fiscal rules changing. It is evident that the political forces of Belgium were preoccupied with the constitutional reform process rather than the fiscal consequences of the crisis or following the medium term objectives set by the High Council of Finance. This manifested in a high turnover for government coalitions and dragged out coalition formation. Since the political capital was tied up in the federalization debate, fiscal action was not a top priority. Indeed, caretaker governments could not take action as their policy space were rather limited. This further confirms the hypothesis that during this period the HCF was still viewed as an adversary institution that can be circumvented if needed.

This changed when the political gridlock was resolved and both the Di Rupo government and the Michel government started fiscal consolidation. However, for the Di Rupo consolidation events the effects of the Excessive Deficit Procedure was the main motivating

[23] The NBB notes in its annual report that *"Entity I accounts for virtually the entire general government deficit."* (National Bank of Belgium, 2016, 121).

[24] The IMF highlights this ommission: *"The package of reforms agreed last summer contained some new taxes but noticeably lacked expenditure reforms."* (International Monetary Fund, 2018a, 15).

factor for action and the deteriorating spread between the Belgian and German 10 year government bonds. The performance of the fiscal consolidation measures were lacklustre which led to open criticism from the European Commission on the less than satisfactory trajectory of Belgian debt and deficit measures.

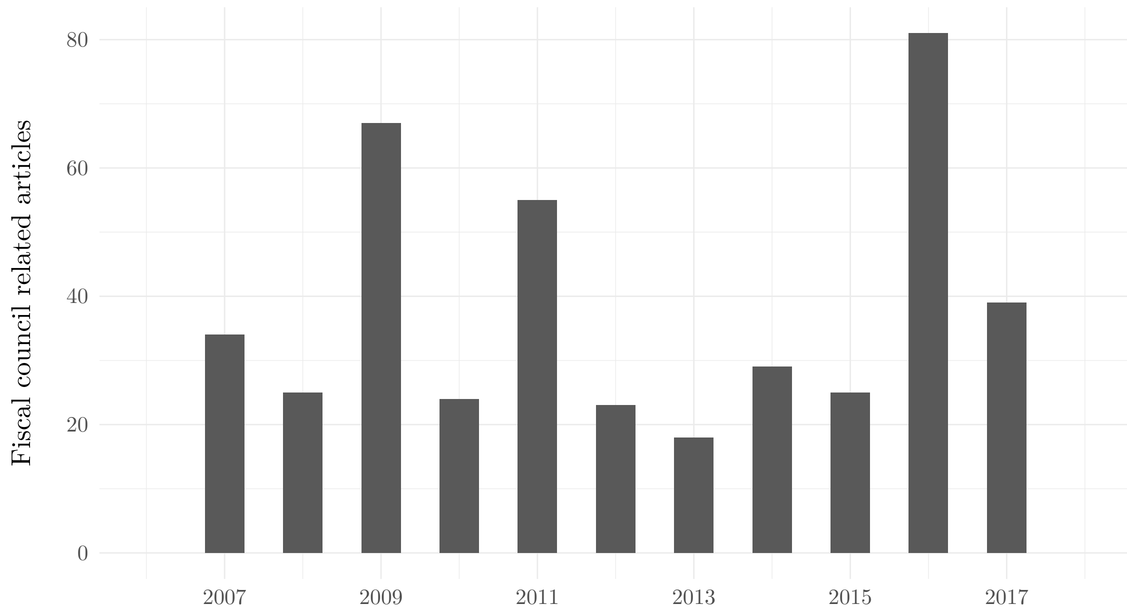
The fiscal council has demonstrably lost some of it's agenda setting soft power that characterized it's more successful years in the 90's and early 2000's. This manifested itself various ways. First, the fiscal targets that were adopted in the Stability Programmes (as the government was legally obliged) were continuously pushed forward, even during consolidation periods. The years under the Excessive Deficit Procedure also proved the loss of power of the HCF, as it was unable to push government policy towards meeting the budget targets. Second, after the Sixth state reform passed it still left cooperation between various levels of government unfinished. This means that even though the federal government and the communities and regions meet in the Coordination Committee to set out fiscal goals under the Stability Programmes this cooperation is only nominal. As the communities and regions are not legally obliged to accept these goals, the HCF has no means of tracking their performance.

This issue was raised during numerous interviews (both from the federal government and from the European Commission) as well as features as a recurring item on the IMF's Article IV recommendations and the European Commission's Country Specific Recommendations.[25]

As the recommendations of the fiscal council are non-binding one of it's main channel of influence is through it's yearly reports on the Stability Programme and the budgets. To track this I examined the news coverage of the High Council of Finance. The results in Figure 5.8 correspond to the index in Coene and Langenus (2013) as it shows a gradual decline in the impact of reports, measured as the amounts of news it generates. The spike in report impact observed in 2016 is related to the proposed changes of the tax shift. A telling sign is that with the exception of the 2011 and 2016 outliers, the amount of discussion

[25] One interpretation of the subsequent state reforms is to see them as implicit bailouts with the increasing tax grant transfers to the regions and communities. Seen from this angle, the cyclical revisions of the Special Financial Act endorse a soft budget constrain, as regions and communities can expect increasing devolution of fiscal autonomy in their revenues (or increased grant transfers from the VAT or PIT). For more on this discussion, see Jennes (2014).

Figure 5.8: Media coverage of the HCF, 2007-2017

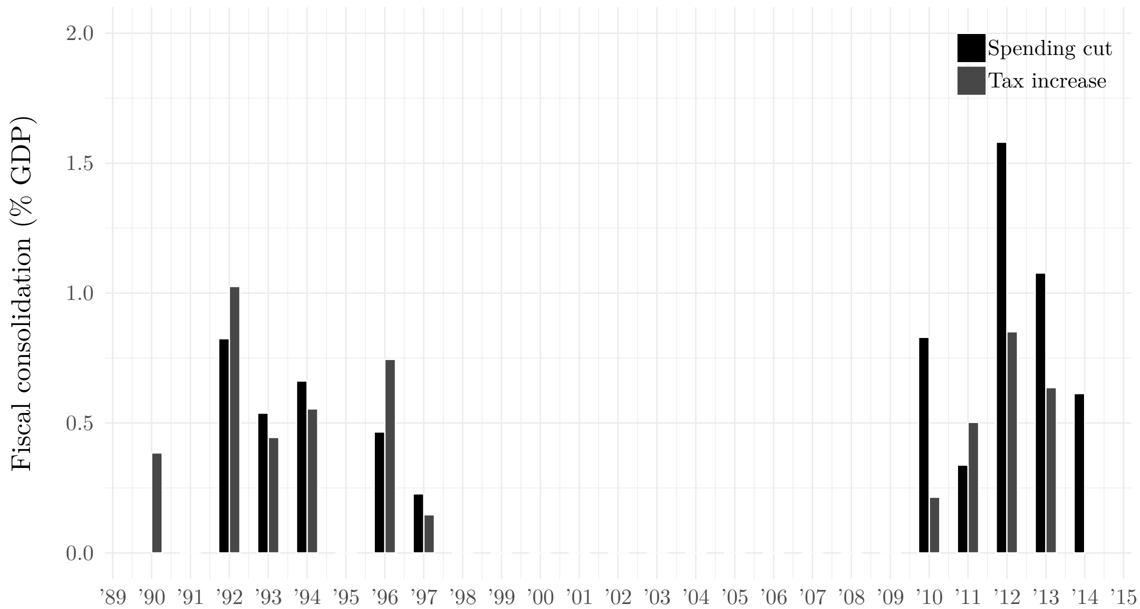


Note: The figure shows the number of articles that mention (in French) the High Council of Finance and either of the selected key-words (*report*, *public debt*, *budget**, *deficit*).
Source: Factiva database, author's compilation

generated in the media by the fiscal council reports dropped to their pre-crisis levels, which was also characterized by the declining impact. Although the HCF continued to issue warnings and updated recommendations with each yearly report, it only gained traction when it was coupled with the looming stick of the Excessive Deficit Procedure or increasing debt financing costs.

While this event does not bring a strong evidence for the institutional hypothesis it does back up the conditional hypotheses that the fiscal institutions' power are amplified by external pressure events. There are two main sources of external pressure during the period of this case study. One is private investors whose demand for increased premium on Belgian long-term government bonds during the crisis (especially between 2010 and 2013) caused interest charges to increase considerably. The other factor is the strengthened Stability and Growth Pact which gives more institutional clout to the domestic fiscal councils and also provides feedback on draft budgets. The Excessive Deficit Procedure was also implemented against Belgium which carried and even more in-depth EU review of fiscal policies. Belgium

Figure 5.9: Deficit driven fiscal consolidations, 1990-2014



Note: The data used here captures both planned and implemented fiscal consolidation, as contained in the respective Stability Programmes.
Source: Alesina et al. (2018), author's compilation

continued to miss the EDP targets (and HCF recommendations) which caused the European Commission and Council to formulate a notice to Belgium, highlighting the inadequate measures and calling for respecting the targets.

The fiscal adjustment data shown in Figure 5.9 clearly demonstrates the lack of action until 2010. It also captures the drop in fiscal efforts in 2011 and then the peak of 2012 and subsequent decrease again. These fiscal actions were motivated externally by market pressures (see Footnote 17) and the Excessive Deficit Procedure. However, both of these were inefficient to induce fiscal policy change. The EDP managed to get some token government action initially but that was by and large insufficient to meet the proposed targets. The inflection point came with the end of the political deadlock and the finalizing of the constitutional reform. After 2011, and more particularly, after 2012 the successive governments (both centre-left and centre-right) took to fiscal reforms. Initially it relied more heavily on the revenue side, but later the fiscal effort also extended to curb the growth of primary expenditures.

The hypothesis on how fiscal rules and councils interact also yielded some mixed results during this second half of the case. The only fiscal rules present during this time period are supranational rules of the reworked Stability and Growth Pact and the Fiscal Compact. As discussed above their effect was felt in key institutions and they gave more leverage to both the Federal Planning Bureau and to the High Council of Finance. But this leverage was conditional on the pressure of the Excessive Deficit Procedure's naming and shaming effect and for the more economically painful market pressure. Nevertheless, some preliminary findings can be seen in the Belgian case for fiscal rules. National rules were never strong in Belgium, they were ambiguously worded and weakly legislated. This led to a general ignorance towards them and they faded into memory by 2008. The new set of European legislation was a complex set of regulation which also suffers from numerous weak points (Ódor, 2017). However, from a quality standpoint some complexity is better than no rules at all and from this point of view the hypothesis finds positive results.

6 Fiscal institutions in transition: Slovakia, 1993-2008

The evolution of the Slovak fiscal framework and institutions provides the second case for examining under what conditions can fiscal councils work and how did the gradual institution building process affected fiscal policy in the country. This case covers the transition of Slovakia from being a part in Czechoslovakia to the early adopters of the Euro in the Central Eastern European region. This trajectory also means that initially there were little to no institutional framework for fiscal policy and it was mostly conducted on an ad hoc basis. The absence of specialized fiscal actors allow the case to explore how the country managed to avoid running deficits for most of the times and how fiscal discipline endured in a political system where successive governments were from the opposing ideological scales,both politically and economically. The late arrival of fiscal watchdogs and fiscal rules means that this case can add much needed insights to the reverse causality between debt, political pressure (self binding) and fiscal institutions.

As fiscal institutions were not present or underdeveleoped in the timeframe this chapter covers, the hypothesis under investigation reflect this as well. The hypothesis is drawn from the literature on how ideational factors shape economic decision making instead of institutional boundaries (McCloskey, 2016).

> **H5:** *In the absence of fiscal institutions fiscal policy is shaped by historically persistent ideational factors*

This chapter is similar in its timeframe to the first half of the Belgian case as it also provides a historical background which helps establishing how historical factors shaped the

Slovak elite's attitude towards debt and deficit. The main part of the analysis is concerned with the 1993-2008 period which encompasses the birth of independent Slovak Republic and the European financial crisis. Similarly to the Belgian case, I structure this chapter around some key events. First, the dissolution of Czechoslovakia and the independence of Slovakia in 1993 and the Meĉiar regime that came after. This period is characterized with the institutional and economic growing pains (shared by many CEE neighbors) resulting from the transition process. The budgeting process dominated by ministerial special interest and the fiscal framework were only concerned with the subject year. In this period, fiscal policy making were missing key institutions and procedures (such as multi-annual fiscal frameworks, fiscal rules, and accurate forecasting). These problems were exacerbated by the erratic political and economic behavior of the two successive Meĉiar governments. The result was a twin peak of both the budget deficit and general government debt at 12% and 49.6% of the GDP respectively in 2000.

Second, the change between the Meĉiar and Dzurinda governments in 1998 and 2002, that kickstarted a series of institutional reform and international reputation building efforts. The then opposition parties formed the Slovak Democratic Coalition and Dzurinda became prime minister in 1998. This heralded a turn towards integrationist and market friendly policies. Third, the institution building process that accelerated during the second Dzurinda government (including EU membership). This period also included a World Bank project which started in 2003 and it is credited to give fiscal policy making a stable foundation (Horváth and Ódor, 2009).

Finally the first half of the case closes with examining the puzzle of an informal grand coalition between the Slovak political parties concerning fiscal policy. This continued adherence to a conservative fiscal stance was highlighted with the election of the first Fico government which run on a leftist platform but did not discontinue the previous progress made despite the nascent institutional framework in place.

6.0.1 A note on methodology

While I apply the same process tracing approach detailed in the methodological chapter I had to make some adjustments to account for the transition phase of the Slovak political economy. The key source documents (in addition to secondary literature on the subject) come from the IMF article IV reports and selected issues, the European Bank for Reconstruction and Development's (EBRD) transition reports, the World Bank project documents, the National Bank of Slovakia's annual reports and the Slovak Ministry of Finance's reports. Key changes here is the inclusion of additional two document source, the World Bank and the EBRD.[1] The reasoning for this is that the EBRD has an explicit mission of supporting and documenting the transition process in Central Eastern Europe (CEE) (amongst other key target regions). The transition reports thus serve as credible documents on the transition progress. I added the World Bank project documents as their Public Finance Management Project (PFMP) in 2003 was a successful case of institution building, so examining the lead-up and follow-up to this project can add important data for this chapter. A key missing piece is the perspective of the independent fiscal institution(s), as such did not exist until 2012.[2]

For examining the puzzle of the fiscal policy continuity I rely mostly on primary data collected during interviews with high level Slovak experts at key institutions. This is necessary as the literature so far neglected this aspect of the Slovak political economy so I cannot rely on a wide body of secondary sources. This also presents an opportunity to explore this phenomena and shed light on how the country managed to avoid the one step forward, two steps backwards progress that has been characterizing many of its neighbors, when it comes to policy preferences and reforms in times of government changes.

The chapter is arranged as follows. First, a brief historical retrospection on Czechoslovakia starting from 1920, in order to unearth the long term economic governance trends in the country. This section lists the key highlights of the past century that are historically relevant and inform this case, including avoiding hyperinflation in the interwar years and eliminating foreign denominated debt in the 1980's. The second section provides a broad overview of the first years of transition for the Slovak Republic after the dissolution of Czechoslovakia. This section goes over the details of setting up a market based economy,

[1] For years and events where I could not find sufficient data in the listed sources I complement them with the OECD's relevant country reports.

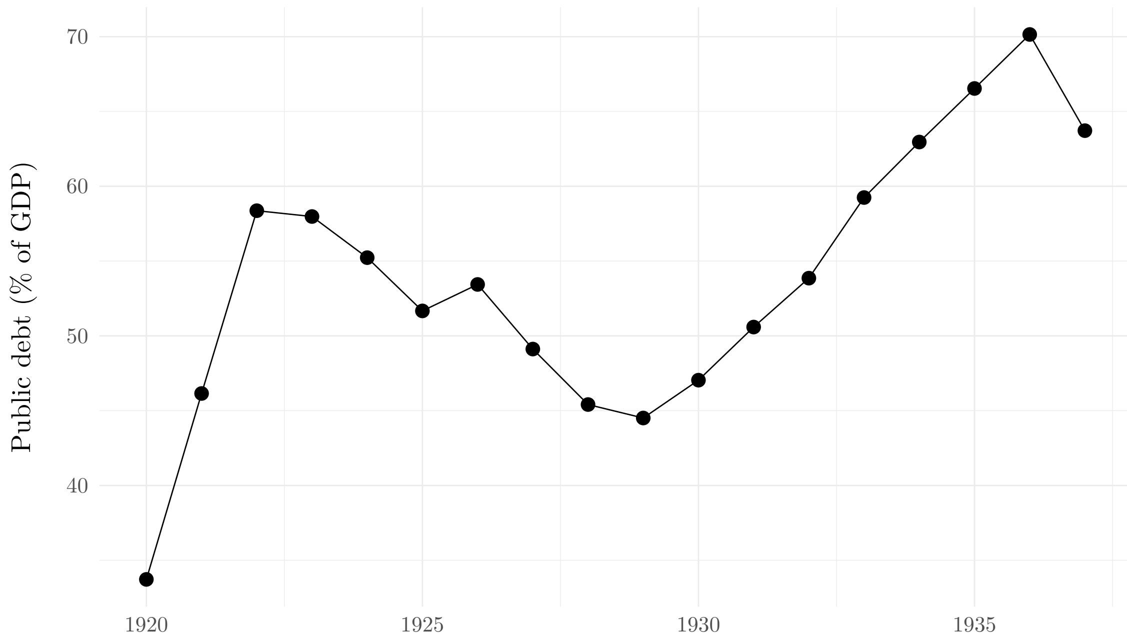
[2] The Council for Budget Responsibility was established in 2012 and serves as the country's independent fiscal council.

privatization of state owned enterprises and developing a budgeting framework. In the third section fiscal policy making process receives attention and I examine the institutional deficiencies of the early years. These years are also characterized by profound changes in the governing coalitions and their fiscal policy ideas. In lieu of institutional constraints the political environment receives greater attention as changes in fiscal policy courses can be associated with changes in governments from the anti-EU Meĉiar governments to the pro-integration and market friendly Dzurinda governments. The fourth section of the chapter traces the institutional reforms initiated by the two Dzurinda governments. This is a time where Slovakia leapfrogged into the key international organizations, such as the OECD, the NATO and most importantly, the European Union. The fifth section is dedicated to the puzzling fiscal policy continuity under the first Fico government. Despite election rhetoric to the contrary, Slovakia continued to follow the previously established fiscal policy pathway and remained on track to exit the excessive deficit procedure and to continue its Euro accession. Finally, the chapter ends with a conclusion.

6.1 Historical background

This subsection briefly explores the economic history of Slovakia as part of Czechoslovakia and looks at how cultural and ideational factors might have developed which continue shaping fiscal policy goals and perceptions among the Slovak policy elite. The Slovak case examines a situation where fiscal performance was not tied to fiscal institutions for much of the timeframe observed simply because there were no fiscal institutions to speak of. This presents an interesting opportunity to see how these institutions came to life and what were the motivations for their creations. In addition to this evolution it also presents an opportunity to see how non-institutional factors affected policy making before the institutional boundaries took effect. The existing research so far explored the role of trust in a low institutionalized setting which highlights how reforms are conditional on a window of opportunity and the human factor. In this framework, Slovakia was a low-trust low-institution country where structural reforms hinged on a select few individuals as the chapter will detail later (Győrffy, 2009). While the levels of trust in a given society is

Figure 6.1: Historical debt in Czechoslovakia (% GDP), 1920-1937



Source: IMF Historical Debt Database, author's compilation

certainly an important variable it's effect is moderated by certain external factors such as international financial market pressure or fashions in economic thinking (Győrffy, 2012).

The first distinctive sign of orderly conducted macroeconomic policies is the outlier performance of Czechoslovakia during the interwar period where it managed to avoid hyperinflation as a result of decoupling it's currency from the Austrian's. This reform meant that in the 1920's years the country managed to stabilize its economy with only a mild inflation. While historical data is scarce, what is available it does underpin this account that public debt also declined in this period as shown in Figure 6.1. While the economy was faring better than its regional peers the country was sharply divided in terms of contribution to economic output as much of the industrial production were taking place in the northern regions (Bohemia and Moravia-Silesia) and the south-east regions (Slovakia and Subcarpathia) were mostly focused on agricultural production. Human capital was similarly divided as according to the 1921 census illiteracy rates in Bohemia and Moravia-Silesia were 2.4% and 3.3% respectively and 15% in Slovakia and a staggering 50% in Subcarpathia (Teichova, 2013).

After the Second World War the country moved to a centrally planned economy. While economic and social reforms were stopped forcefully in 1968 by a military intervention from the Warsav Pact countries, the main idea for economic policy reform was to put economic planning on sound academic grounds relying on better forecasting and input from academics. Another key development was the convergence between Slovakia and the Czech Lands. This resulted in the Slovak population being more optimistic about the future than the Czech by 1989 (Průcha, 2003)

The Czechoslovak policy towards external loans was also amongst the most strict in the Comecon (CMEA) countries as after after 1968 it adopted a cautious stance towards hard currency denominated debt which was largely the result of the current account deficit towards the non-socialist bloc.

Regarding indebtedness a sobering episode happened in the 1980's when the intensifying Cold War tensions resulted in complete shut down of Western credits toward the country. This hard currency squeeze motivated the Czechoslovak government to abandon it's previous policy of holding hard currency debt and to eliminate it completely as a means for eliminating external influence over its economy (Myant, 2010). This behaviour was certainly an outlier as Hungary, East Germany and the USSR continued to rely on increasing foreign loans. By the mid-1980's the Czechoslovak new debt was just the 1.3% of the Comecon and Soviet Union.

Behind the prudent macroeconomic policies were no deep rooted economic theory. While there were debates about how a potential marketization would affect regional development and redistribution the Slovak economists were overshadowed by their Czhech peers in policy making circles (Horváth, 2002). Importantly the personnel working in the Czechoslovak Ministry of Finance during the socialist years were mostly composed of "bourgeoisie" economists who preferred to maintain the macroeconomic stability of the interwar period. This embrace of stability also meant less reforms than their regional peers (especially compared with Hungary's so called goulash communism).

This brief section shows that monetary policy and indebtedness was handled differently compared to the regional peers. While it is by no means a very consistent process with sound economic theory it provides evidence that the country's elite both in the interwar period and in the socialist years were mindful about a tightly managed economy.

6.2 Fiscal policy in transition

The countries of Central Eastern Europe all embarked on their own version of economic and political transition after the dissolution of the Soviet bloc. While there were considerable variations in the political economies of the transitions ranging from the almost dogmatic market friendly approach of the Baltic states to the more state centered solutions in Slovenia. However, almost all country in the region moved towards market liberalization, privatization and attracting foreign investment (sometimes to push privatization).[3] Starting from the early 1990's reforms, the Central Eastern European region was ranked first in terms of FDI stock per capita, beating South America and South East Asia (including China).[4] However, the Slovak Republic was an outlier both in political and economic sense. After the separation from Czechoslovakia in between 1992 and 1994 Meĉiar came to power on a nationalist platform. His governing coalition included both the far left and far right radical parties and captured 82 seats out of 150 in the unicameral parliament. During the two shifts of Meĉiar between 1992 and 1998 institutions (both political and economic) deteriorated and policy was subordinated to short term political gains. The attacks on democratic and economic institutions were so comprehensive that this period is commonly referred as the Meĉiar regime (Fish, 1999). During these years Slovakia turned inwards and alienated the international community.

This turn was both political and economic and included a key organizing principle: politics and policy should be subjugated to power politics, and ultimately consolidating Meĉiar's grip on the levers of power in Slovakia. After Slovakia parted ways from Czechoslovakia the voucher privatization process was halted and the Meĉiar government elected in 1992 adopted a nationalist and protectionist view. In practice, this meant that as opposed to the regional peers, Slovakia by and large abstained from attracting foreign investors and instead favored domestic political allies of Meĉiar. This economic isolation was exacerbated by the

[3]On the various transition paths economic trajectories see Fischer et al. (1996); Kornai (1994); Csaba (2011).

[4]For a more detailed assessment on the impact of FDI in the region, see Medve-Bálint (2014).

continued effort to undermine political and legal institutions with every means necessary.[5] Although the administration made attempts on central bank independence, it never really succeeded to fully marginalize and subdue it. However, the tripartism process broke down, a failure that originated from the increasingly autocratic governance style of the two successive Meĉiar governments (Bohle and Greskovits, 2012). The government also tried to frame its struggles as a heroic effort against continued attacks by both internal and external actors.

Fiscal policy was initially rather tight, however a number of underlying risks accumulated and resulted in increasing deficits from 1996 to 1998. The weak institutional framework created additional fiscal burdens, since tax evasion was widely practiced and social policies with socialism era inefficiencies created both expenditure and revenue side problems.[6] The government regulatory bodies were very lax in enforcing laws, which allowed buyers of newly privatized companies to claim tax refunds exploiting legal loopholes, which further weakened the revenue side (Lamdany, 1998). The government started its expansionary fiscal policy in 1996 in order to finance infrastructure investment, increase public sector wages and increase social policy expenditures. The less than expected tax revenues, the missing expenditure cuts meant that in 1996 the debt suddenly increased to 8.6%. The economic nationalism ideology played an important role in these events, industrial policies were put in place supporting the defense and construction sectors (Fisher et al., 2007).[7] The increasing debt made its financing more difficult, as interest rates on Treasury bonds and bills have increased to 20-25%. The maturity of the bond offerings also had to be shortened, which meant that in 1996 and 1997 the treasury could only issue bonds with 1 or less maturity, as opposed to successful offerings with 3-5 years maturity in 1995 (Lamdany, 1998). Another key problem was the unwillingness and inability of the Ministry of Finance to provide data

[5] In 1995, the son of the Slovak president was kidnapped and a later investigation found ties to the Slovak secret services, which was led by a Meĉiar confidante, Ivan Lexa. The prime minister avoided charges only due to passing an amnesty law (The Economist, 2017). This incident illustrates well the open disregard for institutions and thuggish bullying tactics employed by the prime minister.

[6] However, as Bohle and Greskovits (2012, 157) note, *"In spite of its largely unreformed system and the accumulation of new privileges, Slovakia has in fact not encountered a fiscal crisis of the pension system comparable to that of Hungary or Poland."*

[7] True to form, the government tried to mask the booming deficit by creative accounting measures, creating a hidden debt (Győrffy, 2009). The IMF report compiled by Lamdany (1998, 17) also explicitly mentions that *"discussions about the budget balance in the Slovak Republic are complicated"* as the government tries to obfuscate the data.

on deficit numbers. The government actively engaged in creative accounting and the use of state funds outside of the state budget was common practice to improve deficit statistics (Marcinčin and Beblavỳ, 2000). These institutional deficiencies were compounding the clientelist policies and helped muddy the assessment of the fiscal situation.

The National Bank of Slovakia's (NBS) 1997 Annual Report also highlight that the internal debt of the public sector increased due to the runaway deficit (National Bank of Slovakia, 1997). The IMF report also showcases a struggle between fiscal and monetary policy and an effort to curb the central bank's independence. To counterbalance the loose fiscal policy, the central bank tightened monetary policy. Intervention was not only needed because of the overheating economy, but because the Slovak koruna fell significantly in 1997. The weakening of the currency was the result of weak fiscal and external balances of the country, as well as a spillover from the Czech foreign exchange market. The result was a hike in interest rates and committing the central bank reserves to maintain the pegged exchange rate regime. The high interest rate was wreaking havoc in the domestic banking sector as financial institutions struggled to access interbank funding. High rates also meant that companies that could secure funding from external markets did so, so only the less credit worthy, thus riskier, companies were left on the domestic credit market. The balance sheet problem was further exacerbated by the fact that politicized lending policies meant that preferential clients got loans with unprofitable lending rates. The state owned banks and state aligned banks also actively supported the governments industrial policies by not pursuing bankruptcy procedures towards large, ineffective manufacturing companies with excess (and idle) capacities (OECD, 1996).

The strained financial sector and the government both tried to pressure the central bank into easing monetary policy, but *"the NBS vowed to maintain a neutral to tight monetary stance, claiming that it would ease monetary policy only when the government ran a budget surplus"* (Lamdany, 1998, 26). This interaction shows that while there were no concerns about the mounting debt and loose fiscal policy in the midst of the government, the central bank used it's valuable independence to try and counter the adverse effects of these policies.[8]

[8]The OECD (1996, 26) also credits the central bank with *"a high level of credibility in the domestic and international financial community"* due to its independence.

This effort was met with considerable political push-back, as the government proposed a new legislation that would have curbed central bank independence by increasing the number of the NBS Board members, half of whom would be nominated by the government, instead of the NBS Director. In addition to trying to gain influence within the central bank decision making, the proposed legislation would also extend the scope of possible monetary financing of national debt up to 4% of the GDP (Lamdany, 1998).

The nationalist economic policies, growing deficit and vulnerable financial sector led to a loss of international competitiveness for the Slovak economy that eventually resulted in a current account deficit of over 9% between 1996 and 1998. Foreign direct investment flows and stocks also were also low, especially in regional comparison. It was not only the international investors who shunned the Meĉiar governments, but the European Union and NATO as well: Slovakia was the only country out of its neighbors which was not recommended by the European Commission to begin the accession talks with the EU. As the NATO served as a necessary first step into the EU, it also meant not being considered for membership in the first round. As Győrffy (2009) highlights in her insightful work, trust has evaporated in the Slovak government and economic reforms were becoming increasingly difficult. This period also shows that despite efforts from independent institutions (in this case, the Slovak National Bank) are inefficient to maintain fiscal (or in a broader sense: macroeconomic) policy discipline if politics are actively undermining that effort. As the early years of the Slovak Republic and its first Meĉiar government shows the lack of two sided pressure does not necessarily leads to instantly growing deficits and debt. The lack of internal pressure on Meĉiar is clear, since he tried to concentrate power, made efforts to capture state administration thus institutions that could have mounted a meaningful backstop to the expansionary pro-cyclical fiscal policy were absent. While there were islands of opposition within the public sphere (most notably the central bank) they were ineffective. Similarly, domestic opposition (political parties, civil society and NGOs) were vocally critical but they had no impact on government policy (Fisher et al., 2007). The lack of foreign investors meant that international business was by and large uninterested in the Slovak macro policy environment and the carrot of EU membership was not sufficient to create incentives for prudent fiscal policy and institution building in general.

The apex point came with the 1997 referendum on NATO membership and the direct election of the president. The referendum contained three questions regarding NATO membership and one which was concerned with the election of the president. This offices of the prime minister and the president have been engaged in a political trench warfare prior to the referendum and it became the focal point where the opposition managed to rally public support and boycott the vote. The boycott meant that the vote did not reach the 50% threshold, and NATO opted to leave Slovakia out of its expansion.[9] As NATO membership was an informal precondition for EU accession, the European Commission followed suit and did not start the accession talks, citing the worrying democratic deficit. The political infighting between the two highest public office and the government's attempts to keep the presidential election in the parliament draw widespread international protest from the European Council, foreign ministries of the US and Germany and EU Commissioner van der Broeck. However, confirming the prior analysis, international pressure *"failed to produce a noticeable change in the government coalition's course and style"* (Baer, 2001, 104).

By 1998 Slovakia was facing internal and external headwinds: the embattled finance sector, the politicized privatization and nationalist policies of the successive Meĉiar governments caused severe fiscal and monetary strains and ended up in a growing twin deficit of the budget and current account. As a result of a systematic dismantling of democratic and economic institutions, the country was left behind by its regional peers who were all given the go ahead by the Commission to start accession talks in 1997.

6.3 Steady reforms and political change

6.3.1 The Dzurinda reforms

While the economic environment was clearly deteriorating the downfall of Meĉiar was his authoritarian style of governance and blatant disregard of democratic institutions. As a result, the opposition mounted a successful electoral campaign and was able to form a new government in 1998, led by Mikuláš Dzurinda. The new administration had the goal of reversing the economic policies of the previous eight years as well as the restoration

[9] The Czech Republic, Poland and Hungary joined NATO in 1999.

of the international image of the country.[10] In the literature this election is credited to be the turning point for Slovakia when the country rapidly made up for the lost years and implemented a series of institutional reforms, joined the EU accession talks, became member of NATO and the OECD (Győrffy, 2009; Fisher et al., 2007).

