

PUBLIC ACCOUNTS AND ESTIMATES COMMITTEE

Inquiry into the Parliamentary Budget Officer

Melbourne—Monday, 26 April 2021

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WITNESS

Dr Usman Chohan, Director, Economic Affairs and National Development, Centre for Aerospace and Security Studies (*via videoconference*).

The CHAIR: Welcome very much, Doctor, to these public hearings. We welcome you to the Public Accounts and Estimates Committee Inquiry into the Parliamentary Budget Officer. The committee is reviewing and reporting to Parliament on the operational and resourcing arrangements for the Parliamentary Budget Officer, including how well the Parliamentary Budget Officer's functions are being performed. We ask that mobile telephones be turned to silent.

All evidence taken by this committee is protected by parliamentary privilege. Therefore you are protected against any action for what you say here today, but if you repeat the same things outside this forum, including on social media, those comments may not be protected by this privilege.

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We invite you to make a brief opening statement of no more than 10 minutes. We ask that you state your name, position and organisation represented for broadcasting purposes, and this will be followed by questions from the committee. So thank you for your time today, and we invite you to make a statement.

Dr CHOCHAN: Thank you very much, honourable Chair. Honourable members of the Public Accounts and Estimates Committee, esteemed officials of the parliamentary office, if they are listening, ladies and gentlemen, my name is Dr Usman Chohan. I speak in a personal capacity today, but I am Director for Economic Affairs and National Development at the Centre for Aerospace and Security Studies. My doctoral work was on parliamentary budget offices, so it is quite relevant to your inquiry today. I shall proceed now with my prepared remarks.

I consider it a supreme honour to be making a humble contribution to the democratic business of government in Victoria by participating in this inquiry into the PBO. I reiterate that I am speaking in a personal capacity but based on years of scholarly observation of independent fiscal institutions—IFIs—around the world. My doctoral work and subsequent books have sought to both directly and indirectly engage with issues of import to the optimal function of PBOs. Today's inquiry is a manifestation of strong democratic ethos among the peoples and their elected representatives in the proud state of Victoria. Not only have mechanisms for mature fiscal analysis been put into place, as in the PBO, following a long tradition of fiscal discipline and rules assisting a longstanding prosperity in the state, but also through this inquiry the very instruments of accountability are being put to account themselves for their performance.

My objective today is to provide my observations again in a personal, academic capacity about the structural and functional elements of the Victorian PBO. Honourable members of the PAEC, the sequence of my remarks is predicated on the following sequence: first, brief remarks on the evolution of PBOs; two, situating Victoria's PBO in the larger family of IFIs; and third, offering observations on PBOs going forward.

So, first, although many members of today's learned audience are aware of the general contours around the evolution of independent legislative fiscal institutions, it is worth noting that it was only in the mid-2000s that the idea of independent fiscal institutions took off in most countries, by which time the original CBO—correctional budget office—which was the original prototype in many ways, was nearly 30 years old. In Europe for example, it was the global financial crisis that triggered a realisation that independent analysis of sustainable finances was a necessity, particularly for ensuring that countries have enough fiscal stamina to withstand future large-scale economic crises.

Now, part 2 is that for the PBO of Victoria it is important to recognise that it serves a subnational entity, a state within the larger commonwealth. Subnational governments are not necessarily strangers to PBOs. Nearly all US states have a legislated budget office equivalent, but Ontario in Canada and New South Wales also offer useful examples other than Victoria. So subnational public finances are different in two important ways—we must be mindful of this—which make subnational PBOs' work both easier and harder. First, subnational fiscal imbalances are partially exogenously determined by the centre, which means that the PBO cannot effect useful

advice on exogenous federal determinations, and two, the issues that are relevant to subnational contexts are generally more confined but require greater precision than does the centre's overall manifestation of analysis. So for example, defence foreign policy and monetary authority are not in their direct remit. In that context the PBO of Victoria has a usefully concentrated mandate. One, it costs election policy cycles, as does its counterpart in New South Wales, and two, it has a public information mandate to keep ordinary folks apprised of the fiscal context of Victoria's finances. In my judgement, if the PBO of Victoria does these two things well without giving any semblance of political partisanship and without attracting undue hostility from parliamentary or bureaucratic factions, then it is doing its job well.

