DISCUSSION NOTE

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SUBJECT **THOUGHTS PROMPTED BY "GUARDIANS OF FINANCE"**

Many attended Ross Levine's presentation yesterday, based around his book (with Barth and Caprio and Levine) Guardians *of Finance: Making Regulators Work for Us...* It is a stimulating book focused on the question of how best to ensure that financial regulators are, in fact, working in the public interest, and are seen to be doing so. In many ways the issues he raises are relevant for all regulators, and many would profit from reading the book even if (as I did) one comes away only partly convinced. The book prompts, even if it does not directly pose, important questions about democratic control, accountability, and the extent to which regulatory policy-setting powers should be delegated to unelected officials/entities. This note outlines some thoughts prompted by the book[1].

Levine et al argue that it is very difficult to ensure that financial regulators actually work towards maximising the public interest, both in the design, and implementation of financial regulation and supervision As he notes, out and out cases of corruption are pretty rare in regulatory agencies of the sort he is writing about, in countries in our sort of tradition[2], and most of those involved are no doubt quite honest in believing that they are working in the public interest. But there are reasons to think that that might not necessarily be the case. They include:

- "home field advantage". Drawing from evidence from sports, they suggest that regulators will naturally become attuned to, responsive to, and share to some extent the perspectives of those whom they regulate (moving within a common professional, and sometimes personal, milieu).
- Revolving doors - both ways, from regulated entities to regulators, and vice versa. This need not involve any directly corrupt behaviour, but can be simply the result of selection biases - those entering regulatory institutions wanting a later lucrative career in the financial sector may already have the instincts that attune towards the views/mind-set of the financial sector. And the incentive not to rock the boat, and perhaps jeopardise future opportunities can be powerful
- The financial resources of the sector – including the ability to lobby, and contribute heavily to the campaigns of, politicians[3].
- The complexity of much of finance that makes it difficult for politicians or the public to hold regulators to account, or to know whether objectives - often quite loosely-specified - are being achieved.

As those who heard Levine yesterday will recall, he blames the financial crisis (particularly the US one, but also the Irish and UK crises) on regulatory failures which, at least in part, he sees as having resulted from the sorts of factors listed above.

In response, Levine et al propose a publically-funded independent agency (The Sentinel), charged with producing research and analysis on financial system regulatory issues, scrutinising the work of regulatory bodies, including the Federal Reserve. The one power this institution would have would be the right to obtain any information it wanted/needed from financial regulatory agencies. It would be insulated from short-term political pressure to some extent, by being funded by a prior claim on seignorage. It would be shielded from too much financial sector or financial regulator influence by

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[1] And benefited (without implicating them in the views here) from discussions with various people, but particularly Ozer Karagedikli.

[2] By contrast, when I worked in Zambia it was notable how many former exchange control staff drove Mercedes.

[3] A point made more generally in Lawrence Lessig's book "Republic. Lost: How Money Corrupts Congress"

restrictions on the ability of staff to move from the Sentinel into financial sector or financial regulatory positions. Any useful impact it had would come from the quality of its research and analytical material. It is proposed that the agency would pay well, and offer a prestigious and influential opportunity for top-notch people from across a range of disciplines. Levine et al do not envisage the Sentinel as a panacea, but hope that it would tend to offset to some extent the biases that result in inadequate regulation (given the moral hazard around sovereign bailouts) most of the time - and perhaps particularly in the particularly good times as booms reach their peak.

