



WHITHER THE GERMAN COUNCIL OF ECONOMIC EXPERTS? THE PAST AND FUTURE OF PUBLIC ECONOMIC ADVICE

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Abstract

The article discusses the development and impact of the German Council of Economic Experts (GCEE). Firstly, the author studies the historical origins and the institutional setup of the GCEE. In the second step, an analyse of the impact of the annual reports of the German Council is given, along with the international comparison with other advisory boards. Finally, the paper discusses the current economic challenges and the need of modernization of the GCEE in special and political advisory boards in general.

Key words

History of Economics; German Council of Economic Experts; Economic Advice; Google Search.

INTRODUCTION

'Der Sachverständigenrat' (engl. German Council of Economic Experts, in short: GCEE) was founded as an independent committee devoted to economic advice to the government 50 years ago, on June 26th, 1963. The main task was the assessment of the overall economic development in Germany. The law regarding the formation of the 'German Council of Economic Experts' (Gesetz des Sachverständigenrates, SVRG) is in place up to this day, and it states that the board has to contribute "...to the simplification of rigorous scientific opinions at all economic authorities as well as in the public..." (§ 1 SVRG). The GCEE has been fulfilling this demand with its annual reports since the foundation year. Thus, the annual reports in autumn became an essential component of the economic discussion in Germany.

The institutional setup of the GCEE is of outstanding importance in Germany. In accordance with §2 of the GCEE law, the council shall examine "...how in regard to the free competition law, price-stability, a high level of employment and a trade balance together with sustainable economic growth can be ensured at the same

time." Although there have been significant economic and institutional changes in Europe within the past fifty years, these objectives are still relevant today. Since January 1st, 1999, Germany has been a member of the European Monetary Union (EMU) and the exchange rate of the Deutsche-Mark has been fixed irrevocably. Nevertheless, the main objective of the GCEE is still concentrated on the domestic economic policy tasks. The law of the GCEE is similar to the law of stability and economic growth adopted in Germany in 1967. Both laws are of paramount importance up to the date and impose a forward-looking setup in Germany's political environment. This was due to bold efforts of Ludwig Erhard, the 1st federal minister of economics and Germany's 2nd Chancellor.

The article takes the 50th anniversary of the GCEE as an opportunity to introspect its origins and developments. Section 2 provides a surveying view on the creation phase of the GCEE. This is followed by a unique evaluation of the GCEE's reports from 1964 to 2012, in section 3. In section 4, an international comparison with the most important advisory boards is presented. By doing so, I discuss the challenges for economic and political consulting bodies in modern democracy and the globalized world in general. These insights are finally analysed in section 5, and thereupon I propose some ideas for the modernization of the GCEE in special and advisory boards in general. Section 6 concludes the article.

ORIGINS OF THE GERMAN COUNCIL OF ECONOMIC EXPERTS

Historical Background

The demand for an economic expert committee in Germany first arose from several academic experts and other advisory boards in the 1950s. One of these was the scientific advisory board of the Federal Ministry of Economics (BWM), which mentioned such a committee in a report (Blesgen and Preiser, 1999). This debate gained pace in the subsequent years, and the topic was discussed again in the advisory board of the BWM in September, 1954. At the same time, there was a discussion among politicians whether to create another, however, independent advisory board in Germany. The liberal democrats (FDP), for instance, made a proposal for the creation of an economic advisory board on 11th of October, 1955 (BArch, 37(8)). Only one year later, on June 6th, 1956, the social democrats (SPD) introduced a bill for the promotion of a Committee of Economic Experts that had been advising the government on sustainable growth for the overall economy. On the one hand, such a new committee had to aim for professional economic advice, but on the other hand, it had to mitigate the general "Hysteria" in Germany's booming economy in the late 1950s. Whilst the SPD circles suggested that the politically independent committee mainly advise on macroeconomic questions, the FDP wanted the committee to mitigate the "Babylonian confusion of languages" in the existing wage negotiations (Nützennadel, 2002). Although the idea of a German Council of Economic Experts (GCEE) appealed to the Christian democrats and



conservatives (CDU and CSU), the government under Chancellor Konrad Adenauer did not take any initiative at the beginning. Only in 1958, this topic was placed on the agenda by the CDU representative and a member of the executive board of the CDU, Curt Becker. On February 1st, 1958, there was a discussion on this topic between Curt Becker and the Federal Minister for Economic Affairs, Ludwig Erhard. In this conversation, they discussed the idea of an independent expert board or council. The suggestion of establishing a scientific GCEE was appealing to the Minister of Economic Affairs for two reasons: firstly, Ludwig Erhard wanted to avoid another federal economic council consisting of representatives of the labour unions and trade associations, which was preferred by Chancellor Konrad Adenauer. It was due to Erhard's regulative conviction in the 'Social Market Economy', in which he considered the strict separation between state duties and private-sector activities as a prerequisite. Secondly, Ludwig Erhard hoped that a committee of independent scientists would support his vision on the successful free competition and free market course. Presumably, he expected, through the institutionalization of an independent and scientific expert council, that the basic principles of the social market economy would be established finally. At that time, this was important for Germany, a young and fragile country after Second World War.

However, Erhard thought little of Curt Becker's plan to associate the committee with a "mediator function" in wage negotiations, which was planned years ago by the FDP. In fact, Ludwig Erhard considered this as a glaring violation of the principles of the social market economy – the German model. Any restriction or intervention in the price mechanism is considered as a violation of the social market economy. According to Erhard, the state had to stay out of wage negotiations and the price mechanism, which was also established upon the free and collective wage bargaining concept in Germany (BArch Vol. 1254, No. 330). Instead, Erhard wanted to assign the committee the task of examining macroeconomic goals such as price stability, full employment and sustainable economic growth. The Minister of Economic Affairs, Ludwig Erhard, discussed this conception with representatives of trade associations and labour unions in March, 1958.

