Organisation for Economic Co-operation and Development

GOV/SBO(2024)11

Unclassified English text only

19 May 2024

PUBLIC GOVERNANCE DIRECTORATE
COMMITTEE OF SENIOR BUDGET OFFICIALS

Fiscal literacy among elected officials

46th Annual Meeting of Senior Budget Officials

Paris, 3-4 June 2024

This paper was prepared by Eddie Casey.

It looks at the role that Independent Fiscal Institutions (IFIs) can play in helping strengthen political will for action to help restore fiscal sustainability. This includes through playing a greater role as "fiscal advocates," and being more vocal around the need for government action on major policy challenges that need to be addressed to put public finances on a more sustainable path.

It is one of three papers on **Empowering Public Understanding**.

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Executive summary

1. OECD countries face profound fiscal challenges. Addressing these will mean difficult fiscal decisions. Strengthening fiscal literacy, people's understanding of the public finances, will play an important role. It can help ensure that the scale of the challenges faced — and potential solutions — are well understood.

2. While much has been done to improve financial literacy, there is considerably less work being done to improve fiscal literacy. Financial literacy helps people make sound financial decisions that improve their economic well-being. However, elected officials face a bigger task. They must steer an entire nations' economic well-being across multiple generations. To succeed, they must look beyond short-term objectives to ensure long-term prosperity. This requires good fiscal literacy that allows a deep sense of how today's policies influence tomorrow's outcomes.

3. Improving fiscal literacy will also help build the political will for action. A lack of fiscal literacy hampers effective decision-making. It can also impede how elected officials communicate priorities and decisions to citizens. Fiscal literacy fosters more informed debates. This is necessary to catalyse action on sustainable fiscal policies, with far-reaching benefits for the public finances and intergenerational equity.

4. A variety of stakeholders are involved in improving fiscal literacy. These include independent fiscal institutions and bodies supporting budget scrutiny in parliament. They are key to improving fiscal literacy among elected officials as well as among other stakeholders, including the public.

5. Existing programmes to improve fiscal literacy vary in approach and focus. At one end of the spectrum are infrequent, ad-hoc initiatives. At the other end are far more comprehensive and structured programmes. However, there is scope for all approaches to hone their focus. Most importantly, there is a need to move away from a focus on technical aspects of the budget towards understanding what matters in terms of overall fiscal sustainability and options for addressing the major fiscal challenges ahead.

6. Increasing fiscal literacy amongst different stakeholders has its challenges. Stakeholders may not be readily willing to admit their low baseline knowledge for fear of embarrassment. For elected officials, political responsibilities are demanding. For the population at large, the public finances can often feel abstract and be presented in complex ways. This creates barriers to engaging key stakeholders in efforts to improve fiscal literacy.

7. Looking ahead, a renewed focus on fiscal literacy could see bodies such as IFIs and parliamentary budget officials leading the charge. They can focus on the core aspects of fiscal sustainability and the major fiscal challenges that lie ahead. This means relegating the emphasis on more arcane features of the budgetary process. It will also require them to tailor supports to be topical, engaging and flexible to demanding schedules. To help, they can leverage digital technologies and develop well-focused inductions, supporting seminars, short video explainers, and online interactives.

8. Enhancing fiscal literacy is a journey that requires a culture of ongoing learning and evaluation. Evaluating initiatives rigorously will ensure continuous improvement. This includes tracking participation rates and changes in fiscal knowledge over time. By improving the quality of initiatives, these efforts will foster greater buy-in from those involved.

9. Ultimately, these initiatives will contribute to better budget outcomes.

1 Why fiscal literacy matters

1.1. High debt and high pressures mean difficult choices

10. OECD countries face pressing challenges. High public debt has followed multiple crises. The risks associated with high debt are compounded by geopolitical tensions and tighter monetary policies. At the same time, there is a need to mobilise vast amounts of public resources to address the needs of ageing populations, climate change, and rising demands for spending. This includes healthcare, long-term care, pensions, defence, and other areas.

11. Getting the balance right means making difficult choices. Priorities will have to be defined clearly. Acting sooner rather than later will likely mean less costly outcomes. This underscores the urgent need for well-informed decision-making.

12. However, the experience across OECD countries to date gives cause for concern. Many countries are slow to take the difficult decisions required. And political leaders have often struggled to communicate the need for action.

1.2. Understanding and communicating will be key

13. Fiscal literacy will play a key role in charting a sustainable path. Improving our understanding of the challenges ahead will make for more informed debate and more sustainable action. By contrast, a lack of fiscal literacy will hamper our ability to make effective decisions.

14. To shape the political will for action, there needs to be a clear understanding of the challenges that face our countries. This means understanding the risks and making clear our budget priorities. It means being clear how today's policies will play out in the future. Safeguarding long-term prosperity for future generations requires us to look beyond short-term objectives. Making sound fiscal decisions today can ensure a nation's economic resilience, its potential for continued sustainable growth, and its ability to navigate major challenges across successive generations.

15. Here, we can draw some parallels with financial literacy. The OECD has developed substantial work on financial literacy over the decades. The over-riding goal has been to equip individuals with the knowledge and skills needed to make sound financial decisions. Often this means taking small decisions today that, while unappealing, will help shape people's lifelong economic well-being.

16. The OECD's work on financial literacy suggests that financial literacy levels are often quite weak. In its 2023 Survey of Adult Financial Literacy, it finds that three-in-five adults fail to meet minimum targets for financial literacy (OECD/INFE, 2023[1]).

Figure 1.1. Three-in-five adults below minimum levels of financial literacy

Adults who scored less than 70 points (out of 100) on financial literacy

Sources: OECD/INFE 2023 Survey of Adult Financial Literacy.
Notes: The figure is based on the survey results for the OECD average that only 39% of adults scored at least 70 points out of 100 on financial literacy.