The strength of the Victorian PBO stands in its legal basis of function. The *Parliamentary Budget Officer Act 2017* is wide-encompassing legislation that brings clarity to the role that the PBO is expected to play. Some of the strengths that I see in the legislation which have been translated into practice by the PBO include the following things: one, clarity around the confidentiality of requests that the PBO must keep; two, the cooperation that the PBO is mandated to receive from Parliament and from other managerial institutions, like public sector bodies; three, the appointment and tenure of the officer; four, the operational resources that are to be conferred to the PBO; five, the scope of requests that can be entertained; six, the reporting requirements and information to be contained within the PBO's outputs; seven, the operational plan that the PBO will follow over the year; and finally, eight, the protocols that it will follow. So when taken together these elements help provide an important degree of clarity on how the PBO should go about its work and what the nature of its work is. Honourable members of the PAEC, I have observed various other PBOs struggling with difficulties that stem from ambiguities in their operational and legislative basis. The blurrier the lines, the likelier it is for a PBO to get into trouble inadvertently. The probability of this is substantially minimised in the Victorian context since the framework within which the PBO must operate is laid out with considerable clarity.

Ladies and gentlemen, my academic work and the solutions that I derive for the question of what role should a PBO play draw upon something called public value theory. I found that PBOs can create value for the public in two ways: one, through the specific work that is costing policies, which provides transparency, efficiency and accountability benefits; and two, through a more normative and advisory role which involves parliamentarians deploying the non-partisan analysis of PBOs to shape policies in a manner that increases value for society. So it is in the Victorian context that I see the unique and explicit mention of an advisory role and the costings role in the documentation of the PBO itself—for example, on the website, where costing and advisory roles are disaggregated. This is gratifying for me and certainly a clear-headed representation of the potential value creation of the PBO. The Victorian PBO has proceeded over the past few years with the aforementioned legislative framework sticking to value-creating activities that serve parliamentary and democratic objectives. In my observation the PBO's work adheres to the expectations one might set for a subnational budget office that has hit the ground running. Its satisfaction rate of 89 per cent for the period of 2019–20 substantiates this. I have examined the PBO's publications during the pandemic and see them as a good example of keeping a layperson reader aware of the public finance promises made by the government. For example, their policy tracker shows that 389 policies amounted to a \$24.5 billion outlay over a two-year period. These are the sorts of things that are important for the public to know. So is the PBO's study on taxes and revenue volatility, which is precisely the type of public awareness that is required to keep a democratic polity abreast of state government spending in a transparent manner.

Now, there are two specific issues that have struck me, honourable members, which may warrant your attention. One is the access-to-information issue. This is a perennial challenge for PBOs around the world, as public managerial institutions may be unable or unwilling to cooperate in a timely manner with the PBO, and this hampers their analytical ability. The Victorian PBO's annual report states that roughly two-thirds of their requests to the public sector bodies were met but late. This may be one area to focus on going forward—noting, however, that at least the PBO of Victoria does get its responses, with only eight responses during the 2019–20 period not being entertained. The vast majority still were.

Election costings: as with your counterpart in New South Wales, Victoria's PBO sees heightened activity during election cycles. One suggestion is to decrease the election cycle burden of costing. To address that would be to have a codified manual of costing practices to smooth out the analytical processes. It may help to have additional staff as well.

Part 3—honourable members, I take this opportunity to acknowledge that the states within the commonwealth have a long history of fiscal discipline as manifested in budget and fiscal rules and Victoria has over time generally maintained sound fiscal discipline. Yet, as you may yourself have observed from a changing global

economic climate, the paradigm through which fiscal policy is being discussed today appears to be changing dramatically, especially since the pandemic erupted. Twenty per cent of all US dollars that have ever existed were created in 2020 as the Fed expanded its balance sheet. Most OECD countries have offered seeming blank checks for stimulus, amassing deficits and taking on debt financing to help weather the public health and economic storm brought by the coronavirus. All of a sudden the talk of fiscal discipline and austerity seems to have vanished somewhat. In fact there are new economic paradigms. People talk of modern monetary theory, for example, which has come to the centre stage seemingly overnight.