Although there was still no political agreement on the aims and tasks, the Federal Ministry of Economic Affairs immediately started drafting a bill. The outline was orientated to the so-called "magical four-sided figure" of full employment, price stability, trade balance and sustainable economic growth. The balance among these four objectives was established again years later, on June 8, 1967 with the stability and growth law. In drafting a bill for the German Council of Economic Experts, leading professors, such as Kromphardt, Preiser and Sauermann, were involved too. However, their ideas were not always the same with the suggestions by the Federal

Minister of Economic Affairs. A critical issue between the scientists and the minister was about the balance of financial and staff independence of the new advisory board. Up until now, its absolute independence from all political influences is a unique and important element of the GCEE's outstanding reputation.

After Ludwig Erhard had forwarded the draft bill to Konrad Adenauer, without any previous discussion, Adenauer expressed "serious doubts" about a German Council of Economic Experts in a letter to Erhard on May 22, 1958. According to Adenauer, an independent committee could "under circumstances completely take over the reins from the Federal Government and also me, who bears the responsibility" (Pohl, 1992). The Federal Minister of Economic Affairs was in an inferior position during the quarrel with the Chancellor due to the German constitution, which grants the Chancellor the final word. Furthermore, there was another point of criticism besides the ideological differences. Chancellor Adenauer had, according to historical documents, an underlying scepticism about scholars in general. He feared that critical reports could cause problems within the current government. Therefore, Konrad Adenauer did not want to give the GCEE the right to develop policy recommendations or proposals. Konrad Adenauer strongly believed that this would endanger the primacy of politics and that a scholar dictatorship could develop in the end. Adenauer was not the only one with this attitude at that time. It was rather a spirit of the time. Quite similar argued another German Minister Kurt Schmücker: "I won't correct myself on my political beliefs, not even by the best expertise!"

Given these circumstances, the draft bill was rejected at first. However, approximately four years later in spring 1962, the draft bill was placed on the agenda once again. There were three reasons behind the renewed attempt: firstly, the European institutional framework had changed. With the Treaty of Roma in 1958, the German government demanded a better coordination of the economic policy within the European Economic Community (EEC) (BArch B 136(7443). The development of the necessary instruments was assigned to the state secretary Alfred Müller-Armack, a close friend of Ludwig Erhard. Secondly, the political situation in Germany was different too. The Chancellor Konrad Adenauer was forced to resign before the expiration of his full legislative period after the parliamentary elections in 1961. This has weakened the position of the chancellor significantly. Thirdly, the economic condition demanded an urgent need for action. The overheating of the economy was threatening Germany as a result of an export boom. The rate of inflation had already arrived at three per cent. Moreover, there was a revaluation of the D-Mark due to the restrictive policy of the German Bundesbank. In addition, it came to a heavy imbalance in the labour market, as there was an insufficiency in workers to fulfil the excessive vacancies in the labour market. In this situation, Adenauer's resistance immersed and he finally approved the foundation of the German Council of Economic Experts.



Foundation and Final Conception

Ludwig Erhard thereupon brought up his suggestion to Chancellor Adenauer again (BArch, B 136(7452)). He convinced Adenauer by the renewed proposal with the “substantial threats” to price stability, which resulted from the considerable wage increases during the years of boom. Despite Adenauer's doubts, which Erhard tried to mitigate beforehand, the government discussed the bill of a GCEE on April 11th, 1962 (BArch B 136(7452)). There is nothing officially reported on the meeting itself, however, the bill was denied once more. Nevertheless, soon after some minor changes, the government and parliament approved it with an overwhelming majority on June 26, 1963.

Thereby the highly regarded and independent German Council of Economic Experts (GCEE) was inaugurated on August 14, 1963. Since then, there have been only two insignificant changes concerning §6 of the law in 1966 and 1967. The first change of the bill required that the federal government must prepare an official answer statement on each annual report within eight weeks after publication. Today, this request is carried out by the government on a regular basis with the publication of the annual economy report ('Jahreswirtschaftsbericht') in January. The second change of the bill merged the GCEE's targets with a growth law implemented on June 8, 1967. Thus, the GCEE is based on a solid legal basis, which is an excellent example for legal stability. Due to the long-run legal stability and the distinguished board members of the GCEE – in public the five sage of economy – economic policy is on professional footing in Germany. Since then, the GCEE has been serving the public as a credible anchor for “good” economic policy suggestions and a stabilization of economic expectations.

Fortunately, the disagreement on the question, whether the GCEE shall receive the right for proposal making, was resolved after intense arguments between both sides. It was put in concrete terms as follows: "The GCEE shall show undesirable economic developments and options for their avoidance or elimination, however, not express any recommendations for certain economic or socio-political matters" (§ 2 SVRG). This wording provides the GCEE with flexibility for both normative statements and concrete suggestions. As long as the GCEE's economic suggestions are not expressed as recommendations with the aim to avoid undesirable economic developments, it is according to the law accepted. This possibility has been used by the GCEE for the past 50 years – in fact, even more intensively over the recent decade (cf. section 3).

