L.S.,

In the Netherlands, the CPB Netherlands Bureau for Economic Policy Analysis investigates at the start of each new period of government the sustainability of Dutch public finance (see e.g. http://www.cpb.nl/eng/pub/cpbreeksen/bijzonder/25/bijz25.pdf). Following a request from the Dutch public sector accountants, we will provide comments on the draft IPSAS-consultation paper on the Long-term fiscal sustainability of public finances.

A fundamental problem in the paper and proposals is that it seems to mix two approaches. IPSAS focuses on regular financial reporting by individual units with a, in general, backward-looking approach. Analysis of fiscal sustainability of public finance is mainly meaningful at the aggregate level of government and takes a forward-looking approach. Such analysis of fiscal sustainability is often also embedded in a more general economic analysis of a national economy, providing a forward-looking analysis also of other variables, like economic growth, inflation, interest rates, employment, purchasing power and distribution of income over generations. The latter type of analyses are generally conducted starting from a national accounts framework. The basic concepts of the national accounts framework (e.g. what is the government, what are revenue and expenditure, what are the assets and liabilities) are linked (and mostly identical) to those in the IMF Government Finance Statistics.

By mixing these two approaches (individual units and backward looking versus aggregate, macro-economic and forward looking), the paper underscores the major fundamental and practical differences. Like the guidelines on national accounts and government finance statistics, guidelines on aggregate government with a macro-economic and forward looking approach should best be issued by those actually conducting such analyses, like the IMF, EC and OECD. Guidelines focusing on reporting on individual units, like the ISPSAS, could refer to such guidelines and ideas, may explain similarities and differences, but should not suggest to provide an overall accounting framework. Like with the guidelines on national accounts and government finance statistics, harmonization between the different approaches is welcome when possible and meaningful.

In the current drafting, the paper creates confusion and does not provide the proper guidance:

- It should clarify that analysis of fiscal sustainability is mainly useful for aggregate government and that it generally is not useful for individual reporting units. It should also explain the reasons. In general, when one or more government units control or mainly finance other government units, analysis of fiscal sustainability of such individual units (whether being the net receiver or net payer) is not meaningful (and therefore also certainly not necessary!, cf preliminary view 1).

- It should clarify that for individual units (e.g. a social fund or a municipality) reporting on the long term prospects of specific types of expenditure can be very meaningful. However, when the expenditure of such units are mainly financed by another government unit, it is not very meaningful to add forecasts on such revenue in order to arrive at a complete picture of the unit’s fiscal sustainability.

- It should clarify that for analysis of fiscal sustainability at an aggregate level consistency is very important. Without consistency about the past (e.g. about the value and time of recording of flows between government units) and about the future (e.g. about demography, macro-economic development, interest rates, etc), such analysis is not meaningful. As a consequence, simply adding up forward looking estimates of revenue and expenditure of individual reporting units is not meaningful.

- It should clarify the implications of the existence of standardized calculations of sustainable public finance for the aggregate government in EU-Member States. In our opinion, this implies that alternative estimates at the aggregate level are only useful for the public interest when they have a clear value added, e.g. are more up-to-date, more focused on the specific national situation and institutions, provide a more general economic perspective or shows the implications of some alternative assumptions. Preferably, such alternative estimates should also be accommodated by a brief discussion of the differences with these EU-wide estimates.

- It should clarify that including in the balance sheet also liabilities related to unfunded social benefits, while ignoring the net present value of future tax revenues can give a very misleading picture of the long term fiscal sustainability. Unfortunately, such a misleading picture is also provided by the new supplementary national accounts table that will book accrued-to-date-liabilities of all pension schemes. This misleading character was also expressed in official opinion by the EC-Ageing work group (AWG, Economic Policy Committee Working group on Ageing populations and sustainability, October 2008):

"It is important to note that the level of accrued-to-date liabilities or pension entitlements is not an indicator of sustainability nor in any way can be assimilated to public debt. Two examples can illustrate this point. A fully mature pay-as-you–go (PAYG) scheme with no demographic shock to come (no "papy-boom", no increase in life expectancy, no decrease in the fertility rates) may be fully sustainable i.e. can be maintained for ever without a need to change the parameters of the pension scheme. Yet this PAYG scheme will have large accrued-to-date liabilities, all the higher as the pension scheme is generous. By contrast, a country implementing a new PAYG today, may have little accrued-to-date liabilities the first years of its implementation as workers have still accumulated few rights. Yet, the pension scheme is unsustainable except if tax rates are immediately raised today to prefund the rapid increase in pension expenditure.

Against this background, it is the opinion of the AWG that it is not appropriate to refer to such definitions as providing support or additional information to be used in the assessment of the long- term sustainability of public finances. The compilation of accrued–to-date pension entitlements would not add value to the work of the AWG and it should be avoided that confusion is created between this concept and the AWG measure of the future cost of ageing and of sustainability of public finances."

Best regards,

Frits Bos