The question is: how will national and subnational governments think of fiscal discipline in this new era, and how will Victoria and other jurisdictions deal with the impacts of deficit financing, if these things do still matter at all? These are the deeper philosophical questions for economics where PBOs may have an important role in the years to come. The OECD does keep track of what IFIs are seeing around the world in terms of stimulus during the pandemic, and we should keep an eye on this and how the paradigm is changing. Now, if a healthy relationship emerges over the years between the PBO in Victoria and the Parliament, then the PBO can come to serve as a standard-bearer for good democratic practice and fiscal oversight for other nations and their provinces around the world. You may come to find, honourable members, that the \$3 million spent on the PBO per annum may be among the best investments in democracy and finance you could ever make. Thank you very much.

The CHAIR: Thank you very much for that presentation. Mr O'Brien.

Mr D O'BRIEN: Thank you, Chair. And thank you, Dr Chohan, for your presentation. You are clearly the right man to talk to about this issue. You touched on the fact that most PBOs are having problems around the world with access to information. That is certainly an issue that we are finding in this inquiry and one of the reasons we are doing this inquiry, I guess. Are there PBOs in other jurisdictions around the world that do not rely on the bureaucracy at all—that simply do the work themselves—or is it common across the world?

Dr CHOCHAN: Sir, it is a common practice around the world simply because the PBO requires a depth of analysis that is premised on figures that at least have to be compared to what the executive branch's machinery has seen. They may come up with their independent analysis, but if they do not have the executive machinery's information to compare it with, if not to draw on, then they will have problems and it will be a hearsay sort of environment. The common practice, sir, is that they do draw upon the executive machinery extensively.

Mr D O'BRIEN: Are there any examples that you can think of where this problem of information deficit has been overcome? We know our PBO has tried to establish a memorandum of understanding with the various department heads. Could you perhaps expand on any experience you have come across of how it works better?

Dr CHOCHAN: Actually, sir, often times it is much, much worse, and I am keen to cite Victoria as already being on the cutting edge in this. I say that because, for example, in developing countries the problem tends to be very acute. Uganda, for example, is one example I know where it is very difficult for them to gather information. But even in a country such as Canada, if you asked the Canadian Parliamentary Budget Officer's veterans—not the officer himself, but the people who have been working there—they at least commonly, frequently, said that the biggest hurdle is no longer parliamentarians, who have come to accept it, but rather the bureaucracy. Their biggest hurdle is the executive branch's machinery. That is in a country such as Canada.

Now, another contrasting example might be the Congressional Budget Office, but the Congressional Budget Office is so large and its expertise is so deep—and it is a veteran organisation, so it might as well be considered a juggernaut in its own right—it can talk straight to the Treasury or even to the Fed. But the Fed also happens to be independent, so the American system is different, and those principles cannot be applied to a parliamentary system directly, sir.

Mr D O'BRIEN: Is there a way that the PBO and/or this committee and the Parliament can better enforce that sharing of information? We have talked about whether there needs to be some sort of penalty for the bureaucracy if information is not shared. I am not sure exactly how that might work, but do you have any suggestions in that respect?

Dr CHOCHAN: Yes, sir. I would have drawn upon something akin to the penalty system. The asymmetry between small independent organisations and the large machinery tends to be quite large. It tends to be very, very large at the national level. So penalties would seem, for example, absurd in a developing country: why

would you penalise the executive? But in a subnational government with a contained bureaucracy that is made to cooperate within a larger commonwealth, it is possible to do the penalty system, and I think it would be pioneering work. I mean, I have not come across an effective penalising mechanism for the executive branch that is treated seriously, because the bureaucrats would simply sidestep that, not care about those penalties and continue forward. Given the politicised mandate within, they must serve an executive first.

Mr D O'BRIEN: You said we are potentially on a pioneering trajectory here. Are there other organisations around the world or parliaments around the world that have a penalty regime of any description?