17. Fiscal literacy extends this principle to the macroeconomic level. Elected officials bear the weight of the economic well-being of entire nations and across multiple generations. Yet the public finances and key aspects of fiscal sustainability are often widely misunderstood by all but a select few.

Box 1.1. What is fiscal literacy?

Fiscal literacy is important to both citizens and decisionmakers. For decisionmakers, it is about having the knowledge and skills needed to make informed decisions about government finances. It means understanding how a government manages its money, including the implications of tax and spending decisions on the economy and public debt in the short, medium and long term.

Someone who is fiscally literate will be well-equipped to make and communicate important budgetary decisions. They will be able to critically evaluate government policies. Overall, fiscal literacy empowers people to make informed choices about the public finances and the future of their country.

1.3. There are barriers to raising fiscal literacy

18. Budgeting may not be the most alluring of topics. Promoting elected officials' understanding of it will be challenging.

19. First, fiscal sustainability and fiscal rules often form a complex vista. Blanchard, Leandro and Zettelmeyer (2021[2]) argue that no quantitative rule can "ever be complex enough" to cover all the factors that influence fiscal sustainability.

20. Second, many people lack a high level of numeracy. The OECD's research on adult skills suggests, more than four-out-of-five adults never use advanced maths or statistics in terms of their everyday lives. One-in-five report never using a calculator, and three-quarters of adults rarely read charts (Jonas, 2018[3]).[1]

1 The OECD's Survey of Adult Skills, a product of the OECD Programme for the International Assessment of Adult Competencies (PIAAC), offers useful baseline data on adult literacy and numeracy and is available at: https://www.oecd.org/skills/piaac/

21. Third, when it comes to elected officials, the weight of a nation’s taxes and spending lies on their shoulders. This pressure heightens the risk of embarrassment of asking basic questions and impedes the ability to enhance fiscal literacy.

22. All told, these difficulties might impart a sense of dread rather than excitement.

1.4. This calls for action

23. Low levels of fiscal literacy are a call to action. To overcome people’s apprehension and foster the courage needed to address fiscal sustainability comprehensively, we need to raise fiscal literacy.

24. Certain bodies will play a pivotal role. Already, various initiatives to enhance fiscal literacy have been undertaken across the OECD. Those pioneering these efforts are typically independent fiscal institutions (IFIs) and bodies supporting parliamentary budget scrutiny.

25. They need to redouble their efforts and others need to join them. For those already pursuing such initiatives, there is a need to focus efforts on core aspects of fiscal sustainability and the major challenges facing our countries. Delivering on this will require them to be more targeted, more structured and more innovative in their efforts. For those currently doing less in this space, they need to make a start.

26. Embracing fiscal literacy will help steer our countries through rocky waters. The rest of this paper looks at current approaches, and new ways to improve fiscal literacy.

2 Current approaches to improving fiscal literacy

Key findings

Across the OECD, there are a number of initiatives to improve fiscal literacy. I The existing programmes vary in approach and focus. At one end of the spectrum are infrequent, ad-hoc initiatives. At the other end are far more comprehensive and structured programmes. However, even the best examples would benefit from a broader focus. There is a need to move away from an emphasis on technical aspects of the budget towards understanding what matters in terms of overall fiscal sustainability and the major fiscal challenges that lie ahead.

27. When it comes to elected officials, there is no standard curriculum for budgeting. A number of stakeholders undertake activities to better equip parliamentarians and the public with knowledge of budgetary issues in their own countries. These include bodies such as independent fiscal institutions (IFIs) and bodies supporting budget scrutiny in parliaments However, the activities often focus on the annual budget process, narrow aspects of the budget or strengthening annual scrutiny. It can be challenging to foster a broad understanding of what truly matters for the overall health of public finances in the medium to long term.

28. Ideally, efforts to increase fiscal literacy would cover the fundamentals of the public finances. They would promote an understanding of key over-arching issues, such as fiscal sustainability and the importance of economic growth. They would also set out the major challenges facing the public finances. For example, the cost of maintaining existing outlays in an ageing population, rising pensions and healthcare costs, a retiring workforce, the costs of meeting climate transition targets, and so on.

29. Increasing fiscal literacy would raise public and political awareness of the importance of fiscal sustainability and of major fiscal challenges. Knowing the trade-offs involved and being able to communicate the need for action more clearly would also better equip policymakers to make difficult choices.

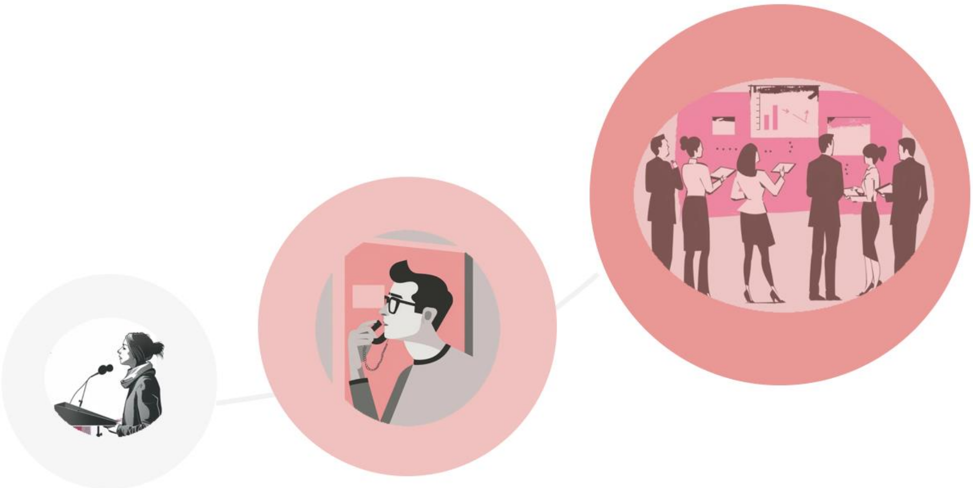
30. Instead, where there are programmes in place to develop an understanding of budgeting for elected officials, the focus is often too narrow. “Budgeting 101” programmes that introduce elected officials to how the public finances work in their respective countries are rare. Where they are in place, they tend to put the emphasis on fiscal plumbing. That is, they focus on the everyday process of enacting budgets: key dates in the annual budget calendar, legislative processes, and, in some cases, arcane features of fiscal rules. In short, elected officials are being shown the brushstrokes, not the masterpiece.