The tasks of the GCEE are even more flexible than explained until now. Besides the periodical analysis and forecast of the economic situation, the GCEE has extended its analysis to other fields, such as public finance, tax policy, financial markets, monetary policy, labour markets and social policy. In the course of the intellectual

history and development of economics, the board has gone through different ideological phases in all fields of economics. In the 1960s and 1970s, the council believed that short-run business cycle policy is the best strategy to stabilize the economy. However, this initial period of Keynesian policy quickly ended. It was followed by a medium to long-term growth conception. In principle, the GCEE followed the so-called regulatory principles of the 'Social Market Economy' – a typical long-run view. This reorientation was supported by the supply-side revolution in economics sciences of the 1980s developed by Nobel laureate Robert Solow and his followers (Sievert, 2003). This mainly explains why the GCEE demands wage restraints aligned with price stability and sound public finances in almost all reports over the past three decades. Over the time, the GCEE got more importance because now the reports are directly submitted to the Chancellor and not, as in the beginning, to the Federal Minister for Economic Affairs.

The quality of the GCEE reports has always been serving as a guideline to the acting politicians up to this day. Yet politicians are not always satisfied with the suggestions in the reports. Therefore, it happens rather frequently within debates of the German parliament that it is tried to refer to pages in the report that are liked the most, whilst other parts, with opposing arguments, are not mentioned at all (quote, Chancellor Schröder, 2003). In brief, cherry picking is a common strategy in (even in German) politics.

ANALYSIS OF THE GCEE'S REPORTS

The GCEE reports are the megaphone of the committee, and accomplish their task in accordance with §1 SVRG, contributing to "...the simplification of rigorous scientific opinions at all economic authorities as well as in the public..." In this respect, an analysis of the reports provides an important insight to the action and function of the GCEE. I analyse all reports of the GCEE from 1964 to 2012¹. The reports are evaluated based on quantitative and qualitative measures.

The first annual report, consisting of 226 pages, was published in 1964. Since then, the volume of pages grew continuously; according to my linear regression, about 11 pages every year. The volume of pages averages at approximately 400 pages. In 2004, the absolute maximum was reached, with a volume of 1077 pages (Figure 1). The minimum, 193 pages, was in 1968. Figure 1 depicts the reports' development with respect to the number of pages. It is noticeable that the volume of pages has been diminishing since 2005. However, since that time, the GCEE has been publishing at least one additional special report every year (hatched bars). This shift was demanded by policy-makers and later on executed by the chair professor Rürup (Nienhaus 2009).

¹The annual reports 1974, 1997 and 1999 could not be evaluated due to missing electronic versions and technical problems with the PDF.

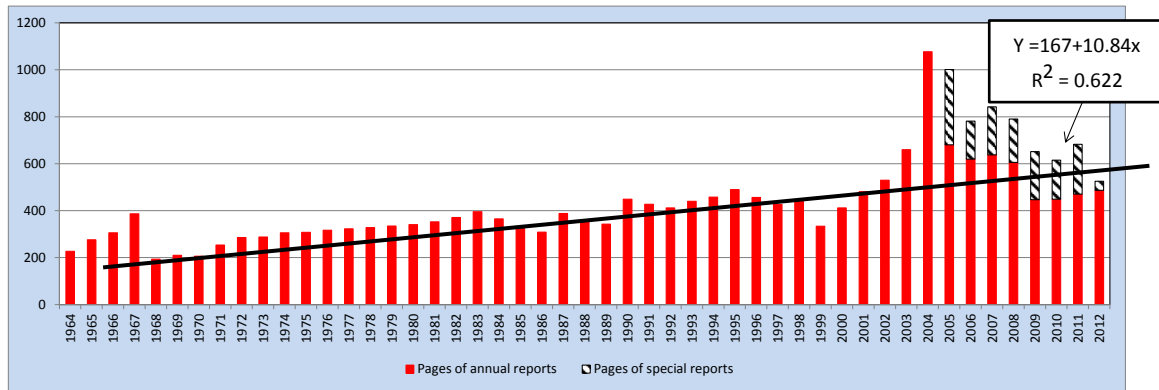


FIGURE 1. VOLUME OF THE ANNUAL REPORTS

What led to this continuous growth of pages over the years? In my view, as a former staff member of the council, there are two reasons: First, an increasing complexity of the economy required more sophisticated analysis and methods over the years. Moreover, the (empirical) research methodology improved and enabled the council to conduct research that is more complex. The second reason is concerning the institutional setup and the board members. Since the end of the 1990s, there has been an increasing effort by the GCEE to develop concrete reform proposals. These proposals, which are always very detailed, including legal and institutional issues, increased the number of pages significantly. Examples are proposals about the corporate tax reform, the reform of the pension and health care system and a labour market reform, especially the model of combination wages.

This trend of concrete proposals can be exemplified by investigating how often the words “reform” and “proposal” appear in the annual reports from 1964 to 2012. Figure 2 shows an obvious increase of the use of the word “reform” – in terms of reform proposal, health care reform, labour market reform, etc. – over several decades. The maximum, 856 times within one report, was reached in 2003; consequently, the word “reform” appeared 1.3 times on each page (Figure 2). A similar trend is detected for the word “proposal”, however, not in an obvious manner as it is forbidden by law to express a proposal in a GCEE report according to §2 SVRG. Behind this growing dynamic was a rise of economic challenges in Germany at that time. These challenges are well known: the globalization, the European Monetary Union, the aging of the society, unsound public finances, geopolitical threats and climate change, as well as terror attacks.

Now, let me analyse some content-related issues. A long-run economic problem was an extremely high unemployment rate in Germany. The black-dashed curve in Figure 3 shows the development of the unemployment rate. It is easy to recognize the step-like rise of unemployment rates from the beginning of 1970s up until 2005.