Dr CHOCHAN: Not to the extent that is being envisaged in your context, simply because to my knowledge—I am speaking of national PBOs here—there is no incentive for executives to comply with that level of penalisation of their own machinery to accommodate a legislative arm, even if it is independent. So I cannot envisage it in a national context anywhere. For a subnational, the United States' various states do not have these sorts of penalisations. It is just considered common practice to assist and expect delays, and if you cannot get the information you need, just work with assumptions to build around it. Oftentimes, sir, the temperament of PBOs at the subnational level within the United States and Canada has been to work around the missing information, because economics is premised on assumptions and you can simply do your best with what you have and just proceed in a timely manner.

Mr D O'BRIEN: In our system you may be aware the Auditor-General is quite a powerful organisation. I guess its main strength is scrutiny and, if you like, to put it directly, embarrassing the bureaucracy on failings that it has. Are there examples in other parts of the world or in your opinion where a PBO either works with or actually is a part of an auditor-general?

Dr CHOCHAN: Yes. Those are two specific and important questions. Yes, there are some European Union countries—for example, Finland, and I believe Belgium—that have the PBO-equivalent office situated within the auditor-general. So it does work independently from the auditor-general, but its ultimate stakeholder, in a sense, is the auditor-general rather than parliament. That is quite different. But as far as cooperation between the auditor-general and the PBO, you do find good examples of this. The point there is that they arrive at their analysis independently. So what happened in Canada in 2008-ish or 09-ish was that the government at the time had costed the war in Iraq and said that it was X number of dollars and then the PBO did its own analysis of a very hot issue. The Auditor General then went through its numbers on its own, corroborating what was at the time a very new institution. So it was not like they were a tag team; it is just that they arrived at it and increased the integrity of both offices but they arrived at the same thing.

Mr D O'BRIEN: Okay. In terms of the question of resourcing of the PBO, what is the resourcing of the Congressional Budget Office, for example, acknowledging that we are a very, very different size and scope here? But is it a multimillion- or even a billion-dollar organisation?

Dr CHOCHAN: It is not that large. I believe it is in the scope of tens of millions of dollars. Something like fifty-odd million dollars I believe.

Mr D O'BRIEN: Yes. I guess with the Congressional Budget Office but also others around the world, how are budgets set? Is there a level of autonomy for other PBOs from the executive, from the parliament? Do parliaments and committees like ours directly set budgets for these sorts of organisations elsewhere?

Dr CHOCHAN: Generally, sir, it comes as part of an appropriations Bill. It is generally within the mandate of parliament to set a fixed budget ex ante and then incrementally increase that. There are debates on it. The PBO does constantly give—I mean, annually gives its requirements. There is a bit of haggling, but PBOs do not get to determine with significant autonomy how much they need. I understand that this is a debate that is going on in Victoria: that the PBO should be part of how independent offices as a whole should be budgeted. I think that is far more disciplined, and it would be far better in securing the resources that PBOs require. Ultimately PBOs are by temperament institutions that know how to work well with little funding. They do not expect to get much and they just try to do the best with what they have.

Mr D O'BRIEN: What would you say are the key resourcing requirements for a PBO? Are they economists? Are they accountants? Are they technical specialists? What do they really need directly?

Dr CHOCHAN: This is an excellent question, and it is context specific. In the United States, for example, the CBO has particular types of experts. For example, because health care is such a contentious issue in the United

States, they do have healthcare economists as a separate category, a dozen or so healthcare economists. Then you have accountants, then you have even political scientists. So it depends on the technical requirements of the organisation, but generally you tend to have people who have a public finance or public economics background, if they are happy to, or training, and they tend to have spent at least some time in public service and stepped out of it and are now acting independently with an economics orientation. The larger the office, the more specialisations get incorporated and so the CBO has many different ones, health care being a major one because it is constantly being asked about by Congress. But agriculture—you name it—defence, it depends on the size, really.

Mr D O'BRIEN: Okay. I think my time is nearly out. Unless my colleagues have any quick questions, I will happily hand over to the next. Thank you, Chair. Thank you for your time, Dr Chohan.

Dr CHOCHAN: Thank you, sir.

The CHAIR: Are there any further questions from the opposition? No. Mr Hibbins.

Mr HIBBINS: Thank you for appearing today. In terms of legislation, you indicated issues arise with legislation, I think, where there are some blurry lines. In terms of overcoming the quality of information and the type of information issues that we are facing here in Victoria, would you advocate for a prescriptive form of legislation that indicated what types of information could be sought by the PBO?