The early 2000's marked a streak of reforms that changed fiscal policy making and led to the reversal of deficits and a decrease in the public debt stock. However, during the first Dzurinda government between 1998 and 2002, both the debt and deficit peaked in 2000, at 49.6% and -12.02% respectively.

This can be attributed to two key factors: first, despite the reform appetite of Ivan Mikloš, Dzurinda's deputy prime minister responsible for economic affairs, the Party of the Democratic Left (a communist successor party) held the key finance and labor ministerial portfolios and resisted change (Fisher et al., 2007). Second, the obligations stemming from the Meĉiar governments created fiscal burdens that continued into the early 2000's. The rising share of short term debt (and their obligations), and the current account deficit meant that Slovakia was downgraded by credit-rating agencies, which further exacerbated the feedback loop between weakening currency and growing external debt. The politicized financial sector also contributed to increasing fiscal liabilities, as they financed nonprofitable projects and the government guarantees for foreign and domestic borrowing by state-owned enterprises would reach 20% of the GDP at the end of 1998 (International Monetary Fund, 2001).[11]

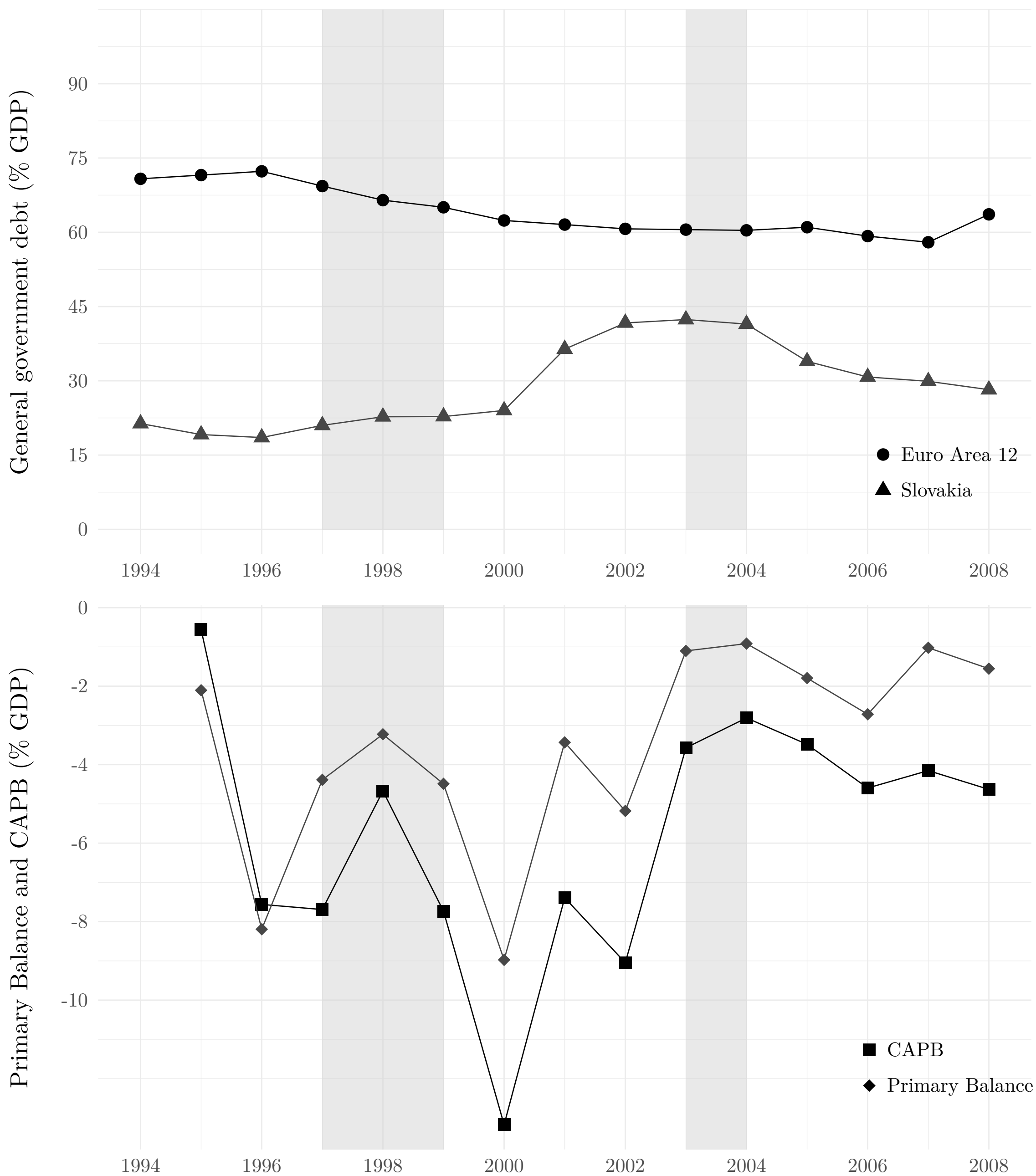
The precarious fiscal situation and the tarnished international reputation of the country created a powerful combination which fueled a storm of reforms and pushed Slovakia towards working with the IMF and the World Bank to signal their dedication to the changed course of policy preferences.[12] The goal was to close the gap between Slovakia and its

[10] The general attitude in the new coalition government is summarized by Pál Csáky, the deputy prime minister: *"We are forming a government now; tomorrow we begin to change the regime"* (Fish, 1999, 51).

[11] This Article IV report is rather straightforward (which is not always the case with the IMF reports) when it notes that: *"[...] political inference in most credit decisions in state-owned banks was planning the seeds of the serious bad loans problem that would emerge later on."* (p. 5)

[12] As Bohle and Greskovits (2012, 158) writes *"the international community had some leverage [...] on Slovakia because of the Dzurinda governments' desire to repair the damage done to the country's reputation under the Meĉiar regime."* The insider account of Mathernová and Reňcko (2006, 633) also confirms that *"international integration was the strongest driver for the Dzurinda cabinet and a unifying purpose for the ruling coalition."*

Figure 6.2: Public debt and deficit in Slovakia (% GDP), 1993-2008



Note: Shaded areas are recessions in Slovakia.
Source: IMF Fiscal Prudence and Profligacy database, IMF Historical Debt Database, OECD Composite Leading Indicators, author's compilation

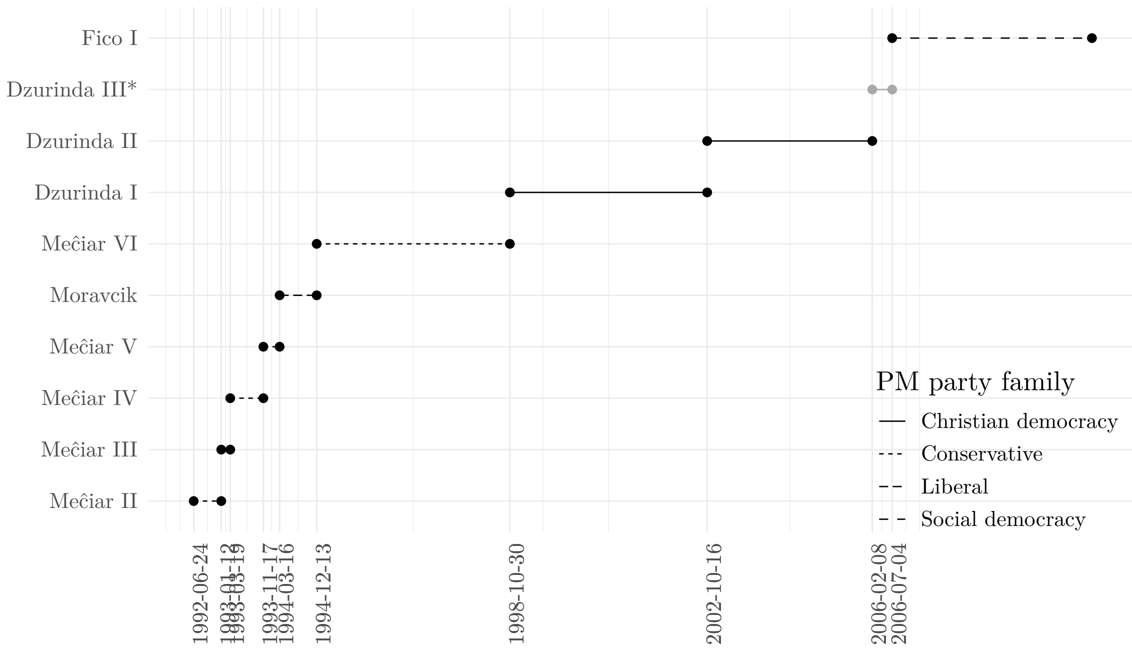
regional peers and regain the international standing of the country. One key aspect of this credibility building exercise was to improve the management of public finances.[13] From this pressure to gain international acceptance follows that the external influence of the EU *acquis communautaire* and the Maastricht criteria, as well as the various World Bank and IMF reform advice were magnified considerably. One of the first steps of signalling a decisive break from the previous administration policy direction is the publication of a Statement of Economic Policies and a Letter of Intent addressed to the IMF and undersigned by the Deputy Prime Minister (Mikloš), the Minister of Finance and the governor of the central bank. The letter of intent expresses a clear, self-binding commitment to submit the 2001-2002 policies to IMF monitoring and have them reviewed by the Fund.[14] This commitment to the economic policy mainstream came after a starting waves of structural reforms in 1999, which included banking sector restructuring, starting up competition for FDI by tax reforms and strengthening the legal protection of shareholders and creditors. The proposed reforms that impacted fiscal policy making were discussing 2002 budget in 2001, creating a pilot program for a treasury, curbing the parliament's power for introducing new items that would increase the budget deficit and fiscal decentralization. In addition to courting the international public and investors the government also tried to reassure the Slovak public that they are committed to the series of fiscal adjustments and structural reforms that the government views as necessary to restart growth.

One early example of this domestic commitment signaling is the press conference held during the presidential election campaign, where Meĉiar was running: the Prime Minister, the Deputy Prime Minister for Economic Affairs and the Finance Minister made a joint declaration on the planned structural reforms (Mathernová and Reňcko, 2006). These efforts of communication and series of reforms did coincided with a secular rise in the confidence in the government. According to the World Values Survey data in 1994-1998 41% of the respondents said that they have confidence in the government (a great deal, or quite a lot),

[13]The EBRD notes the Dzurinda governments' commitment to this in the 2001 Transition Report (European Bank for Reconstruction and Development, 2001, 190).

[14]A staff-monitored programme means that the IMF observes the implementation of the policies but it does not mean that the country would receive IMF financing or official IMF endorsed policy packages. The Letter of Intent explicitly mandated the IMF to monitor the policy developments: *"We also request that the IMF staff monitor developments and implementation of policies under this program"* (https://www.imf.org/external/np/loi/2001/svk/01/index.htm, last accessed: June 25, 2019).

Figure 6.3: Change in governments, 1992-2008



Note: * indicates a caretaker government.
Source: Döring and Manow (2012), author's compilation

while in 2005-2009 the results was 46% (Inglehart et al., 2014).[15] Due to the wide political spectrum incorporated in the coalition the first Dzurinda government mainly focused on macroeconomic stabilization, dealing with the non-performing loan crisis in the financial sector and initializing the privatization of the banking system. The first signs of validation came when Slovakia became a member of the OECD in 2000.

The 2002 election provided internal support for the reforms as a Dzurinda led coalition won again and this time the ideological scale was much narrower than in the previous rainbow coalition. The coalition partners to Dzurinda's Slovak Democratic and Christian Union – Democratic Party (SDKÚ) were similarly oriented centre-right parties. This allowed to continue reforms and begin implementing institutional and structural reforms concerning fiscal policy. While the reforms aimed to be transformative and spanned from introducing a 19% flat tax rate to judicial reform, for the purposes of this chapter I focus on those with

[15] While it is tempting to interpret change in trust in the government as a result of policy action, there are no definitive proofs of this causal relationship. As Van de Walle et al. (2008) highlight, trust or confidence can change due to a number of idiosyncratic factors, which government policy is just one component.

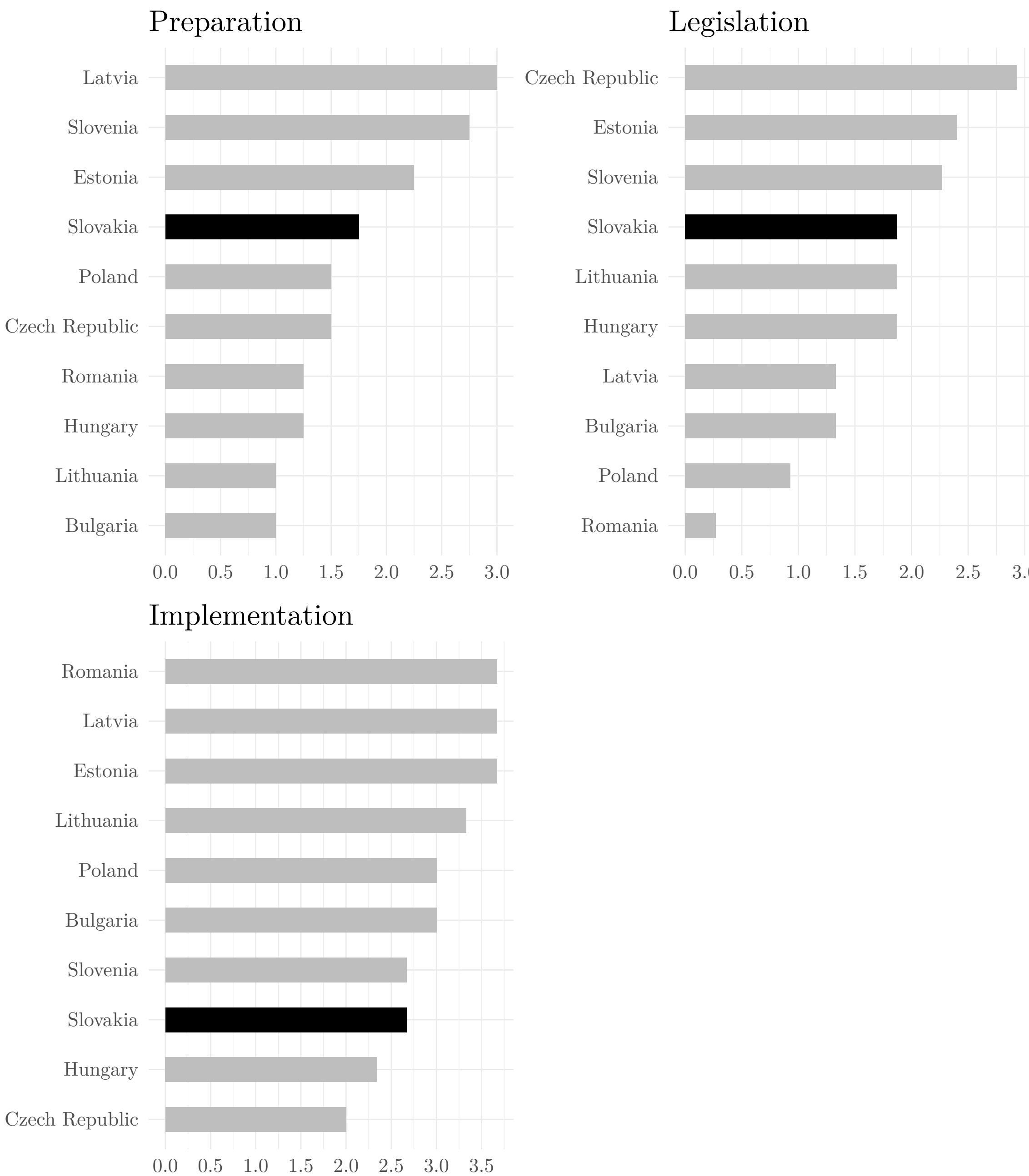
fiscal policy impact: public finance management and the flat tax.[16] These reforms were aided by a World Bank assistance programme that started in 2003 and had the goal of a public finance reforms. It also provides some clues about the changing carrots dangling in front of the government, as the World Bank (2003, 2) internal assessment notes that *"the drive to meet the obligations of the EU membership provides a strong framework and impetus for much of the needed policy actions."*[17] The key areas the government sought to improve was curbing the short term focus of the budgeting, empowering the Ministry of Finance to better handle its budgeting role, improved analytical and forecasting resources and fiscal decentralization.

This wide ranging institutional reform of public finances and fiscal policy making was further motivated by the continued fiscal slippages in 2001 and 2002, when the government missed its balance target. Using the then applicable European System of Accounts 1995 (ESA 95) methodology, the actual fiscal deficits were significantly higher than the one used by the Slovak authorities (-7.3% instead of -4.1% in 2001 and -7.2% instead of -4.5% in 2002). The government also faced political backlash on its tax reform plans and had to make adjustments to the proposed pace of fiscal consolidation (International Monetary Fund, 2003b). While the second Dzurinda administration had to make some concessions it was by and large successful and politically unopposed in its reform plans. Fisher et al. (2007) assesses that the parliamentary opposition to the coalition government was weak and fragmented and even a referendum on the reforms, pushed by Robert Fico, did not achieve the 50% participation rate to be valid. Thus the continued external pressure by the EU accession and vulnerable currency, coupled with domestic political drive resulted in an overhaul of fiscal institutions. However, the implemented flat taxation and lower than expected social contributions resulted in an expansionary fiscal policy totalling around 1% of the GDP. Despite the initial expansionary nature of the tax reform it received international attention from the IMF and the OECD. In many Slovak policymakers' eyes this was the reform that put Slovakia on the map of economic reformers (NBS 1, 2018).

[16] For a more detailed view on other aspects of the reforms, see Győrffy (2009).

[17] This is reiterated by the closing report of the World Bank (2007, 5), stating that *"the decision by Government to defend borrowing from the Bank for technical assistance, despite its political unpopularity, demonstrated further commitment and ownership."*

Figure 6.4: Budget institutions in Central Easter Europe, 2003



Source: (Gleich, 2003), author's compilation

Key developments are listed by Horváth and Ódor (2009), where I would single out three. First, the depoliticization of macroeconomic forecasts by establishing two separate committees within the Ministry of Finance, the Committee for Macroeconomic Prognoses and the Committee for Tax Prognoses. While the ministry hosts both these committees the members come from public (such as the national bank or the treasury) and private (e.g.: ING Bank, Tatra Bank) institutions. This practice help distancing political influence on technical matters and effectively creates space for less biased forecasts. Second, to complement the enhanced forecasts, the ministry also created the Financial Policy Institute, which is tasked with the analysis of fiscal policies. Third, in 2001 the government started a gradual fiscal decentralization, which devolved responsibilities in cultural, educational matters. It also enacted fiscal rules binding municipalities to a 60% debt ceiling and limiting the maximum amount of debt service to 25% of the incomes of the previous year. The domestic development was then coupled with joining the EU and being subject to the SGP. While it is a rather soft constrain, Slovakia intended to follow up on its streak of compliance with EU rules as it aimed to join the Euro area.

Despite the planned institutional leapfrogging, fiscal institutions were still lagging behind even in a regional comparison. An institutional index shows that the Slovak institutions rank in the bottom half of the region in two out of three dimensions. The three components evaluated in the index are preparation, legislation and implementation and the theoretical underpinnings rest on the theoretical works of Von Hagen (1992). Evaluating three dimensions, (Gleich, 2003) assesses budgeting in Central Eastern Europe by preparation, legislation and implementation. As shown in Figure 6.4, Slovakia's budgeting institutions ranked in the middle of the regional comparison with being a laggard in terms of budget implementation.

Despite the early efforts of the first Dzurinda government to pass structural reforms the general government deficit still surpassed the 3% treshold in 2004 at the time of EU accession.[18] Following the recommendation of the European Commission the European Council voted on the start of the Excessive Deficit Procedure. The Commission called for an action to end the deficit by 2007 which Slovakia did manage to accomplish. Coupled with

[18] In 2003 it was -3.6%, and it was projected by the Eurostat to reach -4.1% in 2004 and -3.9% in 2005.

the above mentioned tax and pension reforms, the increased taxes on cigarettes contributed to decreased deficits in 2005-2007. In addition to the reforms and tax increases, the fiscal corrections also benefitted from the hospitable business cycle which resulted in a solid GDP growth for this part of the decade. As a result, Slovakia exited the EDP in 2007 (the Council formally decided on the abrogation in 2008). This also meant that the two Dzurinda government implemented the institutional reforms and fiscal consolidation under the watchful eyes of the European Commission. However, as the documentation of the procedure reveals, the country complied with the MTOs and met the deadline.

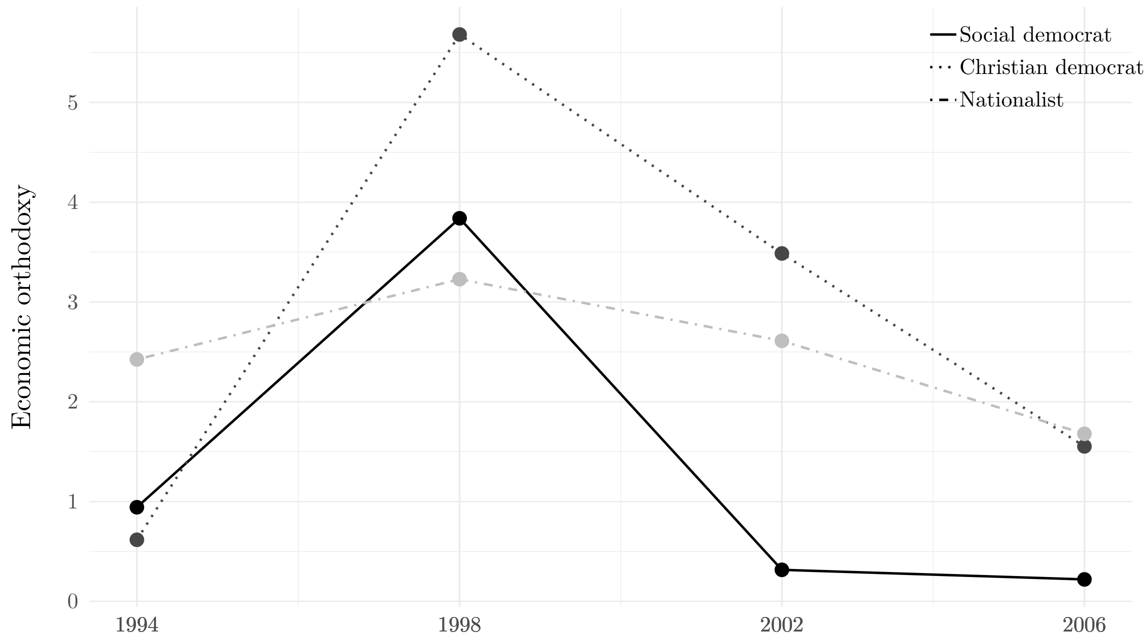
6.3.2 The first Fico government

While the second Dzurinda government made structural reforms and institution building central of its agenda by 2006 the coalition relations soured and differences in minority rights, the role of religion in Slovakia and a severe corruption scandal involving leading politicians led to the exit of KDH from the government.

The elections in 2006 brought along a backlash against the market oriented reforms helmed by Ivan Mikloš, a key figure in the successive Dzurinda governments. The campaign period featured heavy debates about the role of welfare state and the Robert Fico led Smer-SD party was campaigning heavily on the platform of increasing public expenditure. An expert survey ranked the economic issues of redistribution (such as taxation and welfare spending) and state-run versus market economy as the top two issues out of 8 issue category in the run-up to the election (Rohrschneider and Whitefield, 2004). This was a marked turnaround in Smer's campaign strategy as they tried to avoid their 2002 performance, where they positioned themselves as the new centre-left and did not manage to get into the government (Beblavỳ and Veselkova, 2014).

As a result of fragmentation in the opposition parties and a focused campaign where Fico consistently remained on the topic of welfare spending questions. Compared to the previous elections, fiscal prudence received less attention in party manifestos as shown in Figure 6.5. The campaign against the neo-liberal reform agenda of the previous Dzurinda governments eventually won Smer-SD the election. However, the party did not gain a

Figure 6.5: Economic orthodoxy in election manifestos, 1993-2008



Note: Economic orthodoxy (Manifesto code: per414) is coded from party manifestos and represents a support for *reduction of budget deficits*; *retrenchment in crisis*; *Thrift and savings in the face of economic hardship*; *traditional economic institutions such as stock market and banking system*; *strong currency.*
The individual parties in each party family is in Table B.2
Source: Volkens et al. (2018), author's compilation

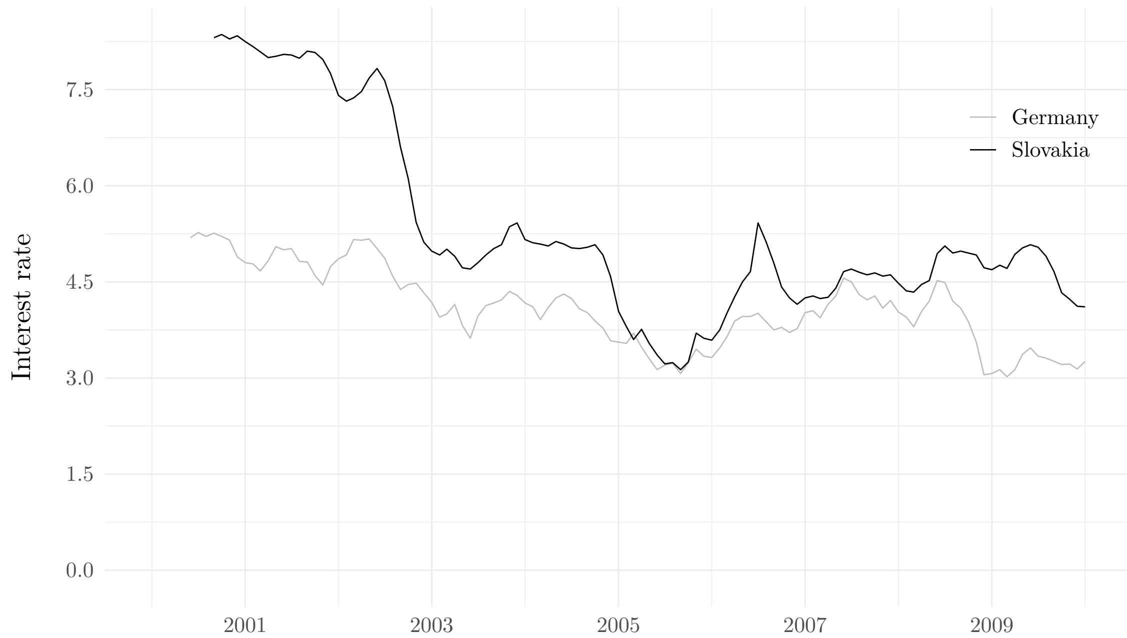
simple majority of the parliament so it was forced to form a coalition government.[19] The first controversial decision of Fico was to include Meĉiar's People's Party - Movement for a Democratic Slovakia (L'S-HZDS) and Ján Slota's Slovak National Party (SNS). Meĉiar was so eager to get back to government that they openly admitted during the coalition negotiation process that they do not care who they have as a third member of the coalition as long as they are part of it (Haughton and Rybář, 2008).

The election rhetoric were certainly focused on ending the previously established fiscal trajectory but if one looks at the data we can see precisely the opposite. As Figure 6.2 shows, both the various primary balance measures and the public debt ratio continued the preciously observed pattern. In the case of the debt, it's slight decrease continued, while the primary balance even increased in the years after the 2006 election.

This is certainly a puzzling phenomena, especially considering that the first government

[19]There were four parties above 10% share of votes: Smer-SD received 29.1%, SDKÚ received 18.35%, SNS received 11.73% and SMK (Hungarian coalition) received 11.68%

Figure 6.6: Spread between the Slovak and German 10 year government bonds



Source: OECD, author's compilation

pushed forward with the Euro project as well as will be discussed in the next chapter. The answer to this fiscal policy continuity, despite the rhetoric indicating otherwise is a multifaceted one. Firstly, the Fico government faced a backlash after it brought back the nationalist parties to government. From the European political landscape, the Party of European Socialists threatened to suspend Smer's membership in the party family. Despite Fico's personal effort to smooth things over he ultimately did not budge on his coalition partner selection which led to the suspension of his party.

A more serious issue was the uncertainty surrounding the new government's future economic policies which resulted in a widening spread between the Slovak and German long term bonds and a devaluation of the Slovak koruna in 2006. This market pressure was a strong signal for the government that fiscal policy signals are taken seriously by investors as the bond spread has been narrowing in the preceding years until the election.

This market reaction was going against the main goal of finalizing European integration of Slovakia by becoming a member of the Euro area as a persistently weak koruna against the euro would mean a possible delay of the accession.

In addition to the market pressure there were also organizational reasons for this fiscal path continuity. As the incoming new minister of finance did not have a lot of experience running a ministry many of the staff was retained at the Ministry of Finance, which was responsible for drafting the budgets. The middle management of the ministry came largely from the the two Dzurinda government (NBS 1, 2018). This pragmatic decision to keep the experienced staff contributed to the continued management of deficits. The newcomer explanation was voiced over several interviews with both from the public and the private sector (NBS 1, 2018; AmChamSK, 2018). An additional sign of maintaining the previous fiscal policy trajectory was the keeping of the relatively newly formed Institute for Financial Policy within the Ministry of Finance which role was to give reliable macroeconomic and fiscal forecasting. While it is housed in the Ministry of Finance it enjoys a certain degree of independence.

The beginning of the chapter also foreshadowed a third, largely ideational component of sound fiscal policy which is rooted in the historically tight economic management of Czechoslovakia. The evidence from economic historians were further substantiated through the interviews conducted at key institutions. The experiences of the avoided hyperinflation as a long lasting historical reference point were mentioned multiple times. Similarly, the Fico government wanted to avoid external EU policy pressure such as a possible excessive deficit procedure, a thinking invoking the deleveraging logic of the 1980's. While it certainly invites historical parallels, the Fico government stayed on the fiscal course and exited the excessive deficit procedure, opened in 2004, in an orderly fashion. This shows that there were no appetite to break with the medium term objectives set before the government taking seats and the urge to get out of the EDP procedure which was seen as an impediment to fiscal policy sovereignty.

Excessive deficit procedures are the penultimate step before actual measures against member states but to date, no member state faced any reality of receiving a fine from the European Union for violating the Stability and Growth Pact's provisions. In fact, Slovakia's southern neighbour, Hungary had been under the EDP for 9 years (2004-2013) without much repercussions. This regional peer example demonstrates that Slovakia under Fico could have reneged on its commitment to the EDP exit trajectory had it wanted to without much blowback from the European Union. As elaborated in Chapter 4 the Stability and Growth Pact also underwent a reform in 2005 which resulted in a weaker framework to accommodate various national special circumstances. These reforms were also contributing to the hollowing out of the SGP before the crisis induced overhaul. As a result of these factors and based on the interviews the excessive deficit procedure was a soft constraint in this period on the government policies compared to the other factors.

Another soft influence that was mentioned throughout the interviews is the returning Slovak experts after the dissolution of Czechoslovakia to Bratislava. These returning experts would bring the fiscal responsibility ethics of the previous decades, as the Ministry of Finance of Czechoslovakia was staffed with conservative bourgeoisie economists who were committed to the sound economic management of the country.

The above explanations also go against the insider narrative of Ivan Mikloš on the reforms, which he elaborated in Aslund and Djankov (2014). While recounting the reforms of the two Dzurinda governments' (with an emphasis on the introduction of the flat tax rate) he credits the window of opportunity and personal responsibilities of the reformers for the success. However, his account entirely misses the follow-up with the lost election and the continued fiscal responsibility with the Fico government, that according to this narrative should have been detrimental to the whole project of institution building and structural changes. Based on the evidence presented so far this account seems to be a biased and neglecting the actual forces that resulted in preserving institutional innovations.