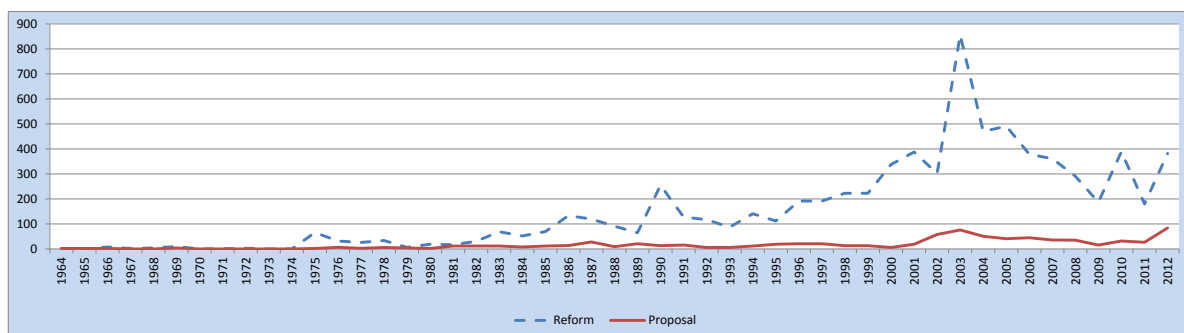


FIGURE 2. COUNT OF WORDS: "REFORM" AND "PROPOSAL" IN THE ANNUAL REPORTS

Only after discussions and proposals of the GCEE and other committees, policymakers implemented bold labour market reforms in 2002 to 2003. Thereafter, these reforms reduced the unemployment rate – despite the worldwide crises – significantly (Figure 3). Comparing this development with various key words in the reports, such as labour market, social, and reform, it is noticeable that there has been a concurrent development. This demonstrates that the increasing economic challenges caused the GCEE to propose more of the needed reforms in all areas.

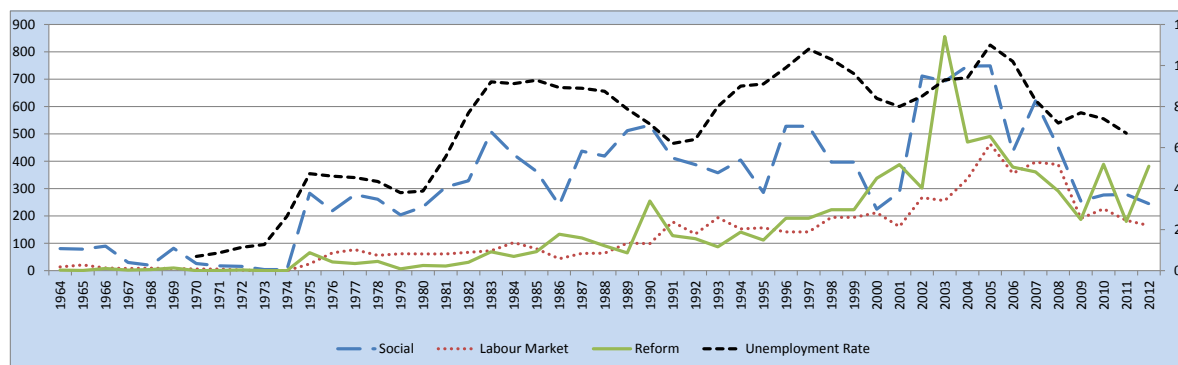


FIGURE 3. COUNT OF WORDS: UNEMPLOYMENT RATE, LABOUR MARKET, REFORM & SOCIAL IN THE ANNUAL REPORTS

A similar finding is for the words "recession" and "crisis". The increased occurrence of these two words falls in the periods of actual recessions. It is interesting to see that the word "crisis" gains a certain momentum, at present times in particular. In Figure 4, it seems clear that there is a increase in the use of the word "crisis", although the word "recession" would be more appropriate. In 2009, there was the most severe recession in Germany since the great depression in the 1930s. Germany's GDP dropped by more than 5 per cent in 2009. On the one hand, the frequent use of the word "crisis" indicates a shift in the use of language. The word "crisis" is used simply as a synonym for "recession" in German language. On the other hand, the term "crisis" stresses the abnormal and exceptional situation in the period between 2007 to 2012 (Figure 4).

Another interesting observation results from an analysis of the terms "business cycle" and "growth". As already mentioned, the GCEE followed Keynesian policy until the 1970s. However, this view changed in the 1980s.

