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The German Council of Economic Experts (GCEE): Statutory mandate and process

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THE GERMAN COUNCIL OF ECONOMIC EXPERTS (GCEE): STATUTORY MANDATE AND PROCESS

1. Since 1963, the year of its foundation, the German Council of Economic Experts (GCEE) has been working as an independent group of advisors on a wide range of questions of economic policy to Germany's policymakers and the general public. Its annual report has been serving as an anchor for budgetary planning and forecasting of administrations and enterprises, as a principal source of information regarding the state of the economy and the effects of policy interventions, and more generally as an inspiration for the public discourse on economic policy in Germany and at the European level. As a reflection of its independence, the GCEE's analyses and views are often exposed to considerable criticism from the political sphere. Yet, this sense of unease must not be confused with criticism of the council's analytical quality. As this brief article explains, being a critical, yet constructive voice in the economic policy arena is enshrined in the GCEE's legal mandate and process.

The GCEE's legal mandate

2. The GCEE has the legal obligation to submit an annual report on macroeconomic development, "to assist all authorities responsible for economic policy as well as the general public in forming a sound opinion" (Act on the Appointment of the Council of Economic Experts (Gesetz über die Bildung eines Sachverständigenrates zur Begutachtung der gesamtwirtschaftlichen Entwicklung – SVR-Gesetz)). The GCEE is "only bound by the mandate set forth in this law; it is independent in the performance of its work" and comprises persons who "possess a specialised knowledge of economic science and be experienced in matters of economic policy".
3. The pool of eligible potential members is clearly delineated by the act (Article 1(3) SVR-Gesetz); for example, they cannot be members of government or public service at the time of appointment or during the year preceding appointment, except as a university teacher or an assistant at an institute of economic and social science. Furthermore, they must neither be representatives of any association of employers or trade union, nor may they be bound to them by any permanent contract of employment or agency agreement. However, there is an informal understanding that one council member will be appointed with the approval of the German trade unions, and one with the approval of the association of German employers.
4. GCEE members are appointed for five-year terms, with the possibility of being reappointed for a second (that happens often) or even third (a rare event) term. Once appointed for their five-year term, GCEE members cannot be dismissed, providing them with considerable independence. The members' terms are not synchronised, but are overlapping. Typically, one member is up for reappointment or is newly appointed to the GCEE each year. Consequently, throughout its

history the group has tended to comprise a mixture of experience and fresh perspectives. As the GCEE's reputation rests on the academic standing of its members, they should have published extensively in refereed international journals.

5. The SVR-Gesetz explicitly states what the GCEE is to examine and that the assumptions underlying the analysis are to be transparent. The benchmark for assessing future macroeconomic developments is also defined in the SVR-Gesetz (Article 2 SVR-Gesetz). However, in all cases where the four prescribed objectives of this so-called "magic square" – stability of the price level, a high rate of employment and equilibrium in foreign trade and payments, together with steady and adequate economic growth – are not completely congruent, the GCEE is free in determining how to weigh them against one another. The mandated task of the council is to indicate undesirable developments that pose a threat to the stated objectives, and identify ways to avoid them.
6. It might well happen that one or two GCEE members have a different opinion on how to weigh the individual objectives than the council's majority, or that they are convinced of another interpretation of the empirical evidence. In these cases, the SVR-Gesetz explicitly entitles this minority to express a dissenting opinion. The act thus recognises that despite the prescribed objectives and the shared academic and informational basis, there typically cannot be an "objective" or "neutral" benchmark for assessing economic policy. Consequently, the statutory mandate implies that each annual economic report is an expert opinion of current macroeconomic developments based on economic reasoning, reflecting the inherent uncertainty regarding these matters wherever this is appropriate.