31. This lack of a coherent and comprehensive platform across countries to equip policymakers with a broader understanding of the public finances is problematic. It means that elected officials may not have sufficient perspective on the challenges they face and what really binds their decision making. It means that major fiscal challenges may not get sufficient attention or will not be communicated to citizens

adequately. Without an understanding of the need for action on key areas, this hinders the broader political will for change.

2.1. The intensity of activities to improve fiscal literacy varies

32. There are few international examples of OECD countries with initiatives to enhance fiscal literacy among key stakeholders such as elected officials and the public. Where there are examples, they tend to take three forms. We can conceive of these as falling on a spectrum from infrequent, ad-hoc initiatives to more structured and comprehensive programmes.



1) Low intensity: infrequent, ad-hoc initiatives on specific topics

33. At one end of the spectrum of “Budget 101” programmes are infrequent initiatives on specific topics. These are designed to help inform stakeholders, including elected officials, about key areas of the public finances. They tend to involve ad-hoc workshops, seminars, conferences, or educational sessions. The focus of these is usually on one technical area of budgeting rather than imparting a broad understanding of fiscal policy.

34. Examples include **Spain** where AIReF, the Spanish Independent Agency for Fiscal Responsibility, interacts once a year in a workshop involving all political parties. The workshops focus on AIReF’s main areas of work focus and specific key topics. For instance, one area of focus considered for 2024 is a workshop on the new system of fiscal rules that has emerged from the EU’s Economic Governance Review.

35. Another example is **Ireland** where the Irish Fiscal Advisory Council organises an annual “Path for the Public Finances” conference. The conference seeks to bring more awareness to longer-term fiscal policy challenges that may get less attention in the national debate. Past conferences have focused on how to assess long-term fiscal sustainability, major fiscal risks, climate change, and capital spending. Members of parliament participate, especially those on budget-related committees.

36. In **Slovenia**, the Slovenian Fiscal Council has organised a once-off workshop to explore technical aspects of the EU's Stability and Growth Pact. This initiative, while generating good interest among elected officials, was technical in its focus.

37. These types of initiatives are welcome. However, the way in which they are delivered is important. Key aspects include the frequency of delivery, the level of knowledge assumed amongst participants and the detail covered by the activity. Where they are infrequent and narrowly focused, these activities may not be best suited to all elected officials' needs. Engagement by elected officials may also be limited by the nature of the discussion. Rather than promoting a high level of engagement and encouraging the asking of fundamental questions, the formats might put off elected officials. For example, there is a risk that elected officials lacking a strong grounding in fiscal policy might feel they are being patronised rather than being supported.

2) Medium intensity: more regular, tailored efforts to improve fiscal literacy

38. In the middle of the spectrum of initiatives to improve fiscal literacy are ongoing, unstructured activities that contribute to enhancing policymakers understanding. These initiatives promote elected officials' understanding of budgetary matters in a more tailored manner. Rather than fully-fledged training programs, they may entail direct support on various issues provided at a time when analysts have completed some work or as the needs of elected officials arise. It may be availed of regularly by elected officials. Often, the support can be provided on a confidential basis.

39. **In Mexico** the Mexican Center for Public Finance Studies — like many other parliamentary budget offices — plays a key role in promoting elected officials understanding of the intricate workings of the Mexican budget. It is quite common for the Center to provide committees and individual members of Congress with reports and analysis on request. The responses are usually in writing and come with a typical turnaround time of 30 to 45 days. As well as that, and in an effort to strengthen legislators understanding of conceptual and technical matters, the Center produces a "basic concepts information booklet series". The series aims to explain the terminology and classifications involved in the Federal Budget. For instance, the September 2023 publication addressed the processes involved, the approval schedule, some of the key economic concepts and fiscal classifications that arise, and an overview of recent budgetary outturns.

40. Similarly, **Australia** provides its parliamentarians with bespoke supports via the policy costing services of the Australian Parliamentary Budget Office. The service as it has developed means that it is able to respond to parliamentarians needs in a relatively informal and interactive manner. The Office encourages parliamentarians to have informal discussions with it before submitting requests for the policy costing services it provides. It also engages with parliamentarians during the preparation of its responses. This interactivity is seen as a positive aspect that has helped to enhance policy development more generally.

41. These types of supports offer a more frequent way for elected officials to develop their understanding of the public finances. Yet the focus is often subject to the whims of elected officials. Efforts to provide a more generalised overview, as in the case of the Mexican Center for Public Finance Studies' "basic concepts" series, are a good idea.

42. Again, the emphasis in these initiatives often still leans towards the mechanics of the budget process. What they lack is a more high-level understanding of fiscal challenges.

3) High intensity: structured, frequent, and comprehensive fiscal literacy programmes

43. At the other end of the spectrum of initiatives to improve fiscal literacy is a set of much more comprehensive and frequent engagements. These programmes delve into the intricacies of fiscal policy as it is enacted. Programmes may encompass a range of topics. How fiscal policy is formulated, resource allocation, expenditure oversight, and financial accountability.

44. The goal of these initiatives varies. In some cases it is explicitly to provide policymakers with help. The idea being to equip them with practical advice when navigating the complexities of budgeting. In other cases, the goal is to foster more informed and efficient governance.

45. In terms of how they are put into practice, these programmes are typically more engaging. They bring together elected officials in hands-on workshops, seminars, and interactive sessions. Ideally, this creates a safe environment in which to learn without judgement.

