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EDUCATE AND DISCIPLINE

Independent fiscal institutions, the
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ABSTRACT

The last few years have seen a marked increase in the number of independent fiscal institutions. This is due to a clearer sense of the need for responsible fiscal policy. One of the ways in which such institutions can ensure fiscal discipline is by improving the quality of public debate and the public's understanding of issues pertaining to public finance. Fiscal policy is technically complex, and improving the public's understanding is complicated by a number of factors, but a key challenge is the public's low level of interest and knowledge about public administration and fiscal policy issues. This report gives an overview of the results of a public opinion survey, which ascertained the views of Latvia's inhabitants on fiscal policy and budgetary discipline, and their knowledge thereof. The results of the survey are considered in relation to the recommendations of international organisations for independent fiscal institutions; specifically - their role in improving the quality of public debate.

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Contents

Introduction.....	2
IFIs and the quality of public debate.....	2
Information on budget-drafting and government finance.....	3
Rational ignorance	4
Experts and fiscal policy.....	6
Summary of the main results	7
Analysis.....	12
Individual rationality and collective goals.....	13
Summary and conclusions	15
Bibliography	17

Introduction

When writing about the best practices and preferred features that independent fiscal institutions (hereafter – IFI) should exhibit, an often-made claim is that IFIs should contribute to public debate and foster public understanding of issues pertaining to fiscal policy. Since such institutions do not have specific legally defined instruments for influencing fiscal policy, one of the ways that IFIs can ensure fiscal discipline is by improving the quality of public debate. This can allow voters to consider and assess whether budgetary outcomes are the result of luck or competent policy-making, and improve the public’s understanding of the budget-drafting process.

Studies have shown that people's knowledge of political processes and questions pertaining to public administration is incomplete and has not significantly improved over time (The Pew Research Center 2007). Although government transparency and availability of information are essential preconditions for improved public debate, research shows that better access to information has not had a significant effect on people's knowledge on political matters. This discovery points to a more complex issue because it raises the possibility that ignorance derives from a reluctance to devote one’s time and intellectual resources to acquire the necessary information.

This report will present and analyse the results of a public opinion survey which ascertained the views of Latvia’s inhabitants on fiscal policy and budgetary discipline, and their knowledge thereof. The results of the survey will be considered in the context of the recommendations of international organisations for IFIs; specifically – their role in improving the quality of public debate.

The report is divided into four parts. The first part will provide insight into the vision for IFIs and their role in raising public understanding espoused in the publications of the International Monetary Fund (hereafter – IMF) and the Organisation for Economic Co-operation and Development (hereafter – OECD)¹. The second part will look at factors that make this task more difficult. The third part will summarise the results of the survey. The final part of the report will, based on the results of the survey, identify issues of concern and propose looking at them through the prism of civic rationality.

IFIs and the quality of public debate

The sustainability of public finances is based on responsible fiscal policy and a manageable level of public debt. These are essential prerequisites for ensuring the state's ability to deal with adverse macroeconomic developments and meet future spending requirements. A clearer sense of the need for fiscal buffers and sustainable levels of public debt derives partly from the experience and heritage of the most recent global financial crisis. However, the uncertainty of the political cycle and the role of short-term benefits in formulating fiscal policy has also attracted more attention. It has been recognised that these factors can motivate policy makers to (i) take decisions in favour of suboptimal courses of action, (ii) perpetuate deficit budgeting (iii) and promote the development of overly optimistic macroeconomic and revenue forecasts, thus putting additional strain on public debt.

¹ The summary is based on Debrun et al. (2013), Debrun et al. (2014), Hagemann (2011) and OECD (2014).

As a result of efforts to address the above problems, the number of IFIs has grown in recent years. IFIs are public institutions with the right to conduct an independent and politically neutral analysis and evaluation of fiscal policy and its outcomes. Such institutions monitor whether fiscal policy is formulated taking into account macro-economic developments, possible complications and the sustainability of public debt. There are references to IFIs in European Union legislation, but their institutional structure and mandate may vary according to country-specific circumstances. However, it has been suggested that IFIs should be politically independent and promote public discussion regarding issues pertaining to fiscal policy.

Political neutrality and independence from political pressure perform several functions. First, it allows IFIs to assess policy initiatives and controversial draft laws from a technical perspective and in a neutral manner. In this scenario, the analysis focuses on the country's fiscal sustainability and whether there is a systematic approach to budgeting, rather than the specific political vision for social development and the distribution of public funds. By not favouring the fiscal framework of any political party and providing balanced assessments of the proposals of all political forces the IFI performs a critical monitoring role. The responsibilities associated with this role can be performed by evaluating state budget drafts, revenue and macroeconomic forecasts and the technical justification for specific policy initiatives.

Second, independence is essential for gaining and maintaining the trust of the public and media. If the IFI, in its role as the overseer of fiscal policy, is consistent in its activities, reports and public statements, the public can rely on this institution. By demonstrating its competence, it strengthens the public's trust and the trust of different political parties in the neutrality and analytical capacity of the IFI. This status in turn allows the IFI to perform its second objective – contribution to the public debate.

An informed and educated public is a significant factor that influences public policy and the quality of public discussions. Lack of information and incomplete knowledge in turn have a negative effect by limiting the interaction between the public and its representatives – a crucial aspect of democratic societies.