I'm sceptical of Levine's story that the failures of financial regulators caused the crises (as he notes, it was not one crisis, but a series of sometimes overlapping crises). Of course, sufficiently stringent regulation might have prevented the build-up of risk that led to the crises, but in the mind-set of the decade leading up to the crises, that was never a viable option. Regulators who had sought to adopt much more stringent policies would most likely have been side-lined or not reappointed – recall, the determination of the Irish and British governments to ensure that regulation was fit for the purpose of encouraging more financial sector activity, and the anti-regulatory ethos that dominated the US – with the side-lining of Brooksley Born and, at the other extreme, the appointment of Christopher Cox as SEC chair just two illustrative examples. Who thinks Bernanke would have been the Bush Administration's nominee for chair of the Fed, had he held views, expressed in speeches in 2005, about the extreme build-up in risk around housing derivatives, and widespread overshoot in US house prices. As is often the case in extreme booms, there was a climate of optimism, in which nothing large could really be expected to go wrong. The importance of that intellectual and political climate marks out financial regulation from, say, home field advantage in sport - everyone sometimes win, and sometimes loses, from that, and no one has an obvious interest over time, in such skewed decision making once it can be shown to exist.

Which is also why I'm sceptical of how much different the Sentinel might have made. No doubt if it had been set up along Levine et al's lines, it would have been able to attract good people, and produce good quality research. But why would it have led to materially different policies over that period? It is more likely that the Sentinel itself would have been disbanded (its legislation repealed by Congress, given that it would have few natural defenders) or that it would simply have had no material influence before the crisis, only for people afterwards to acknowledge reluctantly that "those Sentinel were on to something you know. But we've learned now - we won't make those mistakes again".

But to be sceptical of Levine's specific story, and specific US proposal, should not lead us to simply dismiss the idea of a possible need for more publically-funded scrutiny of the choices made by government agencies.

Review processes and independent bodies to assist in assessing or scrutinising public policy in macroeconomic and financial areas have become more common here and abroad:

- In the RBNZ case, the Act was set up in a way that the Board had no involvement in day-to-day policy-setting, and was instead mandated to monitor the Governor's conduct of the functions of the Bank (not just monetary policy). This was brought into sharper relief following the Swenson report when an independent chair was appointed (instead of the Governor, as hitherto) and the Board was required to publish an Annual Report[4].
- In the US, the CBO (Congressional Budget Office) plays a highly-respected role as independent non-partisan analyst/coster on US fiscal and budgetary issues. It is arguable how much difference it has made to policy, but it has at least ensured that choices (good and bad) are made on well-understood numbers.
- At the IMF, the IEO (Independent Evaluation Office) was established at arms-length from the Fund (Board, management, and staff) to produce independent reports, for the Board and public on the Fund's handling of its functions...
- In many countries, fiscal councils have been established. In all countries, fiscal policy decisions are a matter for the Minister of Finance and/or Parliament, and a Ministry of

[4] In addition, the Minister has the power (not so far used) to commission a performance audit as the regards the performance of the Bank or the exercise of its powers.

Finance provides professional advice. But in an increasing range of countries such Councils play a role in providing independent and public advice/analysis on fiscal issues/risks, including in some cases (notably the Netherlands) in costing the proposals of political parties prior to general elections. There is a range of models - sometimes even as offices of Parliament - and of primary audiences. Two recent reports - one by the former head of the IMF Fiscal Affairs Department for the Treasury, and one by the New Zealand Initiative - have proposed such a council for New Zealand

- In recent reforms to the Bank of England, the Court - which plays a monitoring role akin to our Board - has been provided with some independent analytical resource/capability (the Directorate for Independent Evaluation), to enable the Court to better fulfil its function of holding the BOE to account across its wide range of functions (including in particular, monetary and prudential policy).

Scrutiny of powerful public agencies/functions is not just an issue for economic functions of the state. In New Zealand, for example:

- Use of judicial review appears to have become somewhat more common over recent decades, a risk that regulators are conscious of (although it remains something of a nuclear option, is usually sought by a regulated party (rather than the wider public interest) and in any case is typically very case-details-specific).
- The IPCA is a good example of a (now) well-resourced domestic public agency designed to ensure independent scrutiny of complaints against the Police, who exercise considerable statutory power and force (subject ultimately to the Courts). We want the Police to catch the bad guys, but we also want citizens' rights and freedoms protected from Police abuse. Police cannot simply be trusted to serve the public interest, particularly when it comes to dealing with their own.
- The Inspector-General of Security has also recently been beefed-up, in power and resources. Of course, the issues are somewhat different here, in that much of the intelligence agencies' work is done in secret, but it is consistent with a theme that Parliament alone can't do all the scrutiny (especially when, eg, parliamentary committees are relatively lightly resourced, unlike say the US). A theme in recent debates has been the question of how citizens can be confident that intelligence agencies are, in fact, serving the New Zealand public interest (rather than, say, their own agendas, or interests of foreign allied agencies),
- ERO is a long-standing agency, independent of the Ministry of Education, to evaluate and provide information to consumers, on the performance of state and state-integrated schools. Teacher unions are no doubt quite genuine in their belief that teachers know what is best for children and should be left to get on with the job, but society has taken the view that it needs more monitoring and that (perhaps especially in a largely non-competitive market) providers can't simply be trusted to work in the actual interests of the public and children/parents.
- The Parliamentary Commissioner for the Environment is also an interesting example. In its own words "the Commissioner's job is to hold the Government to account for its environmental policies and actions. The Commissioner is a policy reviewer standing outside the system of environmental management and reporting on it" [5] Environment policy and associated issues could be seen as having some similarities to financial regulation –issues involving considerable technical complexity, and very long lags which mean that it can be difficult for non-expert observers to reach informed judgements about the appropriateness of policy. The Commissioner's principal power is that of requiring information to be made available, and its influence rests with the quality of its analysis and argumentation. The Commissioner has, at present, a staff of 16.
- In the recent election campaign some lobby groups and parties were campaigning for a CYF equivalent to the IPCA.

[5] The Commissioner's statutory functions are specified here: http://www.legislation.govt.nz/act/public/1986/0127/latest/DLM99748.html

In addition, of course, over recent decades there has been a strong trend towards greater transparency in public management. That encompasses ex post documents (such as MPSs) but also, in regulatory areas, things like consultation documents and regulatory impact assessments. The quality of these latter of course varies considerably - many are little more than pro forma rationalisations for pre-determined policy choices.

Parliament is a critical element in holding public agencies and Ministers to account. Parliament can remove funding from any agency, and can legislate (in New Zealand unconstrained by a written constitution) as it likes, including abolishing agencies completely or removing their discretionary powers. It - and elections to it – are the ultimate, albeit far from fool proof – safeguard of the public interest.

But how, in practice, is Parliament to be able to hold public agencies and ministers to account? Parliament itself is 120 individuals from a range of backgrounds, and at any point around half are from the governing parties, often with little interest in asking hard questions. MPs have fairly limited resources - 24 hours in a day like the rest of us and there is a striking contrast with the US, for example, is how few resources select committees have available to them. Executive agencies are typically at a huge advantage, being far better resourced, with in-depth technical expertise that Parliament itself can rarely match. That is a threat to the public interest, and can only be adequately countered with a flow of analysis and scrutiny from other sources.

Media, think tanks, and universities should all play an important role in holding public agencies to account. In New Zealand, this function is pretty limited in practice in macro and financial areas. The media have limited resources - and mostly report, rather than generate, analysis/scrutiny. Economic think tanks, scarce as they are, haven't given much attention to these sorts of issues in the last decade. And New Zealand academia offers very little - with perhaps the honourable exception of David Tripe on the financial regulatory side. Incentives matter, and the PBRF is a powerful institutional incentive skewing academics away from involvement in policy analysis and review. As one illustration, and whatever the reason, we got no serious New Zealand takers when the Reserve Bank and Treasury offered fairly generous funding to write papers on New Zealand macro/macro policy issues for the 2011 imbalances conference.