46. An example of this is in the **United Kingdom**, where the Scottish Parliament's Information Centre provides training support in addition to information and analysis to Members of the Scottish Parliament. Through its Financial Scrutiny Unit (FSU), the Centre aims to help Members scrutinise the budget more effectively.

47. The FSU uses a number of novel approaches. In particular, it has four key forms of intervention to enhance stakeholders understanding of various aspects of the public finances.

48. First, the FSU organises a form of induction to the realm of budgeting at the very start of a new government term. It sees this as a critical period to enhance elected officials understanding. It is a good time to seize on the initial enthusiasm of entering office. It comes before official appointments to specific committees. And elected officials are primed to learn without the potential embarrassment of revealing they know less than they do — a risk that grows over time. The FSU uses this as an opportunity to emphasise the importance of focusing on key fundamentals and major policy areas rather than trying to cover too much. This helps ensure impact beyond the political cycle and a long-term legacy — one that is not necessarily at odds with fiscal sustainability. An optional refresher on similar content is available after two years.

49. Second, the FSU employs a series of regular briefings. These take various forms. One form is breakfast seminars, which prove popular as they align well with elected officials' schedules. In particular, they offer a chance for reflection under Chatham House rules before getting caught up in the issues of the day. When involving external speakers, especially those with a high profile, the seminars tend to prove more popular. One recent example is a presentation by the Scottish Fiscal Commission of its first Fiscal Sustainability Report. Other forms include private briefings, which give an opportunity to ask questions more freely. Briefings to specific members of parliament are also provided. These give an opportunity to develop champions on certain issues that can come to have a positive influence within their respective parties.

50. Third, the FSU organises an annual business planning day. This usually takes place in off-site locations at a useful time in the calendar for planning ahead, for example before the summer recess. It provides an opportunity for the FSU to have direct contact with elected officials while planning committee's work programmes for the year ahead. In particular, it offers a chance to focus on fundamental issues

outside of the daily routine. This presents a unique opportunity to revisit some of the major fiscal challenges and principles that face policymakers.

51. Fourth, the FSU produces video explainers, data visualisations and online tools which can be accessed by political stakeholders as well as the general public. These cover topics such as the budget process, the latest tax and spending changes, current outlays, personal income tax liabilities, and details on devolved funding.

52. Another example in the **United Kingdom** comes from the Scrutiny Unit housed in the United Kingdom Parliament. It came into existence in 2002 after a committee concluded that select committees would need additional help examining a number of budgetary areas being reformed. Its role is to enhance the House of Commons' work by offering specialised expertise to select committees, particularly on financial matters and on draft bills. Its staff is made up of a mix of lawyers, accountants, policy specialists, economists, and statisticians. It provides evidence, guidance, presentations, analysis and even draft questions to Members and staff. As well as working with elected officials, the Unit encourages departments to provide better quality information.

53. An important part of the Unit's work has been to provide training sessions to elected officials. These training sessions are tailored to the needs of Members of Parliament and their staff. Sessions cover topics such as legislative processes, financial scrutiny techniques, policy analysis, and other relevant areas aimed at enhancing the effectiveness of parliamentary scrutiny and oversight. The content and frequency of such training sessions may vary based on the evolving needs of the Members and the priorities of the Unit itself.

54. A useful insight from the Unit's experience has been the vital role played by individuals. From time to time, certain members of parliament champion the cause for fiscal literacy and long-term sustainability. As in the Scottish experience, working with these individuals more closely is seen to have had good outcomes, with elected officials having a positive influence within their respective parties.

55. The **United States** also has similar supports. Together, the work of the United States House Modernization Committee and the Congressional Research Service serves to enhance policymakers' understanding of fiscal issues and promote effective governance in the realm of fiscal policy.

56. The United States House Modernization Committee has been instrumental in spearheading efforts to enhance policymakers' understanding of fiscal issues. The Committee, established in 2019, has focused on modernising the operations and practices of the House of Representatives to better serve the needs of its members.

57. One significant aspect of the House Modernization Committee's work has been to provide induction programmes to new members. This is something that the Congressional Research Service has helped coordinate. In addition to that, the Committee has put in place better access to information. By leveraging digital tools and platforms, the Committee has facilitated easier access to fiscal data, analysis, and educational resources, thus empowering elected officials to make more informed decisions on budgetary matters.

58. The Congressional Research Service has also played a crucial supporting role. It provides policymakers with comprehensive and unbiased research on fiscal issues. As the research arm of the United States Congress, it conducts in-depth analyses, prepares reports, and offers expert guidance on a wide range of topics, including budgeting, taxation, and economic policy. Its research has helped to equip lawmakers with the information necessary to navigate complex fiscal challenges. Moreover, it often collaborates with congressional committees and individual legislators to tailor its research to specific policy inquiries.

2.2. There is scope to enhance even the frontier initiatives

59. A small number of OECD countries have initiatives that focus on improving fiscal literacy among key stakeholders such as elected officials. Yet there are a number of ways in which there could be broader improvement in this space.

60. In the **United Kingdom**, there is some useful evidence from the Scottish Parliament around how initiatives have improved elected officials budgetary understanding. Box 2.1 looks at the Scottish findings in detail.

61. An important takeaway from the Scottish experience is that there is a risk of democracies spending too much time on the technicalities of a fiscal framework. This can come at the cost of crowding out time spent on key areas of significant importance to fiscal sustainability in the medium to longer term. As well as that, discerning key trends and budgetary outcomes can be challenging for elected officials when vast amounts of information are provided in the form of reports.

62. That is not to say that the Scottish programmes to enhance elected officials understanding of budgetary matters have not been a success. They have. But there is an argument to redoubling their focus their focus on the major challenges facing the public finances.

Box 2.1. The effectiveness of activities to improve fiscal literacy in Scotland, United Kingdom

Evidence from Scotland gives a valuable insight into how effective initiatives are at deepening elected officials' understanding of budgetary matters.