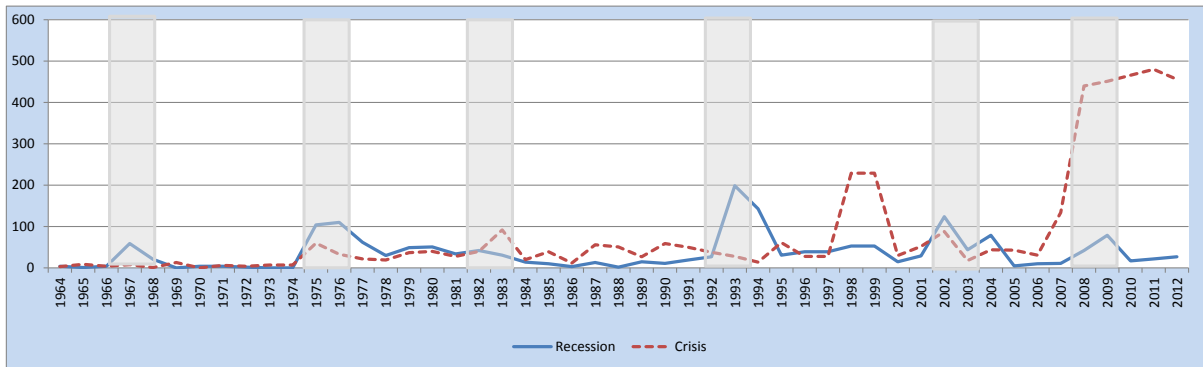


FIGURE 4. COUNT OF WORDS: "RECESSION" AND "CRISIS"; ACTUAL RECESSIONS ARE GREY AREAS

Since then, the orientation of GCEE moved towards supply-side economics. Figure 5 illustrates this graphically. It can be seen that the term "growth" gained importance year by year, and appeared more frequently than "business cycle" in the late 1980s. Later on, the use of both words is more balanced. Note that the term, "business cycle", is still used, but reflects a variety of other meanings in the German language. Interestingly, the appearance of the word "growth" in the reports is a leading indicator of real economic activity. This can be detected in the years followed by economic booms, e.g. 1987 and a boom between 1989 and 1991 as well as 2002 and a boom between 2006 and 2007. Furthermore, it is striking that, during economic downturns, the GCEE chose a pragmatic middle path and put some emphasis on demand-side policy (stressing "business cycle") but simultaneously stressing the importance of long-run growth.

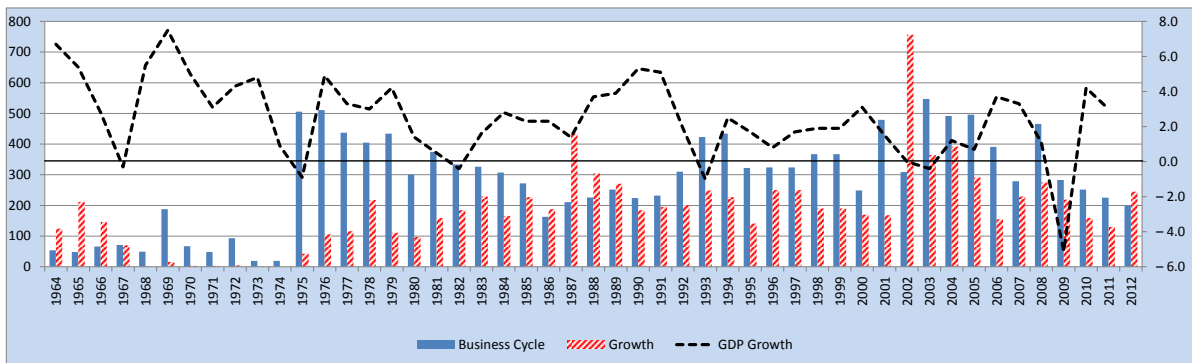


FIGURE 5. REAL GDP GROWTH VS. COUNT OF WORDS "BUSINESS CYCLE" AND "GROWTH" IN ANNUAL REPORTS

Finally, I analyse the public attention to the GCEE based on Google Search data. There is a positive correlation between the attention of the GCEE in general and the attention of the reports, published in November each year, in special. Google searches for "GCEE", "annual report" and "sage of economy" show almost identical search patterns. The correlation between these three time-series is positive, and it ranges from 0.786 to 0.858 (Google-Trends.com). Furthermore, it is recognizable that

the Google search data shows more spikes, and is thus more volatile in the recent years. I explain this by two realities: firstly, the publication of the new special reports in spring, and secondly, special statements in the course of the European sovereign debt crisis. Nevertheless, there remains an interesting observation for future research: What are the reasons for the declining public interest, measured by Google data, to the GCEE's reports? It may be due to institutional problems and competition with other councils in Germany and Europe. Alternatively, it may be due to news congestion or a tired public. There is anecdotal evidence that the increasing complexity in a globalized economy leads to rising "cacophony" and over-alarming statements of expert boards. Both issues may mitigate the public attention and interests to new reports of GCEE.

THE CHALLENGES OF ADVISORY BOARDS

International Comparison

In principle, there are advisory boards worldwide.² The following section describes the differences between the major boards. I discuss the constituent features as well as their advantages and disadvantages. In order to obtain a comprehensive overview, the section concentrates on the most important and, at the same time, most different expert committees:

- a) The German Council of Economic Experts (GCEE)³;
- b) The US-American "Council of Economic Advisers" (CEA);
- c) The French model of a "Conseil d'Analyse Économique" (CAE); and
- d) The Dutch model of a "Central Planning Bureau" (CPB).

Table 1 compares the four boards across six institutional dimensions: i) legal basis, ii) legal order, iii) composition and tenure, iv) frequency of meetings, v) publications and vi) independence. The description of the GCEE has been discussed previously. I just have to add, that the GCEE consists of 5 board members (renowned professors) and a staff of 10 economists. The board members are nominated for five years by three intuitions: the government, the trade unions and the employer associations. Moreover, the GCEE is fully independent of politics.

The American Council of Economic Advisers (CEA) features another conception of an advisory board. The CEA was established through the "Employment Act" by president Truman in 1946, and is an integral part of the US-administration, which belongs to the "Executive Office" of the American president. The president, in accordance with the senate, appoints two to three members of the CEA for two years

²There exists a kind of expert committee even in China: "Development Research Center" (DRC). This is a part of the governmental administration. They are responsible for strategic research in terms of the economy and social politics.

³A similar model is found in Sweden. The "Fiscal Policy Council" (FPC) is a public authority founded on 1st August 2007. The FPC consists of six members and is supported by an administrative office of five employees. The task is an independent evaluation of the Swedish fiscal policy.



(Cooper, 1987). Consequently, the CEA cooperates with the political bodies in Washington D.C. and is more dependent on politics. In contrast to the GCEE, the CEA is integrated in the decision-making process of the president and public communications. The chair of the CEA has a specific position in this board; he solely represents the board and bears full responsibility. Moreover, the chairperson gives direct advice to the president in all economic affairs, either through personal discussions or in the form of a written briefing. Furthermore, the chair is a member of all relevant committees, and takes part in auditing public statements. The two other members support the chair and represent the chair in case of her or his absence.