In respect of monetary policy functions, the financial markets and, in particular, financial markets commentators can also play some role as scrutineers of the Bank's performance. In practice that is quite a limited role, for reasons that may include (a) a focus on the very short-term (what the next OCR will be - not even necessarily what it should be, (b) the need to maintain relationships with the Reserve Bank (not just the economics functions, but the wider- regulated - bank), and/or (c) limited capability/expertise/incentives. In principle, financial market commentators can do fiscal policy monitoring/analysis, but the same constraints apply. In practice, little happens. In respect of financial regulation, whether by the Bank or the FMA, regulated entities may provide some protection against over-burdensome regulation, but not against, say, insufficient regulation, or regulation which skews the playing field towards incumbents or large well-resourced participants.

Of course, some institutional commitment to openness helps in some agencies this goes further than others - for example, the Treasury's pro-active release of papers relevant to the formulation of the Budget is a voluntary, but commendable practice. The Bank could probably be seen as towards the other end of the spectrum - articulating its final story in a relatively open way, but generally reluctant to provide the sort of detailed material that would really allow outsiders to hold it to account.

None of this is to suggest that New Zealand's macroeconomic and financial regulatory agencies (the Reserve Bank, the Treasury, and the FMA - tho I know relatively little about them and they aren't the focus of this note) are remote or generally set out to be unaccountable. And, as Levine noted in his presentation, nothing here should suggest that people in these agencies see themselves as doing anything other than serving the public interest, as they see it.

The proposition here is that too little serious analytical external scrutiny occurs, across the functions of each of these agencies. In the Bank and FMA's case, much of that is about the decisions of unelected officials (in the Bank's case on both the development of policy and its application, and in FMA's case mostly on the application of policy), but ministers also have important powers under the respective pieces of legislation. In the Treasury's case, Ministers make decisions, but the Treasury advice matters, as do its (independent) projections.

In respect of the Bank, as already noted, the legislative role of the Board is largely about scrutiny and accountability. In practice, this works to only a limited extent. The Board has no independent resources, and so receives analysis and perspective mainly from Bank management (and staff who report to that management). The Board's secretary is a member of the Bank's senior management group, and the Governor himself is a member of the Board. In practice, the Board's Annual Reports have been fairly anodyne. It was a model designed to work well with very simple monetary policy implementation rules – such as we have not implemented since the legislation was passed - and is not really suited to the other functions (where even the objectives the Bank is pursuing are not very specifically defined). The Bank's Board is far closer to those it is reviewing than any of the New Zealand review agencies listed earlier - a tendency reinforced by the Board's own successive choices of former Bank staff as chairs. .

But if there are limitations to the Bank model, it is far superior to anything extant in respect of Treasury, the FMA, or respective Ministers. For the FMA there is nothing even remotely similar - the Board itself makes the decisions, which might be a superior decision-making model, but provides no arms-length review/scrutiny. New Zealand has no Fiscal Council or anything similar. The SSC is responsible for reviewing the performance of department chief executives, including the Secretary to the Treasury, and – in recent years – the PIF process has somewhat extended the amount of scrutiny departments face. But it is difficult to have much confidence in the quality of the SSC (the recent Sutton debacle is a superficial if telling example), and its focus tends not to be on reviewing the substance of departmental policy advice. In any case, and perhaps more importantly, it is also a player in the policy and administrative process, needing to maintain effective relations with key departments over multiple fronts. It is, in a sense, the ultimate insider, and no subject for independent expert scrutiny of the advice and decisions of public agencies.

In general, the sorts of "political process" concerns that shaped Capri et all's proposal are not so relevant in New Zealand - the whole lobbying and revolving-door culture is much less of an issue (but not necessarily absent - senior managers of regulatory agencies have previously been employed by entities those agencies regulate, and a recent senior minister went straight from a financial regulatory role to a very senior and highly-remunerated position in a commercial bank. Several recent bank entrants have hired former political figures as chairs - presumably more for their lobbying and networking connections than for their financial expertise. A former Governor now chairs one bank board, and formerly sat on the board of the largest bank. Regulatory agency staff do at times end up working in regulated institutions, although the differences between public and private financial sector pay in New Zealand mean that some of these concerns are less than they might be in the US and the UK.