6.4 Conclusion in the middle

This chapter analyzes the first half of the Slovak case and looks at an important timeframe of the evolution Slovak fiscal institutions. For much of this period, there were no or low quality institutions to support and constrain fiscal policy and at the end create barriers to deficit financing. Following from the political business cycle literature, such environment would be prone to political manipulations of the deficit inviting politicians to exploit the common resource pool problem.

The key insight from this case is that while institutions can support fiscal policy making and curb runaway pro-cyclical debt and deficit they are not necessary conditions for achieving a relatively stable and conservative fiscal trajectory. It demonstrates that lasting change (throughout governments and political tents) can be made in debt and deficit. In this case the ex-post institutionalization with the reforms enacted by the second Dzurinda government served the role of cementing the achievements, rather than being the ex-ante catalysts. This difference between the two cases also highlights the endogeneity problem that has been plaguing the causal claims of large-n panel studies: in both cases, fiscal performance and institutions are positively correlated, but the causal mechanisms work the other way around.

The chapter, through process tracing and primary data, confirms the hypothesis that ideational factors can performs similar roles as formal institutions. In the Slovak case, these were rooted in the tightly controlled monetary and fiscal policy stemming from the 1920's which continued even during the socialist era. However, contrary to expectations, the absence of fiscal institutions does not meant a regression in public finance (the lapse during the end of the Meĉiar regime was met with a quick course correction afterwards). Moreover, the swings in incumbent parties in governments also did not lead to a volatile fiscal policy in either direction.

However, there are similarities to the Belgian case of 1990-2008 as well. Most notably, where outside pressure (in this case: the EU/Euro and NATO accession and pressure on domestic currency) meets domestic drive for change. This domestic pressure was built up by the Meĉiar governments with the blatant disregard for the rule of law and democratic values. The bullying tactic against his political opponents and the crony privatization led to widespread opposition and a desire to catch up to the regional peers and to the Western liberal democracies in general. The 1998 parliamentary election and the subsequent presidential election Meĉiar was defeated twice by the 'rainbow coalition' that had pitched a wide political tent which accommodated the communist successor party and the centre-right Christian democrats as well. The chapter provides numerous evidence from primary and secondary sources which confirm the hypothesis that the two successive reform waves of the Dzurinda governments were motivated by the joint two-sided pressure of the internal community and domestic conformity. With this result this chapter contributes to previous theoretical foundations, primarily to Győrffy (2009, 2012) work on structural reforms and trust. In her work she emphasizes the role of trust and how structural reforms can happen in a low trust environment. The four criteria are elite consensus, political outsiders inertia, hitting rock bottom (i.e.: any reform is better than the current policy), or having an authoritarian regime. In the case of Slovak fiscal policy turnaround three out of four conditions are met, but these factors all ignore the presence of external pressure. The above detailed plentiful evidence shows that elite consensus formed in order to meet the expectations of the international community and gain acceptance into the EU and NATO, two international organizations that were seen as the hallmark of the end of transition for Slovakia.

7 Formalizing fiscal policy: Slovakia, 2008-2018

The second Slovak case examines a crucial turning point in the institutionalization of Slovak fiscal policy making and builds on the previous chapter's findings. In this period, the Council for Budget Responsibility (CBR) was established to carry out a traditional independent fiscal council role. This reform was a result of an endogenous process and despite the timing, it was not the direct result of the changed European fiscal governance framework. The main goal of this chapter is to examine how institution building affected fiscal policy making and how the domestic and European environment shaped these developments. The subject time period encompasses a number of important developments. In addition to the political changes, the financial crisis and Euro accession also placed fiscal burdens on the country.[1] However, fiscal policy by and large maintains the course set in the early to mid 2000's and is set to respect the Maastricht criteria.

In Slovakia the role and influence of the EU is supposed to grow with the Euro area membership that comes with more stringent fiscal framework and the loss of independent monetary policy that could cushion economic downturns by letting the domestic currency to devaluate. The path dependence argument for institutional power is also put to test in a context where a (comparatively) young institution is subjected to political environment where historically there are strong precedents of politics overruling or ignoring institutional constraints when it suits them. The main puzzle that this chapter seeks to answer is what is in the background of relatively stable fiscal performance, despite a young institutional

[1] As it will be detailed later, the country entered the Excessive Deficit Procedure in 2010; and the Euro membership meant it had to contribute towards the ESM.

framework and drastic political changes.

The methods applied in this case study match the others: process tracing policy changes based on primary policy documents produced by the Ministry of Finance (mainly the Stability Programmes and draft budgets), the International Monetary Funds (Article IV reports), the European Commission and Council (country specific recommendations, draft budget reviews, EDP reports and decisions), and after its establishment reports from the Council for Budget Responsibility (reports on the balanced budget rule and MTOs, on fiscal responsibility and transparency rules, and general reports on the development of public finances). As the National Bank of Slovakia does not include a detailed section on fiscal policy in its annual review I use the OECD Economic Surveys to cross-check fiscal policy proposals and related statistics. In addition to relying on primary policy documents from key institutional sources, I also carried out interviews with fiscal policy experts at various Slovak and EU institutions. The institutional circle for fiscal policy is narrower than in the Belgian case (which is also a key feature that motivated case selection), thus the smaller interview sample. The institutional survey was also carried out for the key institutions, based on the same methodology as for the Belgian survey. I identified the relevant interview and survey subjects by surveying the primary literature and expert interviews.

The chapter is structured in the following way. First I examine the roots of establishing a fiscal council in Slovakia and how institution building relies on personal factors and other idiosyncrasies. Second, the effects of the financial crisis and euro accession are examined. In this section the impact of new and existing institutions, both domestic and EU. Third, I seek an answer to the puzzle of steady fiscal course, despite political and economic headwinds. Fourth, conclusion is drawn from the case.

7.1 Institution building and maintaining

While lacking in specific fiscal institution and sophisticated budgetary framework Slovakia managed to avoid excessive deficits and building up out-sized public debt after the dissolution of Czechoslovakia. This trend more or less continued even under the highly authoritarian and populist Meĉiar governments. The two successive cabinets of Dzurinda however started a chain of reforms in the public administration and budgetary framework as well as a host of structural reforms in the Slovak economy. These reforms were aided by international organisations, such as the World Bank or the European Union.[2] The commitment to join the Euro area was made during the 2004 EU eastern enlargement wave which Slovakia was part of. However, honoring this commitment was not self-evident: Hungary, Poland and the Czech Republic postponed indefinitely their Euro adoption procedures. On the other end, the Baltic countries, Slovenia and Slovakia followed through and met the Copenhagen criteria of joining the European Monetary Union (EMU).[3]

7.1.1 Creating the fiscal council

The Slovak government expressed formally and informally its commitment to the Euro by joining the EU's Exchange Rate Mechanism (ERM II) which is the antechamber of the Euro. Moreover, after the Slovene accession in 2007, Robert Fico expressed worries that the country might be left out due to double standards of political nature (Johnson, 2008). With entering the inner circle of European integration in 2009, institutional reform talks intensified. There are two key developments that happened during the time frame of the case: introducing the Fiscal Responsibility Act (FRA) and the establishment of a fiscal council, named Council for Budget Responsibility (CBR). These changes were lauded by the international community as credible and effective tools to meeting deficit targets (OECD, 2016; International Monetary Fund, 2014b). Both the Fiscal Responsibility Act and the Council for Budget Responsibility were the product of a multi-year bid for reforming the Slovak fiscal framework. The blueprint for institutional design was a discussion paper coming out of the National Bank of Slovakia, authored by Horváth and Ódor (2009).[4]

In their paper, Horváth and Ódor (2009, 4) call to *"to create a stronger commitment device whereby it would be more costly and difficult for economic-policy makers to deviate from a responsible track than today."*. This paper served as the starting point for the

[2] The major reforms to public finances during the two Dzurinda governments were introducing two committee within the Ministry of Finance, as well as creating the Financial Policy Institute. The Slovak Treasury was also established as part of the World Bank advised program. Finally, the government pushed for fiscal decentralisation coupled with fiscal rules for the municipalities.

[3] The two groups are categorized as 'pacesetters' and 'laggards' by Johnson (2008).

[4] This section heavily builds on interviews with high level officials and experts at the Slovak Ministry of Finance, the Council for Budget Responsibility and with the National Bank of Slovakia.

Table 7.1: The road to the Council for Fiscal Responsibility

2009 December	NBS Discussion Paper
2009-2010	Discussions with key parties ahead of the elections in June 2010
2010 August	Government Program Manifesto
2011	Parliamentary Expert Committee
2011 December 8	Constitutional Fiscal Responsibility Act approved (146 vote out of 147 MP)

Source: author's compilation

political and technical debate on what institutional reforms should be implemented and how. The plan, which enjoyed the backing of the National Bank of Slovakia had three main challenge to meet. First, it needed to secure the support of the constitutional majority in the parliament; second, the fiscal council and fiscal rules needed to be bundled together; three, have a multiparty body draft the actual legislation. The reason behind this three condition were that they together made sure that political ownership and commitment questions were addressed and the actual institutional package formed a coherent whole with the council and the rules. To depoliticize the issue, the fiscal council would not get a normative mandate. The timeline of the institutional building steps were the following:[5]

The above timeline demonstrates a strong bottom-up, domestically inspired institutional building process. Nevertheless, there were external pressures on the Slovak policy makers. The intensifying European debt crisis in 2009 and some external financing difficulties together helped open the window of opportunity for this legislative package. The Greek drama and the intervention of the Troika (European Commission, International Monetary Fund and the European Central Bank) also provided an ominous backdrop. This window of opportunity generated by the European crisis is consistent with the observations made in the previous Slovak chapter, where reforms were initiated during similar external pressures.[6]

The Parliamentary Expert Committee consisted of one member per party which ensured broad political support for the end product. The final legislation was voted almost

[5]In addition to my interviews, this is confirmed by a presentation given by L'udovít Ódor, NBS Deputy Governor and former council member on the Council for Budget Responsibility. The presentation is accessible via this url: https://www.oecd.org/governance/budgeting/49778688.pdf, last accessed: June 25, 2019

[6]Such instances are the Dzurinda reforms after the Meĉiar induced reputation crisis and the race to meet the Maastricht criteria to join the EU and the Euro area

unanimously and the new fiscal framework became cemented into the constitution. There are two main elements of the Financial Responsibility Act: establishing the Council for Budget Responsibility and setting the fiscal responsibility rules. The newly formed council would have 3 council members and a staff of 15-20 analysts for in house capacity building.[7] In order to secure institutional independence, the chairman of the council is elected and recalled by a three-fifth majority by the parliament, the two other council members are elected and recalled by a simply majority in the parliament, but each are nominated by the President of the Slovak Republic and the Governor of the National Bank of Slovakia. The staff is independently financed by the National Bank. The council members are elected for a 7-year term which is non-renewable. The nomination process was deliberately created to make political actions against the council members difficult and ensure that the composition of the council does not depend entirely on the given composition of the Slovak parliament and government.

Another safeguarding measure is the involvement of the National Bank. Its governor nominates one of the council members. This nomination can be seen as an institutional stamp of approval from the NBS which confers credibility for the council. The council is also housed in the building of the NBS and financed by it. The message is clear: fiscal policy assessment in the Council of Budget Responsibility is done in an independent fashion guaranteed by the other independent institution, the NBS. The National Bank also showed repeatedly that it can withstand political pressures for policy change (most notably during the Meĉiar years) so their institutional backing for the CBR is highly credible and carries weight.

The summary of the various attributes of the council is in Table 7.2. The influence of the council is rather limited to naming and shaming without any bounding tools at its disposal. It publishes reports on its website which are featured in the news (mainly through the Slovak news agency). While interviewees claimed that the media impact of the council reports are substantial (and this is matched by the IMF's Fiscal councils dataset (Debrun et al., 2013), but one has to take into account that the IMF, similarly to the European Commission relies on self-reporting via institutional surveys when compiling its

[7] During the time of writing the chapter in late 2018, there were 12 analysts working at the secretariat.

data). However, if media impact is measured as articles mentioning the fiscal council and fiscal issues, then the actual effect is not outstanding.

Table 7.2: Overview of the Slovak fiscal council

Mandate	Channels of influence	Determinants of independence
Positive analysis	Public reports	Independent staff
Costing of measures	Media impact	Right to select staff
Long-term sustainability assessment	Present report to parliament	Explicitly defined mandate
Ex-post assessment		Ring-fenced budget
Monitoring fiscal rules		Access to information
		In-house forecasting

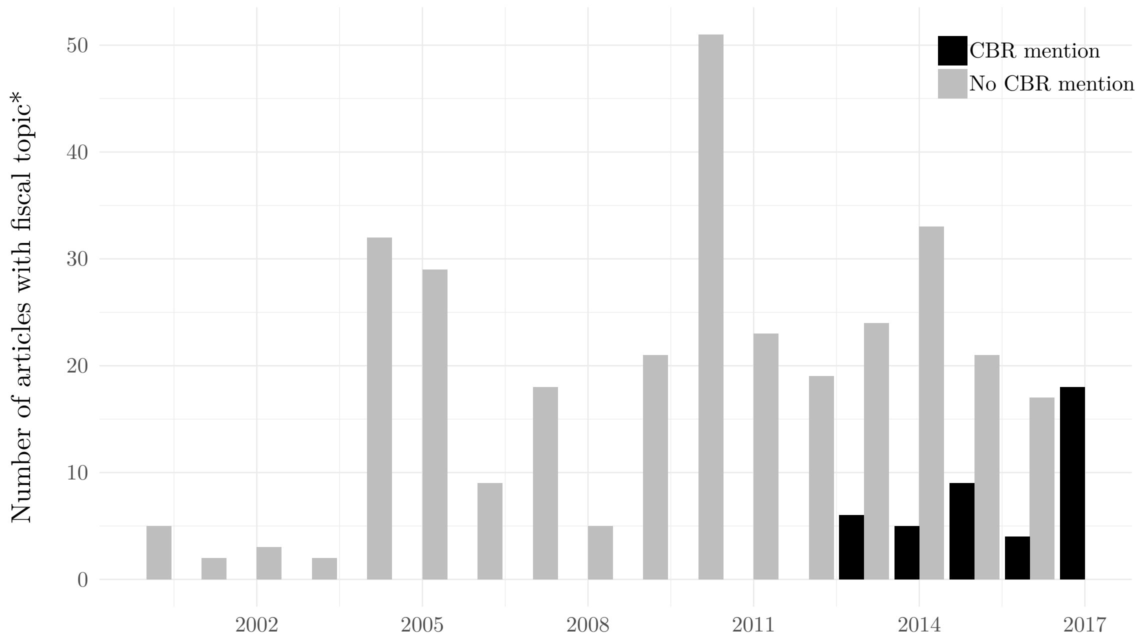
Source: OECD (2016); Debrun et al. (2013), author's compilation

This is well illustrated with the below figure which shows the evolution of fiscal issues mentioned in the Slovak press before and after the fiscal council became operational. With interviews both at the Ministry of Finance and at the CBR it was clear that the fiscal council does not have any direct impact on the budget procedure. It can mount no veto or express endorsement and can only impose reputational costs to the government via publishing its reports. However, this does not mean that the fiscal watchdog is without means to influence fiscal policy it just the fact that it cannot legally mount a veto against budget items or stall the budgetary process. There are other channels of influence for the council, most notably by monitoring the governments' performance against the fiscal rules and issuing public reports and warnings.

The limited tools of influence are a commonality among the European fiscal councils as most of them are limited to their reporting and naming and shaming via their public reports (Debrun and Takahashi, 2011). However, as this chapter will also show the council can weight in on various reform proposals by costing these initiatives and giving an evaluation from a fiscal viewpoint. Such an opinion - while non binding - carries institutional weight.

During the interviews multiple sources referred to some frictions between the Ministry

Figure 7.1: Media coverage of fiscal topics in Slovakia



Note: The figure shows the number of articles that mention the Council for Budget Responsibility and either of the selected key-words (*report*, *public debt*, *budget**, *deficit*).
Source: Factiva database, author's compilation

of Finance and the fiscal council regarding the quality of cooperation.[8] The experts at the fiscal council receive data from the Treasury, Ministry of Finance and from the Ministry of Labour. In the Fiscal Responsibility Act it is stipulated that "*The Board shall be entitled to request cooperation from all general government entities in the provision of data of relevance to the Board's remit. If so requested by the Board, general government entities shall provide the necessary cooperation*" (National Council of Slovakia, 2011, Art4, (2)). These frictions mainly concern the access and flow of data from the Ministry of Finance. Due to the less than timely data access some reports done by the fiscal council have to be delayed. This shows that while the council, on paper, has a state-of-the-art design guaranteeing its institutional freedom it is still dependent on other institutions' cooperation to carry out its work effectively.[9] Similarly, costing of policy measures are done selectively (either on the

[8]This subject was brought up independently at interviews in the fiscal council and a discussion with a leading expert at the Belgian Federal Planning Bureau. The expert at the FPB remarked that their Slovak colleagues mentioned problems with timely data access.

[9]The design and mandate of the Council for Budget Responsibility has been praised by the OECD (2012, 54): "*The FRB's [Fiscal Responsibility Board] mandate and make-up follows OECD best practice*"

council's own initiatative or on the request of an MP) because of capacity constraints. The officials at the council were also highlighting the trade-off that they have to make between responsiveness to certain fiscal issues (and timely reports) versus the depth of the analysis (CBR1, 2018).

Creating a fiscal council in Slovakia was a bottom-up project driven by a need to make fiscal commitments credible. In order to do it, they relied on the same recipe as in the initial public finance reforms in the early 2000's: building on the international best practice and applying it to the domestic context.[10] This resulted in a new fiscal framework that predated the EU's Fiscal Compact in 2013 that mandated to establish fiscal councils in each Euro Area member. To further strengthen domestic and international credibility of the newly established institution the fiscal council also established an advisory panel with highly reputable members. The panel's members are Geroge Kopits, Simon Wren-Lewis, Daniele Franco, Kevin Page and Jeromin Zettelmeyer. This panel represents a tour de force of policy practitioners, former and current fiscal council members and public finance experts. This also shows how Slovakia still values OECD recommendations as they credit the organisation for the idea to set up the advisory panel which meets once a year.

7.1.2 Establishing domestic fiscal rules

The lack of enforcement mechanisms for the fiscal council are balanced by the fiscal rules in the constitutional act. The overview of the specifics of the rule are in Table 7.3. There is a ladder of automatically triggered sanctions each tied to a specific band of debt rate. While the debt ceiling is set at 60% it will be gradually reduced to 50% by 2028. All the respective sanction bands are automatically adjusted as well.

This combination of bundling together various fiscal institutions (rules and council) was a deliberate policy choice. It is also shown that the rigidity of the rules can be complemented by independent fiscal councils. The rule is set up in a way that when the debt level is within 10% of the ceiling various automatic mechanisms are triggered, depending on the severity of the infraction. The rule starts to 'bite' when the debt ratio is between 55 and 57% as

[10] The paper of Horváth and Ódor (2009) references the (at the time) cutting-edge literature on fiscal councils and their effects on debt. These mainly came out of the research departments of the IMF and OECD or various academic evaluations of how institutional design affects government debt and deficit.

Table 7.3: Overview of the Slovak constitutional debt rule

Debt limits	Automatic mechanisms
> 60%	Vote of confidence on the cabinet in the parliament
57 - 60%*	Government has to submit a balanced (or surplus) budget
55 - 57%*	Expenditure freezes of 3% of the budget
53 - 57%	Government reform package and compensation freeze for cabinet members
50 - 53%	Open letter of the Minister of Finance explaining the reasons for the debt increase

*Municipalities has to get their budgets approved and their expenditures should not exceeding the previous year's.
Source: OECD (2012); International Monetary Fund (2012); National Council of Slovakia (2011), author's compilation

then the Ministry of Finance has to freeze 3% of the budget expenditures. Above 57% the government is obliged to submit a balanced budget proposal to the parliament. In case of breaching the debt ceiling the government has to ask for a vote of confidence against itself in the parliament. The 'comply or explain' tool was outsourced from the fiscal council to the fiscal rule, as it is the mildest form of sanction, triggered by reaching 50 - 53% debt rate.

The fiscal responsibility act not only binds the general government but also applies (with some limitations) to local governments as well. If a municipality has a total debt ratio over 60% it has to pay a fine to the Ministry of Finance 5% of the difference between the actual total debt and the 60% limit. If the general government's debt is in the 55 - 57% band, the local governments' budgets are subject to approval and the expenditures should not exceed the levels of the previous year's. Similar stipulations are in effect if the debt level is in the 57 - 60% range. To avoid pro-cyclicality there are a number of well defined escape clauses. The sanctions are not applicable from the 55% level and above for 36 months after an economic downturn, or if expenditures on banking system bailouts, natural disasters and international treaties exceed 3% of the GDP (combined) (OECD, 2012; National Council of Slovakia, 2011).

While the implementation of the law and council in principle meet the international best practice advocated by the European Commission, IMF and OECD, the following section will detail how they measured up to the challenges posed by the drawn out EU crisis or change in governments' policy directions.

7.1.3 The budgetary process in Slovakia

In addition to the Council for Budget Responsibility and the debt rules in the constitutional law, there are other key actors for the fiscal policy cycle in Slovakia.[11] The CBR does not have a direct role in the policy cycle apart from publishing its reports by April 30 on long-term sustainability, and by August 31 an evaluation on fiscal responsibility, transparency in the previous budgetary year. The latter document is then submitted to the parliament.

From the administration side, the Ministry of Finance is a clear center of power when it comes to fiscal policy. It houses three key institution: the Institute for Financial Policy (IFP), the Tax Revenue Forecasts Committee (TRFC), and the Macroeconomic Forecasting Committee (MFC). The two committees are instrumental to the process as they prepare the forecasts that are used as the baseline for drafting the multi-year budget and the Convergence (and Stability) Programmes. They both work under the umbrella of the IFP. The Macroeconomic Forecasting Committee is composed by then institutions, both private financial institutions, and government agencies or other public bodies.[12] Representatives from these institutions meet twice a year to assess the forecasts of the Ministry of Finance and if necessary amend them to avoid bias. The other meeting is called when the draft budget is being finalized. The Tax Revenue Committee builds on the works of the MFC and is similarly made up of various public and private institutions.[13]

The budgetary process starts with the two committee as they lay the groundwork with their macroeconomic and tax forecasts and reports. These reports are then used by the

[11] This subsection builds heavily on findings from interviews at the Ministry of Finance, National Bank of Slovakia, DG ECFIN Slovak desk and AmCham Slovakia. On top of the interviews, I also include findings from my institutional survey on detailing relationships between various institutions.

[12] The MFC members are: ING Bank, Tatra banka, Slovenská sporiteľňa (SLSP), CSOB Bank, Institute of Informatics and Statistics (INFOSTAT), VÚB Bank, UniCredit, Volksbank, the Slovak Academy of Sciences (SAV), and the National Bank of Slovakia

[13] The TRFC members are: Ministry of Finance, Debt and Liquidity Management Agency (ARDAL), State Treasury, National Bank of Slovakia, Institute of Informatics and Statistics (INFOSTAT), ING Bank, Slovenská sporiteľňa (SLSP), Tatra banka and CSOB Bank.

Table 7.4: The Slovak budgetary process

By February 15	Macroeconomic and tax reports by the MFC and TRFC
By April 15	Ministry of Finance submits budgetary framework to the Government
By end of April	Stability Programme and NRP submitted to the European Commission
By end of May	Ministry of Finance prepares analysis of revenues and expenditures
By June 30	Ministry of Finance upgrades the framework with new forecasts and the Commission's CSR
By August 15	Draft budget submitted to the government
By October 15	Government submits draft budget to the parliament
By the end of December	The budget is adopted as a statue by the parliament

Source: Dumbrovsky (2014), author's compilation

Ministry of Finance to prepare the budgetary framework for the next three years as well as the Stability Programme (SP) and the National Reform Programme (NRP). It is important to note that the fiscal rules detailed above are only binding for the first budgetary year out of the three (Dumbrovsky, 2014). The budgetary framework contains the deficit targets for the budget, macroeconomic projections, and the volume of revenues. After the government approves this framework, the Ministry of Finance starts the preparations of the drafts budget which includes an outline of expenditures and revenues and is accompanied by an analysis of this outline. Parallel to this process the Stability Programme and the NRP is submitted to the parliament and then sent to the European Commission. The final phase of the drafting is incorporating the updated forecasts from the MFC and TRFC commitees and from the Commission country specific recommendations (CSR). Once ready, the Supreme Audit Office submits a report on the draft to the parliament and by the end of the calendar year the budget is adopted as a statue by the parliament. The timeline based on the expert review of Dumbrovsky (2014) is presented in Table 7.4

As the timeline shows the key institutional player besides the government is the Ministry of Finance, more specifically the Institute for Financial Policy which houses the two forecasting committees. This is an artifact of the prior public finance reforms that largely focused on administration capacity building during the Dzurinda governments. This timeline only contains the official deadlines and formal actions needed to be taken in order to approve the budget. During this cycle however, various other government agencies also weight in, such as discussions between experts at the National Bank of Slovakia, the Fiscal Council and the Institute for Financial Policy. This domestic exchange is also expanded during the time when the DG ECFIN's Slovak desk compiles the country specific recommendations. The DG experts regularly visit the country on 'fact finding missions' where they meet with local specialist institutions. During an interview, a DG expert highlighted that the fiscal council (due to faster access to data than the Commission) acts as a "first responder" to problematic developments (DG ECFIN 3, 2018).

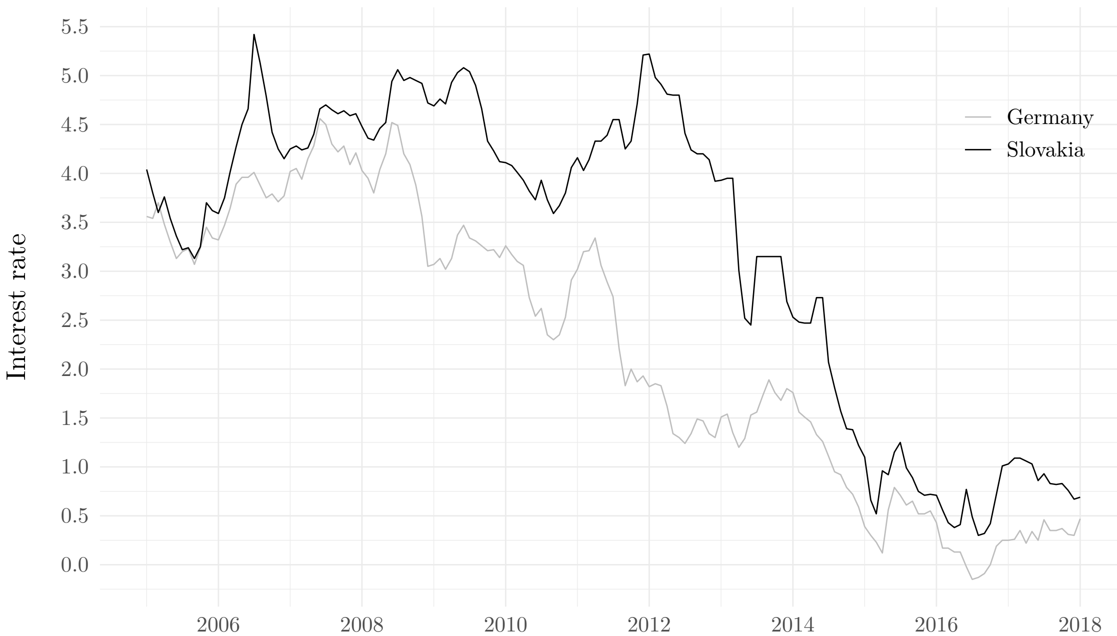
7.2 Political change and financial crisis

While the institutions are clearly laid out on the proverbial table one cannot assess their impact or influence on fiscal policy without examining them in action. This section, similarly to the Belgian counterparts, provides a timeline of how the political economy of fiscal policymaking changed and how these institutions were part of these changes. This approach makes sure that context is given to the institutional descriptions and I can examine and assess their actions during particular key events such as changes in the economic cycle or governments. The timeframe of this case is 2009 - 2018. The starting date is tied to the publication of the Horváth and Ódor (2009) NBS paper as this was the starting point for the wide ranging fiscal institutional reforms and the year of the Euro adoption. The first half of the first Fico government is discussed in the previous Slovak case.

The idea of making fiscal commitments credible gained traction due to peer pressure from joining the Euro area and due to increasing debt financing that reflected the changed risk perceptions of investors. One leading expert at the National Bank credited the widening of the spread between the Slovak and German long term debt as a key motivator for pushing discussions forward on fiscal institution reform. Initially, these concerns were not shared by the IMF which viewed a successful Euro denominated bond auction as a sign of investor confidence.[14] Indeed, the macroeconomic indicators were showing a health picture with deficit around 2% and debt ratio below 30% (28.5% exactly). Both of these are the result of the dash for Euro membership and a committed fiscal policy path. The debt ratio showed

[14] "*The very successful issuance of a Eurobond in early May is a clear sign of continued investor confidence.*" (International Monetary Fund, 2009, 9)

Figure 7.2: Spread between the Slovak and German 10 year government bonds



Source: OECD, author's compilation

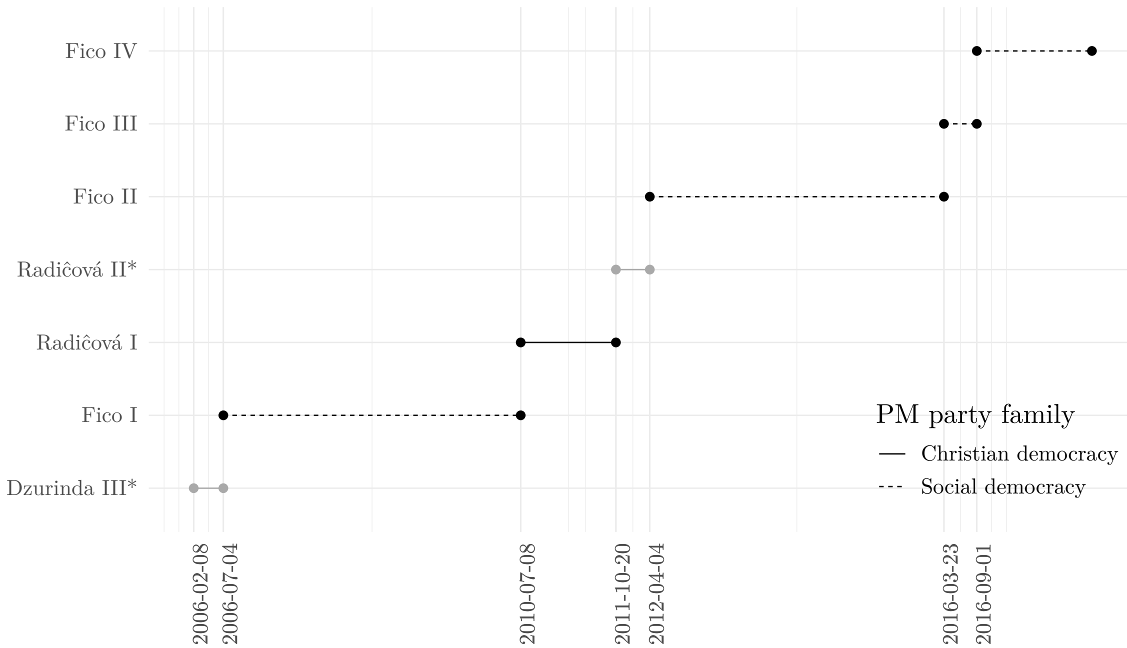
a remarkable downward trend from its peak of 49.6% in 2000. Thus there is little surprise that the initial risk premium of Slovak debt differed little from the German bonds.