Lack of information and understanding generally complicates communication between experts and the public. Though an expert can adjust her message to a selected audience, the public must be able to understand the content and process the specific claims (Turner 2003). Situations where translating the message into accessible language is not successful (i.e. the audience refuses to accept it), creates a very complex problem. Assuming that the competence of the experts is beyond dispute, the failure can be explained as being due to public ignorance, but such an interpretation of the situation does not resolve the problem. The public has not understood the expert, and her claims have not received support. In the case of IFIs, this severely limits the possibilities of promoting responsible fiscal policy.

Information on budget-drafting and government finance

Fiscal policy is characterised by an important informational asymmetry. Due to the technical nature and complexity of the information involved, the public and government officials have unequal knowledge and understanding of fiscal policy. The public often has an incomplete understanding of the flow of public finances and the fiscal costs of certain services. In such circumstances it is easy to underestimate or overestimate the specific costs of a political proposal (for example, new tax credits) and its long-term impact on budget revenues and expenditures.

A further difficulty for IFIs is that fiscal policy issues require technical knowledge on drafting the state budget, as well as an understanding of economic processes and the current economic climate. Attaining the appropriate level of competence requires considerable investments of time and intellectual effort. In such circumstances, a prerequisite for public education is the availability of information and the provision of information in an easily understandable form to reduce the effort required for competent participation in discussions on matters pertaining to public finance. By raising public awareness and enhancing the transparency of public finances, IFIs improve the ability of voters to critically evaluate the consequences, costs and benefits of policy proposals.

By studying the literature which explores public knowledge of political processes, reference is made to an additional problem that hinders the performance of the above task. There are several indications that public knowledge on political matters and issues related to government is incomplete. Furthermore, the level of knowledge may not necessarily be improved by making information more accessible and understandable. This means that even if the IFI is able to make information regarding public finance transparent and easier to understand, the institution may be faced with the problem that people lack interest and the desire to engage with it.

Rational ignorance

In his book *The Good Citizen* Michael Schudson notes that the informed citizen is a central political ideal for civil society in the United States (Schudson 1998). In the context of the democratic process, a competent and knowledgeable electorate engages with its representatives and critically evaluates policies and draft laws. The author himself points to a practical difficulty, which is confirmed by the results of several surveys – there is a significant gap both in Europe and the United States between the expertise and active participation required by this ideal, and the actual state of affairs.

Several studies indicate that people's knowledge of political processes and governance-related issues is incomplete. In the case of USA, it has been confirmed that the level of knowledge has not significantly improved during the 20th century. This means that greater access to the educational system, the quality and activity of the media, and access to information in the digital environment, as well as the government's attempts to be more transparent, have had no significant impact on the results of surveys, which assess public knowledge of issues pertaining to politics and the economy (Somin 2013).

Such a state of affairs suggests the possibility that people's ignorance is not caused by poor availability of information or a shortage of information-processing skills. Attempts to inform the general public may not produce the desired results, because dissemination of information and the increase in the overall level of education has not had a significant impact on people's knowledge. A low average level of knowledge is simply a fact of political life; although talk of an average level of public knowledge is misleading because the overall result masks significant differences between the various groups, which point to a number of structural issues² (such as inequality).

² Research suggests that the most knowledgeable individuals are members of socially privileged groups. In other words, there are social indicators (such as gender and ethnicity) that influence people's knowledge of political matters. The significance of these characteristics has not decreased during the 20th century (Fraile 2014; Somin 2013). The role of education should also be noted, as an individual's educational qualifications are a key determinant of the level of knowledge (Clark 2014; Henderson 2013).

It has been argued that the availability and clarity of information may reduce the impact of social inequalities on people's level of knowledge (Fraile 2013). However, the possibility that the low level of knowledge is the outcome of a corresponding demand for information, rather than its public availability, is raised more often. In other words, the level of public knowledge may reflect people's desire (or lack thereof) to engage in the political process and invest their time and resources to improve their knowledge. Incomplete knowledge, therefore, is the result of a deliberate choice.

In order to explain this phenomenon the concept of *rational ignorance* is invoked. The rational ignorance approach is derived from an analysis of political life and behaviour, based on insights derived from economic theory. This theoretical position is associated with Anthony Downs' book *An Economic Theory of Democracy*³. This book expands upon an approach to voting behaviour and employs economic rationality to analyse issues that have traditionally been approached with the tools of sociology and social psychology.

The main idea behind rational ignorance is that members of the public have made a considered choice not to educate themselves about a particular range of questions and issues because obtaining information on a new topic requires considerable effort. For example, acquainting oneself with current political events and the nuances of legislative frameworks that govern international cooperation requires time and technical expertise. Nicholas Clark (2014) maintains this position in his article and notes that people's knowledge of the European Union's political system is low – lower than their understanding of their national political system. The reason, according to Clark, is the complex structure of a multilevel political system. In such systems voters have to acquire information on a variety of institutional units. From this Clarke concludes that the design of the European Union places additional knowledge burdens that many people will not be able to bear.

In terms of benefits, the situation is less clear. People's desire to improve their competence could be stimulated by the prospect of being able to fully participate in the democratic process. In this case, the acquired skills and knowledge can be regarded as a benefit, but for many such benefits do not outweigh the necessary investment of time and resources. In other words – knowledge and competence in political matters has a high cost and the value attached to the benefits is not straightforward (Udehn 1996).