Dr CHOCHAN: Could you repeat the final part of the question? Are there prescriptive uses?

Mr HIBBINS: No. Would you say legislation should be more prescriptive in terms of what information the PBO can actually get from government departments?

Dr CHOCHAN: Yes, I believe that being prescriptive about it may be helpful. You have a trade-off essentially between the precision that you want of what they can ask, which limits the sorts of things that may emerge in the future. Victoria is a complex society and its challenges may change, but if you have a too-limited requirement of what can be asked, you will not be able to expand it easily. And yet if it is too broad a remit, then the PBO may face heightened resistance because other stakeholders may have different attitudes towards different types of information. So you essentially face a trade-off, and that is a value judgement in my estimate.

Mr HIBBINS: In terms of the sorts of issues we are facing in Victoria in terms of the timeliness and quality of information coming out of government departments, are there any specific examples of PBOs around the world that have faced these issues and of whether any have actually overcome these and how they have gone about that?

Dr CHOCHAN: Sir, I think the best example to consult would be Canada in this context, because they have faced stark resistance from bureaucratic institutions, from public managerial organisations, and they have sought, from my understanding, to bring in a sort of neutral referee. They want arbitration over things, so if it just simply that important, they would go to the neutral referee and then they could adjudicate on that. For other countries the PBOs, who are somewhat young, tend to give up easily. I am speaking of developing countries here. They say, 'Well, you just can't even get there. Why bother? Let's just create our own assumptions and work with what we have'. So timeliness—I mean, after a request becomes too delayed their tendency is to produce the best that they can. So: 'If you have something'—'No, you won't be able to get it. Just go ahead and produce the analysis and don't wait forever'. That is the general attitude.

Mr HIBBINS: In terms of PBOs that do just go out on their own if they cannot get that information from departments, does that create resourcing issues then for those PBOs?

Dr CHOCHAN: Chair, I am speaking in terms of assumptions, not in terms of what they would need to find. So if you have certain things that are left in ambiguity—for example, the inflation rate or the amount of military deployed in a place et cetera—on those sorts of things you will just make a headcount: 'Well, since our military is this large, we assume that 10 per cent or X per cent would be deployed here'. You just work with more flexible assumptions. What they do, the really good ones—the PBOs—do is they offer scenarios. They say, 'Well, if this were true, then this might be the outcome in terms of budget outlays' and, 'If this weren't true, at this level you wouldn't have that'. It is a scenario analysis.

Mr HIBBINS: Thank you. That is all from me, Chair.

The CHAIR: Thank you, Mr Hibbins. Mr Limbrick.

Mr LIMBRICK: Thank you, Chair, and thank you, Dr Chohan, for appearing today. You are probably the best person to ask this question: when we are forming our recommendations as a committee, is there good literature on best practices for PBOs and what sort of things work and do not work so that we are not trying to sort of reinvent the wheel, because it sounds like a lot of the challenges that we are facing with timeliness and budgeting and this sort of thing are quite common throughout the world, so I would be very interested if there is good research on this that we could draw upon.

Dr CHOCHAN: Absolutely, sir. If you would like a thorough document, I am willing to prepare that later. But if you want it off the top my head so you may in your free time look these things up, I think that the best resource is the OECD's dataset on IFIs. It is not just a spreadsheet; it is a lot of documentation on how these things work. The OECD has a lot of good work on how these things work. But you must take that with a grain of salt because it is very Europe-centric, and Europe has its own conditions. They may not be applicable to Australia, one, but Victoria, two. The other good place to go is the GNPBO, the Global Network of Parliamentary Budget Officers, where Canada has taken a leadership position but people are invited to cooperate all the time. That is basically a mentoring organisation for developing country PBOs, newer PBOs. They compile stuff. I just do not know how much of that is in the public domain, but just talking to those people may be of assistance. And then of course I would like to advertise my own thesis, my own books. That is a great place to go as well.

Mr LIMBRICK: Thank you. Another thing that you mentioned which resonated was around: if there is missing data from public service, either because they cannot or will not provide it, then work with assumptions. But isn't one of the trade-offs there that the end analysis might not be as robust? Have you come across instances where the reputations of PBOs have been affected by making too many of these sorts of assumptions? You mentioned before that scenarios are a good way of dealing with that. So you can say, well, 'Here are different scenarios'. Are there problems with reputation?