But even if there were no "regulator capture/home field advantage" types of concerns in New Zealand - and it would be rash to conclude there are none - how is the public and Parliament to be assured that regulatory agencies are exercising their powers well, and in the public interest? Statutory goals if they exist at all - there are no goals, or criteria for Treasury advice - are rather vague. More proximate or intermediate objectives sometimes articulated by regulators are just that - the choices of those unelected individuals or Boards. Lags are long - and so even if one could usefully define a goal such as "aim for no more major bank failures than 1 per 100 years" there is no simple way of knowing whether policy is correctly calibrated to that end. Capital and liquidity requirements are a good example: prior to 2008 the Reserve Bank was quite content with one level of restrictions. Now, only a few years later, something much more demanding is required, and since then with rather more demanding restrictions. The underlying nature of the risks hasn't changed, but there was no external challenge/contest in 2006 raising the possibility that policies (adopted only a few years later) might be preferable to those actually being adopted[6]. Were we wrong then and right now, or perhaps - as Levine seemed to suggest - wrong on both occasions? Groupthink, and collective consensuses, may be more of a risk in New Zealand than regulator capture or unconscious biases towards financial sector perspectives.

Monitoring and evaluation issues in respect of Treasury are a little different than those affecting the Bank. Treasury provides independent advice and independent projections, but does not make policy decisions (frameworks, or implementation). But, if we assume that decision makers give at least some weight to the advice/projections, expert scrutiny of what Treasury produces is also important and - as noted earlier - there is little of it. Treasury is to be commended for commissioning the recent independent review of its own fiscal policy advice - but (a) that was a one-off, and scrutiny is probably even more important at times when agencies aren't willing to commission it, and (b) the way they allowed publication to be suppressed until after the election was scarcely confidence-inspiring.

Like any policy agency, Treasury needs to face the constant question about the quality of its analysis and advice. That matters to citizens. But external observers also have to recognise why, on any particular issue, it is not necessarily to be expected that Treasury's advice will be serving the wider public interest. Any department faces the risk of becoming too close to ministers, especially long-serving senior ministers. And on any particular issue - or set of projections - Treasury will tend to be conscious that it has many issues on which it wants to be heard, and wants to be at the table. That can create incentives that lead to advice being offered or projections being done in ways in which they might not otherwise be. Or the advice - good or bad - may simply come to reflect the priors of a small group of key individuals (to taste, some - not me - might argue that was so in the mid-80s in the confidence that far-reaching reform would transform our fortunes, or in the current situation around the place of the "living standards framework")

There is not much external scrutiny of New Zealand macroeconomic and financial regulatory agencies. There is, of course, a fairly significant degree of formal transparency. Levine argues that transparency alone isn't enough, in a US financial regulatory context. I think there is a good case that in New Zealand - even with a simpler financial system - it is not enough in any of the areas of responsibility of the Reserve Bank, the Treasury, or the FMA.

But is more use of public resources to institutionalise scrutiny really warranted? After all, extra resources devoted to such an activity have an opportunity cost - not just in dollar terms, but in terms of the alternative uses of the limited pool of the sort of people on whom such monitoring would draw. And these considerations figure more in a small country.

But the limitations of the private sector are also more evident in a small country. In the US, at the other extreme, there are numerous think tanks, a number of serious and well-resourced newspapers, a deep pool of "policy academics", a substantial separation of powers, and extensive resourcing of congressional committees.