To offset the economic downturn of the 2008 crisis the Fico government introduced fiscal stimulus measures during 2008 and 2009 amounting to 1% of the GDP, mainly composed of tax reductions, subsidies and expedited disbursements of EU structural funds for boosting employment of disadvantaged workers.[15] Commitments to future realignment of fiscal policy was not on the agenda of the government at that time.[16] This is also reflected in actual fiscal policy stance as the cyclically adjusted primary balance continued its deterioration from 2008 until 2010, and bottomed out at -5.77 %. The European crisis and the slowing of Slovak economic growth coincided with a parliamentary election in 2010. The Fico government were entangled in a number of ministerial resignations and corruption scandals which coupled with the external crisis pushed the campaign rhetoric towards increasingly

[15]The Fico government also kept up the politically motivated discretionary spending towards pensioners, sending them a "Christmas allowance" (vianočný príspevok), which was started in 2006. Altough it only represented 0.1% of the GDP. (OECD, 2010)

[16]As the IMF Article IV report (2009, 9) mentions that *"The authorities agreed with reducing the deficit to below the Maastricht norm as quickly as feasible, but did not specify a corresponding timetable or provide updated fiscal projections"*

Figure 7.3: Change in governments, 2006-2018



Source: Döring and Manow (2012), author's compilation

polarized, populist messaging. Fiscal issues were in the center of the discussion as the danger of having a "Greek moment" in Slovakia loomed and the Slovak contributions to the Greek bailout plans also stirred up debates.[17] The fiscal issues were also highlighted as Slovakia (similarly to 11 other members states, such as Germany or France) entered the Excessive Deficit Procedure in 2010 January.

The Fico led Smer-SD party won the plurality of the votes with 34.8%, however due to its political communications and alienating possible allies could not form a government. The poor performance of its former coalition partner, Meĉiar's LS-HZDS only achieved 4.3%, which was not enough to pass the 5% floor of getting into the parliament. The government thus was formed by four opposition parties that represented the more market oriented approach: the Slovak Democratic and Christian Union - Democratic Party (SDKU-DS), the Freedom and Solidarity (SaS), Christian Democratic Movement (KDH) and Most-Hid (the Hungarian minority party). This coalition represented a 44.1% parliamentary majority

[17] As Deegan-Krause and Haughton (2012, 223) notes fiscal issues did not receive substantial policy debate: *"Although debt was frequently mentioned in campaigning, it was more often used as a tool with which to attack opponents than as a means of outlining a credible plan for ensuring that Slovakia would not take the Greek path."*

(Deegan-Krause and Haughton, 2012). This election meant that the Slovak elections continued in their previous pattern where voters alternate between rival party blocks. It also meant that after Fico's left-populist coalition a more centre-right party coalition formed government. These are key moments, as the debate on institutional reform of the fiscal framework gained momentum and it even got included in the government's manifesto, issued in 2010 August.[18] In addition to the fiscal institutional reforms, the new government headed by Radiĉová (the first female PM of Slovakia) also proposed a reform of pension indexation, reviewing the controversial public-private partnership (PPP) projects and a timely exit from the EDP by reducing the deficit below 3% by 2013 through spending caps and more efficient tax collection. The new government enacted a series of fiscal adjustments to meet its 2.5% deficit target. These measures were expenditure side cuts on wage bills, various subsidies and investments and a temporary increase in the VAT rate.[19] Despite the proposed measures and talks on fiscal reforms the spread between the 10 year government bonds interest rate did not narrow (see Figure 7.2). A possible explanation for this phenomena is that the spread is not driven by investor confidence but rather the liquidity premium on the German bonds (International Monetary Fund, 2011b). In this regards this succession of governments is also similar to the previous ones by giving formal commitments for a conservative fiscal path.

As the incoming government embraced the fiscal institutional reforms, there were two external pressure factors. One hard, which is the EDP process where the government is legally obliged to follow the European Councils recommendations in order to exit the excessive deficit procedure. The other one came from a softer source: the OECD 2010 country report also stressed the importance of creating binding fiscal institutions.[20] While the OECD is nothing more than an intergovernmental economic policy think thank which

[18]The manifesto lists the fiscal reforms at the top of the agenda items: "*to make public finances sound and sustainable, halt the soaring government debt, and progressively reduce the public finance deficit*" (Government of the Slovak Republic, 2010, 1). The manifesto was accessed online: `http://mepoforum.sk/wp-content/uploads/2015/01/Manifesto-Government-Slovak-Republic-2010.pdf`, last accessed: June 25, 2019

[19]The VAT gap in Slovakia is notoriously high as VAT collection were lacking in efficiency. Due to the continued loss of revenue, VAT collection issues are at a center of issues in every IMF and OECD country report.

[20] *"With a view to the major consolidation currently required, Slovakia needs to strengthen and reform its fiscal rules. [...] The fiscal framework would be further strengthened by setting up an independent fiscal council as has happened in several OECD countries."* (OECD, 2010, 13-14)

can only issue recommendations member countries are free to ignore its recommendations without any (reputational) costs.[21] However, due to the peculiarities of the Slovak reform process, these recommendations carried more weight. As the Slovak political class tried to gain international recognition and regain credibility after the Meĉiar years they were keen to engage with international organisations, amongst them the OECD. Gaining membership in the organisation was a point of pride and positive feedback on their progress in the transition to liberal market economy. This influence was confirmed through various interviews at with multiple experts at the DG ECFIN and with leading experts in the Slovak Ministry of Finance and National Bank. Finally, the new Fiscal Responsibility Act was legislated into the constitution with an overwhelming political support on 2011 December.

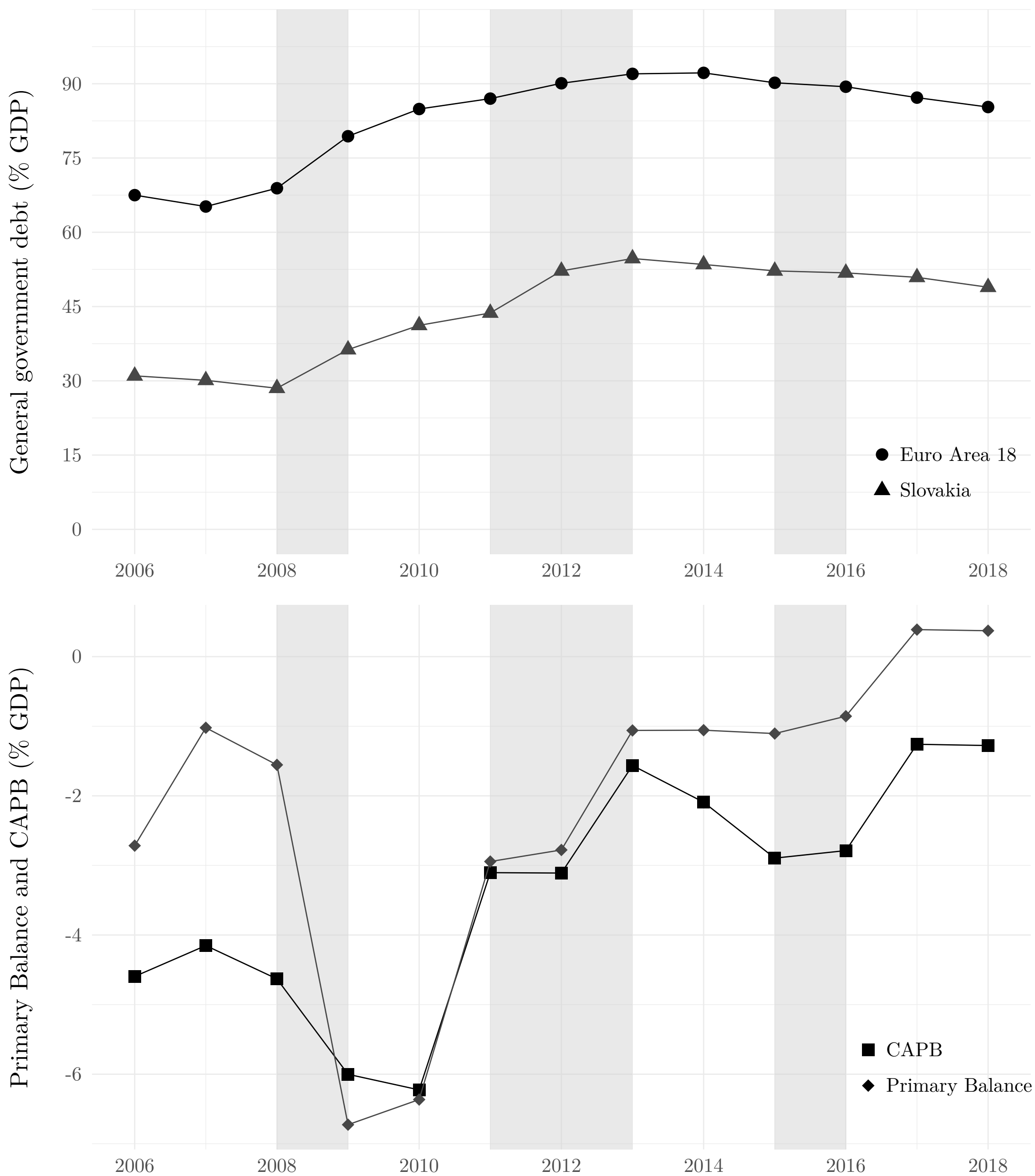
The Radiĉová government followed through the 2011 fiscal adjustment plans (expenditure cuts) which resulted in a sharp reversal in the deficit curve from the 2008 bottom. The recovery tracked closely the Euro Area's, which was the result of member states meeting their obligations under the various excessive deficit procedures as well as implementing fiscal consolidation as part of the European crisis management effort (see Figure 7.4).[22] The trajectory of the deficit is by and large were not a function of cyclical effects as confirmed by the cyclically adjusted primary balance data, which shows the same picture.

Figure 7.4 shows that from the 2010 floor the Slovak budget deficit shrunk on each consecutive year. In addition to this Euro area policy directive conformity, the reform of fiscal institutions were on pace after the 2010 elections. However, these years were particularly turbulent on the European crisis management front and they caused a severe domestic political fracture within the coalition in 2010-2011. The main issue was over the ratification of the increase of guarantees provided by the European Financial Stability Facility (EFSF), which would have meant that Slovakia, one of the poorest Euro area member would need to pay more for the Greek bailouts. The main internal opponent of the ratification was the liberal Freedom and Solidarity party (SaS) whose leader, Richard Sulík refused the idea of increased bailout contributions (Spac, 2014). As a result of these political

[21] A prime example of this is the restructuring of the Hungarian Fiscal Council in 2012, which went against the OECD (and IMF) guidelines and best practice on the institutional setups and mandates of independent fiscal councils.

[22] For a critical discussion of this policy wave from an ideational political economy, see Blyth (2015); Helgadóttir (2016); Dellepiane-Avellaneda (2015)

Figure 7.4: Public debt and deficit in Slovakia (% GDP), 2006-2018



Note: Shaded areas are recessions in Slovakia.
Source: IMF Fiscal Prudence and Profligacy database, Eurostat, OECD Composite Leading Indicators, author's compilation

struggles, Slovakia remained the single holdout who did not ratify the legislation. There were considerable pressure on the Radiĉová government from the European Commission and from the Council to expedite the ratification. The government survived a confidence vote started by the opposition in 2011 September. As the political deadlock could not be solved within the coalition, Radiĉová linked the ESFS vote to a second vote of confidence. However, this vote she lost. This resulted in the breakup of the coalition and the remaining three coalition members negotiated a deal with Fico's Smer-SD that in exchange for a vote on the ESFS ratification they would call an early election (Dumbrovsky, 2014). The ensuing campaign again contained fiscal issues as debate focal points, however the ESFS and Greek topics were quickly forgotten after the so called Gorilla case broke.[23] The 2012 snap election saw the return of Smer-SD who won 44% of the votes and 83 seats out of 150 in parliament, giving it a comfortable majority and the ability to form a single-party government, the first since the dissolution of Czechoslovakia. The ESFS coalition infighting and the corruption allegations severely damaged the reputation and voter support of the centre-right parties.

The new left government also declared formally its dedication to staying the fiscal course by putting fiscal consolidation as a second item on its agenda.[24] This commitment was also made for the international community as the IMF's Article IV report's also highlighted the deficit reduction willingness of the incoming government.[25] The newly established fiscal institutions came into effect in 2012, notably ahead of the EU's Fiscal Compact. Unlike with the ESFS, the Fiscal Compact was ratified without any political opposition, as the previously legislated FRA basically contained all of the necessary stipulations. Notably, Peter Kažimír, opposition MP at that time, who submitted the FRA initiative to the parliament later became a Minister of Finance in the second Fico government. Slovak MPs took pride in the fact that their fiscal rules are stricter than their regional neighbours or even that of Germany (Dumbrovsky, 2014). The new Fico government also begin politically risky

[23] The name refers to an intelligence report based on alleged wire-tapping operation done by the Slovak secret service which implicated many high ranking government officials in privatization corruption deals during the second Dzurinda government (The Economist, 2012).

[24] *"Consolidate public finances in order to bring the general government deficit below three per cent of GDP in 2013"* (Government of the Slovak Republic, 2012), accessed via: `http://mepoforum.sk/wp-content/uploads/2015/01/Manifesto-Government-Slovak-Republic-2012.pdf`, last accessed: June 25, 2019

[25] *"The new government affirmed its commitment to continued deficit reduction"* (International Monetary Fund, 2012, 8).

reforms (previously also outlined by the Radiĉová government) by linking retirement age to life expectancy, unifying female and male pension retirement age by 2022 and indexing benefits to price increases only. This also represented the first test of the Council for Budget Responsibility, as the opposition SDKU-DS caucus asked for an opinion on the proposed Social Insurance Act Amendment. In fact this was the very first live test of the council as it has only been operational for a couple of months. It's report found that on the medium and long term the new pension system will *"improve the government's fiscal performance by more than 1% of GDP [..] From the perspective of the long-term sustainability of public finances, the amendment improves the position of Slovakia"* (Council for Budget Responsibility, 2012, 3).

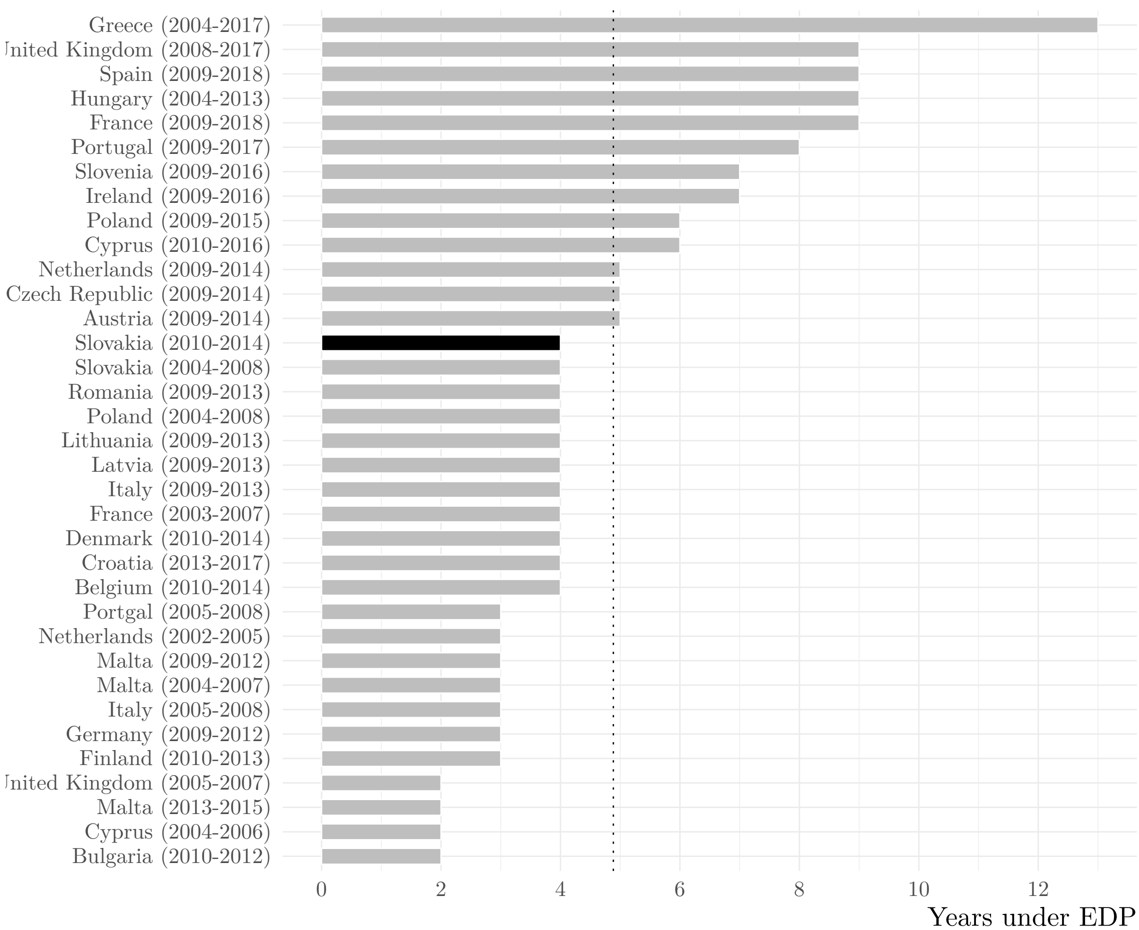
As a result of continued fiscal efforts and consolidation Slovakia exited the EDP in 2013. This result was achieved despite having a left-right-left rotation in successive governments, and through pro-cyclical fiscal policy at the expense of investment and growth. What this clearly shows is how the political elite forms a grand coalition in Slovakia to meet fiscal conforms of the Euro area and some other, more ideational goals of healthy finances.[26] The government did express that the economic pain was to get the reputational gain and made a point of this in their remarks to the IMF's annual report (2014b, 20), stating: *"The substantial adjustment achieved to enable EDP exit demonstrates the government's ability to meet fiscal targets."* This continued effort of the second Fico government is also in line with the findings in the previous chapter. A senior fiscal council staff member also mentioned that the main disciplinary elements that the government faced were originating from the European level. Firstly, the fiscal rules of the Stability and Growth Pact and the attached reputational costs of breaching them. Second, a more peculiar one is the personal ambition of Minister of Finance Peter Kažimír aiming for the presidency of the Eurogroup which also required keeping a strong grasp on the budget.[27]

However, despite the reined in budget deficit, the public debt ratio in 2013 went above the 55% threshold as a result of a Eurostat classification which ruled that the Emergency

[26] The IMF Article IV report (2014b, 16) highlights that *"Over the period 2010–13 the annual average fiscal effort reached 1.5 percent of GDP, well above the average fiscal effort of at least 1 percent of GDP called for by the EU, and was largely pro-cyclical."*

[27] In 2017 he eventually withdrew his application.

Figure 7.5: Excessive Deficit Procedures, 2003-2018



Note: Dotted line shows the 4.9 years mean for the EDP durations for the Member States
Source: European Commission, author's compilation

Oil Stocks Agency and its liabilities should be considered as a public unit. This meant that the government had to enact some additional expenditure cuts for 2014 and the 2015 budget had to more or less operate within the levels of the 2014 budget. Due to a change in accounting methodology (switching to the ESA2010) debt declined to 54.6%, thus barely being under the 55% threshold. As it is reported publicly on the website of the Council for Budget Responsibility, the government did meet all of it's obligations under the FRA framework. These included a (from May 2014) reduced salary for cabinet members, blocking 3% of defined expenditures of the state budget and freezing the discretionary reserves of the Prime Minister and the Government.[28] It is evident that the debt break fulfilled its function and was effective at binding the government's hand via its automatic mechanisms. The debt rule also carries some unintended consequences. First, it can encourage pro-cyclical fiscal policy when the debt level is approaching the ceiling. Second, it might considerably narrow the fiscal space of governments even if the overall economic environment would warrant a more relaxed fiscal position.[29]

As Figure 7.4 shows the primary balance and the cyclically adjusted primary balance improved considerably from the 2008 crisis baseline which shows the consistency of both centre-right and left governments'. This performance also underscores the previous chapters initial findings on how persistently each government follows a rather tight fiscal policy. However, the reform zeal of the Dzurinda years by and large ended after the unanimous passing of the Fiscal Responsibility Act and the establishment of the fiscal council. The only notable institutional development was the 2016 establishment of the Value for Money unit within the Ministry of Finance which was tasked with carrying out spending reviews. The Value for Money would conduct there reviews for three sectors per year to identify sources of possible savings. The first six sectors in 2016 and 2017 were education, social

[28] The public record is accessible on the web page of the fiscal council: `http://www.rozpoctovarada.sk/dlhovabrzda_en/`, last accessed: June 25, 2019

[29] This potential limit was behind a call for a continued fiscal consolidation from the IMF (2015), despite the admitted fact that the economic and policy environment would not warrant it, were it not for the FRA. *"The small policy gap from the EBA-Lite model (0.7 percent) indicates that Slovakia's fiscal, external and financial policies are close to equilibrium. (p.6)* and *"After a substantial narrowing of fiscal imbalances through 2013 to exit the EU's Excessive Deficit Procedure (EDP), fiscal consolidation progress has petered out. While economic conditions could argue for a supportive fiscal stance, other factors and especially the need for policy maneuver under FRA debt brakes point to the need for fiscal adjustment over the medium term." (p.12)*

policies, environment, healthcare, IT and transport and the average proposed savings were 8% of the budget (0.6% of the GDP).

This initiative was laid out in the incoming Fico government's manifesto and the establishment of the new institution received technical assistance from the IMF (International Monetary Fund, 2018b). The continued presence of the International Monetary Fund is also a theme that was investigated in Chapter 6. It shows the persistent effects of the early 2000's where international organizations' participations in domestic reforms were an important source to gain international credibility. As a first result of the review process the government started a health care reform which is largely based on the findings of the 2016 spending review conducted by the Value for Money unit. In 2017, the unit also saw its mandate extended which menat that all investment project above 40 million Euros were a subject to cost-benefit analysis (International Monetary Fund, 2018b).At the Prime Minister's Office an Implementation Unit was established for monitoring the implementations of the identified savings. This setup indicates that the expenditure rationalization efforts of the government are a key new development.[30]

The fourth Fico government elected in 2016 continued fiscal consolidation and both the European Commission's and IMF's forecasts show that the country is on track to reach its MTO target of -0.5% structural balance by 2020 (International Monetary Fund, 2018b). During interviews at the Slovak desk of the DG ECFIN, a Commission expert remarked that due to this continued success, the MTO might be revised upwards in the near future. The decline in debt and deficit were largely the result of the previous health care and pension reforms and increased tax collection efficiency. While the literature highlights how fiscal rules can motivate governments to work around them, in case of Slovakia, the IMF Article IV report (2018b, 14) highlights that *"authorities are not contemplating introducing any escape clause to the FRA to accommodate specific spending."*. This report also evidences the longstanding influence of the Fund in Slovakia, as the Fiscal Policy section of the report continuosly mentions for each policy development (such as tax and health care and pension reforms) that they are done in accordance with the IMF recommendations.

[30]The IMF praises this by noting that the Implementation Unit *"[...]reinforcing [the Value for Money's] mandate and highlighting the government's commitment"* (International Monetary Fund, 2018b, 3).

The 2012-2018 period was characterized by the dominance of Robert Fico's Smer in government, constrained fiscal policy by the excessive deficit procedure and the fiscal rule and fiscal watchdog and limited institution building. During the interviews both experts from the European Commission and from the Council for Budget Responsibility voiced their dissatisfaction with the governments' deleveraging process (CBR1, 2018; DG ECFIN 3, 2018). The main problematic point that was mentioned that the surplus revenues (mainly from improving tax collection and narrowing VAT gap) are not spent on debt reduction but rather attributed to various increased expenditures.

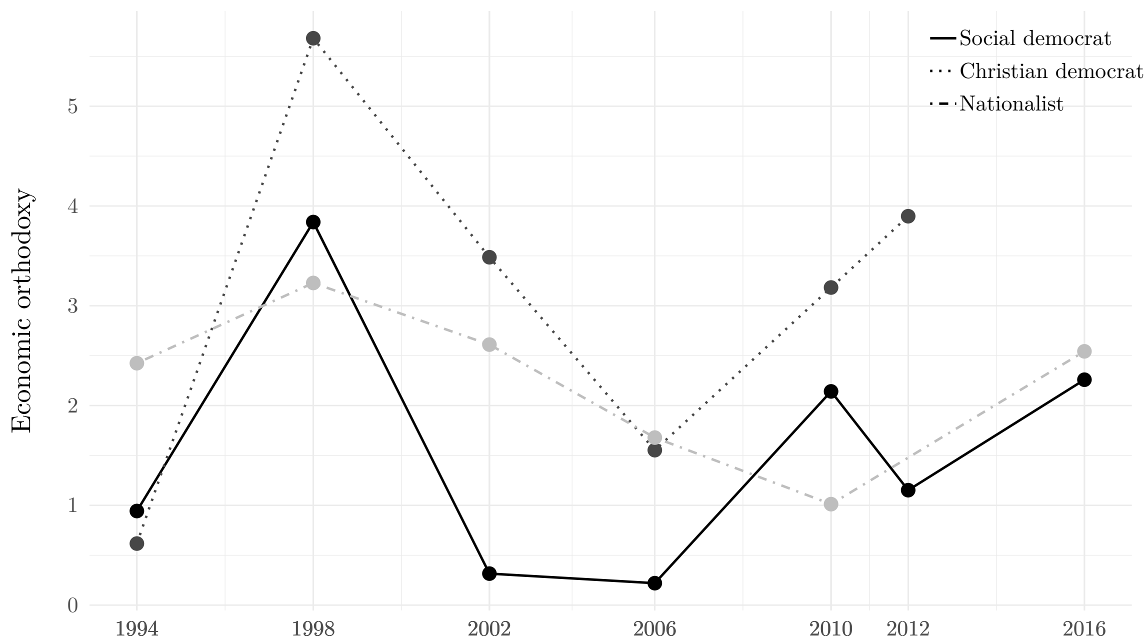
7.3 Conclusion

This chapter concludes the Slovak case study with examining how the new fiscal council and fiscal rules were established to cement the decades long informal fiscal policy common platform. This process also allowed for a close-up examination of the causal relationship between institutions and deficit and public debt. The establishment of fiscal rules and an independent fiscal council contributed to (self) constraints. The causal link is still debated in the economics and political science literature and this case also showed that the institutional constraint hypothesis is highly contextual (Eslava, 2011). In the context of Slovakia the institutions came as a result of the commitment of the political elite and the wish to codify the general policy consensus, rather than a self-imposing a binding constraint to avoid past volatility. The 2008-2012 years serve as a short period where one can see the counterfactual for the hypothesis: *would Slovakia stayed on the previous fiscal path with no institutional changes to the fiscal framework?* As shown by examining policy documents, government manifestos and economic data the institutions were only reinforcing prior policy preferences and not enforcing them. The binding fiscal rules and the fiscal council are effective in their role and do constrain fiscal action. However, it is questionable whether governments would have run into the ceiling without them being established. Throughout multiple interviews (from the Ministry of Finance and from the Council for Budget Responsibility) it was highlighted that there was a divergence between the country specific recommendations and MTOs set by the European Commission and the recommendations of the fiscal council with the EC being more lenient. This results in the government favoring the European assessment over the fiscal council if such a scenario arises as the watchdog's recommendations are non binding and often more strict than the Commission's.

The fiscal council performed its watchdog role and played important complementary position to the binding fiscal rules. While these institutions were set up based on recommendations from the OECD and the IMF's respective best practices, at their core both were a result of a home grown bottom up policy process. This process is possible the strongest indication that the Slovak political elite felt the need to formalize the previously largely informal tradition of striving towards a balanced budget and low public debt. The fiscal council is an important part of the fiscal policy process as it's output is followed by both in the government and at the Commission. In this regard it certainly wields a non-negligible soft power. But neither the government nor the Commission is obliged to take the reports of the Council for Budget Responsibility into account (in fact, the Commission would not be able to do that as it has a legally defined scope when it drafts the country specific recommendations). The case for the effective constraining role of the fiscal rule is stronger. The 50% - 60% debt ratio zone which triggers a ladder of increasingly serious automatic mechanisms could act as a deterrent for fiscal expansion not covered by the escape clauses. It can serve as an incentive for the government to build up a fiscal space below the 50% threshold so in case of economic downturn the government can effectively conduct its counter cyclical fiscal policy. On the other hand, the strict binding nature of the rules can force the government into the creative accounting domain or even extending the escape clauses to some expenditure would be exempt from the rules (Milesi-Ferretti, 2004). The rules have been in place for 6 years at the time of writing and there are no reported plans for any amendments to the Fiscal Responsibility Act.

This chapter does not confirm the hypotheses that governments follow or discard fiscal councils based on their perceived accommodation to government policy alignment, as that hypothesis is built on a causal assumption where the causal mechanism is the fiscal council constraining government policy actions in one way or another from its mandate toolbox. However in Slovakia, the relationship was the opposite. Building on comparatively strong fiscal performance the policy makers established a wide political consensus and gave the

Figure 7.6: Economic orthodoxy in election manifestos, 1993-2016



Note: The individual parties in each party family is in Table B.2
Economic orthodoxy (Manifesto code: per414) is coded from party manifestos and represents a support for *reduction of budget deficits*; *retrenchment in crisis*; *Thrift and savings in the face of economic hardship*; *traditional economic institutions such as stock market and banking system*; *strong currency.*
Source: Volkens et al. (2018), author's compilation

fiscal council a strong constitutional foundation. In the Slovak case, the effect (continued fiscal trajectory over political camps and multiple elections) preceded the cause (the fiscal council). It would be more appropriate to see the fiscal council as the outcome of a strong initial drive to meet international best practice standards set by the OECD, the IMF and the European Commission, as well as to give a formal institutional acknowledgment to the continued prudent public finances.

The source of this continuity was explored in the previous chapter as well but with this second part of the case presents a compelling closing account of the ideational and external pressure arguments. This is evident in the government manifestos of the left-right governments and how the fiscal sections could belong in either government's document. Keeping Slovakia on course for the Euro despite the crisis and the possible ESFS contributions by the Fico government also supplies a strong indicator of how political sides are not the main determinants of fiscal policy and reforms. One example is the pension reform that was started under the tenure of the second Fico government and represented a considerable step towards long-term fiscal sustainability of Slovak public finances. This qualitative evidence mapped through time is further strengthened by the quantitative indicators such as the timely exit from the Excessive Deficit Procedure and the more-than-required fiscal consolidation effort to meet the Maastricht criteria of below 3% budget deficit. The cyclically adjusted primary balance also shows the successive governments effort to maintain the fiscal course, with one notable lapse in 2009-2010. The positions of the government forming party families track well each others as shows in Figure 7.6. While the election manifestos for Social Democratic parties show less mention of economic orthodoxy, they move in tandem with their main opponent on the right, the Christian Democrats. The only divergence point is the snap election in 2012, where the Christian Democrat parties were severely suffering due to the Gorilla scandal.

The second set of hypotheses is related to how external pressure and fiscal rules can enhance a fiscal council's effectiveness. While a fiscal council and fiscal rules only came into effect after 2011, the synergy between national institutions and supranational rules of the SGP and peer review pressure from the European Commission is clearly shown in the case. Even before establishing the domestic institutions, European fiscal rules and their consequences (such as the EDP or reputation gain or loss) were highly influential on Slovak fiscal policy planning. In this chapter the European debt crisis and the ensuing crisis management created a peer pressure which was formalized by the application of the excessive deficit procedure. The EDP is practically the only tool in the EU's hand that actually compels member states to comply with the SGP rules. The 2009 EDP wave showed that the Commission and Council would not shy away from applying this tool if necessary and not just in the case of smaller members. A softer external pressure was during this period is the OECD and IMF country reports. While these would usually be casted away as toothless institutions in the case of Slovakia they carry increased significance. It has been demonstrated through this and the previous case that keeping the advice of international organisations is a matter of principle of successive Slovak governments as they view it as their membership card to the advanced economy table. This role is not only confirmed by primary policy documents but through numerous interviews at Slovak administration bodies (National Bank and Ministry of Finance) and European Commission experts.