In the context of balancing the benefits of information acquisition and the necessary investments it is often argued that the influence of an informed citizen's vote on the outcome of an election may be negligible. By educating themselves on the various issues related to political life, citizens improve their competence. This increases the probability that the decision they make in elections will be more appropriate to the individual's interests and beliefs. Such a possibility is illustrated Jason Arnold's study. It found that a more in-depth understanding and knowledge would have changed voters' choices regarding for which party to vote (Arnold 2012). Cerniglia and Pagani (2011) indicate that a better understanding of the European Union is associated with support for European Union integration.

The value of competence is less clear if we assume that the vote of an informed citizen carries the same weight as the other votes. In other words, even if the choice is made in favour of acquiring information in order to make an informed choice, the indecisive role of each individual vote may discourage people from informing themselves.

³ https://en.wikipedia.org/wiki/An_Economic_Theory_of_Democracy

An individual voter has little incentive to learn about politics because there is only an infinitesimal chance that his or her well-informed vote will actually affect electoral outcomes.

Somin (2013: 5)

In short – the rational ignorance approach suggests that the choice not to acquire the necessary information is rational because it, at least implicitly, is based on a cost-benefit analysis. In many cases there may be a decision against acquiring information, as the value attached (and consequently lost) to the time wasted will be higher than the perceived benefits of the acquired knowledge and competences.

Experts and fiscal policy

It is possible to argue that, due to the complexity of questions pertaining to the state budget, widespread competence is not necessary. Budget-related issues are technical in nature and only people with very specific knowledge and understanding are competent to address them (informational asymmetry). In such a scenario it is possible to talk about delegating responsibility to experts, whose technical competence guarantees that the appropriate decisions will be made. In other words – the low level of knowledge and interest in the budget process is less problematic if budgeting is in the hands of people with the necessary technical expertise.

For example, developing macroeconomic projections requires a considerable amount of information and technical knowledge. Predictions can be fully developed only by people with the necessary skills and information. If these experts are competent, we can rely on the quality of their work and judgement. As noted by Michael Schudson (1998), this was a common position in the United States during the first half of the 20th century – efficient governance overseen by experts.

In the case of fiscal policy, the delegation of responsibilities to experts is problematic, which is neatly illustrated by the limitations to the mandates of IFIs.

One of the main reasons why the mandates of IFI-type institutions do not foresee concrete tools for influencing fiscal policy is that fiscal policy is *political* in nature (Haggeman 2011). Fiscal policy involves a redistribution of resources on the basis of a particular country's or government's ideological position. For example, a progressive tax system is based on the decision that deems income equality an important goal. Expert knowledge is required in order to assess the economic feasibility and requirements, but the selection of the equality target itself is not in the hands of experts, because it is economically uncertain and politically contentious. Decisions as to the choice of targets may only be made by elected public representatives (the parliament). Experts may be involved in the planning stages. In their capacity as consultants they may indicate reasons why the chosen goal cannot be reached, but the expert cannot choose the target. For this reason a complete delegation of fiscal policy to experts is undesirable, because fiscal policy includes both technical issues (such as the compliance of the draft budget with the Fiscal discipline law) and political decisions (e.g. tax breaks and government funding for education).

From a normative angle, all aspects of fiscal policy—including the deficit—are primarily distributive (across individuals, social groups or generations), which precludes delegation to unelected policymakers.

Debrun et al. (2013: 7)

In such circumstances the public must rely on its elected representatives (the Saeima), but in order to elect a competent representative, it is necessary to assess their suitability for the job. This, in turn, presupposes a basic understanding of the responsibilities that the position entails, familiarity with the policies of the particular party and a judgement as to the feasibility of its proposals.

Summary of the main results

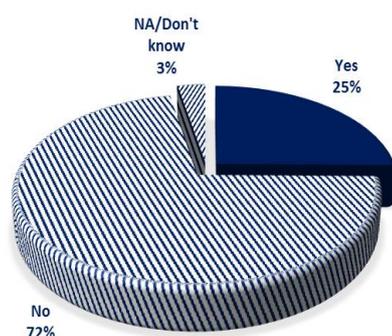
The above suggests the possibility that the public’s knowledge of fiscal discipline and budgetary arrangements will be incomplete. In the case of Latvia, an illustration of this phenomenon is the *Standard Eurobarometer 83* survey⁴, which was published in 2015. The survey included questions related to public finance and the economic situation.

The *Eurobarometer* survey looked at public perception and understanding of issues such as inflation, economic growth, unemployment and the perceived reliability of publicly available information in the respondent’s country. The opinion of people living in European Union member states was compared with the actual outcomes. The results of the survey showed that Latvian respondents overestimated economic growth, unemployment and inflation in 2014, but Latvia’s inhabitants’ level of trust in publicly available information corresponded to the European Union average.