If these were simply matters where objectives were always crystal-clear and the decisions/views of these sorts of macro/financial agencies were always pretty clear-cut, dropping mechanically out of commonly-agreed "models", additional resources devoted to scrutiny would probably not be warranted. What would there be to scrutinise? But that isn't the case - any more than it is in almost any area of public life and regulation. Instead there are huge margins of uncertainty, not just about what the OCR should be, but about the underlying fiscal situation, the nature of choices society faces,

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[6] The Reserve Bank Board's Annual Report for the year to June 2007, for example, would give readers no hint that the Board was anything other than thoroughly content with the financial regulatory policy settings, and no reasons for citizens to think that their monitors/agents might think that much more demanding settings might be worth considering.. . (It clearly is not the Board's role to second guess the Governor's policy choices, but evaluation/scrutiny should pose the challenge of plausible alternative approaches.) Much higher capital and liquidity requirements must have been "plausible alternative approaches", since they were established policy only a few years later.

the best design of financial regulation, crisis management etc.[7]. The experience since 2007 has highlighted again how little any of us (including officials in powerful executive or advisory agencies) know.

Active and vigorous scrutiny is an important part of serious democratic accountability - that isn't about second-guessing each individual decision, but about recognising both the flaws and limitations of human knowledge, institutional incentives etc., and supporting the generation of material which helps those ultimately charged with accountability - Parliament and the voters - to reach better-informed views on the merits of the views taken, and the processes used to reach those decisions. And scrutiny needs to be undertaken by (or informed by work undertaken by) people with a degree of expertise, and who are neither too close to those whom they are scrutinising, nor with interests (present or future) that could be well-served by being accommodating to the perspectives of those they are supervising.

One might also argue that outsiders have no better information than insiders, and their views would have no greater validity than those of insiders. This is an argument that has been used by some Treasury people to argue against fiscal councils. But even if it were true - and it may be, since demonstrably the existing macro agencies have little real ability to make sense of developments (see the forecasting record since 2007 - and prior for that matter) - it is largely irrelevant: the point is that these are very powerful agencies making choices/offering advice that has very large implications for short-term economic performance, and the lives/businesses of people in significant parts of the economy. Power plus considerable uncertainty highlights the importance of scrutiny and debate - both of which need to be well-informed.

Curiously, in some respects New Zealand was better-positioned for this scrutiny in the 1960s and 70s than it is now[8]. Then, the Monetary and Economic Council played a role as independent, resourced, commentator on key dimensions of New Zealand economic policy - with no power, but with voice and the ability to introduce good material to the debate. Subsequently, the Economic Monitoring Group of the Planning Council also played such a role.

How might the interests of the public be better served, over the long-term in New Zealand?

Some things are about the culture of the official institutions. A stronger internal recognition of the reality of government failure, and of the propensity of government officials (like all humans) to err, and of how the absence of a market test puts regulatory/policy institutions in a different position than private sector firms, would go some way in the right direction. A much stronger commitment to transparency would be a simple, and relatively costless step (in both a direct financial sense, as well as less direct senses). For example, in the Bank's area, a commitment to publish proactively all forecast week papers with, say, a six week lag, or to publish all FSO/MFC papers on a regulatory topic when final decisions had been made, and full minutes of MPC/FSO/MFC/Governing Committee would be huge step forward, in providing the raw material others could use to hold the Bank to account[9]. One could think of something parallel in respect of the papers that feed into the Treasury's forecasting process.

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[7] In some respects this is my longstanding argument that the holder of the office of Governor is the most powerful person in New Zealand (for ill, if not for good) in his/her monetary policy functions. A minister acting rashly can be dismissed by the Prime Minister without notice; a Prime Minister can be toppled overnight by his/her own caucus (viz Kevin Rudd), but a Governor could adopt quite inappropriate monetary policies, inducing a recession and the loss of livelihood for hundreds of thousands of New Zealand firms/households, and it would be very very difficult to dismiss the Governor (who would no doubt mount credible arguments, reinforced by his access to staff resource, that the approach being adopted was both right and responsible - which was exactly what happened during the MCI debacle). And whereas a Prime Minister can be replaced fairly effortlessly without formal redress, a stubborn Governor would no doubt seek protection from the courts.

[8] Of course, there was a much lower degree of transparency back them in many (but not all) dimensions, but there was also much less delegation of policymaking and policy implementation power to unelected officials.

[9] And regular routine publication of Board minutes (and Board papers) would also be likely to help.