Dr CHOCHAN: Yes, sir, but it is extremely rare. I can only think of one example in my experience and that was for the comparatively new PBO of South Africa, and they were costing nuclear energy policy. I do not remember the exact context, but in some ways it was a sloppy analysis. Given that it was a new institution at the time, the Parliament—especially the ruling government—was very politicised at that time over such issues because there was corruption involved and so on. They hit harder. But the PBO recovered after that. In general PBOs tend to have more accurate estimates than what political machinery provides, like Treasury or Finance, and that is because there is by nature less pressure on them to lean towards realising certain numbers. Oftentimes—I can say this with some degree of confidence—if you had to place your bets on the accuracy of what costs end up being, you are better off leaning on the PBO than on Finance or Treasury.

Mr LIMBRICK: That is a great place to finish my questions there. Thank you very much.

The CHAIR: Thank you, Mr Limbrick. Ms Taylor.

Ms TAYLOR: Dr Chohan, you are certainly considered one of the world's experts in PBOs, so we are very grateful for your time today. Following on from what has been discussed thus far, what would you say are the similarities and differences between Australian PBOs and those in other jurisdictions?

Dr CHOCHAN: The primary distinction is that you have a strong democratic ethos and you do not politicise these things overtly. I think it is that Australian culture of sticking it to the man, sort of thing. You do not really want a king up there, and this is different from the United States in the early days. Alice Rivlin, when she was in office working for the CBO after Nixon went—Reagan and so on—faced off against them and it was pretty ugly. When Kevin Page came in as the first PBO in Canada, it was very ugly during the Stephen Harper era. Similarly in Uganda, Kenya and South Africa it was rough. And then the really bad instances are Venezuela. So when Hugo Chávez came, he shut it down. And when Orbán came to power in Hungary, he shut it down. These sorts of risks do not exist in Australia because the democratic ethos is strong. Now, from that ethos, those values, you have an emanation of other things. For example, there are very well-funded PBOs, in my estimation, relative to what they need to do and certainly compared to other countries. I am looking at a vast sample including developing countries of course, but still.

And the third thing is that the premise of having independent costings is one of having knowledge out to the public, that the public should be informed. Now, it is up to the average Australian citizen—Victorian citizen—to draw upon that and to vote accordingly. Is the average Australian truly democratic in his ethos? Well, I believe so, but to what extent, and how well would they use the information? That is the question.

Ms TAYLOR: Thank you. You said earlier in your presentation that you are now at the Centre for Aerospace and Security Studies. Can you tell us a bit about the centre and what it does in relation to PBOs?

Dr CHOCHAN: In relation to PBOs it does nothing at all.

Ms TAYLOR: Okay. There you go.

Dr CHOCHAN: And that is a worrying thing. I do not know if I should even put this on the Hansard record, but it would be my ambition to be the first parliamentary budget officer of Pakistan. But the budgetary climate here is a very sensitive black box sort of thing. We are working in a dataless society. For example, a lot of things that you need to know about Australia you can find in the public domain, but a lot of things you need to find out about Pakistan you simply will not. The data is not gathered. Knowing how PBOs have struggled even in a well-off and sophisticated society like Canada, to see it in a developing country context like this is an immense challenge. So I have not mustered the courage to articulate the need for it here yet until I find a large enough space to do that. But there are plenty of things to work on in terms of aerospace, defence, cryptocurrencies—you name it. The world economy is shifting. And that is the third part of my remarks to you—that the premises of fiscal discipline are changing. And those are the sorts of things I work on. So I do find a lot of value—I find that I am able to contribute much more here than I would in a society such as Australia, where there are plenty of people working on such things. I am a big fish in a small pond in this case.

Ms TAYLOR: Fair enough, and thank you for your candour on that. You were talking earlier about the OECD. How many jurisdictions in the OECD have PBOs, and how does it differentiate how those states and nations work compared to those that do not have PBOs?

