

# THE GERMAN COUNCIL OF ECONOMIC EXPERTS – STATUTORY MANDATE AND PROCESS

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Since 1963, the German Council of Economic Experts (GCEE) has been acting as an independent group of advisors to Germany's policymakers and the general public regarding a wide range of matters of economic policy. Its annual report has been serving as an anchor for budgetary planning of administrations and companies, as a principal source of information on the state of the economy and the effects of policy interventions, and as an inspiration for the public discourse on economic policy.

As a reflection of its independence, the GCEE's reports and statements are often exposed to considerable criticism from the political sphere. Yet, this sense of unease of interpretations and conclusions must not be confused with criticism of the council's analytical quality. As this brief article explains, being a critical, yet constructive voice in the economic policy arena is enshrined in the GCEE's legal mandate and process.

## The GCEE's legal mandate

The GCEE has the legal obligation to submit an annual report on macroeconomic development, "to assist all authorities responsible for economic policy as well as the general public in forming a sound opinion". The GCEE is "only bound by the mandate set forth in this law; it is independent in the performance of its work" and comprises persons who "possess a specialized knowledge of economic science and be experienced in matters of economic policy".

The pool of eligible potential members is clearly delineated: they cannot be members of government or public service at the time of or during the year preceding appointment, except as a university teacher or an assistant at a research institute. Furthermore, they must neither be representatives of any association of employers or trade union, nor may they be bound to them by permanent contract.

GCEE members are appointed for five-year terms, with the possibility of being reappointed for a second or even a third term. Once appointed for their five-year term, GCEE members cannot be dismissed, providing them with considerable independence. The members' terms are overlapping. Typically, one seat in the GCEE is up for (re-)appointment each year. Consequently, the group always tends to comprise a mixture of experience and fresh perspectives.

The law explicitly stipulates a benchmark for assessing future macroeconomic developments, captured by four objectives forming a "magic square" – (i) stability of the price level, (ii) a high rate of employment and (iii) equilibrium in foreign trade and payments, together with (iv) steady and adequate economic growth. The GCEE is free, however, in determining how to weight these objectives. The mandated task of the council is to indicate undesirable developments that pose a threat to the stated objectives, and identify ways to avoid them.

It might occur that one or two GCEE members have a different opinion on how to weigh the individual objectives from that of the council's majority, or that they are convinced of another interpretation of the empirical evidence. In these cases, the law explicitly entitles this minority to express a dissenting opinion.

## The process behind the GCEE reports

When preparing the annual economic report, the GCEE draws on the current academic and applied literature as a basis for its own discourse and the ensuing conclusions. The GCEE also conducts its own empirical analyses, based on macroeconomic data or individual-level survey data. In addition, it commissions empirical analyses in collaboration with external economists who are particularly knowledgeable in a field of application.

The GCEE openly embraces the instrument of reflecting a diversity of perspectives on economic policy in dissenting opinions. Their publication provides much more transparency about the inherent intricacies of these matters than is available in most reports of other institutions or research papers. The fact that each member of the GCEE is legally entitled to express a dissenting opinion in the annual economic report is enhancing its transparency and legitimacy.

To foster transparency about its work, the GCEE provides the data underlying all charts and tables published in the annual economic reports for download from its website, with the rare exception where copyright rules do not permit this. The reports also include a comprehensive list of all institutions and persons whom the council consulted, as well as all economists who provided analyses for the GCEE.

## The GCEE as a voice in the economic policy arena

Almost every analysis of economic policy measures will necessarily end with a value judgment, because the various objectives affected by them have to be weighted against one another. It is quite obvious from looking at the decade-long history of annual economic reports, that this process frequently leads to criticism directed at prevailing government action.

It is abundantly clear that by adamantly voicing its conclusions in the public arena, the GCEE fulfills its statutory mandate – being a critical economic policy companion to every German federal government, and not a direct government advisor. As was intended when it was formed, the GCEE thus continues to remain a public challenger to policymakers, as evidenced by the intense public debates on the analyses and results of the annual economic reports.

While this might feel uncomfortable for policy-makers from time to time, then Chancellor Gerhard Schröder put matters in perspective in 2003, by saying: “Advice from competent third parties is valuable support for every active politician, particularly when provided independently in a public and critical dialogue. And I stress: This also applies if [...] the positions do not suit one’s plans.”<sup>1</sup>

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<sup>1</sup> G. Schröder: Wissenschaftliche Beratung und politische Durchsetzbarkeit, in: Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (Hrsg.), Vierzig Jahre Sachverständigenrat 1963-2003, a.a.O., S. 15-21.