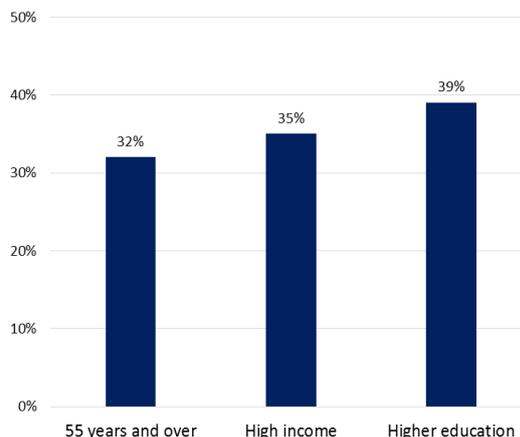
In order to gain a more complete understanding of the knowledge of, and views of, Latvia’s population on fiscal policy and budget discipline a survey was conducted in April 2016. The survey was conducted in cooperation with the social research centre SKDS. A total of 1005 people were surveyed. 434 respondents were male, and 571 – female.

Approximately a quarter of the population follow the budget drafting process. The results of the survey show that 25% of respondents follow how the state budget is drafted. Interest increases with the respondent’s level of education, age and income level.

Do you follow the budget-drafting process?



Graph 1.1 Source: Council survey

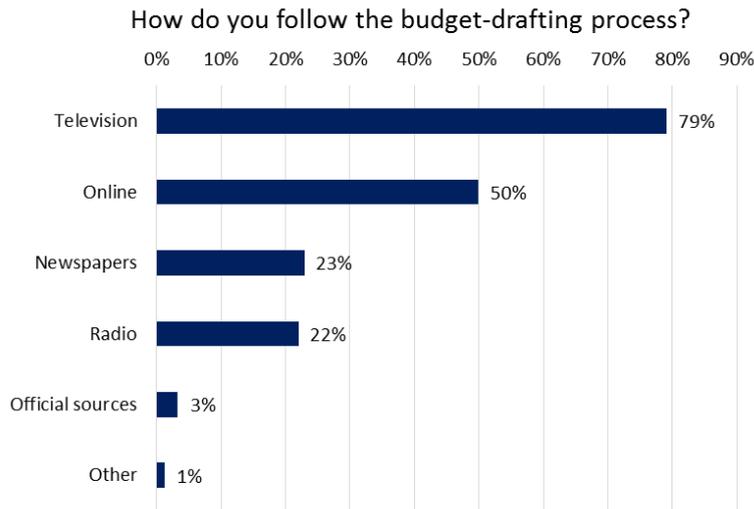


Graph 1.2 Source: Council survey

People rely upon information they receive via television and online, with only minimal use of official sources. Respondents were asked to indicate their main sources of information.

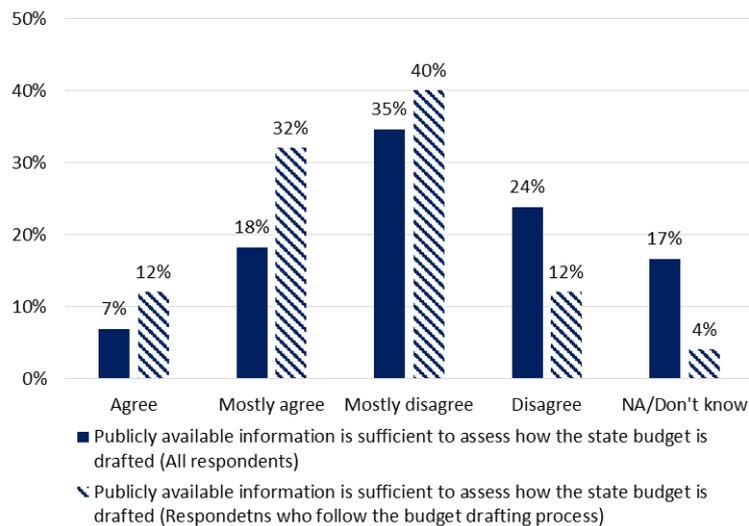
⁴ The results are available here: <http://ec.europa.eu/COMMFrontOffice/publicopinion/index.cfm/Survey/getSurveyDetail/instruments/S TANDARD/surveyKy/2099>, accessed on 02/11/2016.

Television and internet portals were the most popular choices, and only a few respondents said they used official sources.



Graph 2 Source: Council survey

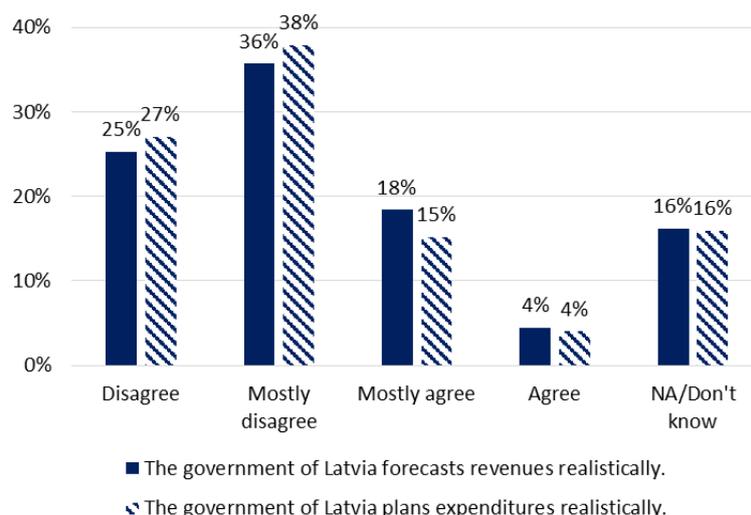
Publicly available information is believed to be insufficient, but the assessment of respondents who are interested in the budget-drafting process is more positive. People mostly disagree that the available information is sufficient to assess how the budget is drafted. It should be noted that people, who claimed that they follow the budget drafting process, were more positive in their assessment of the available information.