The domestic fiscal rule also provides a strong and reliable yardstick for the fiscal council to evaluate the budget proposals and idiosyncratic reform proposals. The debt brake and the tiered structure of the constitutional fiscal rule is a stick that is triggered automatically but this clear structure gives more leverage to the fiscal council's evaluations. As it was detailed in the Belgian case, without a strong national rule, a fiscal council with limited legal mandate cannot do much else than hope that the reputational costs of infringing on its recommendations will be enough. The Slovak case clearly demonstrates how a strong deficit rule can benefit a fiscal watchdog whose tools are limited in terms of actual impact on the budget process.

The chapter also provides a confirmation that external pressure in the form of supranational rule consequences and investor cautiousness can mean an additional force multiplier behind the domestic institutions. In the Slovak case, the birth of the Fiscal Responsibility Act was accompanied with the European sovereign debt crisis which also underlined the strong necessity of a formalized rules based fiscal framework. This crisis backdrop effect was also highlighted during the interviews as a moment of opportunity to gather a wide political consensus behind the idea.

8 A comparative view and the effect of policy networks

The two cases explored through the previous four chapters provide important insights into how within case variation looks like and how different political and economic environments shaped fiscal institution building and policy making. Going over these cases laid the ground work for the comparative effort in this chapter. This dual approach of within and cross case analysis adds more depth and allows for exploring how far the findings from the cases travel across the European Union. The case selection makes the cross case analysis an interesting exercise as it makes it possible to compare widely different environments within which fiscal institutions operate. It was also shown that fiscal rules and fiscal councils by themselves are often not able to shape policy according to their envisioned mandate. In the Belgian case the political conflicts meant that fiscal goals would be disregarded or postponed despite continued calls for action from the High Council of Finance and from the European Commission. Even in times of stable political environment the recommendations of the fiscal council were falling on deaf ears as the Belgian governments allowed the erosion of the structural surpluses after the Euro accession. The causal link between fiscal institutions and fiscal corrections are muddy at the best in this case, where political will dominated both domestic and supranational policy pushes from independent institutions.

The case of the Slovak institution building during and after the transition years showed that institutions were used to maintain the already established fiscal path not to induce it. Each successive government followed a rather conservative view towards debt and deficits with some occasional deviations that were followed by regressions to the established path.

The institution building procedure for the fiscal council and expenditure rule further underlines the agreement on the need for strong binding fiscal institutions, despite the wide political cleavages in the country. In the Slovak case policy is more strongly bounded by the institutions but these institutions are rather the outcome and not the cause of years of prudent fiscal practices. In the Slovak case, a cultural explanation emerges that shapes the political decision making (regardless of party colors), even in the darkest years of the Meĉiar regime.

This comparative chapter works from a different toolset to compare the two cases. First, it relies on the institutional survey more to provide an insight into how each participating actor views the other in the fiscal policy process. Second, it builds on the network analysis tools to examine the two countries' fiscal policy network and see how they differ and what are the implications of these differences. Nevertheless, the comparison builds on the 20 interviews conducted that provides a fresh insider point of view of the processes instead of just relying on indirect sources.

8.1 The great moderation before the crisis

8.1.1 Politics and institutions

One key difference between the two cases is that in Slovakia fiscal rules and the fiscal council was established in 2012, decades after the Belgian High Council of Finance's reform in 1989. In Belgium the was reform done in the framework of the constitutional reform process and the explicit goal was to rein in the persistent budget deficits that were fuelling the record high public debt. The institution building was clearly motivated by the existing high level of debt pointing to the fact that in the case of Belgium fiscal institutions are a product of endogenous processes. The balance between rules and fiscal council have been uneven in Belgium as a strong fiscal council has been established but the rules based framework rested on a vaguely worded revenue rule established in 1992 and an expenditure rule from 1993. Both of these rules were a product of coalition agreements and ended in 1999 and 1998 respectively (Lledo et al., 2017). The short tenure of the rules and their ambiguity was exacerbated by the weak legislative foundation (no parliamentary or constitutional footing).

This meant that the fiscal council was left without a key pillar during the Maastricht run-up period and after. The supranational rules coming into effect after the Euro introduction were also less binding as it is well documented in the Belgian case. Despite this lack of rules based fiscal framework, deficit turned into primary surplus and the debt trajectory begin a downward slope. This was a result of strong political will enhanced by the fiscal reforms that included the depoliticization of the budgetary process and abandoning the fiefdom approach of budget creation (Hallerberg, 2004).

This development shows that fiscal councils can play an important supporting role and if politics shares their goals they can enhance fiscal policy quality. Important contextual factor is the hard deadline of Maastricht which was an effective tool for the European Union to force member states to bring their fiscal paths in order. The 12 member state that adopted the common currency on average decreased their public debt from 72.3% in 1996 to 61.5% by 2001. This deleveraging was done in a favourable macroeconomic environment to meet the stringent Maastricht entry criteria of 60% debt level (or decreasing debt in a significant fashion). In Belgium this goal was aided by the fiscal councils whose forecasting and medium term targets were used as the baseline for the successive governments Stability Programmes.

In Slovakia, a similar process was playing out with significantly higher reputational costs. As a result of the reckless nationalism and protectionism of the Meĉiar governments the country was threatened to be left out of the Central Eastern European enlargement wave of NATO and the European Union. The debt levels were low but due to low institutionalisation of democracy and fiscal policy the last Meĉiar government saw debt and deficit rise. This finding is in line with the political business cycle literature and shows how new democracies were vulnerable to its effects. However, the landmark election that brought the two consecutive Dzurinda governments into power also meant a road to Canossa for Slovakia. In order to regain international credibility and cement fiscal policy the Dzurinda governments started wide ranging institutional building with the aid of the World Bank and the IMF. A first result was the OECD membership of the country. In an interview with a senior central bank official this moment was mentioned as a key validation that the country is on the path of Europeanization. In lieu of domestic institutional fiscal oversight international organisations were filling this role. This effect persist over time as evidenced by the institutional survey carried out in 2017-2018 for this research. Table 8.1 shows how each institution is viewed by its peers in the policy process. Both the importance of an institution and the cooperation quality is evaluated by peer institutions. The position of the European Commission is a striking example of how differently the Commission is viewed in these two countries. In Slovakia it is perceived as more important than the fiscal council and the in house department of the Ministry of Finance tasked with budget item evaluations.

The domestic institutional environment before the 2008 crisis and the subsequent reforms of the European fiscal framework were mixed in the two cases. Looking at deliberate (non-cyclical) fiscal consolidation in each case shows that fiscal institutions could rarely motivate action by themselves. In Belgium, the Maastricht fatigue of the 2000s meant that the successive left leaning governments allowed for a continued deterioration of the budget surplus achieved by 2001 despite continued calls from the High Council of Finance. The first half of the Belgian case could be seen as a case when prior debt levels and external pressure from the EU sparked institutional reform and political consensus, which then led to a decade of deleveraging. This was followed by the disappearance of the supranational pressure as the SGP was soon to be demonstrated as a rather weak constraint and the government could largely ignore the fiscal council's recommendation as it has no enforcement mechanism apart from inflicting reputation costs via publishing reports. The successive governments party composition stayed similar over these two decades which was characterized by liberal and socialist parties both from the Walloon and Flemish sides. A telling episode that reveals the Verhofstadt II government's attitude towards the fiscal council is the missing appointment to replace the outgoing chairman of the Borrowing Requirement section in 2005. The chair is nominated by the government (Ministers of Budget and Finance), but this process was halted in 2005-2006. In lieu of nominated chairman, the section could not produce its annual report on the fiscal performance of the government. This move was seen as a deliberate attempt to mute the critical voice of the High Council of Finance but the actual motivation is much more mandate. After speaking to former members of the fiscal council it became evident that the government missed the nomination process mostly out of ignorance and the then council members did not view this as a political act to limit their

Table 8.1: Importance and reputation of institutions in fiscal policy

	Institution	Importance score		Cooperation quality	
		Mean	Std. dev.	Mean	Std. dev.
	Slovakia				
1	Cabinet of Ministry of Finance	4.8	0.45	3	0.82
2	European Commission	3	1.73	3	0
3	Institute for Financial Policy (MinFin)	3	0	4	1
4	Council for Budget Responsibility	2	0	4.33	1.15
5	Value for Money (MinFin)	2	0	4.5	0.58
	Belgium				
1	Cabinet of the Prime Minister	3.86	1.68	3.5	1.05
2	Monitoring Committee	3.8	1.3	3.6	1.14
3	FPS Finances	3.75	1.5	3.17	1.47
4	Cabinet of Ministry of Budget	3.71	1.89	3.75	0.71
5	FPS Policy and Support	3.67	1.53	4	0.82
6	Cabinet of Ministry of Finance	3.67	0.82	3.6	0.55
7	High Council of Finance	3.33	2.08	4.4	0.89
8	European Commission	2.6	1.14	4.14	0.9

The importance score is a result of the survey item with the following question: *Please select from the below list the 5 organizations that your organization views particularly important to the fiscal policy process and mark them according to their importance on a scale of 1 to 5, where 1 means least important, 5 most important (You can give the same mark to multiple organizations).*
The cooperation quality score is a result of the following survey item: *Please select the organizations that your organization works with and indicate the quality of your cooperation on a scale of 1 to 5, where 1 means cooperation with difficulties and 5 means cooperation without problems.*

institutional authority.

In the first half of the Slovak case, domestic institutions were nascent or missing therefor fiscal policy continuity rested entirely on the political consensus. This political consensus was reinforced by the National Bank of Slovakia that refused to support reckless fiscal policy by adjusting monetary policy to the whims of the Meĉiar governments. This was followed by the tenures of the Dzurinda and Fico governments (with the short intermezzo by the Radiĉová government) which continued more or less prudent fiscal policy and institutional development despite the political cleavages. This puzzling grand coalition has several parallel explanation. First, it is a culturally driven process which has its roots in the Czechoslovak experience. According to this explanation, fiscal prudence is a virtue long held in the region and the high debt would mean national weakness. This view was expressed at a number of interviews with Slovak fiscal experts, who also mentioned that sounds fiscal performance is understood to be the norm. In addition to the historical factor, the other explanation for this policy continuity is the result of constrained human resources in expert position at ministries and administration. The first Fico government left the experts in their position at the ministry of finance untouched as it would have a hard time replacing them with their own political appointees. This consistency of staffing results in consistent technical input to the policy making process. Keeping the Institute for Financial Policy within the Ministry of Finance intact was also a key step as this institution allowed a better informed budgetary process. It is also a result of historical factors. A leading Slovak economic expert stressed that traditionally the Czechoslovak ministries were staffed by Czech nationals and after the 1993 dissolution the new Slovak state scrambled to staff its ministries and National Bank. All in all, the Slovak fiscal stability and the foundations for institution building and design are rooted in historical path dependence and cultural factors rather than institutional constraints. The biggest constraining factor from the institutional side was the Maastricht conditionality for the ERM and Euro area.

In both cases we can see that fiscal policy was not a function of government changes. In Belgium, during the two decades of 1990-2008 the governing coalitions were made up of left leaning parties and fiscal policy showed marked improvement then a slow but steady decline. In Slovakia we see the opposite: elections bring in governments from the opposing end of the political cleavage but despite the ideological turnover fiscal policy stays consistent and institution building is not interrupted. These internal developments happened in a European context where the supranational fiscal rules could be ignored or circumvented without the risk of being subjected to the corrective arms Excessive Deficit Procedure.

The comparison of the cases shows that the common motivating factors behind fiscal consolidation is the already existing relatively high levels of debt that triggers political response. This political response can be more intense if there are other push factors such were the hard deadlines from the Euro adoption or EU accession. The fiscal council in Belgium did play an important supporting role but its effect was heavily conditional on the political will of the given governments. Conversely, the lack of formalized fiscal institutions did not hinder Slovakia's ability to keep its budget from deficit financing.

8.1.2 The role of the European Union

There are two key elements of EU influence that can be confidently shown in each case. First, the reputational costs and peer pressure to meet the Maastricht conditions for Euro adoption were one of the key motivating factors behind both cases fiscal policy choices. In Belgium's case, the country wanted to be in the first wave of adopters which required the cutting of record high public debt through maintaining a primary surplus budget. This push for the Euro and deficit elimination coincided with the constitutional reform process of fiscal devolution and the corresponding institutional reforms of the fiscal council. This constellation of push factors led to the impressive debt reduction. However, after joining the Euro area and realizing that the Stability and Growth Pact (even with the 2005 reform) can be circumvented the erosion of surpluses started and fiscal action halted in Belgium. This finding lines up with the evidence in the compliance literature that identifies Belgium as one of the notoriously non compliant EU member state (Börzel et al., 2012). As the data on non-cyclical fiscal adjustments shows Belgium's efforts disappeared after joining the Euro area. This correlation is actually a sign of causality as numerous interviews confirmed that politicians got relaxed and complacent about the budget after being finally 'in'.

For Slovakia the European integration process was paramount regardless of party orientation (after the Meĉiar governments). The EU had a well documented all encompassing influence on the new member joining in 2004 through its acquis communitaire. The accession process required extensive monitoring of domestic democratic institutions, adopting EU legislation in the domestic parliament and meeting all the stringent institutional criteria of the EU and transferring parts of their sovereignty to the EU level.[1] While the ex ante conditionality enforcement was strong (with the EU membership being a very motivating carrot) many feared that ex post compliance will be lacking in the new member states. The Slovak case found that the country rushed to meet all the acquis and then pushed for Euro accession as a continued effort of Europeanization. During this period there was a change in governments from the second Dzurinda to the first Fico government but the goals and underlying fiscal policy did not change. While institution building was underway, in this period domestic institutions were not finished yet. Both the fiscal council and the expenditure rule set were put on the drawing board during the crisis. The Slovak case shows how even relatively weak European level fiscal rules and ex post enforcement mechanisms can still mean effective policy constraints when domestic fiscal rules are missing. This evidence is in line with the literature that finds that new member states are more compliant than their peers (Cirtautas and Schimmelfennig, 2010).

The combined evidence shows that the EU's effect is the strongest when there is a hard deadline looming which creates a race to the top. Additionally to the compliance literature, the cases show that while on average small member states might be more compliant this effect is conditional on more than just the size of economy (Börzel et al., 2010). In the cases presented in the dissertation, compliance with EU fiscal regulations is conditional on being a small *and* new member state. This is well illustrated by the contrast between the slow fiscal drift of Belgium in the 2000's and the Europeanization zeal of the Slovak governments. The effect of fiscal institutions is also taking shape: they are rather limited and used to enhance and shape the political will but in themselves are not able to be a sole catalyst for fiscal adjustments.

[1]For a more detailed account of the 2004 enlargement wave, see Schimmelfennig and Sedelmeier (2004)

8.2 Tectonic changes after the crisis

8.2.1 Politics and institutions

The 2008 crisis provides the watershed moment for the cases. It caused a Europe wide recession and reversed the debt position of the Euro area. The average debt of the original 12 member state jumped to 92.5% by 2012 from the 2007 low of 58%. This increase was due to automatic stabilizers working, public bailouts of financial institutions, fiscal stimulus (albeit fiscal stimulus packages were rather small) and shrinking GDP growth. The costs of the crisis affected both Belgium and Slovakia via different channels. Belgium had to bail out its banks that costed 25 billion Euros, while Slovakia had to contribute to the Greek bailout package via the ESFS. Both of these expenses stirred up domestic political debates. In addition to the economic crisis, Belgium also went through a severe political crisis with multiple failed coalition attempt that left the country with caretaker governments between 2007 and 2011. This political chaos was the result of the constitutional reform process and political fault lines running along the debate on the issue of furthering fiscal devolution to the regions. This political impasse meant that while the country was under the Excessive Deficit Procedure from 2008 it did not meet its obligations. Both the European Commission and Council and the High Council of Finance repeatedly pushed for meeting the prescribed medium term objective of structural balance with no success. However, while no substantive corrective steps were made, caretaker governments also did not allow the rapid deterioration of deficits.

After the 2011 election and the forming of the Di Rupo socialist government saw a renewed push for fiscal adjustment. The incoming government explicitly sought out guidence from the High Council of Finance to legitimize its fiscal policy. This signalling however did not translate into actual policy action and the country continued the noncompliance with regards to the EDP. Similarly, the Consultation Committee has been revived to convince the Council that both the federal and regional governments are dedicated to fiscal correction. According to the interviews, this development did little to nothing as Stability

Programmes were not accepted by the regions, only 'noted'.[2] Contrary to the first period of the Belgian case, substantive fiscal adjustment started when a new centre right government formed in 2014 helmed by the New Flemish Alliance. The incoming government broke with the previous tradition of revenue based adjustments and cut expenditure by limiting wage indexing on the regional level and also stopped the growth of social benefits expenses.

The second part of the Belgian case shows that fragmented politics (during 2007-2011) lead to fiscal paralysis despite a well established and functioning institutional net.[3] Altough the fiscal council was involved and the supranational fiscal rules were also triggered (resulting in the EDP) the lack of political commitment could not be overcome. Fiscal consolidation came after an election that changed the political landscape and put a centre-right government in power, which enacted policy change in line with the HCF and Commission recommendations to meet the medium term objective. As a result the country exited the excessive deficit procedure.

For the Slovak case, the after crisis period saw continued institutional development with the creation of the Council for Budget Responsibility as a fiscal council and a fiscal rule legislated as a constitutional amendment. Both of these institutions were a result of a domestic driven, bottom up policy process which resulted in an almost unanimous adoption vote in the Slovak parliament in 2011.[4] The design of the council and the rule followed the international best practice advocated by the OECD and the European Commission. This was a conscious decision as confirmed by a high level central bank official. Similarly to the Belgian fiscal council, the central bank played a key role in establishing the institution and providing institutional credibility by having the governor incorporated in the member nomination process. This development also provides strong evidence for shared fiscal paths across the Slovak political spectrum. Despite having a strong mandate and independence provided by the National Bank of Slovakia, the fiscal council still experiences hindrances to its work. The headwind it faces is access to information which was confirmed on two

[2] While the regions did have increased fiscal powers as the result of the constitutional reform they did not engage in expansionary policy so the fears of debts accumulating on a regional level were unfounded.

[3] This finding resonates with the seminal research of Roubini and Sachs (1989).

[4] The Fiscal Responsibility Act was submitted by an opposition MP who then became Minister of Finance under the new government.

separate occasion by a Belgian and Slovak fiscal policy expert.[5]

Similarly to Belgium, Slovakia was placed under the excessive deficit procedure in 2010 as it breached the 3% deficit rule. Unlike the Belgian government which was bogged down in the constitutional reform, the Slovak government took action to meet the deadline set for exiting the EDP. It was during the EDP years that the fiscal council and the Fiscal Responsibility Act come to life which also aided compliance with the Commission proposed medium term objective. As a result, Slovakia exited the procedure in 2014 with significant fiscal efforts that exceeded the recommended structural adjustment targets. This is in stark contrast with the Belgian process where the Commission and Council had to issue a warning as the country did not make sufficient effort to meet the set deficit targets. The Slovak political discourse on the timely exit further reinforces the earlier findings about the intrinsic value placed on sound fiscal policy and how the political elite views fiscal performance as a proxy for national image in the Euro area and in the European Union. The Slovak EDP process also shows that political will from the government assisted by fiscal institutions results in markedly different outcome compared to when the institutions are facing political headwinds.

8.2.2 The role of the European Union

The European sovereign debt crisis triggered a wave of reform and new regulations to strengthen the European fiscal framework and enhance fiscal cooperation across member states. The cornerstones of the new framework are the Two Pack, Six Pack and Fiscal Compact regulations.[6] As Table 8.2 shows it strengthened the position of existing fiscal councils by mandating member states to incorporate them in the budgetary process (and to create such institutions if they did not exist). The importance of macroeconomic forecasts provided by independent fiscal institutions are also included which is intended to limit biased estimates of future fiscal paths.

The European Commission also received a strengthened role in the domestic budget

[5] The issue was brought up by the Belgian expert during the interview, before the Slovak interview rounds were carried out, noting that their Slovak colleagues were mentioning this problem in the meetings of the Network of the EU Independent Fiscal Institutions.

[6] For a detailed analysis on the political and legislative background of the reforms, see Tsebelis and Hahm (2014).

policy cycle by having the task of reviewing the budget drafts of the member states and issuing country specific recommendations if the budget would likely breach the SGP deficit limits. The Six Pack is the post-crisis reform of the Stability and Growth Pact, bringing in new tools for both the corrective and preventive arms. This allows the Commission to start the excessive deficit procedure faster and on more transparent grounds. It also added new enforcement tools in the forms of fines and deposits amounting to 0.2% of the GDP (Barnes et al., 2012). Research on the impact of the reformed fiscal framework is still scarce in the literature, in light of the past performance there are critical views on how effective policy coordination can be under the European Semester (Hallerberg et al., 2011) and how the strenghtened SGP would replicate the problems of previous iterations (Alt et al., 2014)

This combination puts further emphasis on good cooperation between national institutions and the European Commission as the submission of the draft budget is preceded by formal and informal discussions. This is to ensure that the proposed budgets are in line with the supranational fiscal rules. As a result of the deterioration in the fiscal position of the Euro area and the European Union as a whole the Commission took a hardliner approach and recommended the initialization of the excessive deficit procedure of 23 times between 2009 and 2013. This is a marked change of pace compared to the pre-crisis application of the corrective arm when the procedure was seldom invoked.[7]

The increased activism of the European Commission and the European Council (which eventually has to decide on the country specific recommendations and opening of the excessive deficit procedure) resulted in an increased role and influence over fiscal policy in member states. This is reflected in Figure 8.1 which shows that as average debt increased in the original Euro area 12 countries an unprecedented amount of excessive deficit procedure has been opened. The impact of the institutional reforms and increased use of EDP has been widely acknowledged during the interviews conducted. The high level experts at both the Belgian and Slovak fiscal council highlighted the importance of having European regulations guaranteeing their institutional remit and mandating governments to incorporate independent macroeconomic forecasts. In the Belgian case it was also highlighted by fiscal

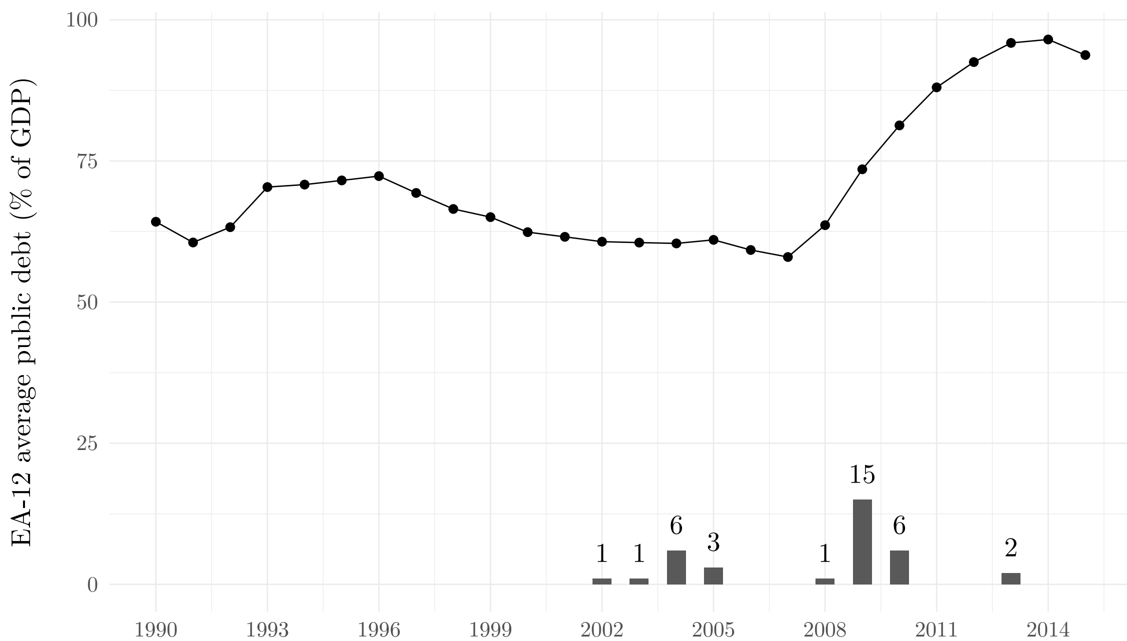
[7]Despite the high number of excessive deficit procedures no sanctions were issued as all the EDPs were abrogated with satisfactory compliance from member states.

Table 8.2: Key elements of European fiscal framework after 2008

Date	Regulation	Content
2013	Two-Pack	Common budgetary timeline, submission of draft budgets Mandatory establishments of independent fiscal councils
2012	Fiscal Compact	Ex ante reporting of public debt issuance Mandatory balanced budget Stronger EDP Benchmark for government debt reduction
2011	Six-Pack	Early warning mechanism that triggers macroeconomic imbalance procedure Fiscal surveillance under the European Semester Expenditure benchmark linked to MTO Enhanced surveillance (for both current account deficit and surplus) EDP can be opened based on the debt level alone ($>60\%$) Financial sanctions in case of non-compliance

Source: European Commission, author's compilation. The legal documents used for the table can be accessed via the EUR-Lex repository online. The regulation numbers are the following: *Regulation (EU) No 472/2013*, *Regulation (EU) No 473/2013*, *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union*, *Regulation 1175/2011*, *Regulation 1177/2011*, *Regulation 1173/2011*, *Directive 2011/85/EU*, *Regulation 1176/2011*, *Regulation 1174/2011*

Figure 8.1: EA-12 public debt and Excessive Deficit Procedures opened, 1990-2015



Source: European Commission, IMF Historical Debt Database, author's compilation

council and ministry experts (both from the Ministry of Finance and Ministry of Budget) that the EDP was a major pressure on the government to enact fiscal consolidation.

There are unintended consequences of a more involved Commission for the Slovak Council for Budget Responsibility. It was brought up during the interviews that the Commission's budget evaluations and country specific recommendations are systematically more lenient than the CBR's assessment. This presents an opportunity for the government for venue shopping between two reputable institutions and choosing the less stringent that fits its goals better.[8] This important evidence shows how governments can circumvent domestic fiscal institutions by relying on second opinions during the budget review process of the European Semester.[9]

Based on the two case studies conducted and data from the interviews and institutional

[8]For more on various forms and implications of venue shopping (or forum shopping), see Epstein and Rhodes (2016); Murphy and Kellow (2013).

[9]The more recent international experience also provides similar examples where governments decide to openly disregard their fiscal councils. The Trump administration in the US attacked the Congressional Budget Office over its projections on health care and tax reforms. The Hungarian government choose to cut the resources of the fiscal council dramatically and also limiting the scope and independence of it. Both of these instances show that politics can have profound impact on independent institutions, irregardless of their embeddedness and track record in the policy process.

Table 8.3: Summary statistics for the Belgian and Slovak fiscal policy networks

Country	Type	N_{ties}	N_{actors}	Mean distance	Diameter	Density	Network clustering	Assortativity
Belgium	technical	168	39	2.13	4.00	0.11	0.45	-0.53
Slovakia	technical	64	12	1.76	3.00	0.48	0.49	-0.39

survey it is clear that the impact of the EU increased considerably after the crisis. The expert interviews voiced unequivocally that the EU is more than an afterthought in the fiscal policy cycle and the renewed European fiscal framework carries more weight. The increased used of the EDP can push governments to adhere to the fiscal targets prescribed in the Stability and Growth Pact and they are legally obliged to take input from independent fiscal institutions.

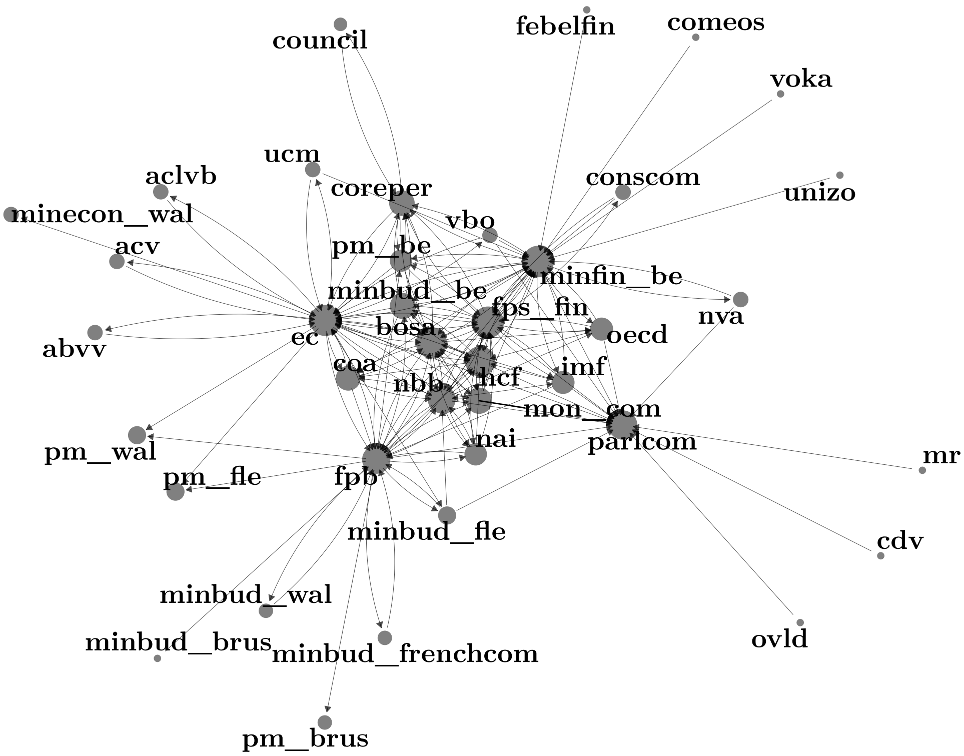
8.3 Policy network analysis

The case studies showed that while fiscal councils play an important supporting role their effect is conditional on external factors, chief among those is political will. In this section I explore the institutional environment of fiscal policy making (conceptualized as a policy network) to understand the position fiscal councils occupy and see their relations towards other key institutions. This analysis relies on data collected via an institutional survey, which is detailed in the beginning of the dissertation.

The analysis focuses on fiscal policy networks in Slovakia and Belgium. These structures are a snapshot of the 2018 arrangement and not necessarily representing the past policy network. However, this provides an important insight into the networked attributes of fiscal councils in times of increased European fiscal coordination and push for fiscal consolidation by both the Slovak and Belgian governments. As a result both of these networks show how the flow of information looks like during the policy process *when* the fiscal councils are part of the discussion. The summary statistics and key network topology attributes are presented in Table 8.3.