A group of professional staff, a statistical department and an administrative department supports the three CEA members. The professional staff consists of approximately 30 economists, some of whom are renowned economics professors⁴. These economists are exempt from their duties at the universities, and stay for approximately two years at the CEA. Apart from the advisory tasks, the CEA has to create growth forecasts in cooperation with the ministries, which are in charge of budget planning. It is noteworthy that the considerable influence of the CEA, especially the chairperson, is not just due to the concept of the board rather due to the presidential system in the US. The president makes decisions on all relevant issues. The Cabinet⁵ in the US, in contrast to Germany, only has an advisory function.

Despite the potential political influence of the CEA, there exists anecdotal evidence that this might not be the reality at all times. Harvard professor Martin Feldstein, CEA chair under the Reagan administration from 1982 to 1984, once stated: on the one hand, the job was interesting, but on the other hand, it was “extremely frustrating” to receive influence on economic policy issues. A reason for this assessment might be the fact that the president has another (private) economic advisor besides the CEA. Therefore, the influence of the CEA is depending on whether the chairperson and the personal economic advisor of the president have the same opinion.

Undoubtedly, the CEA members, despite the criticism by professor Feldstein, have more influence on political projects and decisions than the members of the GCEE. Moreover, the CEA members obtain a better internal perspective of the government and administration, which is an further advantage. Consequently, it is easier for

⁴Since 2013 the highly appreciated Professor of Economy, Jim Stock, for example is the Chief Economist in the CEA. Professor Stock, together with Professor Watson, shaped economic research for several years. I meet Jim Stock on the 50th anniversary of the GCEE in Berlin.

⁵The US-Cabinet does not meet regularly but this varies from president to president. In the US-President, according to their professional competence, appoints the members of the Cabinet.

CEA to develop reform proposals in line with the administration and the president. However, a disadvantage of this board structure is the political dependence, which could result in the refusal of efficient proposals owing to the interests of parties or ideological disagreements.

TABLE 1. ECONOMIC ADVISORY COMMITTEES IN AN INTERNATIONAL COMPARISON

	Germany	US	France	Netherlands
	Council of Economic Experts (GCEE)	Council of Economic Advisers (CEA)	Conseil d'analyse économique (CAE)	Centraal Planbureau – CPB
Legal basis	Law over the formation of a Council of Economic Experts for the assessment of the overall economic development (SVRG); (14.8.1963)	Employment Act of 1946 (20.2.1946)	Law 97-766 on the formation of a Conseil d'analyse économique; (22.7.1997)	Foundation on 15.9.1945. "Law Concerning the Preparation of the Central Economic Plan"; (21.4.1947)
Legal order	<ul style="list-style-type: none"> - Analysis of the overall economic development and growth forecast - Examination how to establish a stable price level, high employment and a trade balance with steady growth - Analysis of the distribution of income and wealth - Illustration of anomalies and possibilities for their prevention and removal 	<ul style="list-style-type: none"> - Council supports the creation of the "Economic Report of the President" - Creation of proposals, recommendations, economic studies, reports to the president or on request of the president - Analysis of economic development & trends - Development of measures to strengthen the free market economy and to prevent business fluctuations 	<ul style="list-style-type: none"> - Publication of analyses demanded by the Premier Minister - Description of economic alternatives and the different assumptions 	<ul style="list-style-type: none"> - Creation of economic analyses - Production of studies requested by the government, the parliament, unions or employer unions - quarterly economic forecast as well as a mid-term forecast for the election cycle - scientific evaluation of reforms and analysis of the election manifestos
Composition and tenure	<ul style="list-style-type: none"> - Five board members (Professors) and a scientific staff (10 Senior Economists) - Tenure of 5 years with the possibility 	<ul style="list-style-type: none"> - Three members (Professors), amongst a chair as well as scientific staff (20-30 Senior Economists) - Tenure usually 2 years with the 	<ul style="list-style-type: none"> - approx. 30 members (Professors). Staff: 10 Senior Economists. - Tenure of 2 years with the possibility of 	<ul style="list-style-type: none"> - One director, 8 consultants and a scientific staff of approx. 100 Senior Economists - Tenure of 3 to 15 years



	of reappointment	possibility of extension or dismissal	extension	
Frequency of council meetings	- 2 days a month (Dec. to Aug.) and fulltime (Sep. to Nov.) - Part-time employment	- Permanent - Fulltime employment	- Monthly plus additional meetings - Part-time employment	- Permanent, consultants meet at least twice a year - Fulltime employment
Publications	- Annual reports - Special reports	- Economic Report of the President - Economic indicators - CEA White Papers - Presidential Briefings - Public statements and hearings	- Reports on specific topics - Monthly Letter - Working Papers	- Central Economic Plan - Special reports - Working Papers - White Papers
Independence (rating)	High	Low	average	rather low

An advisory board consisting of highly regarded academics could also be a disadvantage. Firstly, the academics do not have administrative experiences and secondly, the short tenure gives the CEA little continuity in dealing with long run or generational issues e.g. reform of the health care system.

The Conseil d'Analyse Économique (CAE) was founded in 1997. This committee consists of approximately 30 independent professionals, usually professors in economics. The members represent different fields of research and schools of thought. The CAE is rather pluralistic in comparison to all other international advisory boards. Like the GCEE, the members of the CAE are independent. However, due to the institutional setup of the board, they are closer to the political bodies and thus more susceptible to political influence. According to the former chair Christian de Boissieu, a problem of the CAE is the acquisition of new members because the job is not paid and part-time.