The process behind the GCEE reports

7. The GCEE draws on the latest economic literature when preparing the annual economic report. The references to literature enable readers to quickly gain their own overview of the relevant literature. However, the report does not purport to provide a complete reflection of the literature. It would anyway not be in accord with the mandate to simply provide an overview of literature on the issues discussed. Rather, the current academic and applied literature forms the transparently documented basis for the GCEE's own discourse and the ensuing conclusions. It is the council's firm conviction that only by formulating an explicit position on all relevant matters of economic policy, it will be able to fulfil its mandate: to help inform the opinions of policymakers and the public.
8. The GCEE also conducts its own empirical analyses, based on macroeconomic data or individual-level survey data. Quite frequently it commissions additional empirical analyses in collaboration with external economists who are particularly knowledgeable in a specialised field of application. These studies are often an especially valuable instrument for assessing the likely future impact of economic policy measures, as the academic literature will typically only provide such analyses with a delay. It certainly adds to the reputation of the council's work that the empirical studies of both the council and its staff and of the external economists are often subsequently published in peer-reviewed international journals.

9. While in the public debate it is often mistaken as an indication of indecisiveness, the GCEE openly embraces the instrument of reflecting a diversity of perspectives on economic policy in dissenting opinions. Their publication in the annual economic reports provides much more transparency about the inherent intricacies of these matters than is available in most reports of other institutions or research papers. The fact that each member of the GCEE is legally entitled to express a dissenting opinion in the annual economic report is therefore an important component of the council's process, enhancing its transparency and ultimately its legitimacy.
10. To foster transparency about its work, the GCEE provides the data underlying all charts and tables published in the annual economic reports for download from its website, with the rare exception where copyright rules do not permit this. The reports also include a comprehensive list of all institutions and persons with whom the council members spoke prior to preparing them. They also name all members of staff, including interns, who worked on the report, as well as all economists who provided analyses for the GCEE. Finally, academic articles (co-) authored by members of the council's staff are published as working papers on the GCEE website.

The GCEE – a voice in the economic policy arena

11. In light of the so-called magic square of economic objectives that serves the council as a benchmark, almost every analysis of economic policy measures will necessarily end with a value judgement, because the four objectives have to be weighted against one another. It is quite obvious from looking at the decade-long history of annual economic reports, that this frequently leads to criticism levelled at prevailing government action. This criticism generally becomes more vocal when economic policymakers have taken or plan to take steps that could be a threat to achievement of the four objectives set in the SVR-Gesetz.
12. This often happens in years when a new government has taken office following a general election, and introduces a new direction for economic policy. In 2009, the economic policy plans of the newly elected coalition government of the CDU/CSU and FDP resulted in the title of the 2009/10 Annual Economic Report being “Don't compromise the future”. And in 2013, the plans of the newly elected “grand coalition” government to further dilute the reforms of Agenda 2010, thereby – at least according to the assessment of the GCEE's majority – putting the GCEE's four objectives at risk, led to the title “Against a backward-looking economic policy” of the 2013/14 Annual Economic Report.
13. It is abundantly clear that by adamantly voicing its conclusions in the public arena, the GCEE fulfils its statutory mandate – that is as a critical economic policy companion to every German federal government, and not a direct government advisor. As was intended when it was formed, the GCEE thus continues to

remain a public challenger to policymakers¹, as evidenced by the intense public debates on the analyses and results of the annual economic reports.

14. While this might feel uncomfortable for policy-makers from time to time, then Chancellor Gerhard Schröder put matters in perspective on the occasion of the 40th anniversary of the GCEE in 2003, by saying: “Advice from competent third parties is valuable support for every active politician, particularly when provided independently in a public and critical dialogue. And I stress: This also applies if – and this is said to have happened before – the expert opinions are not what we want to hear.”²

¹ H. Tietmeyer: Die Gründung des Sachverständigenrates aus der Sicht der Wirtschaftspolitik, in: Sachverständigenrat zur Begutachtung der gesamtwirtschaftliche Entwicklung (Ed.): Vierzig Jahre Sachverständigenrat 1963-2003, Wiesbaden 2003, pp. 22-33.

² G. Schröder: Wissenschaftliche Beratung und politische Durchsetzbarkeit, in: Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (Ed.): Vierzig Jahre Sachverständigenrat 1963-2003, Wiesbaden 2003, pp. 15-21.