The differences in size are apparent. The Belgium policy network contains 39 institutions which has 168 connections between them. In this network, the average distance between

Figure 8.2: Belgian technical communication network

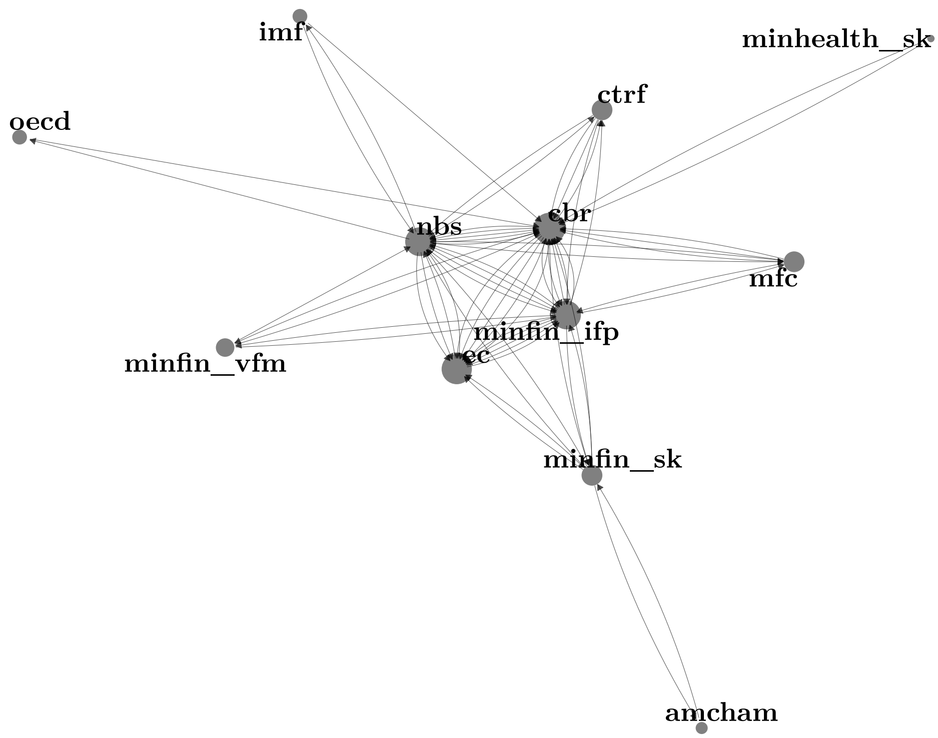


two institutions is just 2.13 which is much shorter than the famed 5-steps from the Milgram experiment. This means that on average each institution is just 2 steps from each other. The technical communication channels create a dense network with many connected triads which means that information access is unproblematic by the participating institutions. This is reflected in the global clustering coefficient which is the ratio of triangles in the network and all connected triples. The high clustering means that partners of a given institutions are also talking to each other which limits the bottleneck effect[10]

The Slovak network is comparatively smaller than the Belgian one which is rooted in two key factors. First, institutionalization of fiscal policy has started relatively recently so the number of actors are limited. Second, the country's administration structure is simpler

[10]The global clustering coefficient is calculated as $C = \frac{\text{(number of triangles)}*3}{\text{(number of connected triples)}}$

Figure 8.3: Slovak technical communication network



than Belgium's (it is not a federal state). Despite the late institutionalization process, the network structure of the Slovak fiscal network's technical information flow is similar as the mean distance between institutions is 1.76 which indicates that each key actor is close contact with every member of the policy network. In terms of information access it is slightly more advanced than the Belgian, with a high clustering coefficient of 0.49.

The network structures are visualized in Figures 8.2 and 8.3. While the size differences are apparent there is another additional similarity in network topology: both networks have a group of central nodes which are highly connected and on the periphery there are interest groups and other less important actors. This property is captured by the negative assortativity statistic.

Network visualizations can help intuition about a network but they are rather unreliable tools for assessing the exact structure of the network. One possible description in addition to Table 8.3 is the degree distribution of the network. In both cases, we can observe that most of the nodes have few connections (high frequency of low degree nodes) while there are a small set of highly connected institutions. As the network is directed, the degrees are disaggregated into in-degree and out-degree distributions. The similarities in the in and out degree distributions hints towards an overwhelmingly reciprocal network. Following the standard practice in the literature, the degrees are normalized so they are comparable between networks of different sizes (Scott, 2013). Reciprocity is a rather intuitive measure as it is the share of reciprocated edges (using the adjacency matrix notation).[11] For the Slovak network it is 0.78 and for the Belgian it is 0.70 which means that the majority of technical communication and information flow is reciprocated in both cases.

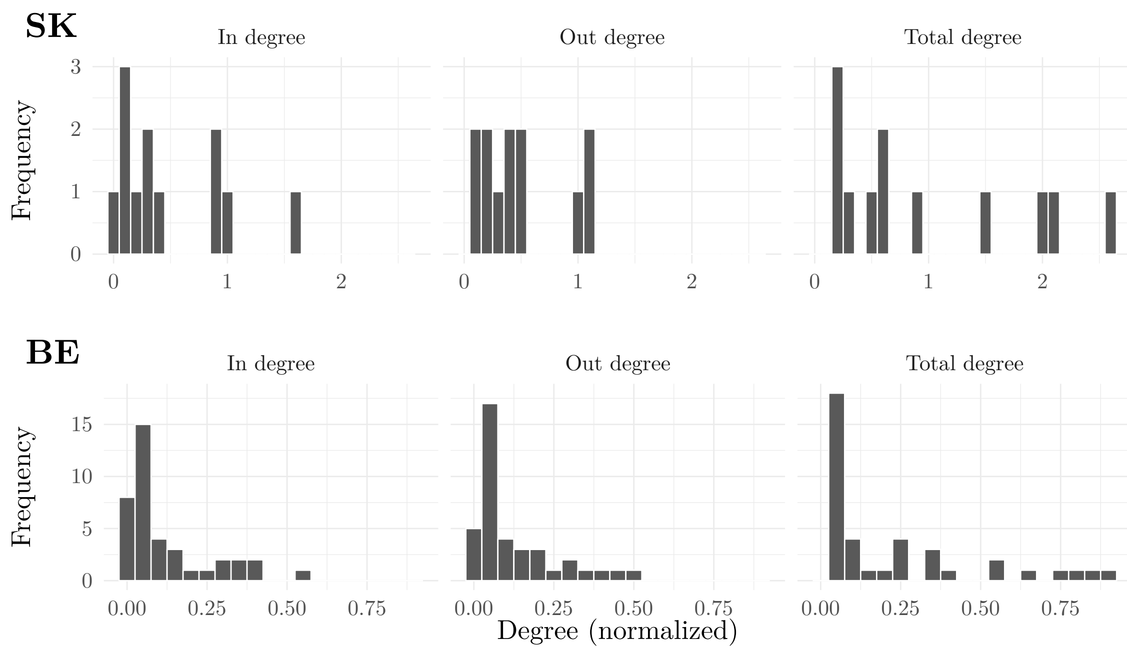
The network structure confirms the evidence collected via the interviews and process tracing that the two country has different institutional resources for fiscal policy making. However the size and variety of institutions might differ, the interconnectedness of institutions is very similar with key ministries and independent institutions occupying the central positions with the European Commission being the key international actor. The observed core-periphery structure also confirms the evidence from the interviews that fiscal policy is made with technical input from a core set of institutions and little to no impact from interest groups or regional governments in the case of Belgium.

In order to quantitatively assess the most influential institutions in the policy making process in term of technical information flow Table D.1 provides the ten most central institutions in both Slovak and Belgian network. The institutions are ranked according to their eigenvector centrality.[12] High eigenvector centrality is interpreted as a sign that the institution is connected to well connected institutions or has a high number of connections (or both). This means that this measures shows how well a given actor is embedded into the technical information process in the fiscal policy making. For both cases the top 10 were selected into the table, also showing their betweeness centrality which indicates their

[11]It is calculated as $r = \frac{1}{m}\sum_{ij} A_{ij}A_{ji}$, where m is the total number of edges in the network.

[12]The Eigen centrality of node i is calculated as $\chi_i = \kappa_1^{-1}\sum_j A_{ij}\chi_j$, where κ_1 is the largest eigenvalue of matrix $\mathbf{A}$

Figure 8.4: Normalized degree distributions



bridging role.[13] A high betweeness centrality is a sign that the institution has many shortest path going through it. This metric indicates the ability to transmit key information to the network members. Local clustering (also called transitivity or closure in the literature (Robins, 2015)) is similar to the betweeness centrality as it serves as an indication if a given actor is an influential bridge between its contacts.[14] This interpretation of the local clustering coefficient is based on Burt (2004, 2009, 2017) which shows how structural wholes and network closure can represent social capital in a network. Structural holes are conceptualized as spaces in the network where the partners of the institution are not connected to each other giving increased importance for that actor in transmitting information or act as a gatekeeper of information. These missing links between the partners of the institution can mean less effective information transfer in the network.

Table D.1 shows that the most important institutions for both networks are largely following the evidence presented in the case studies. For Belgium, the top four institution in

[13]Betweeness centrality is defined for node i as $\chi_i = \sum_{st} \frac{n^i_{st}}{g_{st}}$, where n^i_{st} is the number of geodesic paths from s to i that crosses through i. g_{st} is defined as the total number of paths from s to t (Newman, 2010, 187)

[14]The local clustering coefficient for a single node i is defined similarly than the global clustering: $C_i = \frac{\text{(number of pairs of neighbors of } i \text{ that are connected)}}{\text{(number of pairs of neighbors of } i\text{)}}$

terms of eigenvector centrality are the Ministry of Finance and the Cabinet of the Ministry, the Ministry of Budget, the European Commission and the High Council of Finance. This metric captures well their role in the process also highlighting that these institutions are well connected to other influential institutions which enables them to coordinate effectively on technical issues of the budget. This is also reflected in their local clustering which shows that their partners are also sharing a connection which also further reaffirms the claim that these institutions serve as the core of the technical information flow during fiscal policy making. Interestingly, their betweeness centrality is not necessarily corresponding, most notably in the cases of the High Council of Finance and the Ministry of Budget. The role difference between the two fiscal council (the High Council of Finance and the Federal Planning Bureau) is also highlighted as the FPB has higher betweeness centrality and lower local transitivity which means that it has a comparatively higher social capital and it connects more institutions.

For Slovakia, the findings are similar. The most important institutions according to both centrality measure are in line with the finding of the case studies which shows that from the domestic independent institutions the central bank and the fiscal council are both well embedded in the technical information flow. They have comparable centrality and local clustering which shows the strong connections that both fiscal and monetary policy institutions built. One interesting finding is the centrality of the National Bank of Slovakia which shows that its role in the creation and institutional backing of the fiscal council puts it also into the center of the technical aspects of fiscal policy making. It can also be an effect of path dependence as historically the NBS had a concentration of highly trained economists and a proven track record of withstanding political pressure to accommodate discretionary fiscal policy. This also highlights how Slovakia leapfrogged its lagging institutional development and enabled the fiscal council to be deeply embedded into the technical information flow. The other key institution is the Ministry of Finance and its two in-house institutes (the Value for Money and the Institute for Financial Policy), which are also recent institutional creations tasked with policy support. Somewhat surprisingly the two forecasting committee does not share the same network position as the Federal Planning Bureau in Belgium despite their similarities in roles and responsibilities. One possible explanation for this is that these committees are not as institutionalized as the FPB since they do not have the same institutional depth, such as a staff of experts and ring fenced budget.

The network data allows a more in depth analysis by modelling how various network attributes affect the likelihood of forming connections and if the observed network have some other global qualities that are not due to random processes. To estimate these effects I use exponential random graph models (ERGMs). The ERGM can solve several problems and shortcomings that would result in a biased estimation in the case of a GLM regression. Briefly, it accounts for the endogeneity in the network (and eliminates the omitted variable bias and bias from the non-independence of observations). Furthermore, node attributes are also included in the regression (Robins et al., 2007). The ERGM is estimated with a Markov Chain Monte Carlo sampling combined with maximum likelihood estimation (MCMCMLE). It evaluates the MCMC samples with an MLE and estimates the probability of observing the empirical network out of all the simulated population. The dependent variable is the log odds of establishing a network tie. The actor specific coefficients are interpreted as log-odds ratios conditional on the rest of the network (Lusher et al., 2013).

The ERGM models can be represented as the following:

$$P(N,\theta) = \frac{\exp\left\{\theta^{\top} h(N)\right\}}{\sum_{N^{*}\in N}\{\theta^{\top} h(N^{*})\}} \tag{8.1}$$

Where θ is the coefficient that is estimated, $h(N)$ are the network statistics; and the nominator is the exponential function of the sum of the weighted statistics. Conversely, the denominator represents the sum of the same for all possible topologies. Therefore, $P(N,\theta)$ is the probability of a given network over all networks one could have observed. I estimate three ERGM models, one for the technical and political information network in Belgium each and one for the technical information network in Slovakia. Due to non-response, the political information network of Slovakia could not be assessed as the majority of the respondents of the survey did not provide information. Unfortunately, the Slovak technical network also has a low sample size for certain institutional positions which resulted in a less than ideal model fit and in some cases coefficients could not be estimated.

The relevant network endogeneities that are included in the model are informed by the descriptive analysis above. The included variables are reciprocity, clustering, indegree, outdegree and institutional roles. Reciprocity and clustering represent the same concepts as above and they are measuring if the observed policy networks have a significant tendency to have reciprocated ties and high interconnectivity by having high clustering. Indegree and outdegree measures the tendency of having highly ”popular” and ”active” actors in the network causing a centralization on either out or in-degrees. Finally, the institutional role is a nodal covariate which measures if an institution with a particular role is more likely to form a tie. The findings are presented in Table 8.4.

The results of the models confirm that reciprocity and clustering are statistically significant and they show that the network structure is heavily affected by two-way information sharing in both the Slovak and Belgian case. This highlights and underscores the findings from the cases that these networks are built from actors who rely heavily on cooperation with their peers. The results on the clustering, and in and out-degrees are both confirming the prior analysis. When looking at the roles in the technical network in Belgium it is apparent that the two role that does not have any significance for increased likelihood to form ties is the coordination and political representation. This is a result of having a small number of coordination institutions in the network (the Monitoring Committee and the Consultation Committee) out of which one does not participate in the process much. Interestingly, in the case of the political information network in Belgium, the only institutional position that makes it more likely to have more connections is the political representation. This findings nicely illustrate the depoliticized nature of the Belgian fiscal policy process.

The findings about the network structures of the two cases that show policy making after the last round of institutional reform in each country developed into a dense policy network where information flow is not constrained. This lines up with previous research on network structure and policy performance which shows that networks with high clustering (or closure, transitivity) and heterogeneity (conceptualized as the core periphery structure and different type of institutions connecting to each other) are associated with higher effectiveness (Sandström and Carlsson, 2008). In addition to the descriptive evidence, the ERGM models also confirmed prior findings from the cases and from the descriptive statis-

Table 8.4: ERGM models

	Belgium		Slovakia
	Technical	Political	Technical
edges	-4.11^{***}	-0.22	-2.02^{***}
	(0.47)	(0.77)	(0.58)
Reciprocity	3.11^{***}	0.03	4.26^{***}
	(0.32)	(0.72)	(0.86)
Clustering	0.42^{*}	-0.09	
	(0.21)	(0.28)	
Outdegree	-0.69	-5.97^{***}	
	(0.59)	(1.12)	
Indegree	-1.59^{**}	1.24	
	(0.59)	(1.18)	
Role: approval	0.75^{**}		
	(0.28)		
Role: coordination	0.34	-0.49	
	(0.20)	(0.43)	
Role: forecasting	0.99^{***}	-0.91	
	(0.22)	(0.77)	
Role: monitoring	0.69^{***}	-0.12	-0.27
	(0.18)	(0.34)	(0.28)
Role: policy design	0.33^{*}	-0.43	-0.60
	(0.15)	(0.35)	(0.36)
Role: policy support	1.11^{***}	-0.25	0.02
	(0.22)	(0.36)	(0.33)
Role: political representation	-0.06	-1.60^{*}	
	(0.21)	(0.73)	
Role: advocacy			-1.26^{*}
			(0.62)
AIC	671.39	223.87	127.15
BIC	735.00	268.32	144.45
Log Likelihood	-323.69	-100.94	-57.57

Note: Standard errors are in parentheses
$^{***}p < 0.001$, $^{**}p < 0.01$, $^{*}p < 0.05$

tics. These findings add validity to the findings of the cases as they confirm the results of the qualitative analysis.

8.4 Conclusion

This chapter applied a comparative perspective to examine the result of the two cases and also provided support for the findings from a network analysis point of view. The mixed method applied in the chapter makes the findings more robust as the qualitative evidence collected via interviews and primary document assessment are corroborated by examining quantitative network properties. The case studies supply a rich background to fiscal policy making in the two countries over time.

The key finding of this chapter lies in answering a number of key questions. First, as the literature suggests, on average (over time and over countries) fiscal institutions are positively associated with reduced fiscal aggregates, such as debt or deficit. Using this general finding as a theoretical starting point I examine *when do fiscal councils work* in particular? Using the case studies were instrumental in answering this question as they enable the analysis to dig deep and observe temporal changes in both politics and institutions. The evidence from the two cases show that fiscal consolidation is not necessarily conditional on already existing institutions as the example of the Dzurinda governments demonstrated. When they are present, as during the Belgian case or the later stages of the Slovak case, they can still be circumvented by the government. However, when political actors are pushed towards fiscal consolidation that creates an opportunity for the fiscal council to be an ally and provide policy guidance for the consolidation. The push factors in both cases were the already existing deficits and debt levels coupled with a strong European pressure.

Second, this finding also provides evidence for the effectiveness of the European Union to leverage key deadlines for stages of European integration. This was seen with the Euro adoption with both cases and the EU accession criteria in the Slovak case. Moreover, the two cases and the network analysis both demonstrated the key role of the EU after the 2008 crisis and the strengthened Stability and Growth Pact and enhanced fiscal framework. During the interviews the effect of the EU was not questioned by participants. In the Belgian case it was highlighted that the excessive deficit procedure was a key external pressure for motivating the government to implement fiscal adjustment. While research is still scarce on the effects of the Fiscal Compact and the post crisis SGP reform this evidence points towards a significantly stronger European Union.

Following up on the situations where fiscal institutions are having an impact on policy another finding sheds light on *how they affect* and *what are the channels of influence*? In both cases they are defining the direction of fiscal consolidation and they are also providing supportive messages in their reports. While the impact of the reports are hard to measure, in both cases the media footprint of the councils increases around key fiscal policy actions. In the Belgian case the council formulated the medium term objective in line with the Commission recommended EDP exit goals. In the Slovak case, the council's first test was the evaluation of the pension reform which led to fiscal consolidation under a left wing government. The network analysis shows that after the end of the last institutional reforms both domestic and European, fiscal councils are a central part of the technical information flow during the policy process. In line with expectations, their position facilitates the dissemination of information rather than gate keeping.

9 Conclusion

The dissertation looked at when and how fiscal institutions are able to affect fiscal policy. I argue based on the two case studies and the comparative analysis of them that the effects of fiscal councils are overestimated in the literature and many analysis omits key contextual factors. One of these factors are whether the policy preferences of the governments' and the fiscal council recommendation align or not. The Belgian case shows that in case of alignment of goals the fiscal council's reports and goals are matched by government action and they are used as an independent source of credibility. Interestingly this finding holds in the case of Belgium even in the absence of domestic fiscal rules providing a second pillar to the fiscal framework.

The Belgian case also showed that despite reforms and demonstrated capabilities of reaching a balanced budget and decreasing the public debt this process is not irreversible. After the Euro accession, the primary balance started a slow but steady erosion, the fiscal council's reports and warnings went unheeded and the supranational fiscal rules of the Stability and Growth Pact had little to no effect. This is a cautionary tale that shows that despite strong institutions and previous reforms these changes are not path dependent and can be eroded by lack of political will and focus. One reason for this regression is that while fiscal councils are a relatively new and innovative way of maintaining fiscal discipline they have a limited toolset to intervene in the budgetary process directly, by blocking budget items or delaying the budget. This quality is mainly the product of the political unfeasability of having an independent body such influence over a redistributive process which affects the general electorate.

The Slovak case followed a different trajectory as it examined a country from Central

Eastern Europe, a recently established independent state and a newcomer to the European Union and the Euro area. This case study adds to the literature by showing how a new member state managed to stay on track and maintain a conservative fiscal stance as well as how volatile politics left this trajectory more or less undisturbed. Contrary to Belgium, this case provides a detailed look at how late institutionalizing countries can leapfrog and how having institutions might be a result of previous fiscal policy as opposed to being the cause of it. The Slovak case demonstrated that long standing historical factors as well as reputational pressure from the international community can motivate tight fiscal policy which can last over governments of different ideology. As opposed to the Belgian case, the Slovak fiscal council can rely on a strong, constitutional debt rule with automatic triggers. This gives the council more leverage when it publishes its reports.

The conclusion chapter will look at the empirical findings of the two case studies and the comparative chapter and link these to the literature surveyed in Chapter 2. This section will also take stock of how well the findings can be generalized to the broader population of the Euro area. In the second section I will also detail the limitations of the research stemming from methodology and data availability as well. Finally, the last section will briefly conclude and highlight the overall contributions of the dissertation to the field of the political economy of fiscal policy.

9.1 Theory implications

9.1.1 Coalition governments and deficits

One persistent theme in the literature on fiscal policy is how coalition governments are generally worse at maintaining fiscal discipline than single party governments. One of the earliest research on this highlighted how their shorter tenure and opposing party interest is the likely source of this effect (Roubini and Sachs, 1989). Another explanation for a poorer fiscal performance of coalition governments is the ideological distance between the coalition members that would cause diverging fiscal preferences. However in both cases examined in the dissertation these findings are not supported by the results (Hallerberg et al., 2009).[1] During the times of consolidation and subsequent fiscal slippage in Belgium the coalition governments were very similar in their ideological distance, however their fiscal performance and attitude towards the fiscal council changed markedly. Only the last election broke this trend where the Michel governments' parties were far closer to each other than any other cabinet in the preceding three decades.

For Slovakia the centre-right governments of the second Dzurinda and the Radiĉová cabinets were made up by parties with a remarkable closeness in their left-right ideology. However, both the Meĉiar and Fico governments were made up of parties with larger ideological distances (with similar values to the Belgian governments). This fluctuation of ideological distances in the coalition governments' (with the exception of the one party government of the second Fico cabinet) however did not make a marked effect on fiscal policy trajectory. The Slovak case demonstrated how fiscal policy did not experience any volatility despite being managed almost exclusively by coalition governments. The second Fico government was a single party one but this did not translate into a tighter or looser policy making. This continued fiscal trajectory in Slovakia is also a product of the Fico governments building on the successful policies of the first two Dzurinda government. Seeing the reforms succeed the Fico governments felt no high pressure to deviate drastically from the beaten path.

The dissertation shows that subsequent governments' fiscal policy preference was not directly a function of the ideological distance within the coalition or the number of parties in the coalition. This finding alters the theoretical and empirical work of Hallerberg et al. (2009) by highlighting that multiparty governments are not inherently more prone to a more expansionary fiscal policy.

[1] For simplicity I operationalize ideological distance within a government as the following: ideological distance $= \sqrt{\sum_{i=1}^{N}(pos_i - \overline{pos})^2}$, where the ideological distance is the standard deviation of a 0-10 left-right ideological scale for cabinet party i compiled by Döring and Manow (2012) using data from Castles and Mair (1984); Huber and Inglehart (1995); Benoit and Laver (2006); Polk et al. (2017). The results are presented in Tables C.1 and C.2 in the Appendix.

9.1.2 When and how do fiscal institutions work

In the dissertation I was exploring the two cases and conducting the network study in order to reveal what are the conditions under which fiscal councils have an impact on policy direction. While the literature acknowledges their positive association with decreased budget deficits and debt levels most of these findings are the results of econometric research and suffers from endoegeneity problems and insignificant results going unpublished (Eslava, 2011; Heinemann et al., 2018).

In the Belgian case for the first period the findings are in line with the literature showing how a reformed fiscal council was able to support the government's aim to reach balanced budget in order to be in the first wave of the Euro introduction (Hallerberg, 2004). However, as a novel finding and addition to the discussion, the case later showed that the effectiveness of the fiscal council is heavily dependent on how the government views the council and whether the fiscal targets of the two actors are in line. This was evidenced by the sidelining of the High Council of Finance in the period of 2004-2012 where the council's recommendations were either ignored or compliance was postponed further in the future. This shows that the mechanisms through which the fiscal councils can affect policy are rather soft, despite the venerable institutional sponsors, such as the central banks and the European Commission. The Belgian case also demonstrated that the lack of strong fiscal rules can further contribute to this process as the fiscal council cannot refer to the legally binding rule (Wyplosz, 2005).

The Slovak case highlighted how a homegrown institutional building process that relies on both political and technical consensus (from the parliament and the central bank) can result in a strong fiscal rule and modern fiscal council which in tandem can maintain and anchor the governments' fiscal policy. The Council for Budget Responsibility by and large has the same set of tools as its Belgian counterpart (such as public reports, consultations with the European Commission and the government) but one key difference is the debt ceiling rule. The Fiscal Responsibility Act triggers corrective measures automatically when the debt is higher than the specified ceilings. This combination of fiscal rule and fiscal council resulted in a stable debt and deficit. The robustness of the fiscal framework in Slovakia benefitted from the long standing informal consensus on the virtues of low debt levels and the need for balanced budgets within the country's political elite.

This finding alters the current literature by putting more emphasis on the contextial environment that fiscal councils operate. This is an important contribution to the current debate as it highlights that while fiscal councils might affect fiscal consolidation and balanced budgets, this contribution is conditional on the political factors. These political factors can be influential as a result of the mostly soft power based toolset of the fiscal watchdogs.

9.1.3 Regression of progress despite prior reforms

One of the seminal contributions that this research builds on is Hallerberg (2004) and Hallerberg et al. (2009) which outlines how different fiscal governance structures can overcome the common resource pool problem. Both Belgium and Slovakia are categorized as a delegation style fiscal governance systems where there is a strong minister of finance who is the primary architect of the budget. However, the cases in these works are limited in their timeframe and therefore cannot account for the Belgian Maastricht fatigue and lacking post-crisis performance, nor explain how Slovakia managed a stable performance within the same time period with considerably less institutional resources.

The Belgian case (in the 1990-2004 period) is hailed as one of the outstanding success stories of institutional reforms of the fiscal framework by creating a strong ministry of finance and fundamentally reforming the existing fiscal council. This finding is confirmed by Chapter 4, nevertheless Chapter 5 shows slow but steady regression of the primary balance despite no changes to the previously well performing fiscal framework. The source of this backsliding is explored in the Belgian case and mostly identified as the lack of effective domestic and supranational fiscal rules, diverging positions between the government and the fiscal council and complacency about the windfall revenues due to the favourable business cycle.

As Chapter 8 also shows a key motivating factor for Belgian fiscal policy were one time European pressures, such as the drive to be in the first wave of Euro countries and the post-2008 peer pressure and excessive deficit procedure to reduce the deficit. While Hallerberg (2004) explores the effects of the EMU and the Stability and Growth Pact their one-off effect is not specified. In my research I show how both Slovakia's and Belgium's policy makers were affected by the need to conform to peer pressure and meet politically important European deadlines and milestones.

The two case study and the comparative chapter offers novel insights on what conditions are likely to contribute to lasting fiscal policy changes. On the one hand, strong fiscal rules and fiscal watchdogs are important elements of the institutional constraints and the lack of one can result in the government circumventing the institutional framework. On the other hand, non-institutional factors are shown to be important in the case of Slovakia. Conversely, Belgium did not have a strong track record of maintaining a balanced budget and no primary or secondary source indicated any ideational factor that would have contributed to such a performance. While there are similarities between the two cases, there is a key difference that made an impact on the debt trajectory of each country. In Slovakia, during and after the transition years the economic reforms (including fiscal institutions) were part of a growth oriented approach. High economic growth and focused fiscal policy meant that the debt in Slovakia was kept well below the Euro area average. Contrary to this, the Belgian state reforms advancing the federalization goals, did not have such growth driven motivation and the constitutional reforms could not form the basis of a coherent policy due to the opposing regional politics. This resulted in fiscal policy being unable to curb the rising public debt as it was conducted on an ad hoc basis without growth helping in the deleveraging process.

In this regards, my dissertation research highlights that prior reforms are not necessarily creating lasting change if the political agenda is going against the institutional constraints. Moreover, it also shows that institutions can be a result of prior performance and help formalize the previously mostly informal policy preferences.

9.1.4 The role of the EU in member state fiscal policy

The two case study and the comparative chapter not only examined the two individual country but they also tracked how the European integration became ever more tighter and how the evolution of the supranational context influenced the domestic policy processes. The influencing factors can be grouped into two categories: supranational fiscal rules and integration leaps with hard deadlines. The first category is the Stability and Growth Pact and its later iterations. The integration leaps are the introduction of the Euro and the post-2008 Fiscal Compact treaty.

The debt and deficit ceilings of the SGP before and after its 2005 reforms were not presenting any credible boundaries for member states in the EU as it is shown during both cases and overviewed in Chapter 2. This is especially apparent in Belgium, where it could not substitute the phased out (and weak) domestic rules nor provide strong external support for the fiscal council. Even the reworked SGP after the 2008 crisis proved to be a rather weak influence in Belgium as demonstrated by the drawn out compliance with the medium term objectives stipulated under the excessive deficit procedure. The Slovak case examined a country where international organizations (such as the OECD, IMF and ultimately, the European Union) enjoy considerable reputation for policy advice. As expected, the Slovak governments complied with the EDP targets swiftly and met timely their exit windows both before and after the crisis.

Interestingly, when asked about the role of the excessive deficit procedures started after the 2008, both the Slovak and Belgian experts were almost unanimous in their view that the EDP procedure was a key motivating factor for fiscal consolidation. The influence of the reworked SGP can be expalined by two factors. First, the general peer pressure from the northern creditor countries and the dominating policy narrative of the need for a swift and decisive fiscal consolidation period (Helgadóttir, 2016). Second, the reworked SGP was accompanied by a strengthened European fiscal framework that empowered the European Commission to evaluate the member states' draft budgets and recommend amendments if neccesary. The mandatory establishment of domestic fiscal councils also increased the legitimacy and sway of the already existing ones in Slovakia and Belgium as they could rely on the European Commission as an external supporting actor. Indeed, in both cases the staff members and DG ECFIN experts mentioned a good working relationship with established communication. Moreover, this relationship goes both ways as the Directorate General also pays attention to the fiscal council reports and consults experts from the watchdogs when they make annual visits.

However, in line with findings from Csaba (2018b) and Ódor and Kiss (2017) the complex set of regulations, deadlines of the European Semester did not make any noticeable effect on the member state policy conduct. This finding is also confirmed by the interviews where the Semester often went unmentioned when asked about the role of the European Union's revised fiscal framework.

9.1.5 Fiscal councils within the policy network

A methodological innovation of the dissertation is to try and situate the fiscal councils in their respective policy network to assess how well they are embedded into to the communication between various institutions. The results confirmed some assumptions and yielded some unexpected results.

I operationalized the policy network as technical communication between various key institutions. Two institution have a link between them if they provide or obtain information from the other. There are some key differences between the two country's policy network. The biggest one is the number of institutions and the number of connections between them. The Slovak network is significantly smaller as there are fewer policy actors that take part in fiscal policy. This difference is in part a result of the federated structure of Belgium but omitting the federal governments from the Belgian network it is still larger. It would be hard to attach any significance to the size of the network as bigger is not inherently better and similarly a smaller network can still have structural holes which would impede coordination.

As for the fiscal councils, they are both occupying a central position of their respective networks. This centrality means that they are in connection with the other important institutions and they share information with each other. Both networks are rather dense which means that there are no real bottlenecks of communication flow in either. The network statistics confirm and reinforce the findings of the case studies that both fiscal councils are well integrated and they are not left out from the communication lines as they are located in the core. As the survey data was also collected at a time when both fiscal councils enjoyed the ear of their governments the findings are also in line with the broader literature on how network structure affects policymaking (Sandström and Carlsson, 2008).

The data also reveals that the Slovak and Belgian fiscal council have very similar centrality in their networks which is not as self evident as it seems. From other networks and theoretical models it is reasonable to expect that longer standing institutions will have a higher number of connections and occupy a more central role in their network (Barabási and Albert, 1999). This is not the case for the Slovak and Belgian fiscal councils which highlights how the Slovak institution building was able to leapfrog two decades of development in Belgium and establish a fiscal framework where the Council for Budget Responsibility are as central as the High Council of Finance.