The task of the CAE is the publication of economic analyses on economic policy issues and the participation in economic debates.⁶ The CAE shall comment on recent economic challenges in order to close the gap between the view of the political administration and science. Lastly, the CAE publishes a report with policy conclusions, which are not necessarily unanimous agreements. Even though

⁶For example the CAE argued against the political project to reduce the working hours to 35 per week.

different opinions are tolerated, the members are prohibited from making official comments on behalf of the CAE. All reports are published and presented to the public through press conferences. The president of the CAE is the Premier Minister, whereby the CAE has a delegated president since 2001. The staff members of CAE consist of a general secretary and four economic experts. The CAE meets once a month for a general assembly in order to discuss certain issues on the Minister's demand. Afterwards the CAE publishes reports on the issues. The preparation of these (special) reports takes place in small groups. Those groups consist of business representatives, professionals and professors, who are not necessarily members of the CAE. The aim of such small groups is to provide strong expertise.

The Dutch model, "Central Planning Bureau" (CPB), has a different concept from the previous pluralistic model. The CPB was founded directly after the Second World War in September, 1945. The politics declared that the government needed scientific expertise and insights for the configuration of economic policy. At the beginning, the focus of the CPB was on better economic developments and high level of employment. The chairperson of the CPB has been famous economists, mostly leading professors in Netherlands. The CPB publishes a "Central Economic Plan" (CEP) on a yearly basis. This report provides an overview of the actual economic situation. Moreover, the CPB publishes short- and mid-term economic forecasts as well as special forecasts at the beginning of every election cycle. Apart from the economic forecasts, the CPB analyses the election manifestos of all parties, and conducts cost-benefit analyses of infrastructure projects proposed by the government or parties. Thus, the CPB makes explicit political recommendations on the consequences of reform proposals. In addition, the CPB conducts basic research. Research topics are the economic effects of the aging society, globalisation, financial crisis and regulation of markets. The level of independence of the CPB is rather low because it is part of the Ministry of Economic Affairs. The CPB's chairperson is appointed by the minister, through consultation with other members of the government. However, the daily work is completely independent. Moreover, the CPB has an independent counsellor.

Finally, it is noteworthy that, in some countries, advisory boards were abolished after some years of existence. For example, in 1993, the "Economic Council of Canada" was abolished after 30 years of operation. Another example is the Swiss advisory board ("Expertengruppe Wirtschaftsfrage") which was abolished after only three years of existence in 1980. The reasons for the abrogation of these advisory boards were not examined scientifically. However, there are some hypotheses, which I explain at a later part of the article. Interestingly, the demand for advice is still present even in the aforementioned countries. Thus, there are other scientific committees supported by public money in all advanced countries. In conclusion, the four advisory boards show similarities and differences. The major difference is the independence of the boards and its relation to the administration.



How does an efficient advisory board look like?

The question of efficient advice goes far beyond the advantages and disadvantages discussed so far. There exists even a literature, which is recognized (Kopits and Szymanski, 1998). It is important to note that the field of economic sciences has changed, similar to the technological change of the 21st century. In the 1960s, it was widely believed that economic policy could be easily developed by planning and rational decision-making. During that time, network effects, systemic risks, non-linear dynamics, strategic decision-making and psychological elements did not play a role. Thus, there was a simple technocratic 'zeitgeist' (spirit of time). Policy-makers believed that any objective advice by scientific boards would be helpful for the decision-making. Admittedly, this has been proved an erroneous perception today. Even with good empirical and theoretical models, we are still unable to understand everything in a highly globalized and interconnected world.

Once, Nobel laureate F. Hayek pointed out that we could never succeed in stimulating the economy through a planning board or "Computation machine" because market dynamics is too complex and non-linear (Brodbeck, 2004). A social science that deals with human aspects faces several challenges. Recent neuroscientific evidence demonstrates that the origin of erratic behaviour in financial markets is partly due to human evolution. In the end, modern economics agree that the economy is not a natural science. Even though the economy does not follow mathematical regularities, economic models still provide useful insights. Firstly, normative statements are abstracted in models and secondly, the models are long run oriented, i.e. beyond the electoral budget cycles. Of course, in order to enforce and implement reforms, policy-makers need to have parliamentary majorities and not only good advice.

Every advice has shortcomings and limitations. All economic schools of thought, despite their eligibility, relay on fundamental assumptions. In economics, we mainly distinguish between short-run versus long-run or demand-side versus supply-side. Even if the assumptions are transparent, political decision-making is still challenging especially under the uncertainties of reality. In general, the major advantage of economic boards is their unique perspective – this is a constitutive feature of economic sciences. Economics compares alternatives in terms of efficiency. Thus, there is never a single solution to an economic problem. In fact, there could be many possibilities depending on political beliefs.

For instance, some years ago, there was a debate on a major tax reform in Germany. The scientific advisory board of the federal Minister for Economic Affairs preferred a progressive tax model (three-step-tariff). Other advisers for the federal ministry for

Financial Affairs were in favour of the linear-progressive model. Again, other experts such as professor Kirchhoff, preferred a flat-tax. All alternatives were economically sensible. However, all were based on different assumptions regarding the desired distribution effect. Nevertheless, politics was responsible for choosing the alternative with the distribution effect according to their belief.

Another problem is that political decision-making bears always the risks of uncertainty. The reunification of Germany in the early 1990s or the solution of the European sovereign debt crisis in 2010, are just two examples. Almost no economists had experience in the underlying problems beforehand. Nevertheless, the policy-makers had to make immediate decisions. Admittedly, economic advice, in such a situation, is often useless. However, this is the task of elected representatives. They have to make (rather insecure) decisions based on his or her beliefs in any situation. According to Max Weber (1922) this is political responsibility: "Because there are only two mortal sins in the field of politics: lack of objectivity and often, but not always identical, irresponsibility". Thus, political responsibility is more than the falsification of a theory.