Culture matters, but so does legislation. And while raw material matters a lot, so does expertise (and incentives to apply expertise to the topic in question). Thus, in a NZ context, the Official Information Act 1982 went a long way towards beginning to make more information more readily available, but institutions - the PCE, the IPCA, the Inspector-General of Security, the review role of the RB Board - all came later.

Applying the "Guardians of Finance" ideas to New Zealand, could one then think of a Parliamentary Commissioner for the Economy, resourced to review and report on the frameworks, advice, policies etc of the Treasury, the Reserve Bank, the FMA, MBIE (in respect of its financial regulatory advice), and respective ministers? Alternatively, one could consider an independent Crown entity, not subject to ministerial direction as to its work programme (unlike say the Productivity Commission), with similar information gathering powers as the PCE (or Levine et al's Sentinel). The latter – a Macroeconomic Council - might be more realistic, since differences of view around economic policy might be large enough to facilitate use of the officer of Parliament model. In an ICE model, there might be a statutory requirement for the Minister to consult opposition parties on the appointment of members.

Introducing such an entity would have its (not insuperable) challenges:

- Finding a few credible independent people to head the body (a Council might have 3 ministerial appointees); people who did not see appointment to that body as a stepping stone to a role inside a system. One might be looking for people who were likely to see such a role as their "last big job".
- Staffing the body, again with people who were not already of the insiders' mind-set, or using the Council as a vehicle to a future career inside the system.. Here, covering the range of functions might allow a body with a moderate degree of critical mass (perhaps 15 staff - similar in size to the PCE and around half the size of the IPCA) which would probably not be feasible were one, say, to seek to establish small watchdog agencies for each of monetary, fiscal, and financial regulatory policy.

In some respects the issues around the establishment of the Productivity Commission were similar. However, there is a key dimension in which the PC is quite different - it works on issues requested by Ministers, and often as a way of allowing politicians to advance analysis and debate on issues that might not be possible otherwise. In other words, it operates within the executive system. The aspiration is to improve the quality of public debate and policymaking (as it has tended to do in Australia). By contrast, the Macro Council proposed here - like fiscal councils in other countries - is envisaged as something with much more of a challenge or contest role - keeping the bureaucrats honest, and providing material for MPs/media to ask hard questions.

Conclusion

There are no panaceas for managing the power of the state. These days, public servants and politicians typically operate with the strongly (and honestly) held view that they are operating in the public interest, but as we approach next year's 800th anniversary of the Magna Carta we will be reminded again that a key element in any polity is the protection of the public from the politicians/public servants. The discretionary role of the state and state agencies is far more pervasive now than it was in 1215, or (reasonably) arguably at any time in the history of countries in our political tradition (the Anglosphere). And the limitations of knowledge are as great – probably greater, in the face of complexity - than ever. Successful institutions thrive on debate, contest, and challenge - on competition... That matters internally to individual institutions - although it takes good leaders to entrench that element, and short-term incentives often won't favour it. But the focus here is not on what goes on inside individual institutions, but on debate, contest, and challenge within whole societies (New Zealand) about the advice and decisions on matters, monetary, macro and financial, being provided and taken by unelected officials, with quasi-monopoly positions. Establishing a Macro Council would not guarantee of hugely better outcomes[10] - as Levine's Sentinel would almost

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[10] And blindspots can affect elites across entire systems (as, in another context, I argue has happened with New Zealand's immigration policy).

certainly not have forestalled the US crisis on 2007-09 - but it would be likely to lead to small improvements in actual policy, and more disciplined policy processes. But perhaps most importantly it would tend to help secure a stronger sense of the legitimacy of choices that the unelected are making on our behalf; a greater degree of confidence that analysis and decisions (which will inevitably be flawed - for all the participants are human) are genuinely being made for the public interest, as the public themselves would define it. Policy choices - and policy advice that withstand strong independent scrutiny and analysis will not always be right, but they will be better, and more widely owned than the present system.