9.2 Going beyond the cases and limitations

A key question of every case based research is how far the findings travel. For the dissertation the cases were selected based on their diverging qualities in terms of institutional development, geographic location, economic history and debt and deficit levels.

Nevertheless, there are limiting factors for generalizing from these findings. One such factor is the diverse nature of fiscal councils in Europe which affects how independent they are and how wide their mandate is. However, for fiscal councils similar to the Slovak and Belgian one, the individual findings would likely see similar results. As the dissertation also showed, these developments are also dynamic in nature and currently many of the theoretical frameworks are static that do not account for regression. As this dissertation is largely an exploratory undertaking it does not provide such a dynamic theory and cannot predict the exact conditions under such backsliding would occur in a random European member state.

Some of the findings travel well outside of these cases, such as the conditional influence of fiscal councils and the effects of strong fiscal rules. A highly covered example in the literature on fiscal councils is the early and dramatic restructuring of the Hungarian fiscal council after its policy recommendations became a thorn in the side of the government (Kopits and Romhányi, 2013). A similar process was playing out with the US Congressional Budget Office when the governing Republican administration downplayed or ignored the projections of the CBO on their proposed tax reform in 2017. These two examples show that no matter the age of the fiscal council (old in the US and young in Hungary) the policy goals and preferences of the government can sideline these institutions. In the case of Hungary, the diminished council did not result in a looser fiscal policy (Hungary also has a constitutional debt rule) as the government was making deliberate and widely communicated efforts to meet the 3% deficit target to avoid scrutiny from the European Commission and Council.

The stronger disciplinary effects of the reworked European fiscal framework should also have high generalizability as the Euro area debt and deficit levels are decreasing and procyclical fiscal policy with high discretionary spending episodes are not the norm. The Commission also demonstrated that it is willing to send back budget proposals for reconsideration even if it concerns the third biggest European economy as was the case in Italy's 2019 draft budget. While this is not a systematic evidence it shows that the European Union is willing to apply the newly acquired fiscal disciplinary rules (however, issuing fines on the basis of the excessive deficit procedure seems as unlikely in the future as in the past). However, for member states with sizeable economies are getting more lenient treatment as evidenced by France's continued transgressions without much repercussion and the Italian grandstanding also did not resulted in an EDP opened. Thus, the findings in the dissertation are more suitable for the smaller European member states as they are more vulnerable to peer pressure and reputational costs than their bigger peers.

The ubiquity of fiscal councils in Europe is also coinciding with a greater debate on what will be the new normal in fiscal and monetary policy in the decades following the 2008 crisis. Despite that central banks in the advanced economies keep their policy rates low and continue operating with an expanded balance sheet both the Federal Reserve and the ECB failed to meet their inflation targets. The protracted recovery, the historically low interest rates and absentee inflation reignited discussions on the role of debt and deficit and how fiscal policy should evolve to compensate for the ineffective monetary policies. There are competing alternatives in the literature and policy circles that are summarised in two subsequent edited volumes in Blanchard et al. (2016) and Blanchard and Summers (2019). The key debate involving fiscal policy is that any future crisis would require a predominantly fiscal response as both the FED and the ECB has more or less exhausted its toolbox of nonconventional monetary policy and encountered the zero lower bound problem. The Japanese example provides such a scenario when a zero lower bound central bank expands its balance sheet considerably while the government also turns to expansionary fiscal policy.

My dissertation highlighted that deleveraging after a counter cyclical fiscal expansion is not by any means an automatic process. It relies on domestic political ownership as well as a sufficiently nudging external environment (in this case the EU's fiscal framework). My research contributes to these bigger picture macroeconomic debates by providing fine grained case studies on the contextual effects that can affect the performance of the fiscal rules and fiscal councils. While the importance of deficits and debt can change overnight as it was painfully demonstrated by the 2008 crisis, fiscal policy is a slowly turning machine with many moving parts. In the future, the aftermath of the fiscal firefighting can be a different landscape due to the changed domestic and international rules based institutional framework.

The findings of the dissertation contributed to the political economy literature by examining in depth how and when fiscal councils can be effective agents of policy action. Moreover, by analysing the institutional networks based on original data, the research provides a window into a previously unexplored dimension of these new watchdogs and examines how their nominal role aligns with the reality of policy coordination and information dissemination. In addition to the methodological innovation it also continued the case based tradition in the literature paved by Hallerberg (2004) and Hallerberg et al. (2009) and upgraded the previous findings by extending both the time horizon of the analysis and the geographical coverage by including Slovakia amongst the cases. The findings on the impact of the reworked European fiscal framework are also broadening our understanding on how the European Union's increasing fiscal integration affect the member states, old and new alike.

A Survey and interview details

Table A.1: Interviews and survey responses

	Institution	Case	Interviewee	Citation key	Survey response
1	Ministry of Finance	Belgium	Policy expert	MinFin 1	×
2	FPS Finances	Belgium	policy expert	FPS Finance 1	×
3	Ministry of Budget	Belgium	Senior administration member	MinBud 1	
4	FPS Policy & Support (BOSA)	Belgium	Policy expert	FPS Budget 1	×
5	Monitoring Committee	Belgium	Senior representative	MonCom 1	
6	High Council of Finance	Belgium	Secretariat expert	HCF 1	×
7	High Council of Finance	Belgium	Senior Council official	HCF 2	×
8	High Council of Finance	Belgium	Fomer council member	HCF3	
9	High Council of Finance	Belgium	Fomer council member	HCF4	
10	Federal Planning Bureau	Belgium	Senior policy expert	FPB 1	×
11	National Bank of Belgium	Belgium	Policy expert	NBB 1	×
12	National Bank of Belgium	Belgium	Senior central bank official	NBB 2	×
13	Parliamentary Committee on Finances and Budget	Belgium	Member of Parliament	PCFB 1	×
14	European Commission (DG ECFIN)	Belgium	Policy expert	DG ECFIN 1	×
15	Belgian COREPER	Belgium	Policy expert	COREPER 1	×
16	Ministry of Finance (IFP)	Slovakia	Policy expert	IFP1	×
17	National Bank of Slovakia	Slovakia	Senior central bank official	NBS 1	×
18	Council of Budget Responsibility	Slovakia	Senior council official	CBR1	×
19	American Chamber of Commerce, SK	Slovakia	Senior official	AmChamSK	×
20	European Commission (DG ECFIN)	Slovakia	Policy expert	DG ECFIN 3	×
21	European Commission (DG ECFIN)	general interview	Policy expert	DG ECFIN 2	

Table A.2: Semi structured interview items

#	**Item**
1	Does the Six Pack, Two Pack and Fiscal Compact have a meaningful impact on the Belgian fiscal policy and budget? If yes, how?
2	If there are differing fiscal policy opinions, can independent organizations (outside of the government) influence the political process?
3	What is the role of your organization in the national and European policy cycle, and how do you perceive its professional strengths?
4	How do you see the cooperation between domestic institutions on the policy? (Are there any cooperation with European institutions?
5	Who are the top five organizations that *you work with* during the fiscal policy or budget making cycle? (they can be federal, regional, EU level, etc.)
6	Who are the five *most influential* organization in the fiscal policy cycle (including budgeting)? (they can be different from Q5)
7	Is there anything relevant that the interivew did not cover?

B Parties and party families

Table B.1: Parties and party families in Belgium, 1990-2017

Party	Party family	Elections
Francophone Democratic Front of Francophones (FDF)	Ethnic and regional party	1991.11.24
Peoples' Union (VU)	Ethnic and regional party	1991.11.24, 1995.05.21
Flemish Bloc (VB)	Ethnic and regional party	1991.11.24, 1995.05.21, 1999.06.13, 2003.05.18, 2007.06.10, 2010.06.13
People's Union & Complete Democracy for the 21st century (VU&ID21)	Ethnic and regional party	1999.06.13
New Flemish Alliance (N-VA)	Ethnic and regional party	2003.05.18, 2007.06.10, 2010.06.13
Christian People's Party (CVP)	Christian democrat	1991.11.24, 1995.05.21
Christian Social Party (PSC)	Christian democrat	1991.11.24, 1995.05.21, 1999.06.13, 2003.05.18, 2007.06.10, 2010.06.13
Christian Democratic and Flemish (CD&V)	Christian democrat	1999.06.13, 2003.05.18, 2007.06.10, 2010.06.13
Party of Liberty and Progress (PVV)	Liberal	1991.11.24
Liberal Reformation Party (PRL)	Liberal	1991.11.24
Flemish Liberals and Democrats (VLD)	Liberal	1995.05.21, 1999.06.13, 2003.05.18
Liberal Reformation Party & Francophone Democratic Front (PRL&FDF)	Liberal	1995.05.21
Liberal Reformation Party & Francophone Democratic Front & Citizens' Movement for Change (PRL&FDF&MCC)	Liberal	1999.06.13
Reform Movement (MR)	Liberal	2003.05.18, 2007.06.10, 2010.06.13
Flemish Socialist Party (SP)	Social democrat	1991.11.24, 1995.05.21, 1999.06.13
Francophone Socialist Party (PS)	Social democrat	1991.11.24, 1995.05.21, 1999.06.13, 2003.05.18, 2007.06.10, 2010.06.13
Socialist Party Different & Spirit (sp.a&SPIRIT)	Social democrat	2003.05.18
Ecologists (ECOLO)	Ecological	1991.11.24, 1995.05.21, 1999.06.13, 2003.05.18, 2007.06.10, 2010.06.13
Live Differently (AGALEV)	Ecological	1991.11.24, 1995.05.21, 1999.06.13

The party family classification for each party is based on Volkens et al. (2018). Election data source: Döring and Manow (2012).

Table B.2: Parties and party families in Slovakia, 1993-2017

Party	Party family	Elections
Hungarian Coalition (MK)	Ethnic and regional party	1994.09.30
Party of the Hungarian Coalition (SMK/MKP)	Ethnic and regional party	1998.09.26, 2002.09.20, 2006.06.17
Slovak National Party (SNS)	Nationalist	1994.09.30, 1998.09.26, 2006.06.17, 2010.06.12, 2016.03.05
Movement for a Democratic Slovakia (HZDS)	Nationalist	1994.09.30, 1998.09.26, 2002.09.20, 2006.06.17
Kotleba People's Party Our Slovakia (LSNS)	Nationalist	2016.03.05
Civic Conservative Party (OKS)	Conservative	2010.06.12
Ordinary People and Independent Personalities (OL'aNO)	Conservative	2012.03.10, 2016.03.05
Christian Democratic Movement (KDH)	Christian democrat	1994.09.30, 2002.09.20, 2006.06.17, 2010.06.12, 2012.03.10
Slovak Democratic Coalition (SDK)	Christian democrat	1998.09.26
Slovak Democratic and Christian Union (SDKU)	Christian democrat	2002.09.20
Slovak Democratic and Christian Union & Democartic Party (SDKU&DS)	Christian democrat	2006.06.17, 2010.06.12, 2012.03.10
Democratic Union of Slovakia (D'S)	Liberal	1994.09.30
Party of Civic Understanding (SOP)	Liberal	1998.09.26
Alliance of the New Citizen (ANO)	Liberal	2002.09.20
Freedom and Solidarity (SaS)	Liberal	2010.06.12, 2012.03.10, 2016.03.05
Common Choice (SV)	Social democrat	1994.09.30
Party of the Democratic Left (SDL')	Social democrat	1998.09.26
Direction-Social Democracy (Smer)	Social democrat	2002.09.20, 2006.06.17, 2010.06.12, 2012.03.10, 2016.03.05
Workers' Association of Slovakia (ZRS)	Socialist	1994.09.30
Communist Party of Slovakia (KSS)	Socialist	2002.09.20

The party family classification for each party is based on Volkens et al. (2018). Election data source: Döring and Manow (2012).

C Government polarization

Table C.1: Belgian government ideological distances

Governement start date	Cabinet	Government left-right distance	Parties in government
1992-03-07	Dehaene I	1.48	4
1995-06-23	Dehaene II	1.48	4
1999-07-12	Verhofstadt I	2.12	6
2003-07-12	Verhofstadt II	2.18	4
2008-03-20	Leterme I	1.63	5
2008-12-30	Rompuy	1.61	5
2009-11-25	Leterme II	1.61	5
2011-12-06	Di Rupo	1.72	6
2014-10-11	Michel I	0.53	4
2018-12-09	Michel II	0.64	3

Source: Döring and Manow (2012), author's compilation

Table C.2: Slovakian government ideological distances

Governement start date	Cabinet	Government left-right distance	Parties in government
1993-01-12	Meĉiar III	1.51	2
1993-03-19	Meĉiar IV	-	1
1993-11-17	Meĉiar V	1.51	2
1994-03-16	Moravcik	2.03	5
1994-12-13	Meĉiar VI	2.89	3
1998-10-30	Dzurinda I	2.08	4
2002-10-16	Dzurinda II	0.38	4
2006-07-04	Fico I	1.83	3
2010-07-08	Radiĉová I	0.66	4
2012-04-04	Fico II	-	1
2016-03-23	Fico III	1.95	4
2016-09-01	Fico IV	2.22	3
2018-03-22	Pellegrini	2.22	3

Source: Döring and Manow (2012), author's compilation

D Network statistics and diagnostics

Table D.1: Institutional importance in the policy network

Rank	Institution	Eigen centrality	Betweeness centrality	Local clustering
			Belgium	
1	FPS Finances	1.00	0.07	0.54
2	Cabinet of Ministry of Finance	0.99	0.16	0.27
3	European Commission	0.97	0.24	0.26
4	FPS Policy and Support	0.96	0.03	0.58
5	High Council of Finance	0.89	0.01	0.67
6	Permanent Committee on Finances and Budget	0.82	0.00	0.34
7	Federal Planning Bureau	0.75	0.15	0.29
8	National Bank of Belgium	0.72	0.02	0.64
9	Monitoring Committee	0.60	0.00	0.96
10	Cabinet of Ministry of Budget	0.59	0.01	0.90
			Slovakia	
1	Council for Budget Responsibility	1.00	0.32	0.31
2	European Commission	0.89	0.00	1.00
3	National Bank of Slovakia	0.78	0.26	0.39
4	Institute for Financial Policy (MinFin)	0.77	0.08	0.57
5	Cabinet of Ministry of Finance	0.31	0.17	0.60
6	Committee on Tax Revenue Forecasts	0.30	0.00	1.00
7	Macroeconomic Forecasting Committee	0.30	0.00	1.00
8	Value for Money (MinFin)	0.21	0.00	1.00
9	IMF	0.09	0.00	1.00
10	OECD	0.09	0.00	1.00

Figure D.1: Diagnostics for the Belgium-Technical communication network model

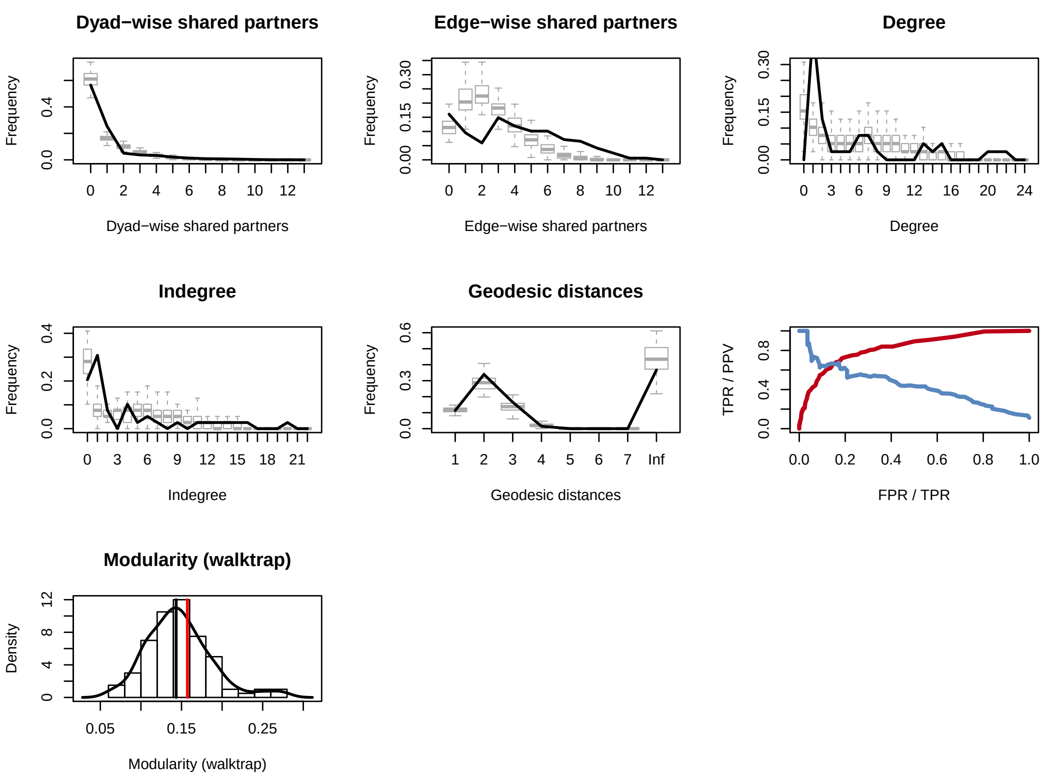


Figure D.2: Diagnostics for the Belgium-Political communication network model

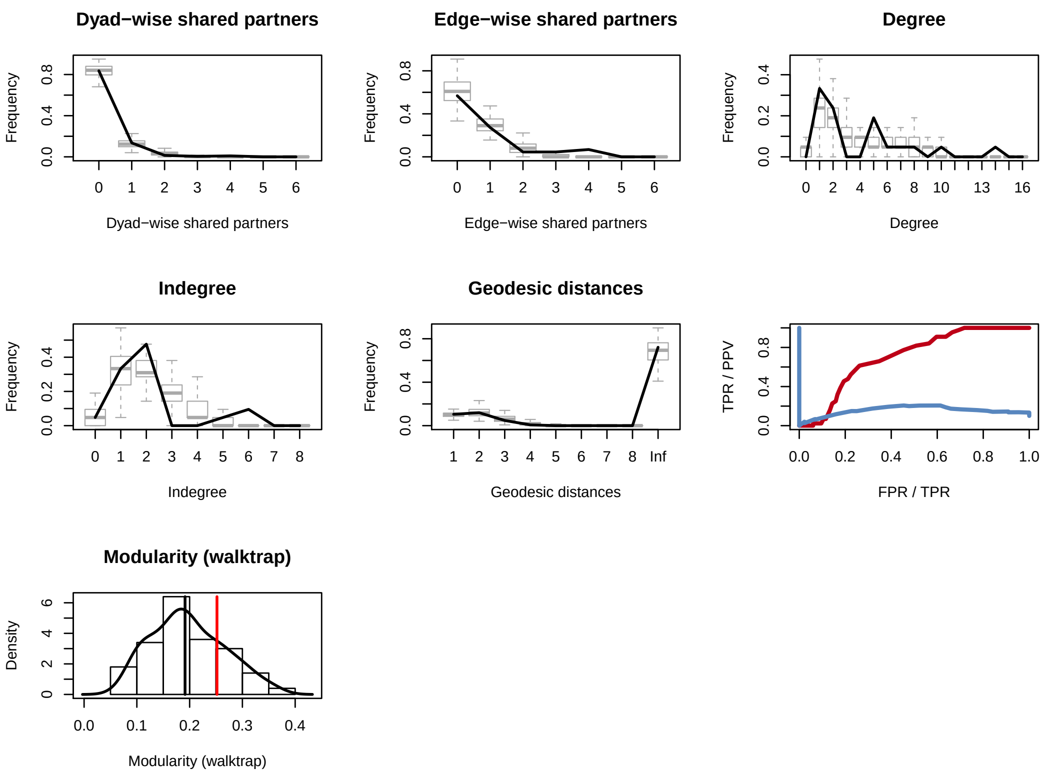
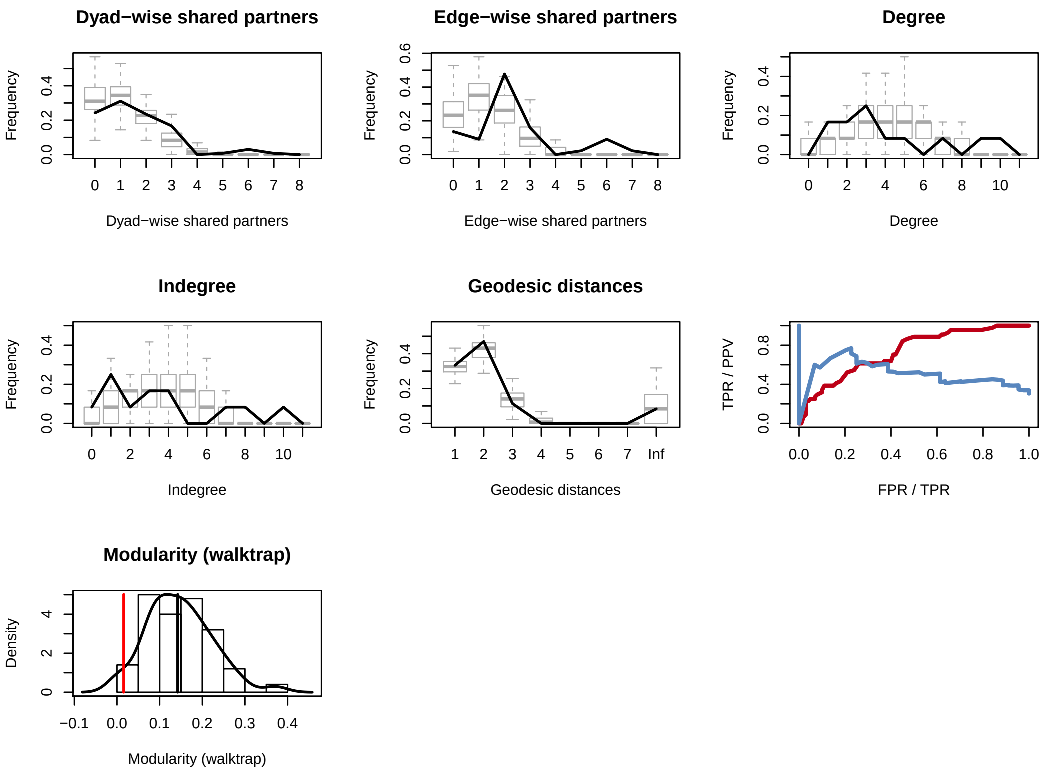


Figure D.3: Diagnostics for the Slovak-Technical communication network model



Bibliography

Abts, K., Dmitriy, P., and Marc, S. (2012). The Federal Elections in Belgium, June 2010. *Electoral Studies*, 31(2):448–452.

Alen, A. and Peeters, P. (1995). Belgian Federal State after the Fourth State Reform, The. *Eur. Pub. L.*, 1:8.

Alesina, A., Ardagna, S., Perotti, R., and Schiantarelli, F. (2002). Fiscal policy, profits, and investment. *American Economic Review*, 92(3):571–589.

Alesina, A., Azzalini, G., Favero, C., Giavazzi, F., and Miano, A. (2018). Is it the How or the Whe that Matters in Fiscal Adjustments? *IMF Economic Review*, 66(1):144–188.

Alesina, A. and Drazen, A. (1991). Why are stabilizations delayed? *American Economic Review*, 81(5):1170–1188.

Alesina, A. and Passalacqua, A. (2016). The political economy of government debt. In *Handbook of Macroeconomics*, volume 2, pages 2599–2651. Elsevier.

Alesina, A. and Perotti, R. (1997). Fiscal adjustments in OECD countries: Composition and macroeconomic effects. *Staff Papers*, 44(2):210–248.

Alt, J., Lassen, D. D., and Wehner, J. (2014). It isn't just about Greece: Domestic politics, transparency and fiscal gimmickry in Europe. *British Journal of Political Science*, 44(4):707–716.

Alt, J. E. and Lassen, D. D. (2006). Fiscal transparency, political parties, and debt in OECD countries. *European Economic Review*, 50(6):1403–1439.

AmChamSK (2018). Interview with high level American Chamber of Commerce staff member.

Aslund, A. and Djankov, S. (2014). *The Great Rebirth: Lessons from the Victory of Capitalism over Communism*. Peterson Institute for International Economics.

Baer, J. (2001). Boxing and Politics in Slovakia: 'Meciarism' Roots, Theory, Practice. *Democratization*, 8(2):97–116.

Baerg, N. R. and Hallerberg, M. (2016). Explaining Instability in the Stability and Growth Pact The Contribution of Member State Power and Euroskepticism to the Euro Crisis. *Comparative Political Studies*, 49(7):968–1009.

Barabási, A.-L. and Albert, R. (1999). Emergence of scaling in random networks. *Science*, 286(5439):509–512.

Barnes, S., Davidsson, D., and Rawdanowicz, Ł. (2012). Europe's New Fiscal Rules. *OECD Economics Department Working Paper*, (No. 972).

Beach, D. and Pedersen, R. B. (2013). *Process-Tracing Methods: Foundations and Guidelines*. University of Michigan Press, 1st edition.

Beblavỳ, M. and Veselkova, M. (2014). Preferential voting and the party–electorate relationship in Slovakia. *Party Politics*, 20(4):521–532.

Beetsma, R., Debrun, X., Fang, X., Kim, Y., Lledo, V., Mbaye, S., and Zhang, X. (2019). Independent fiscal councils: Recent trends and performance. *European Journal of Political Economy*, 57:53–69.

Benczes, I. (2008). *Trimming the Sails: The Comparative Political Economy of Expansionary Fiscal Consolidations: A Hungarian Perspective*. Central European University Press.

Bennett, A. and Checkel, J. T. (2015). *Process Tracing: From Metaphor to Analytic Tool*. Cambridge University Press.

Benoit, K. and Laver, M. (2006). *Party Policy in Modern Democracies*. Routledge.

Bethuyne, G. (2005). Federalisation and fiscal consolidation: The Belgian experience. *European Commission, ECFIN Country Focus*, 2:16.

Bickerton, C. J., Hodson, D., and Puetter, U. (2015). The new intergovernmentalism: European integration in the post-maastricht era. *JCMS: Journal of Common Market Studies*, 53(4):703–722.

Bisciari, P. and Van Meensel, L. (2012). Reform of the Special finance Act for the Communities and Regions. Technical report, National Bank of Belgium.

Blanchard, O., Rajan, R., Rogoff, K., and Summers, L. H., editors (2016). *Progress and Confusion: The State of Macroeconomic Policy*. MIT Press, Cambridge.

Blanchard, O. and Summers, L. H. (2019). *Evolution or Revolution? Rethinking Macroeconomic Policy after the Great Recession*. MIT Press, Cambridge.

Blyth, M. (2015). The new Ideas scholarship in the mirror of historical institutionalism: A case of old whines in new bottles? *Journal of European Public Policy*, pages 1–8.

Bogaert, H., Dobbelaere, L., Hertveldt, B., and Lebrun, I. (2006). Fiscal Councils, Independent Forecasts and the Budgetary Process: Lessons from the Belgian Case. *Federal Planning Bureau*, (4).

Bohle, D. and Greskovits, B. (2012). *Capitalist Diversity on Europe's Periphery*. Cornell University Press.

Borgatti, S. P., Mehra, A., Brass, D. J., and Labianca, G. (2009). Network analysis in the social sciences. *Science*, 323(5916):892–895.

Börzel, T. A. (1998). Organizing Babylon-On the different conceptions of policy networks. *Public Administration*, 76(2):253–273.

Börzel, T. A., Hofmann, T., and Panke, D. (2012). Caving in or sitting it out? Longitudinal patterns of non-compliance in the European Union. *Journal of European Public Policy*, 19(4):454–471.

Börzel, T. A., Hofmann, T., Panke, D., and Sprungk, C. (2010). Obstinate and inefficient: Why member states do not comply with European law. *Comparative Political Studies*, 43(11):1363–1390.

Bourgeois, M. and Bayenet, B. (2013). Le Financement Des Entités Fédérées En Belgique: Quels Changements Après La Sixième Réforme de l'Etat? In J. Sautois and M. Uyttendaele, editors, *La Sixième Réforme de l'Etat (2012-2013)–Tournant Historique Ou Soubresaut Ordinaire?*, pages 263–310. Anthemis, Limal.

Brady, H. E. and Collier, D. (2010). *Rethinking Social Inquiry: Diverse Tools, Shared Standards*. Rowman & Littlefield Publishers.

Brender, A. and Drazen, A. (2005). Political budget cycles in new versus established democracies. *Journal of Monetary Economics*, 52(7):1271–1295.

Buiter, W. H. (2006). The 'Sense and Nonsense of Maastricht'revisited: What have we learnt about stabilization in EMU? *JCMS: Journal of Common Market Studies*, 44(4):687–710.

Burt, R. S. (2004). Structural holes and good ideas. *American Journal of Sociology*, 110(2):349–399.

Burt, R. S. (2009). *Structural Holes: The Social Structure of Competition*. Harvard university press.

Burt, R. S. (2017). Structural holes versus network closure as social capital. In *Social Capital*, pages 31–56. Routledge.

Buti, M. (2007). Will the new Stability and Growth Pact succeed? An economic and political perspective. In *The Stability and Growth Pact Experiences and Future Aspects*, pages 155–181. Springer.

Buti, M. (2016). What Future for Rules-Based Fiscal Policy? In Blanchard, O. J., Rajan, R. G., Rogoff, K. S., and Summers, L. H., editors, *Progress and Confusion: The State of Macroeconomic Policy*, pages 183–196. MIT Press.

Buti, M. and Van den Noord, P. (2004). Fiscal discretion and elections in the early years of EMU. *JCMS: Journal of Common Market Studies*, 42(4):737–756.

Calmfors, L. (2011). The role of independent fiscal policy institutions. *CESifo Working Paper*, No. 3367.

Calmfors, L. (2012). The Swedish Fiscal Policy Council: Watchdog with a broad remit. *CESifo Working Paper*, No. 3725.

Calmfors, L. and Wren-Lewis, S. (2011). What should fiscal councils do? *Economic Policy*, 26(68):649–695.

Campbell, D. T. (1975). Degrees of freedom and the case study. *Comparative political studies*, 8(2):178–193.

Castles, F. G. and Mair, P. (1984). Left-right political scales: Some 'expert' judgments. *European Journal of Political Research*, 12(1):73–88.

CBR1 (2018). Interiview with a senior staff member of the Council for Budget Responsibility.

Cirtautas, A. M. and Schimmelfennig, F. (2010). Europeanisation before and after accession: Conditionality, legacies and compliance. *Europe-Asia Studies*, 62(3):421–441.

Coene, L. and Langenus, G. (2013). Belgium: Promoting Fiscal Discipline in a Federal System. In Kopits, G., editor, *Restoring Public Debt Sustainability: The Role of Independent Fiscal Institutions*. Oxford University Press, Oxford.

COREPER1 (2017). Interview with an expert at the Belgian COREPER I. delegation.

Council for Budget Responsibility (2012). Opinion on the Social Insurance Act Amendment. Technical report, Secretariat of the Council for Budget Responsibility, Bratislava.

Csaba, L. (2011). Financial institutions in transition: The long view. *Post-Communist Economies*, 23(01):1–13.

Csaba, L. (2018a). Reforms in the EU: The interface of national and Community levels. In Nowotny, E., Ritzberger-Grünwald, D., and Schuberth, H., editors, *Structural Reforms for Growth and Cohesion*, pages 191–199. Edward Elgar Publishing.

Csaba, L. (2018b). *Válság Gazdaság Világ - Adalék Közép-Európa Három Évtizedes Gazdaságtörténetéhez (1988-2018) / (English Title: Crisis Economy World - Addendum to Central Europe's Three Decades of Economic History)*. Éghajlat Könyvkiadó, Budapest.

Csardi, G. and Nepusz, T. (2006). The igraph software package for complex network research. *InterJournal*, Complex Systems:1695.