The survey

In 2021, the Scottish Parliament's Information Centre, Strathclyde University, and the University of Glasgow published the findings of a unique study (Ross, McIntyre and Roy, 2021[4]). It included a survey of members of Scottish Parliament with 27 responses (20% of all members), plus in-depth interviews with 23 key figures such as senior members of parliament. The goal was to gather their reflections on their understanding of and ability to scrutinise Scotland's budget powers.

I mostly get it, others do not

The majority of members of parliament reported having a relatively good understanding of the Parliament's budget process and powers (rating their understanding at 7.1 out of 10 on average, with 10 being "very high" and 0 "very low" understanding). However, they felt that *other* members of parliament had a weaker understanding in general (3.6/10). In terms of progress, the balance of opinion was that scrutiny had "got a little better" or "stayed the same".

Wide budget scrutiny but not enough depth

A key finding from the report was that members of parliament felt budget scrutiny had widened, rather than deepened. In other words, the number of areas being scrutinised had increased, but the focus did not elicit a deeper understanding of key areas. Specifically, they noted that this had come at the cost of less incisive scrutiny of the structural challenges facing the public finances in Scotland.

Several explanations were given. First, it might just take time for the framework to bed down and there were numerous distractions: Brexit and COVID-19. Second, Scotland's new budget powers were complex, including block grants, devolved taxes, shared taxes, assigned taxes, and so forth. Third, big information gaps remained. Despite lots of information being available, with some reports running into 100s of pages, members felt they lacked time series data on spending areas, information on long-term trends, and that it was difficult to link draft budgets to final outturns.

One interviewee captured the concerns about a lack of focus on structural issues well noting:

"So much of the time has been devoted trying to scrutinise the mechanics of Scotland's new budget framework, that debates are missing the bigger picture covering the structural economic, demographic, social and environmental issues that will stretch the sustainability of the Scottish Budget in the long-term or the track-record of policymakers to deliver the change that is required. Evidence sessions often reflect that"

Time is precious

A broad concern emerging from the survey was that scrutiny time was limited and often this time could be used better. It was felt that time spent on it often crowded out priorities such as debates over value for money or actual budgetary outcomes.

63. In the United Kingdom, initiatives to enhance elected officials' fiscal literacy have had mixed success. As with the Scottish experience, the United Kingdom Scrutiny Unit notes that there are key timelines during which to engage elected officials. Most notably, the start of a new government term is seen as a crucial juncture.

64. These experiences suggest that elected officials would benefit from a different approach. If initiatives to raise fiscal literacy among them are to succeed, they need to be less time-consuming and focus on the fiscal issues that really matter.

65. The next section looks at ways to build on these insights with new approaches to improving fiscal literacy.

3 New approaches to improving fiscal literacy

Key findings

In line with efforts to build financial literacy, enhancing fiscal literacy needs a robust framework. The core competencies of fiscal literacy might include why we have fiscal rules, what determines fiscal sustainability, and how to tackle major fiscal challenges. In developing initiatives to address these areas, three key principles are that: 1) elected officials' time is limited, 2) there are tried and tested ways to promote adult learning, and 3) the material does not have to be overly complicated. Novel approaches to developing fiscal literacy that build on this include well-focused inductions and supporting seminars, short video explainers, online interactives, and blog posts.

66. Fiscal literacy may be central to sound budgetary choices. Yet efforts to equip key people with the knowledge needed often falls short. Renewed approaches should focus on promoting a richer understanding. This means promoting deeper, more structured, and more engaging approaches.

67. In understanding how best to improve fiscal literacy, lessons can be drawn from the extensive efforts that have been made in relation to improving financial literacy. The recent joint European Union and OECD initiative, "Financial competence framework for adults in the European Union," provides the basis for a more coordinated approach to improve financial literacy across the EU. It also builds on existing OECD frameworks with core competencies for financial literacy.

68. These initiatives help promote a shared understanding and platform on which to improve knowledge, skills, attitudes and behaviours related to sound financial decisions. Ultimately, they should help achieve greater financial well-being amongst individuals.

69. How can we extend these lessons to fiscal literacy? This section outlines how countries can strengthen fiscal literacy. It first focuses on who might take responsibility for improving fiscal literacy among key stakeholders, including elected officials and the public. Second, it considers what the core material to improve fiscal literacy might be. Third, it explores how best to deliver on improving fiscal literacy so as to maximise the effectiveness of such initiatives.

3.1. Who can champion fiscal literacy?

70. Already, initiatives to enhance fiscal literacy are underway across the OECD. Typically, these are spearheaded by independent fiscal institutions and bodies that support parliamentary budget scrutiny (as well as finance ministries).

71. For those bodies already undertaking this work, there is a need to redouble efforts. They need to focus on core aspects of fiscal sustainability and the major challenges facing our countries. Delivering on this will require them to be more targeted, more structured and more innovative in their efforts.

72. For those that are not engaging in this space, they need to make a start.

3.2. Core competencies — what should we focus on?

73. Efforts to improve financial literacy across the OECD have long focused on what might be considered "core competencies". That is, things that are universally relevant and important to sustain or improve financial well-being in everyday life.[2]

74. In the realm of the public finances, what might core competencies look like? To begin, we should emphasise a broader understanding of why these matter. Rather than focusing on specific features of budget processes in individual countries, a richer understanding of fiscal fundamentals is warranted. This can serve as the foundation on which people build a richer understanding. It is only after this point that more intricate and country-specific features should be developed.

75. With this in mind, we set out three key questions that might be considered a core part of any curriculum.

3.2.1. Why do we have fiscal rules?

76. Fiscal rules often baffle and frustrate those assessing them. When it comes to elected officials, as well as being highly complex, the rules also serve to curb fiscal aspirations. As a result, discussion around fiscal rules tends to be preoccupied with the near-term fiscal space provided by them. This inevitably overshadows the purpose and intended outcomes of fiscal rules.