Graph 3 Source: Council survey

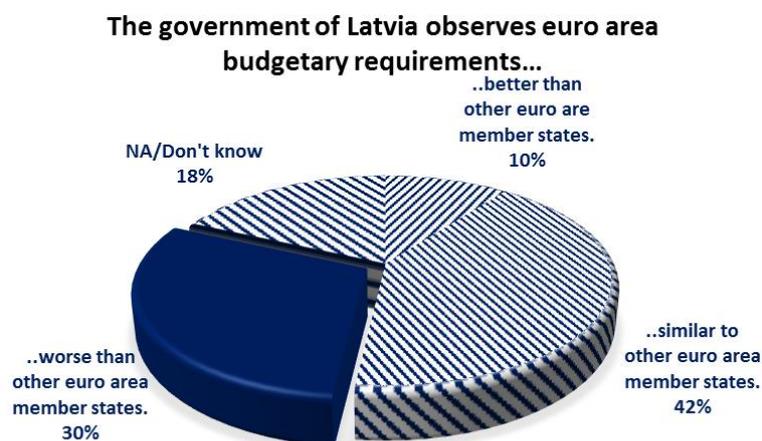
It is believed that revenues and expenditures are not planned realistically, even though revenue forecasts are consistently fulfilled. People mostly disagree that expenditures are planned realistically and revenue forecasts are realistic. In the case of revenues, public perception differs from State Revenue Service summaries, which show that revenue forecasts are consistently met.

Educate and discipline



Graph 4 Source: Council survey

Respondents believe that Latvia is worse than other euro area states at meeting budgetary requirements, even though official statistics show that Latvia's results are above average. Euro area countries have to observe certain requirements, such as expenditure ceilings and permissible budget deficit levels, when drafting their budgets. The survey asked how Latvia's government compared to other euro area states with regard to respecting these requirements. According to the respondents, Latvia's results are similar (42%) or worse (30%), and only 18% thought that Latvia's performance is better.



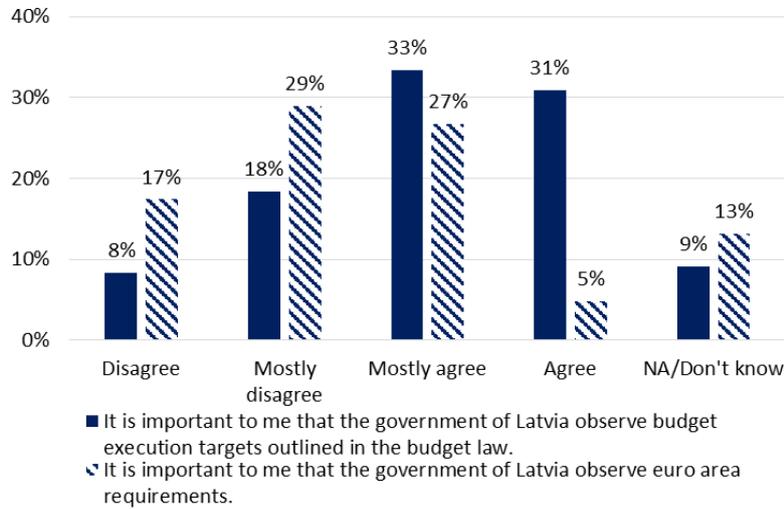
Graph 5 Source: Council survey

This opinion differs from official information, which shows that Latvia's performance is above the euro area average.

	2013	2014	2015
Latvia	-0.9	-1.6	-1.3
Euro area (19)	-3.0	-2.6	-2.1
EU (28)	-3.3	-3.0	-2.4

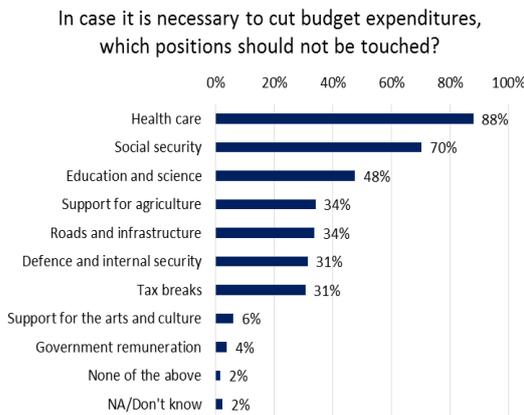
Table 1: General government nominal deficit 2013 – 2015 (% of GDP). Source: Eurostat

Targets defined in national legislation are more important to respondents than respecting euro area requirements. The survey contained questions on (i) respecting execution targets defined in national legislation and (ii) respecting euro area requirements when drafting the budget. The results indicate that the former is more important to people living in Latvia.