Dr CHOCHAN: If you had asked me this question five years ago or 10 years ago, ma'am, there would be a meaningful contrast between those that do and do not. Today I am ready to say that just about all of them do. I mean, I would have to look before I say so, but I am almost certain that all of them have it. Now, how large are they and how effective are they? That is a bigger question. And in terms of is it national and subnational, I am starting to find that even subnational jurisdictions in OECD countries are taking initiatives to establish their own offices. But today the trend has been far more towards independent fiscal institutions. And as I mentioned in my remarks, that is because the financial crisis, the GFC, led them to realise that we need some independent office to deal with this stuff. If we leave this to pure politics, well, first of all, as politicians we are probably not the best people to crunch the numbers. Secondly, if we do not work on this stuff and have sustainable finances, then the crisis comes, then the austerity comes, then the society suffers. So 2008 should be, in your mind, a sort of cusp. Now, that is not why all of the people have it, but certainly for OECD countries, given that most of them are European, we can make that generalised statement.

Ms TAYLOR: Okay. Thank you. I want to ask a fairly broad question. You have clearly studied PBOs around the world, based on what you have been iterating here and other work that you have done. What makes a good PBO?

Dr CHOCHAN: I would say to you that all PBOs are good PBOs, but they are stifled by the cultural, economic and political context in which they thrive. But all PBOs are good. It is very rare that you have a PBO where you would say, 'Well, that's a very suspect or unusual thing'. One example I would give you is Uganda, where the parliamentary budget officer, who I did interview for my research long ago—in 2013, long ago—was actually indicted for corruption. That is a very rare case, and the PBO since then has not had those problems. But it is more about a good PBO, as in doing the right thing or doing right by society. They are all good, but are they effective? Well, that is where our inquiry comes in today, and you may judge from my remarks that Victoria is on the right path certainly.

Ms TAYLOR: Okay. Now, we have been discussing a bit about different competing models for PBOs. There are two competing models if we are looking within our Australian context, and I cannot speak for around the world: the standing body, such as the Victorian model, or those that are for election years only, such as the

New South Wales model or the one put forward by the former coalition government in this state. Can you tell us what the advantages and disadvantages of each are?

Dr CHOHAN: Absolutely. An excellent question, ma'am. The elections-only approach is very limited. The value that it creates is time sensitive and it often happens in a rush, and the people who work there have other jobs. Now, New South Wales does it quite well. They are very technically savvy people, but they come in with a specific mandate, they wrap up and they move on. The value to society is quite limited, because if you are just looking at election promises, well, a promise is not a promise in politics. Things change, but long-term, well-established, well-entrenched PBOs create the most value for society. It takes more budget, but the other thing is that they have institutional memory. They have an expertise that is built over time.

You have no better example of this than the Congressional Budget Office. They have been in the business for almost 50 years, and the sorts of things that they have done in recent years have changed American society in important ways. I wanted to put this in my remarks but I had gone over time. The *American Health Care Act*—so, Trumpcare—was being pitched as something good for Americans by the President, and the CBO was the main actor that changed that, because their costings were on very rigorous numbers and a very long-term orientation. They said that 20 million Americans would lose health care under Trumpcare. The people were out on the streets protesting this and the media had a huge backlash, and ultimately the Republicans had to back off. They could not do the Trumpcare and Obamacare lived on because of the CBO. Can you imagine saving 20 million lives? I mean, that is a really big deal. So the value can be quite high.

Ms TAYLOR: That is a huge deal indeed. I think it would actually be really helpful for the committee if you could outline your understanding of the PBO's functions as they are under the PBO Act.

Dr CHOHAN: I would split it into what was my framework for my thesis and what they articulate. There is the costings element and then there is the advisory element. The costings element comes with particularly opposition asking—for example, the Greens making requests—for how much things would cost, and based on that they can have a better, richer debate in Parliament. The costings is the essential part. It tends to be less political because they are just looking at the numbers. And then there is the advisory part, which is to sit with parliamentarians or to respond to parliamentarians on what would happen if things were this way et cetera. That advisory thing has enormous value. It makes parliamentarians more savvy—budgetarily savvy—and it helps to refine the way that they think and speak about tricky issues in a financial language. Both of these create value, but a PBO that is too, too big on advisory in my experience can get hit hard. I mean, imagine if this CBO thing did not work out and the Republicans went guns blazing. Well, first of all, people would lose health care, but the CBO would have been in trouble. So there are two tiers at which in my reading the PBO Act 2017 works, and I think it is an excellent piece of legislation. I do not know if it explicitly took from my work on this, but that is exactly the line on which I was thinking, so it is very well structured.