[2] For more, see https://www.oecd.org/finance/core-competencies-frameworks-for-financial-literacy.htm

Figure 3.1. Three in four years spent in deficit

% of years spent in deficit, 1995–2023

Sources: OECD Economic Outlook No 114 - November 2023.
Notes: The asterisk * denotes incomplete coverage. For Colombia, data are only available for 2000 to 2023; for Israel, 1998 to 2023. These two countries are thus excluded from the OECD average.

77. A core competency that could benefit elected officials is an understanding of why fiscal rules have come about.

78. In its simplest form, we can say that governments are known to have a bias for running deficits. This bias is relatively pervasive. Across the OECD, countries typically spend three-in-every-four years in deficit (Figure 3.1). There are exceptions. Norway's rich gas resources have seen it run persistent surpluses. Elsewhere, there are examples of well-run fiscal frameworks in countries such as Canada and New Zealand that have limited the tendency towards deficits. Yet, the bias is clear.

79. To tame this deficit bias, we have fiscal rules. That is, to avoid excessive borrowing and the damaging consequences that follow, countries have tended to introduce fiscal rules. The fundamental problem might be said to be the open-ended nature of budgeting. Governments can, with relatively little immediate concern, meet demands by spending more than they take in through taxes. Fiscal rules attempt to bind this open-endedness.

80. In covering ground such as this, initiatives to raise fiscal literacy need to be clear on the consequences of excessive borrowing. The social, economic and political ramifications of unsound policies should be made obvious. For this, the global financial crisis provides clear examples we can draw from. Ireland's is one extreme yet salient example (Box 3.1).

81. More generally, fiscal literacy should emphasise the consequences of unchecked increases in public debt.[3] Three key risks can be thought of:

1. **It hampers growth**: Higher debt impedes a government's ability to respond to fight a recession by expanding the budget. As government debt increases, borrowing costs throughout the economy also tend to rise. This reduces private investment and slows growth.
2. **It squeezes out other priorities**: Rising interest payments mean governments have to spend larger portions of their budget on servicing that debt. This leaves less money available for priorities such as infrastructure, education and health.
3. **It raises the risks of a major crisis**: Those financing a government may lose confidence in its ability to repay borrowings. This can lead to higher borrowing costs and increased risks that a country faces abrupt challenges in financing day-to-day spending. With larger levels of debt, increases in interest rates also raise debt-servicing costs proportionally more. This raises the risks of a sudden funding crisis. In addition, higher debt ratios might lead people to expect higher inflation as a means of eroding that debt. This, in turn, can erode confidence in the currency.

82. The hope in this line of instruction is two-fold. First, that policymakers engage with the fiscal rules on a deeper level. Second, that they can in turn communicate reasons to adhere to them more widely.

[3] For a wider-ranging discussion of federal debt and its consequences, the Congressional Budget Office's (2020[35]) "Federal Debt: A Primer" is a useful read.

Box 3.1. Using clear examples to heighten fiscal literacy — Ireland's experience with austerity

Ireland's experience with austerity offers a striking and clear way to illustrate fiscal risks. Clear real-world examples such as this are a useful way to enrich elected officials understanding of how fiscal sustainability risks play out in the real world.

"Austerity", in Ireland's case, was not an ideology to squeeze government, nor a tool to manage perceived waste and moral hazard risks. It was an unavoidable consequence of earlier policy mistakes (Honohan, 2017[5]). These mistakes led to a sudden and formidable inability to finance day-to-day public spending.

A sharp fiscal expansion in the 2000s saw Ireland grow overly reliant on property bubble tax receipts. These receipts were fuelled by excessive bank lending. When the economy turned, a banking crisis ensued, and the receipts dried up. To stem mounting public debt and to convince lenders to purchase government debt issuances again, Ireland undertook a massive fiscal adjustment. This had enormous economic, social, and political impacts (Table 3.1).

On the economic front, seven years of austerity budgets ensued. These saw an average 3.2% of national income of fiscal consolidation each year. That is equivalent to finding one-quarter of social security spending in a typical OECD country every year for seven years. The cuts to spending and increases in tax came at the same time as the wider economy was entering recession. Past profligacy therefore meant that budgets tightened — adding to the pain — rather than helping to offset the recession. This worsened job losses and hindered the economic recovery. A rising interest burden also swallowed proportionally more tax revenues, meaning less could be achieved with public resources elsewhere.

On the social front, jobless rates rose three-fold. Households reporting difficulty in making ends meet increased from one-in-five to one-in-three.

On the political front, the fallout was sizeable. Ireland's main three parties had won almost 80% of all votes cast in 2007. Yet by the 2014 local election they fell to just 56% (Kavanagh, 2015[6]). The largest political party suffered the biggest losses. Fianna Fáil had been out of government for just 12 years between 1932 and 2011 and had a vote share regularly surpassing 40%. However, having collapsed to 17% in 2011 it remained around half the pre-crisis levels in subsequent elections in 2016 and 2020.

Table 3.1. The wide-ranging impacts of Ireland's austerity period

Economic	Years of austerity budgets	7 years (2008-2014)
	Average annual size	3.2% GDP consolidation*
	Equivalent to	1/4 social security spending every year**
	Interest burden	Increased from 3.7% of total revenue in 2008 to 11.5% in 2014 (+7.7 percentage points)
Social	Unemployment	Threefold increase from 5.0% in 2008 to 15.5% in 2012
	Difficulty making ends meet	Increased from one-in-five households (22%) to one-in-three (34%)
Political	Vote share of main parties	Combined share fell from 79% in 2007 to 56% in 2014 (-23 percentage points)

* This is actually calculated on a modified gross national income basis to facilitate international comparisons on the basis of GDP.
** This is based on the OECD average for 2023, which puts social security spending at 13% of GDP.