Curristine, T., Harris, J., and Seiwald, J. (2014). *Case Studies of Fiscal Councils: Functions and Impact*. International Monetary Fund.

Dahl, D. B., Scott, D., Roosen, C., Magnusson, A., and Swinton, J. (2018). *Xtable: Export Tables to LaTeX or HTML*.

De Haan, J., Berger, H., and Jansen, D.-J. (2004). Why has the stability and growth pact failed? *International Finance*, 7(2):235–260.

De Haan, J. and Klomp, J. (2013). Conditional political budget cycles: A review of recent evidence. *Public Choice*, 157(3-4):387–410.

Debrun, X., Gérard, M., and Harris, J. (2012). Fiscal policies in crisis mode: Has the time for fiscal councils come at last? *Background Paper*, (2).

Debrun, X., Hauner, D., and Kumar, M. S. (2009). Independent Fiscal Agencies. *Journal of Economic Surveys*, 23(1):44–81.

Debrun, X. and Kinda, T. (2014). *Strengthening Post-Crisis Fiscal Credibility: Fiscal Councils on the Rise—A New Dataset*. Number 14-58. International Monetary Fund.

Debrun, X., Kinda, T., Curristine, T., Eyraud, L., Harris, J., and Seiwald, J. (2013). The functions and impact of fiscal councils. *IMF Policy Paper*, 16.

Debrun, X. and Kumar, M. (2007). Fiscal Rules, Fiscal Councils and All That: Commitment Devices, Signaling Tools or Smokescreens? In *Proceedings of the 9th Banca d'Italia Workshop on Public Finance*, Rome, Banca d'Italia.

Debrun, X. and Takahashi, K. (2011). Independent Fiscal Councils in Continental Europe: Old Wine in New Bottles? *DICE Report*, 9(3):44.

Debrun, X., Zhang, X., and Lledo, V. (2017). The fiscal council dataset: A primer to the 2016 vintage. *IMF Background Paper*.

Deegan-Krause, K. and Haughton, T. (2012). The 2010 parliamentary elections in Slovakia. *Electoral Studies*, 31(1):222–225.

Dellepiane-Avellaneda, S. (2015). The Political Power of Economic Ideas: The Case of 'Expansionary Fiscal Contractions'. *The British Journal of Politics and International Relations*, 17(3):391–418.

Demirel, U. D. (2016). The Short-Term Effects of Tax Changes Evidence for State Dependence. Technical Report 2016-03, Congressional Budget Office.

Devries, P., Guajardo, J., Leigh, D., and Pescatori, A. (2011). A new action-based dataset of fiscal consolidation. *IMF Working Papers*, pages 1–90.

DG ECFIN 1 (2018). Interview with an expert at the DG ECFIN of the European Commission.

DG ECFIN 2 (2017). Interview with a public finance expert at the DG ECFIN of the European Commission.

DG ECFIN 3 (2018). Interview with public finance expert at the DG ECFIN of the European Commission.

Döring, H. and Manow, P. (2012). Parliament and government composition database (ParlGov). *An infrastructure for empirical information on parties, elections and governments in modern democracies. Version*, 12(10).

Dumbrovsky, T. (2014). Constitutional Change through Euro Crisis Law: "Slovakia". Technical report, European University Institute.

Efthyvoulou, G. (2012). Political budget cycles in the European Union and the impact of political pressures. *Public Choice*, 153(3-4):295–327.

Epstein, R. A. and Rhodes, M. (2016). The political dynamics behind Europe's new banking union. *West European Politics*, 39(3):415–437.

Eslava, M. (2011). The political economy of fiscal deficits: A survey. *Journal of Economic Surveys*, 25(4):645–673.

European Bank for Reconstruction and Development, editor (2001). *EBRD Transition Report 2001: Energy in Transition*. Number 8.2001 in Transition Report. EBRD, London.

European Central Bank (2012). ECB Monthly Bulletin.

European Commission (2011). EU Economic governance "Six-Pack" enters into force. Technical Report MEMO/11/898.

European Commission (2012a). Analysis by the Commission services of the budgetary situation in Belgium in response to the Council Recommendation of 2 December 2009 with a view to bringing an end to the situation of excessive deficit. Commission Staff Working Document SEC(2012) 52 final, European Commission, Brussels.

European Commission (2012b). *Fiscal Frameworks across Member States: Commission Services' Country Fiches from the 2011 EPC Peer Review*. Number 91 in European Economy Occasional Papers. Publ. Office of the Europ. Union, Luxembourg.

European Commission (2013). Analysis by the Commission services of the budgetary situation in Belgium following the adoption of the COUNCIL RECOMMENDATION to Belgium of 2 December 2009 with a view to bringing an end to the situation of an excessive government deficit. Commission Staff Working Document SWD(2013) 381 final, European Commission, Brussels.

European Commission (2016). Report from the Commission. Technical Report COM(2016) 291 final, European Commission, Brussels.

European Commission (2017). Fiscal institutions database.

European Parliament and European Council (2013a). REGULATION (EU) No 472/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL. *Official Journal of the European Union*.

European Parliament and European Council (2013b). REGULATION (EU) No 473/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL. *Official Journal of the European Union*.

Fischer, S., Sahay, R., and Vegh, C. A. (1996). Stabilization and growth in transition economies: The early experience. *Journal of Economic Perspectives*, 10(2):45–66.

Fish, M. S. (1999). The End of Merciarism. *E. Eur. Const. Rev.*, 8:47.

Fisher, S., Gould, J., and Haughton, T. (2007). Slovakia's neoliberal turn. *Europe-Asia Studies*, 59(6):977–998.

FPB1 (2017). Interview with high level expert at the Federal Planning Bureau.

FPB2 (2017). Interview with expert at the Federal Planning Bureau.

FPS Budget 1 (2017). Interview with expert at the FPS Policy and Support (formerly the Ministry of Budget).

FPS Finance 1 (2017). Interview with an expert at the FPS Finances (formerly the Ministry of Finance).

Frieden, J. A. (1991). Invested interests: The politics of national economic policies in a world of global finance. *International Organization*, 45(4):425–451.

Frieden, J. A. and Rogowski, R. (1996). The impact of the international economy on national policies: An analytical overview. In Keohane, R. O. and Milner, H. V., editors, *Internationalization and Domestic Politics*, pages 25–47. Cambridge University Press.

Geddes, B. (1990). How the cases you choose affect the answers you get: Selection bias in comparative politics. *Political Analysis*, 2:131–150.

George, A. L. and Bennett, A. (2005). *Case Studies and Theory Development in the Social Sciences*. MIT Press.

Giavazzi, F. and Pagano, M. (1990). Can severe fiscal contractions be expansionary? Tales of two small European countries. *NBER Macroeconomics Annual*, 5:75–111.

Gleich, H. (2003). Budget institutions and fiscal performance in Central and Eastern European Countries. *ECB Working Paper*, No.215.

Government of the Slovak Republic (2010). Civic Responsibility And Co-Operation - Manifesto Of The Government Of The Slovak Republic For The Period Of 2010 - 2014.

Government of the Slovak Republic (2012). Manifesto of the Government of the Slovak Republic.

Guajardo, J., Leigh, D., and Pescatori, A. (2010). Will it hurt? Macroeconomic effects of fiscal consolidation. *IMF World Economic Outlook*.

Guajardo, J., Leigh, D., and Pescatori, A. (2014). Expansionary austerity? International evidence. *Journal of the European Economic Association*, 12(4):949–968.

Győrffy, D. (2009). Structural change without trust: Reform cycles in Hungary and Slovakia. *Acta Oeconomica*, 59(2):147–177.

Győrffy, D. (2012). *Institutional Trust and Economic Policy: Lessons from the History of the Euro*. Central European University Press.

Hagemann, R. (2011). How can fiscal councils strengthen fiscal performance? *OECD Journal: Economic Studies*, 2011(1):1–24.

Hallerberg, M. (2000). The importance of domestic political institutions: Why and how Belgium and Italy qualified for EMU. Technical report, ZEI working paper.

Hallerberg, M. (2004). *Domestic Budgets in a United Europe: Fiscal Governance from the End of Bretton Woods to EMU*. Cornell University Press.

Hallerberg, M., Marzinotto, B., and Wolff, G. B. (2011). How effective and legitimate is the European semester? Increasing the role of the European parliament. Technical report, Bruegel Working Paper.

Hallerberg, M., Strauch, R. R., and Von Hagen, J. (2009). *Fiscal Governance in Europe*. Cambridge University Press.

Hallerberg, M. and Wolff, G. B. (2008). Fiscal institutions, fiscal policy and sovereign risk premia in EMU. *Public Choice*, 136(3-4):379–396.

Hallett, A. H. and Hougaard Jensen, S. E. (2012). Fiscal governance in the euro area: Institutions vs. rules. *Journal of European Public Policy*, 19(5):646–664.

Haughton, T. and Rybář, M. (2008). A change of direction: The 2006 parliamentary elections and party politics in Slovakia. *Journal of Communist Studies and Transition Politics*, 24(2):232–255.

HCF3 (2018). Interview with former HCF council member.

HCF4 (2018). Interview with former HCF council member.

Heinemann, F., Moessinger, M.-D., and Yeter, M. (2018). Do fiscal rules constrain fiscal policy? A meta-regression-analysis. *European Journal of Political Economy*, 51:69–92.

Heipertz, M. and Verdun, A. (2004a). The dog that would never bite? What we can learn from the origins of the Stability and Growth Pact. *Journal of European Public Policy*, 11(5):765–780.

Heipertz, M. and Verdun, A. (2004b). The dog that would never bite? What we can learn from the origins of the Stability and Growth Pact. *Journal of European Public Policy*, 11(5):765–780.

Helgadóttir, O. (2016). The Bocconi boys go to Brussels: Italian economic ideas, professional networks and European austerity. *Journal of European Public Policy*, 23(3):392–409.

Hemerijck, A. and Visser, J. (2000). Change and immobility: Three decades of policy adjustment in the Netherlands and Belgium. *West European Politics*, 23(2):229–256.

Herndon, T., Ash, M., and Pollin, R. (2014). Does high public debt consistently stifle economic growth? A critique of Reinhart and Rogoff. *Cambridge Journal of Economics*, 38(2):257–279.

High Council of Finance (1992). Avis Concernant le Plan de Convergence de la Belgique. Technical Report 1992/493, High Council of Finance.

High Council of Finance (2008). *Evaluation Des Budgets 2007 et 2008 et Du Nouveau Programme de Stabilité 2008-2011*. High Council of Finance, Brussels.

Hodson, D. (2015). Policy-Making under Economic and Monetary Union - Crisis, Change, and Continuity. In Wallace, H., Wallace, W., and Pollack, M. A., editors, *Policy-Making in the European Union*. Oxford University Press, Oxford, 7th edition.

Hooghe, L. (1993). Belgium: From regionalism to federalism. *Regional & Federal Studies*, 3(1):44–68.

Horváth, J. (2002). Economics - Slovakia. In Kaase, M., Sparschuh, V., and Wenninger, A., editors, *Three Social Science Disciplines in Central and Eastern Europe. Handbook on Economics, Political Science and Sociology (1989-2001)*, pages 168–186. GESIS.

Horváth, M. and Ódor, L. (2009). Making Fiscal Commitments Credible. *National Bank of Slovakia, Research Department, Working and Discussion Paper*, (1006).

Huber, J. and Inglehart, R. (1995). Expert interpretations of party space and party locations in 42 societies. *Party Politics*, 1(1):73–111.

Hunter, D. R., Handcock, M. S., Butts, C. T., Goodreau, S. M., and Morris, M. (2008). Ergm: A Package to Fit, Simulate and Diagnose Exponential-Family Models for Networks. *Journal of Statistical Software*, 24(3):1–29.

Inglehart, R., Haerpfer, C., Moreno, A., Welzel, C., Kizilova, K., Diez-Medrano, J., Lagos, M., Norris, P., Ponarin, E., Puranen, B., et al. (2014). World Values Survey: All Rounds—Country-Pooled Datafile Version.

International Monetary Fund (2001). *Slovak Republic: Staff Report for the 2001 Article IV Consultation*. International Monetary Fund, Washington, D.C.

International Monetary Fund (2002). *Belgium: Staff Report for the 2001 Article IV Consultation*. International Monetary Fund, Washington, D.C.

International Monetary Fund (2003a). *Belgium: Staff Report for the 2002 Article IV Consultation*. International Monetary Fund, Washington, D.C.

International Monetary Fund (2003b). *Slovak Republic: Staff Report for the 2003 Article IV Consultation*. International Monetary Fund, Washington, D.C.

International Monetary Fund (2004). *Belgium: Staff Report for the 2003 Article IV Consultation*. International Monetary Fund, Washington, D.C.

International Monetary Fund (2005). *Belgium: Staff Report for the 2004 Article IV Consultation*. International Monetary Fund, Washington, D.C.

International Monetary Fund (2008). *Belgium: 2008 Article IV Consultation*. International Monetary Fund, Washington, D.C.

International Monetary Fund (2009). *Slovak Republic: Staff Report for the 2009 Article IV Consultation*. International Monetary Fund, Washington, D.C.

International Monetary Fund (2011a). *Belgium: 2011 Article IV Consultation*. International Monetary Fund.

International Monetary Fund (2011b). *Slovak Republic: Staff Report for the 2011 Article IV Consultation*. International Monetary Fund, Washington, D.C.

International Monetary Fund (2012). *Slovak Republic: Staff Report for the 2012 Article IV Consultation.* International Monetary Fund, Washington, D.C.

International Monetary Fund (2014a). *Belgium: 2014 Article IV Consultation.* International Monetary Fund.

International Monetary Fund (2014b). *Slovak Republic: Staff Report for the 2014 Article IV Consultation.* International Monetary Fund, Washington, D.C.

International Monetary Fund (2015). *Slovak Republic: Staff Report for the 2015 Article IV Consultation.* International Monetary Fund, Washington, D.C.

International Monetary Fund (2018a). *Belgium: 2018 Article IV Consultation.* International Monetary Fund.

International Monetary Fund (2018b). *Slovak Republic: Staff Report for the 2018 Article IV Consultation.* International Monetary Fund, Washington, D.C.

Ioannou, D. and Stracca, L. (2011). Have Euro Area and EU economic governance worked? Just the facts. *ECB Working Paper*, (No. 1344).

Jackson, M. O. (2010). *Social and Economic Networks.* Princeton university press.

Jennes, G. (2014). Has Belgian fiscal decentralisation reduced the size of government and the budget deficit? *VIVES Discussion Papers*, (42).

Johnson, J. (2008). The remains of conditionality: The faltering enlargement of the euro zone. *Journal of European Public Policy*, 15(6):826–841.

Katzenstein, P. J. (1976). International relations and domestic structures: Foreign economic policies of advanced industrial states. *International Organization*, 30(1):1–45.

Katzenstein, P. J. (2003). Small states and small states revisited. *New Political Economy*, 8(1):9–30.

Kemmerling, A. and Truchlewski, Z. (2015). Fiscal Performance in Germany - The Role of Electoral Competition. In Eisaku Ide and Gene Park, editors, *Deficits and Debt in Industrialized Democracies*, pages 44–63. Routledge.

Kenis, P. and Schneider, V. (1991). Policy networks and policy analysis: Scrutinizing a new analytical toolbox. In *Policy Networks: Empirical Evidence and Theoretical Considerations*, pages 25–59. Campus Verlag.

King, G., Keohane, R. O., and Verba, S. (1994). *Designing Social Inquiry: Scientific Inference in Qualitative Research.* Princeton University Press.

King, G., Keohane, R. O., and Verba, S. (1995). The importance of research design in political science. *American Political Science Review*, 89(2):475–481.

Knoke, D. (2014). Policy Networks. In Scott, J. and Carrington, P. J., editors, *Social Network Analysis*, SAGE Handbook, pages 210–222. SAGE.

Koehler, S. and König, T. (2015). Fiscal governance in the Eurozone: How effectively does the stability and growth pact limit governmental debt in the Euro countries? *Political Science Research and Methods*, 3(2):329–351.

Kopits, G., editor (2013). *Restoring Public Debt Sustainability: The Role of Independent Fiscal Institutions*. Oxford University Press, Oxford.

Kopits, G. (2017). Toward a Closer Union in Europe: Elusive Mirage or Reality Within Grasp? In da Costa Cabral, N., Gonçalves, J. R., and Rodrigues, N. C., editors, *The Euro and the Crisis*, pages 339–355. Springer.

Kopits, G. and Romhányi, B. (2013). Hungary: A short-lived fiscal watchdog. In Kopits, G., editor, *Restoring Public Debt Sustainability: The Role of Independent Fiscal Institutions*, pages 212–233. Oxford University Press, Oxford.

Kopits, G. and Symansky, S. A. (1998). *Fiscal Policy Rules*. Number No. 162 in Occasional Papers. International Monetary Fund.

Kornai, J. (1994). Transformational recession: The main causes. *Journal of Comparative Economics*, 19(1):39–63.

KUL1 (2017). Interview with public finance expert at KU Leuven.

Kydland, F. E. and Prescott, E. C. (1977). Rules rather than discretion: The inconsistency of optimal plans. *Journal of Political Economy*, 85(3):473–491.

Lamdany, R. (1998). *Slovak Republic: Recent Economic Developments*. International Monetary Fund, Washington, D.C.

Leibfritz, W. (2009). Fiscal federalism in Belgium: Main challenges and considerations for reform. *OECD Economic Department Working Papers*, (743).

Leibrecht, M. and Pitlik, H. (2015). Social trust, institutional and political constraints on the executive and deregulation of markets. *European Journal of Political Economy*, 39:249–268.

Lledo, V., Yoon, S., Fang, X., Mbaye, S., and Kim, Y. (2017). Fiscal rules at a glance. *IMF Background Paper*.

Lusher, D., Koskinen, J., and Robins, G. (2013). *Exponential Random Graph Models for Social Networks: Theory, Methods, and Applications*. Cambridge University Press.

Marcinčin, A. and Beblavý, M. (2000). *Economic Policy in Slovakia 1990-1999*. Center for Social and Media Analysis.

Marsden, P. V. (2014). Survey Methods for Network Data. In Scott, J. and Carrington, P. J., editors, *Social Network Analysis*, SAGE Handbook, pages 370–388. SAGE.

Mathernová, K. and Reňcko, J. (2006). "Reformology": The Case of Slovakia. *Orbis*, 50(4):629–640.

McCloskey, D. N. (2016). *Bourgeois Equality: How Ideas, Not Capital or Institutions, Enriched the World*. University of Chicago Press.

Medve-Bálint, G. (2014). The role of the EU in shaping FDI flows to East Central Europe. *JCMS: Journal of Common Market Studies*, 52(1):35–51.

Mihály, D. (2010). The role of independent fiscal institutions in fiscal management: The perspective from an international conference in Hungary. *Public Financial Management Blog: Making Public Money Count–Fiscal Affairs Department, IMF, Washington DC*.

Milesi-Ferretti, G. M. (2004). Good, bad or ugly? On the effects of fiscal rules with creative accounting. *Journal of Public Economics*, 88(1):377–394.

Ministry of Finance (2011). Le Programme de stabilité de la Belgique (2011-2014). Technical report.

Mink, M. and De Haan, J. (2006). Are there political budget cycles in the euro area? *European Union Politics*, 7(2):191–211.

Moravcsik, A. (2013). *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*. Routledge.

Mosley, L. (2013). *Interview Research in Political Science*. Cornell University Press.

Murphy, H. and Kellow, A. (2013). Forum shopping in global governance: Understanding states, business and NGOs in multiple arenas. *Global Policy*, 4(2):139–149.

Myant, M. (2010). *The Czechoslovak Economy 1948-1988: The Battle for Economic Reform*, volume 65. Cambridge University Press.

National Bank of Belgium (2000). Annual report 2000. Technical report, National Bank of Belgium, Brussels.

National Bank of Belgium (2001). Annual report 2001. Technical report, National Bank of Belgium, Brussels.

National Bank of Belgium (2002). Annual report 2002. Technical report, National Bank of Belgium, Brussels.

National Bank of Belgium (2003). Annual report 2003. Technical report, National Bank of Belgium, Brussels.

National Bank of Belgium (2004). Annual report 2004. Technical report, National Bank of Belgium, Brussels.

National Bank of Belgium (2008). Annual report 2008. Technical report, National Bank of Belgium, Brussels.

National Bank of Belgium (2012). Annual report 2012. Technical report, National Bank of Belgium, Brussels.

National Bank of Belgium (2013). Annual report 2013. Technical report, National Bank of Belgium, Brussels.

National Bank of Belgium (2014). Annual report 2014. Technical report, National Bank of Belgium, Brussels.

National Bank of Belgium (2015). Annual report 2015. Technical report, National Bank of Belgium, Brussels.

National Bank of Belgium (2016). Annual report 2016. Technical report, National Bank of Belgium, Brussels.

National Bank of Slovakia (1997). Annual Report. Technical report, National Bank of Slovakia, Bratislava.

National Council of Slovakia (2011). Constitutional Law nr.493/2011 of Budget Responsibility.

NBS 1 (2018). Interview with a high level NBS expert.

Nerlich, C. and Reuter, W. H. (2013). The design of national fiscal frameworks and their budgetary impact. *ECB Working Paper*, No. 1588.

Newman, M. (2010). *Networks - An Introduction*. Oxford University Press.

Nordhaus, W. D. (1975). The political business cycle. *The Review of Economic Studies*, 42(2):169–190.

Nowotny, E., Ritzberger-Grünwald, D., and Schuberth, H. (2018). *Structural Reforms for Growth and Cohesion: Lessons and Challenges for CESEE Countries and a Modern Europe*. Edward Elgar Publishing.

Ódor, L. (2017). *Rethinking Fiscal Policy after the Crisis*. Cambridge University Press.

Ódor, L. and Kiss, G. P. (2017). Lost in complexity: Towards a decentralized and depoliticized fiscal framework in Europe. In Ódor, L., editor, *Rethinking Fiscal Policy After the Crisis*, pages 189–231. Cambridge University Press, Cambridge.

OECD (1996). *OECD Economic Surveys: Slovak Republic, 1995-1996*. OECD Publishing.

OECD (1997). *OECD Economic Surveys: Belgium 1997*. OECD Publishing.

OECD (2010). *OECD Economic Surveys: Slovak Republic 2010*. OECD Economic Surveys: Slovak Republic. OECD.

OECD (2012). *OECD Economic Surveys: Slovak Republic 2012*. OECD Economic Surveys: Slovak Republic. OECD.

OECD (2015). OECD Journal on Budgeting. *OECD Journal on Budgeting*, 2015/2.

OECD (2016). Fiscal framework in Slovakia. *OECD Journal on Budgeting*, 2015(2):205–212.

PCFB1 (2017). Interview with a member of the Parliamentary Committee on Finances and Budget.

Peeters, P. (2003). Fifth Belgian State Reform (Lambermont): A General Overview. *Eur. Pub. L.*, 9:1.

Pench, L., Acedo Montoya, L., Amaro, R., Aspegren, H., Capella Ramos, J., Cepparulo, A., Larsson, J., Mangov, A., McGann, M., Nieminen, S., Princen, S., Rodríguez Muñoz, L., Sherwood, M., Stierle-Von Schutz, U., Toming, I., Van Noten, H., Tournemire, G., Triki, K., Vandierendonck, C., Salto, M., European Commission, and Directorate-General for Economic and Financial Affairs (2015). *Report on Public Finances in EMU 2014*. Publications Office, Luxembourg.

Pescatori, A., Sandri, D., and Simon, J. (2014). *Debt and Growth: Is There a Magic Threshold?* Number 14-34. International Monetary Fund.

Philip Blenkinsop (2008). Belgian government collapses over Fortis affair. *Reuters*.

Pierson, P. (1996). The path to European integration: A historical institutionalist analysis. *Comparative Political Studies*, 29(2):123–163.

Polk, J., Rovny, J., Bakker, R., Edwards, E., Hooghe, L., Jolly, S., Koedam, J., Kostelka, F., Marks, G., and Schumacher, G. (2017). Explaining the salience of anti-elitism and reducing political corruption for political parties in Europe with the 2014 Chapel Hill Expert Survey data. *Research and Politics*, 4(1).

Poterba, J. M. and von Hagen, J. (1999). *Fiscal Institutions and Fiscal Performance*. University of Chicago Press.

Průcha, V. (2003). The economy and the multinational state: Czechoslovakia. In Teichova, A. and Matis, H., editors, *Nation, State, and the Economy in History*. Cambridge University Press.

Puetter, U. (2006). *The Eurogroup: How a Secretive Circle of Finance Ministers Shape European Economic Governance*. European Policy Research Unit. Manchester University Press, Manchester.

R Core Team (2018). *R: A Language and Environment for Statistical Computing*. R Foundation for Statistical Computing, Vienna, Austria.

Ramey, V. A. (2011). Identifying government spending shocks: It's all in the timing. *The Quarterly Journal of Economics*, 126(1):1–50.

Ramey, V. A. (2019). Ten Years after the Financial Crisis: What Have We Learned from the Renaissance in Fiscal Research? Technical report, National Bureau of Economic Research.

Robins, G. (2015). *Doing Social Network Research: Network-Based Research Design for Social Scientists*. Sage.

Robins, G., Pattison, P., Kalish, Y., and Lusher, D. (2007). An introduction to exponential random graph (p*) models for social networks. *Social Networks*, 29(2):173–191.

Rogoff, K. and Reinhart, C. (2010). Growth in a Time of Debt. *American Economic Review*, 100(2):573–8.

Rohlfing, I. (2012). *Case Studies and Causal Inference: An Integrative Framework*. Palgrave Macmillan.

Rohrschneider, R. and Whitefield, S. (2004). *Expert Survey on Party Positions about Integration in 13 East-Central European Countries*. Indiana and Oxford University Press.

Romer, C. D. and Romer, D. H. (2010). The macroeconomic effects of tax changes: Estimates based on a new measure of fiscal shocks. *American Economic Review*, 100(3):763–801.

Rose, S. (2006). Do fiscal rules dampen the political business cycle? *Public Choice*, 128(3-4):407–431.

Roubini, N. and Sachs, J. D. (1989). Political and economic determinants of budget deficits in the industrial democracies. *European Economic Review*, 33(5):903–933.

Sandström, A. and Carlsson, L. (2008). The performance of policy networks: The relation between network structure and network performance. *Policy Studies Journal*, 36(4):497–524.

Schaechter, A., Kinda, T., Budina, N., and Weber, A. (2012). Fiscal rules in response to the crisis-toward the'next-generation'rules: A new dataset.

Schimmelfennig, F. and Sedelmeier, U. (2004). Governance by conditionality: EU rule transfer to the candidate countries of Central and Eastern Europe. *Journal of European Public Policy*, 11(4):661–679.

Scott, J. (2013). *Social Network Analysis*. SAGE, London.

Seawright, J. and Gerring, J. (2008). Case selection techniques in case study research: A menu of qualitative and quantitative options. *Political Research Quarterly*, 61(2):294–308.

Sharpsteen, C. and Bracken, C. (2018). *tikzDevice: R Graphics Output in LaTeX Format*.

Smits, J. (1987). Belgian politics in 1986. *Res Publica*.

Spac, P. (2014). The 2012 parliamentary elections in Slovakia. *Electoral Studies*, (33):343–346.

Tarrow, S. (2010). Bridging the Quantitative-Qualitative Divide. In Brady, H. E. and Collier, D., editors, *Rethinking Social Inquiry: Diverse Tools, Shared Standards*, pages 101–110. Rowman & Littlefield Publishers.

Teichova, A. (2013). *The Czechoslovak Economy 1918-1980 (Routledge Revivals)*. Routledge.

The Economist (2012). The multi-million euro gorilla.

The Economist (2017). Who kidnapped the son of Slovakia's president?

Troupin, S., Stroobants, J., and Steen, T. (2013). The Impact of the Fiscal Crisis on Belgian Federal Government: Changes in the Budget Decision Making Process and Intra-Governmental Relations. *Paper for the Conference on the Impact of the Fiscal Crisis on Public Administratrion, 3-4 May 2013, Tallin*.

Tsebelis, G. and Hahm, H. (2014). Suspending vetoes: How the euro countries achieved unanimity in the fiscal compact. *Journal of European Public Policy*, 21(10):1388–1411.

Tujula, M. and Wolswijk, G. (2007). Budget balances in OECD countries: What makes them change? *Empirica*, 34(1):1–14.

Van de Walle, S., Van Roosbroek, S., and Bouckaert, G. (2008). Trust in the public sector: Is there any evidence for a long-term decline? *International Review of Administrative Sciences*, 74(1):47–64.

Vandenbruwaene, W. (2014). Constitutional Change through Euro Crisis Law: "Belgium". *European University Institute*.

Victor, J. N., Montgomery, A. H., and Lubell, M., editors (2018). *The Oxford Handbook of Political Networks*. Oxford University Press, New York.

Volkens, A., Lehmann, P., Matthieß, T., Merz, N., Regel, S., Weßels, B., and Wissenschaftszentrum Berlin Für Sozialforschung (WZB) (2018). Manifesto Project Dataset.

Von Hagen, J. (1992). *Budgeting Procedures and Fiscal Performance in the European Communities*. Number 96. Directorate-General for Economic and Financial Affairs, Commission of the ....

Von Hagen, J. (2003). *Fiscal Discipline and Growth in Euroland: Experiences with the Stability and Growth Pact*. Zentrum für Europäische Wirtschaftsforschung, ZEI.

Von Hagen, J. (2005). Political economy of fiscal institutions. Technical report, SFB/TR 15 Discussion Paper.

von Hagen, J. (2013). Scope and limits of independent fiscal institutions. In Kopits, G., editor, *Restoring Public Debt Sustainability: The Role of Independent Fiscal Institutions*, pages 32–54. Oxford University Press, Oxford.

Von Hagen, J. and Wolff, G. B. (2006). What do deficits tell us about debt? Empirical evidence on creative accounting with fiscal rules in the EU. *Journal of Banking & Finance*, 30(12):3259–3279.

Von Trapp, L., Lienert, I., and Wehner, J. (2016). Principles for Independent Fiscal Institutions and Case Studies. *OECD Journal on Budgeting*, 15(2):9.

Wagner, R. E. (1976). Revenue structure, fiscal illusion, and budgetary choice. *Public Choice*, 25(1):45–61.

Wickham, H. (2016). *Ggplot2: Elegant Graphics for Data Analysis*. Springer.

Wickham, H., François, R., Henry, L., and Müller, K. (2018). *Dplyr: A Grammar of Data Manipulation*.

Wickham, H. and Henry, L. (2018). *Tidyr: Easily Tidy Data with 'spread()' and 'Gather()' Functions*.

World Bank (2003). Initial Project Information Document - Slovak Republic - Public Finance Management Project. Technical Report PID10432.

World Bank (2007). Slovak Republic - Public Finance Management Project (English. Implementation Completion and Results Report ICR484.

Wren-Lewis, S. (2003). *The Compatibility between Monetary and Fiscal Policies in EMU: A Perspective from the Fiscal Theory of the Price Level*. Cambridge University Press.

Wren-Lewis, S. (2013). Comparing the Delegation of Monetary and Fiscal Policy. In Kopits, G., editor, *Restoring Public Debt Sustainability: The Role of Independent Fiscal Institutions*, pages 54–75. Oxford University Press, Oxford.

Wyplosz, C. (2005). Fiscal policy: Institutions versus rules. *National Institute Economic Review*, 191(1):64–78.

Wyplosz, C. (2013). Fiscal Rules: Theoretical Issues and Historical Experiences. In Alesina, A. and Giavazzi, F., editors, *Fiscal Policy after the Financial Crisis*. University of Chicago Press.

Wyplosz, C. (2017). Fiscal discipline in a monetary union without fiscal union. In Ódor, L., editor, *Rethinking Fiscal Policy after the Crisis*, pages 167–188. Cambridge University Press.