Ms TAYLOR: Good. And do you consider the PBO has been acquitting these functions according to the Act?

Dr CHOHAN: In my judgement it has. I understand that all new PBOs do to tend to do that, so the question is how good the law is. The law is good, so the PBO has adhered to its requirements, and what I mean by that is the protocols, the requests for information, what can be contained in the report and if confidentiality is respected. My understanding is that that has all worked out so far, but you may speak to that with specific experiences.

Ms TAYLOR: Okay. Thank you. And so compared to other countries, on what aspects does the Victorian PBO set a world standard? Because I noted before you said it was cutting edge, but in what way?

Dr CHOHAN: It is a cutting-edge institution in terms of using a small budget to get things done in a manner that respects confidentiality requirements, also getting cooperation, more so than other jurisdictions do, from public sector bodies, as well as differentiating between what is costings—so what is technical—and what is normative and advisory. It is a very mature approach to do that. PBOs have got in trouble in the past for not respecting that. They get into the political without realising that they are getting into it or they say that they do not, and I am speaking specifically of the early phase of Canada. So it is cutting edge in terms of, given its funding, how it is managing the discipline of the rules set on it and getting respect from Parliament to such a degree, as well as getting a lot of information from public sector bodies.

Now, your task today is to improve it, but you should understand that you are starting from a strong footing. That is no reason for complacency, but it is good.

Ms TAYLOR: Okay. Thank you. Do you have a view on the accuracy of the costings by the Victorian PBO?

Dr CHOCHAN: I do not, because I think that would be evaluated meaningfully over time. You would need a 10-year period to really look back and say, 'Well, this is how they forecast. These were the actual numbers. This is the gap', and I have not seen any studies that are so premature that they would evaluate so soon. But there was a tendency in Canada, for example, to look at specific policies and then immediately in the fiscal year after, they would compare. But I thought that was unfair, so I would not comment on that.

Ms TAYLOR: No. Fair enough. And again, appreciate your candour with regard to that question. In your work, do you consider the value of and role played by other PBOs in Australia? I know we touched on it a little bit, but it would be nice to hear a little bit more from you in that regard.

Dr CHOCHAN: Yes. Well, the New South Wales PBO, I did engage with them for my research. I have a great deal of respect for them, and I understand their technical savvy and the desire not to get into any form of politics. I think that is very good, but I think that Victoria's ambitions are larger and better, because you are not just doing it as a one-trick pony every four years, that sort of thing. No. You have something for a lasting institution that creates value. And for the other states, I am not well versed on what they do because they are extremely young. So I cannot comment on them.

The PBO in Canberra, by contrast, so for the commonwealth as a whole, is a very professional body, does a very good job and understands what is required in terms of politics and stuff. It is also getting a good budget. It is also a respected institution. I think the more accurate comparison would be Canberra versus Melbourne, and both are doing very well.

Ms TAYLOR: Okay. Thank you. That is very interesting. So how would you say the Victorian PBO stacks up in regard to advice and transparency?

Dr CHOCHAN: In terms of transparency, it is doing a good job, with the proviso that it is not trying to carry a banner, a rallying cry of drama with it, because it respects the confidentiality involved. So whatever has been done by the PBO that is confidential I simply do not know, but what is being done, it has said that this was allowed to be put out there and this is what they did with these assumptions, and that is very healthy. So given the proviso that things have to be respected in terms of confidentiality, it is working to do the transparent thing, which is very good.

Ms TAYLOR: Okay. Thank you. I think that is very well acquitted actually.

The CHAIR: No worries. Well, thank you very much, Doctor, for appearing before our committee today. That concludes the questions from the committee. The committee will follow up on any of the questions which you took on notice in writing, and responses will be required within five working days of our committee's request. We thank you very much for your time and sharing your expertise with us today, and thank you. We will declare this hearing adjourned. Thank you.

Dr CHOCHAN: Thank you very much. Thank you for your time.

Witness withdrew.