Few countries are likely to experience a budgetary shock the way Ireland did. A confluence of factors mattered: the simultaneous bursting of a property and credit bubble, the nature of the response to the banking crisis, Ireland's membership of a common currency and monetary union. What is more, Ireland's budget was only in deficit once during the years 1997 to 2007. As such, deficit bias was hard to detect. The reality was that temporary receipts masked underlying problems. These temporary receipts went undetected by standard methods of cyclical adjustment. This made it harder to identify the underlying or true deficits being built up over time.

But the basic principle of adhering to fiscal rules to limit deficit bias remains pertinent. Modern fiscal rules often aim to keep spending growth steady rather than focus on deficits. Such an approach, if applied correctly, could have limited Ireland's budgetary excesses in the 2000s. It could have lessened the need for austerity. In turn, this could have made the economic, social and political fallout less painful.

3.2.2. What determines fiscal sustainability?

83. Related to fiscal rules is the core concept of fiscal sustainability. Again, this is a topic that can easily become more complicated than it needs to be.

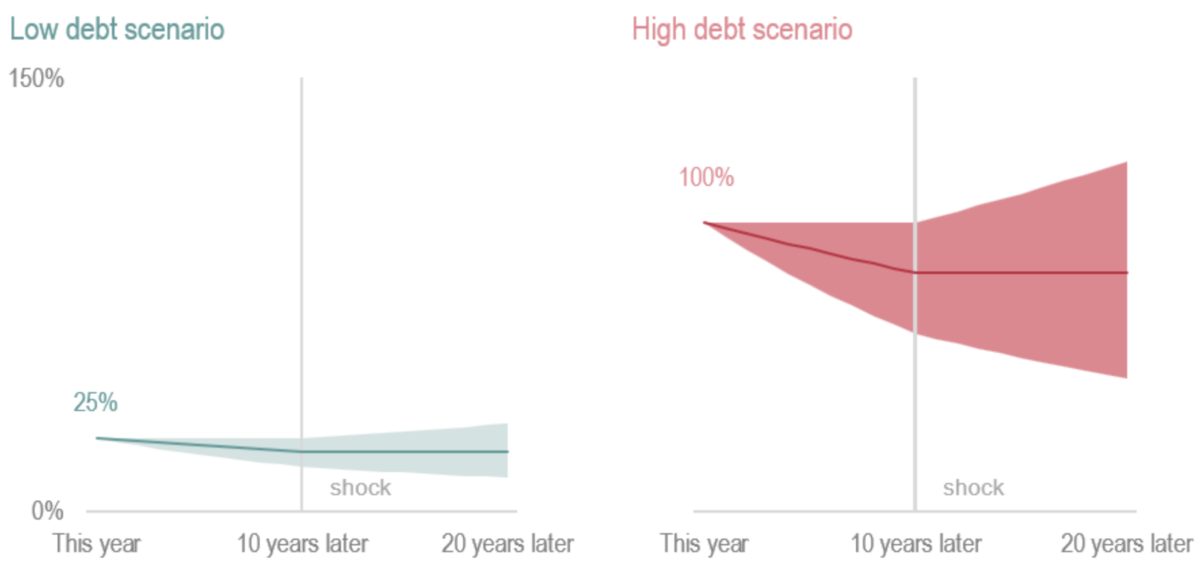
84. Elected officials should understand, while many elements are important, growth is nonetheless key. However, they should understand that growth, along with interest rates, are, for the most part, outside their control. Potential growth is hard to influence. Structural reforms have uncertain effects.

85. The budget balance therefore becomes a key part of the discussion. This is both in terms of what its likely path is based on current policies, and what can feasibly be achieved (Blanchard, Leandro and Zettelmeyer, 2021[2]).

86. Elected officials should also understand how uncertainty and hence risks are magnified at higher debt levels. This is usefully illustrated in Barnes, Casey and Jordan-Doak (2021[7]). The authors show two scenarios, which we adapt slightly here (Figure 3.2). One scenario has a country start with a low debt ratio at 25% of GDP. Another with a high debt ratio of 100%. They then look at how debt evolves over time for a range of common growth rate and interest rate scenarios.

Figure 3.2. Why high debt ratios magnify risks

% GDP, government debt



Sources: Adapted from Barnes, Casey and Jordan-Doak (2021[7])

Notes: For different starting debt ratios, the figure shows how government debt ratios may evolve for illustrative interest-growth differentials of -5% (bottom of the range), -2% (middle lines), and 0% (top of the range) and a budget balance excluding interest of zero. The shock shows what happens if the interest-growth differential then worsens by 2 percentage points.

87. The first thing to note here is that the paths for the two scenarios are strikingly different over the first ten years. In the low debt scenario, the debt ratio barely changes regardless of the growth and interest rate conditions. By contrast, the high debt scenario is highly sensitive to prevailing conditions.

88. The second thing to note is what happens when a shock such as a recession hits. In both scenarios a shock to growth is assumed to hit ten years out.[4] This leads to a worsening of the path for government debt in all cases. But, notably, the range of impacts when debt is already at high levels are again much wider.

89. This illustration highlights the risks of high debt. At low debt ratios, things are relatively certain. Economic conditions might be more or less favourable than we expect. But when debt is low to begin with, the risks are narrower. By contrast, when debt is already high to begin with there is a far greater level of uncertainty around how things might evolve. Debt could easily explode — meaning that it rises in an inexorable fashion.

90. Can policymakers simply react by cutting spending and raising taxes when things go wrong? There are two problems. First, the depth of the response is potentially far higher at higher debt ratios and there are deeper risks and uncertainties. Second, there are doubts about the extent to which policymakers can feasibly improve budget balances such that they prevent an explosion (Bohn, 1998[8]; Blanchard, Leandro and Zettelmeyer, 2021[2]). It depends, for example, on how high taxes already are, a government's strength, the time it will take, how long it can be sustained. This is the nature of conversations being played out over Greece's debt in 2010. Could Greece really run large enough surpluses not just for a few years but for more than a decade?