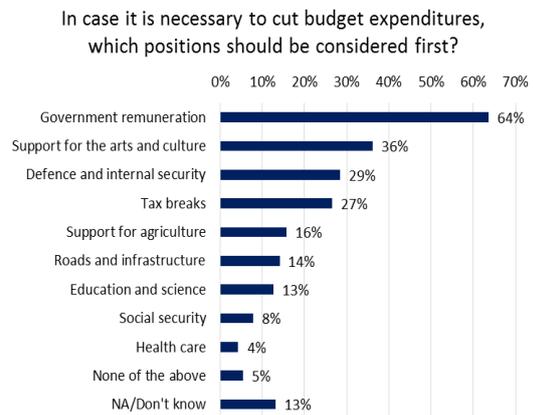


Graph 6 Source: Council survey

It is believed that government remuneration should be decreased if expenditures have to be cut, but funding allocated for health care and social security should not be reduced. Respondents were offered a list of areas from which they could choose those where funding could be decreased in case of such a need – and other areas where it should not be decreased. 64% believed that remuneration of government employees could be reduced. Support for the arts and culture was in second place with 36%. Funding for health care (88%) and social security (70%) should not be decreased.

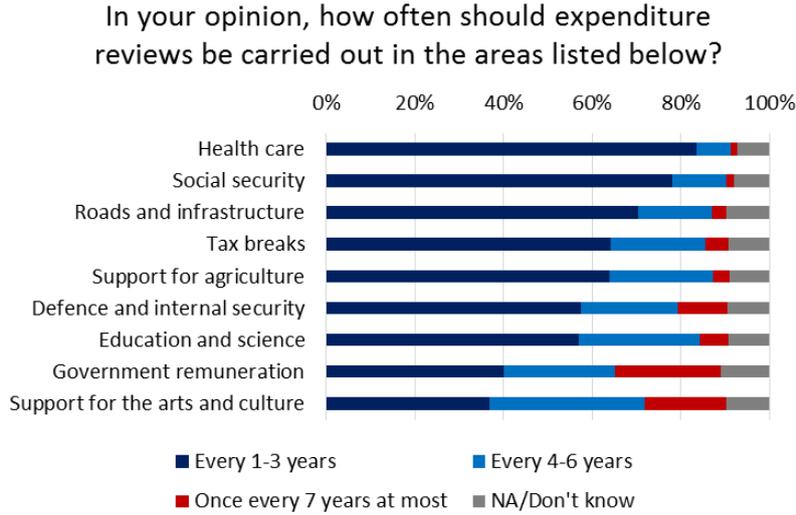


Graph 7.1 Source: Council survey



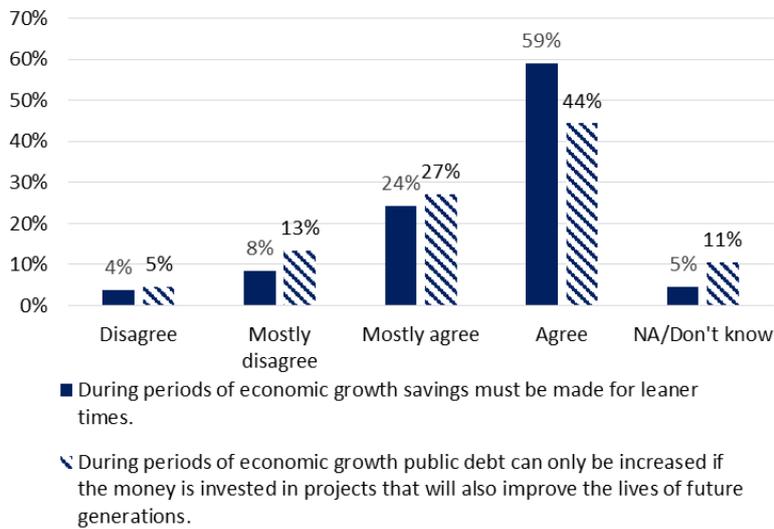
Graph 7.2 Source: Council survey

In general, the opinion is that expenditure utility should be reviewed once every 1-3 years. The opinion regarding the frequency of expenditure reviews differed according to the area in question. With the exception of remuneration of government employees and support for the arts and culture, at least 57% of respondents believed that expenditure reviews should be carried out once every 1-3 years. 83% believed that expenditure on health care should be reviewed this often, but only 37% believed that expenditure on the arts and culture should be reviewed with the same frequency.



Graph 8 Source: Council survey

Respondents agree with the principles of countercyclical fiscal policy. 81% of respondents agreed or mostly agreed that expenditure plans should be based on revenue possibilities. Crucially, the survey also asked questions regarding building savings and increasing public debt in times of growth. In both cases the vast majority (84% and 71% respectively) responded that they agree or mostly agree with a course of action that corresponds with the principles of countercyclical fiscal policy.

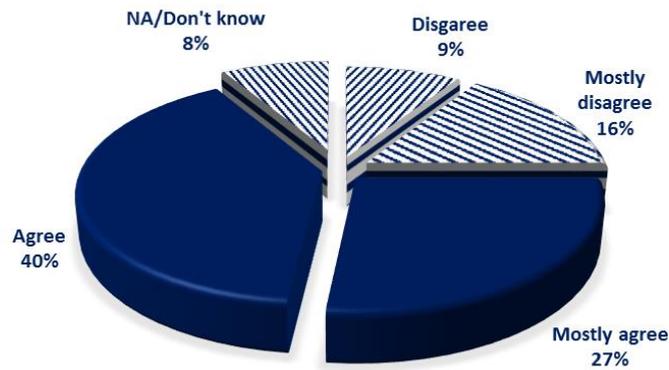


Graph 9 Source: Council survey

Respondents are concerned by the increase of public debt, but the connection between the budget deficit and public debt is unclear. 67% of respondents agreed or mostly agreed that that the increase of public debt concerns them. In order to ascertain whether people were aware of the link between the budget deficit and the increase of public debt, the survey contained a question on the outcome of 2015. Two almost identical options were provided⁵, but 16% believed that one of the options was worse and 32% could not answer the question.