So, what is an efficient interaction between politics and economic sciences? A key problem for an efficient interaction between both spheres is the diversity of interests. This problem explains why advisory boards, in Switzerland and Canada, were removed after some time. In countries based upon the principle of federalism, advisory boards have a more difficult standing (including Germany). Moreover, the interaction between politics and economics is often difficult because policy-makers commonly argue with market failures, while economists argue with policy failures (Coase, 1937). Certainly, both speak of truth but economists believe they are right due to their scientific approach. Admittedly, this is the-chicken-or-the-egg problem because markets as well as political failures are interdependent.

NEED FOR MODERNIZATION?

In the past, the relationship between economic sciences and policy was not always at ease. Even in Germany, some policy-makers suggested the abolition of the GCEE, e.g. a former German minister of Economic Affairs Otto Graf von Lambsdorff (Lambsdorff, 2003 and 2008; Kirchgässner, 2009). Thereby discussions concerning the future of advisory boards emerged in recent years (Scheide, 2005; Schmidt, 2006; Zimmermann, 2008). Certainly, economic advice and political demands have changed considerably. This development has already resulted in changes in the GCEE as previously explained. For instance, since 2007, the GCEE has been preparing special reports in spring in addition to the annual report in autumn. What are the reasons for this debate and what calls for a modernization?

Undoubtedly, in Germany, there is a huge variety of advisory committees, councils, boards, expert groups and government-funded economic research institutes. Over



the past 50 years, policy-makers implemented a multitude of boards without any strategy. At the same time, the workload of each advisory board increased without any compensation. Consequently, both sides of the coin are dissatisfied. Compared to international boards and professors in the Switzerland, the US, Canada, Italy and France, Germany offers low salaries and staff support. Furthermore, as explained above, in Germany economists are rather considered as troublemakers than advisors. This view has a long history, since Konrad Adenauer's regime. Nevertheless, it is a phenomenon in other countries as well. The American president Truman once wished a "one-handed" economist. He wanted economic advisory who do not argue on the one hand and on the other hand. Thus, he wanted to stay away from economists who seek alternatives (Wiegard, 2003).

There is definitely a need for constructive dialogs, which do not substitute politics but accompany and facilitate decisions. Another dilemma is that the public and politics often feel wrongly advised, whilst scientists often feel misunderstood. There are many reasons for all these dilemmas:

- a) Political debates are regularly driven by short-run news or election dates. This artificial time pressure encourages dependent boards to publish quick shots without enough self-reflection. We need solid research, even if it is not feasible to provide answers for any short-run problem. Scientific rigour requires time.
- b) Politics often ignores important opposing views. Thus, simplification does not only disappoint the scientists but also endangers public resistance to advice.
- c) The emergence of the private consultancy industry increased the competition between the political advisories, however, not at the same level playing field. Public financed institutions lack on manpower and money. Moreover, consultancy firms have not the same degree of independence. They follow profit interests and their suggestions could contain hidden interests.⁷
- d) The communication strategy of complex scientific proposals in a media driven and short-run focused world is more difficult too.
- e) Finally, politics does not always accept that "good or efficient" advice is never a single solution rather alternatives.

⁷Professor Martin Hellwig described this problem during an international conference on the "50 years of Sachverständigenrat" on the 20th of February 2013: Since a couple of years, we have in Germany a partly systematic concealment of important (economic) debates. This explains on the one hand the weak interest for the state-owned advisory committees, such as the "Sachverständigenrat" and the monopoly commission, since economic challenges are not even discussed in politics and the public. On the other hand, the legitimacy of these committees suffers because the public neither realize nor classify the good contributions of these independent entities.

Thus, I see the following enhancements and steps for a modernization:

- Avoid expert advice in a too ritualized format. Currently, we have in almost all parliaments many hearings that serve just an alibi mechanism.
- The independence of advisory boards is a valuable and important source. The advantage of independence is a frank assessment without hidden interests or normative views.
- Despite different scientific views, advisory boards should try to speak with one voice.
- Do not overburden existing advisory boards with ad hoc reports, even though there are many current challenges.
- Adapt the goals and tasks of advisory boards over time. New challenges or institutional changes need new or other advisory boards.
- Modern advisory boards have to study systemic risks, and thus have to widen the focus from domestic to international issues and interdisciplinary approaches.
- Facilitate an exchange of ideas between politics and science. This would enrich and improve the understanding of both sides.
- Economists should concentrate on the big picture. They have no comparative advantage in the development of legal proposals or even a final bill.

In principle, efficient advice does not only require scientific rigour rather a mutual understanding. For instance, advisers must demonstrate humility in respect to the legal and practical challenges. Moreover, I do not deny the need of private consultancy firms, however, the analysis above demonstrates that neither external nor internal, neither independent nor commercial has absolute advantages. In brief, there is not a lack of advice but there is a lack of "serious" advice. Finally, I would like to emphasize that, also according to the law of the GCEE, efficient advice has to "assess" and not "advise". An efficient assessment must be objective and thus made by an independent council.

CONCLUSION

The German Council of Economic Experts (GCEE) has good reasons to celebrate its 50 years existence. Without doubt, in international comparison, its framework is unique and has an excellent reputation. Nevertheless, the world has changed and thus even the GCEE requires some changes in future. Politics should get efficient advice to tackle the future challenges ahead. It would definitely be wrong to reduce or abolish scientific boards despite current tensions between both spheres. An independent and rigorous assessment of economic issues remains essential in politics even in future.



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