⁵ The 2015 consolidated government budget deficit expressed as a percentage of GDP and a commensurate increase of public debt in million euro.

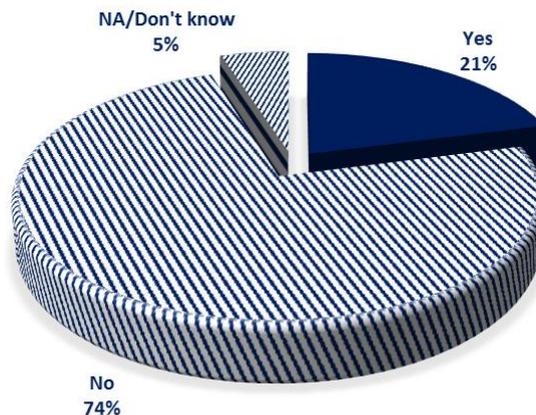
The increase of public debt is a problem that concerns me.



Graph 10 Source: Council survey

One in five respondents had heard of the Fiscal discipline council.

Have you heard of the Fiscal discipline council?



Graph 11 Source: Council survey

Analysis

The survey results show that Latvia's inhabitants want a cautious approach to budgeting. Respondents strongly support (i) balancing expenditures with revenue possibilities, (ii) a responsible approach to increasing public debt, as well as (iii) making savings during periods of economic growth. This means that counter-cyclical fiscal policy and a disciplined approach to budgeting is believed to be desirable when thinking about public finance.

Respondents also believe that regular expenditure reviews are important, especially with regard to health care expenditures, but respondents do not consider that the resources allocated to health care should be reduced for consolidation purposes.

It is also evident that there is pessimism and gaps in knowledge regarding Latvia's performance in the area of budget discipline. For example, respondents believe that the government's revenue projections are not realistic, although they are regularly met or exceeded. Latvia's nominal

deficit is also of note. It is lower than the European Union average, though many believed that Latvia's government was worse at observing this requirement than the governments of other euro area member states.

The overall level of knowledge on budget-related questions can be explained by the fact that only about a quarter of the population follow the budget-drafting process. If people do not follow how the budget is put together and are not informed about the considerations involved, the chances that their knowledge will be complete are automatically reduced. Consequently, it is not surprising that people's knowledge of the budget is patchy. For example, a recent survey⁶ discovered that many people believe defence to be the main budget expenditure, even though it constitutes a rather small portion of overall expenditure.

The rational ignorance approach offers an explanation for why three-quarters of respondents do not follow the budget-drafting process, but I would like to offer to approach the level of knowledge and interest from the perspective of civic rationality.

Individual rationality and collective goals

One of the main objections to the use of economic rationality to explain political behaviour (voting behaviour in particular) is that this approach does not correspond to actual behaviour. Turnout was and is higher than this approach predicts. It was suggested that the understanding of rationality should be expanded by including, for example, civic duty to integrate the above objection within the framework of economic rationality. However, this solution was considered inadequate because it did not explain why certain groups attach greater value to civic duty (Medema 2013; Udehn 1996).

The level of knowledge about the economy and political processes in turn is a better example, since the results of empirical research are consistent with the assumptions of the economic rationality framework. In other words, the rational ignorance approach gives a credible explanation of why people have chosen to remain indifferent. It is also congruent with the results of our survey.

Although this type of approach to the choices of the public has significant empirical support (including our survey), it ignores the consequences that are created for the collective as a whole. If the rationality of this choice is evaluated with reference to an individual, the rational ignorance approach provides insight into why people can choose not to educate themselves. Thinking individually, time and other resources are the factors that determine your decision – more efficient use of these resources and an appropriate choice of goals is what guides your decisions.

As was already mentioned, an informed and educated public is a significant factor that influences the quality of public policy and public discussion. Speaking from the position of the public good, the choice not to waste one's resources on the acquisition of information is problematic; it limits the quality of public debate and interactions with elected representatives.

Due to the political nature of fiscal policy, its delegation to experts is inadvisable. I tried to illustrate this by highlighting certain restrictions that IFIs have to abide by. In such circumstances the public must rely on its elected representatives (the Saeima), but in order to elect a competent representative, it is necessary to assess their suitability for the job.

⁶ *Baltic International Bank barometer*, October 2016, available at: <http://www.bib.eu/wrapper/fileviewcounter?rid=1938>, accessed on: 01/11/2016.

The rational ignorance approach explains why ignorance or indifference is understandable, but it is (deliberately) silent on the question of whether it is also desirable

The challenge posed by political ignorance, however, is that behavior which is individually rational may have major negative effects on society as a whole. Most other examples of rational ignorance do not pose as blatant a conflict between individual rationality and collective goals.

Somin (2013: 18)

The above quotation contains a significant argument in favour of the position that ignorance is not desirable. The author's argument is that the problems of political life uncovered by the rational ignorance approach illustrate a discrepancy between our individual preferences and needs, and collective goals.

To illustrate this, the author uses a comparison with a category of services – public goods. This category includes services and other goods that have a positive impact on public well-being and overall quality of life. Typical examples are internal security and defence. A characteristic of public goods is that they are available to all. This is problematic in the case of, for example, the shadow economy because public services funded through taxation are also available to people who have not made any contributions. One can approach the acquisition of information about current events in political and economic life in a similar way.

An informed electorate is a typical example of a “public good” that consumers have little incentive to help pay for because they can enjoy its benefits even if they choose not to contribute to its production.

Somin (2013: 64)

It follows from the above that an educated and informed electorate is a kind of public good. It provides for responsible policies and the election of appropriate and competent representatives. The rational ignorance approach envisages that voters will not devote the necessary time and effort to acquire the information required to competently participate in the political process; indifference to these issues is rational and understandable. This choice is based on the assumption that: (i) the necessary investment of time and intellectual effort is high, and (ii) other members of the collective will choose to educate themselves.

This approach can lead to undesirable outcomes. For example, I noted above that, although the average level of knowledge society tends to be low, the overall result conceals internal diversity. In particular, it was noted that traditionally privileged social groups were better informed overall. This means that certain groups that represent the interests of only some voters are in a better position to influence the political process.

None of the considerations outlined above undermine the internal consistency of the rational ignorance approach, but they point to a number of problematic consequences that follow from accepting this form of rationality and approach to describing rational behaviour. A similar position has been expressed by Michael Delhi Carpini (Delli Carpini 2000). The author argues that the rational choice approach prevalent in economics provides insight into why ignorance is not irrational, but this model is neither empirically nor normatively appropriate; the civic rationality approach is more suitable.

As I noted above, this objection has been foreseen and there have been attempts to improve the rational ignorance approach by including the individual's values and political positions. By

expanding the concept of rationality in this way other considerations that bear on the rationality of one's decision to improve one's knowledge of current events in politics and economics are taken into account. Delli Carpini, however, wants to go further and highlight the need to supplement the rational ignorance approach with civic rationality, where the focus is on the public good rather than individual benefits. From this perspective, the investments of the public in improving their knowledge are entirely rational because they allow for a very specific kind of public good – an educated electorate that is able to make decisions consistent with its priorities

This is the approach taken in the recommendations of the IMF and OECD for the work and structure of IFIs. The aim of an IFI is fiscal policy conducive to the country's fiscal sustainability. IFIs can contribute to achieving this goal by (i) stimulating public interest in the budget-drafting process and the considerations involved in this process, (ii) improving people's understanding of the benefits of a responsible expenditure policy, and (iii) enhancing the voters' ability to assess whether policy proposals meet their long-term needs.

Summary and conclusions

The sudden increase in the number of IFIs is associated with a clearer sense of the need for responsible fiscal policy. One of the ways an IFI can promote this goal is by raising public awareness. An informed electorate will be better equipped to assess the performance of their elected representatives at budgeting and budget execution.

In the self-assessment report published in April 2016⁷ it was noted that a more consistent approach to communication with the public can strengthen the Council's role in public debate. To this end, in September 2016 the Council's communication strategy for 2017-2019 was approved⁸, but raising public awareness is complicated by a number of factors.

Fiscal policy is a technically complex area. Specialised knowledge and competence is required to engage with such issues. By promoting the transparency of public finances and presenting information in an easily accessible and comprehensible manner, IFIs can contribute to the overall increase of fiscal literacy.

A significant challenge to IFI work is that public interest in, and knowledge of, issues concerning public administration and fiscal policy is low. The rational ignorance approach maintains that people prefer not to acquaint themselves with these issues since it requires large investments, but the value attached to the benefits (such as the ability to participate in public debate or vote in accordance with one's views) varies.

The results of our survey are consistent with the rational ignorance approach. People want a responsible and realistic approach to budgeting. Respondents support counter-cyclical fiscal policy and believe that the effectiveness of expenditures must be assessed on a regular basis. However, despite this only a quarter of respondents follow the budget-drafting process, and the answers on the whole point to gaps in knowledge about public finance and pessimism regarding Latvia's performance.

⁷ Available at: http://fiscalcouncil.lv/files/uploaded/FDC_SelfAssessment.pdf, accessed on 18/10/2016.

⁸ Available at: http://fiscalcouncil.lv/files/uploaded/FDP_1_12_1075_20160902_Rikojums_strategija_2016_2018_jaunared_Piel2.pdf, accessed on 18/10/2016.

The position that ignorance is rational is based on an instrumental conception of rationality. If the rationality of a choice is assessed in relation to an individual, the rational ignorance approach provides insight into why people can choose to remain indifferent. In this report I tried to suggest that this approach is not appropriate for IFI purposes, especially in view of the recommendations from the IMF and OECD.

As an alternative, I proposed the model of civic rationality. It assumes that an educated and informed electorate is a kind of public good, which ensures responsible policy and the election of appropriate and competent representatives. When looking at the survey results from the perspective of civic rationality (which is concerned with the public good), the imperfect knowledge of the public is a problem because it hinders the achievement of the IFI's main goal – responsible fiscal policy which is consistent with the long-term needs and interests of the public.

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