3.2.3. How can we tackle major fiscal challenges in the context of just a few budgets?

91. Policymakers should develop an intrinsic understanding of how today's policy choices will have far-reaching consequences. That is, small decisions today can magnify over time.

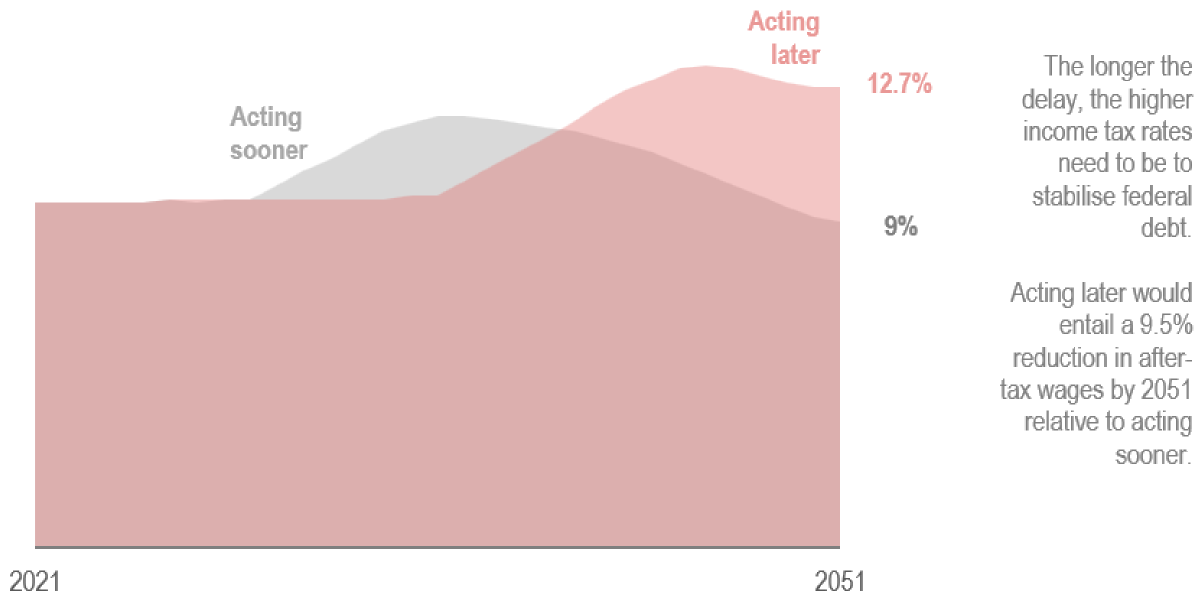
92. As an example, let us consider financial literacy once more. A core competency in financial literacy is how to balance today's living standards and spending choices with outcomes in later life. This includes planning for an adequate pension on retirement. However, the OECD's work on financial literacy finds that less than half of adults in 21 participating countries and economies are found to hold a savings, investment, or retirement product (OECD/INFE, 2023[1]). Of those that do hold such products, only a half understand compound interest.

93. This speaks to broader problems in the population of extrapolating from today's decisions into the future. In a similar vein, elected officials should understand that key policy decisions — or non-decisions as the case may be — will have a long-lasting bearing on future prosperity. This is highly relevant to decisions around the pension age, climate action, the design of the healthcare system, and so on.

[4] Note, this is the same in principle as a shock to average effective interest costs. Yet, in reality average effective interest rates are often slower to respond due to various actions by debt management offices that mitigate the immediate risks. Remember, the average effective interest rate is the annual interest bill expressed as a percentage of outstanding debt in the previous year. This is slow to respond as much of the existing debt will continue to exist and is often at fixed interest rates. Even if it is not fixed, debt management offices can hedge the interest rate risks involved for floating debt securities.

Figure 3.3. The increases in revenues needed to stabilise US federal debt

% GDP, federal debt



Source: (Congressional Budget Office, 2022[9]).
Notes: The figure shows scenarios for where policy changes take effect in 2036 as compared to those implemented in 2026. It is assumed that personal income tax rates on labour income and on capital income gradually increase over time in proportion to the rates under current law.

94. Eliciting the far-reaching consequences of today's policy choices is perhaps best achieved with scenario analysis. Consider the Congressional Budget Office's long-term projections. In the past, it has built on this work to draw out the consequences of delayed action for stabilising federal debt (Congressional Budget Office, 2022[9]). It estimates that if policy were to adjust through the income tax side, a ten-year delay would require revenues 3.7% of GDP higher at peak when compared to the "acting sooner" scenario (Figure 3.3). Ultimately, this would involve a much larger reduction in people's after-tax wages — almost 10% more than in the acting sooner scenario.

95. The takeaways from this sort of analysis are clear. The longer action is delayed, the larger the policy changes needed to stabilise debt. More than that, by drawing out the implications for peoples after tax wages, the Congressional Budget Office makes clear the impacts of inaction in a tangible way.

96. This analysis also speaks to a second point. While policymakers might have only a small number of budgets in which to enact their agenda, relatively small changes accrue big impacts over time. This means that even if policy changes are restricted to small adjustments in the short term, their impacts can cumulate and impart a far greater legacy.

3.3. This is a start

97. This offers an illustration of some of the underpinning competencies described we might consider priorities. A more comprehensive framework might branch out these core competencies. For instance, fiscal rules can be branched out to include specific types of fiscal rules, escape clauses, investment targets. The limits of fiscal policy in boosting long-term growth, the cycle and fiscal policy's influence on inflation

can fall under fiscal sustainability. How to measure value for money can be folded into the discussion of major fiscal challenges.

98. The idea is to structure programmes around key areas of focus. This should take the focus away from the more mechanical aspects of modern budget frameworks.

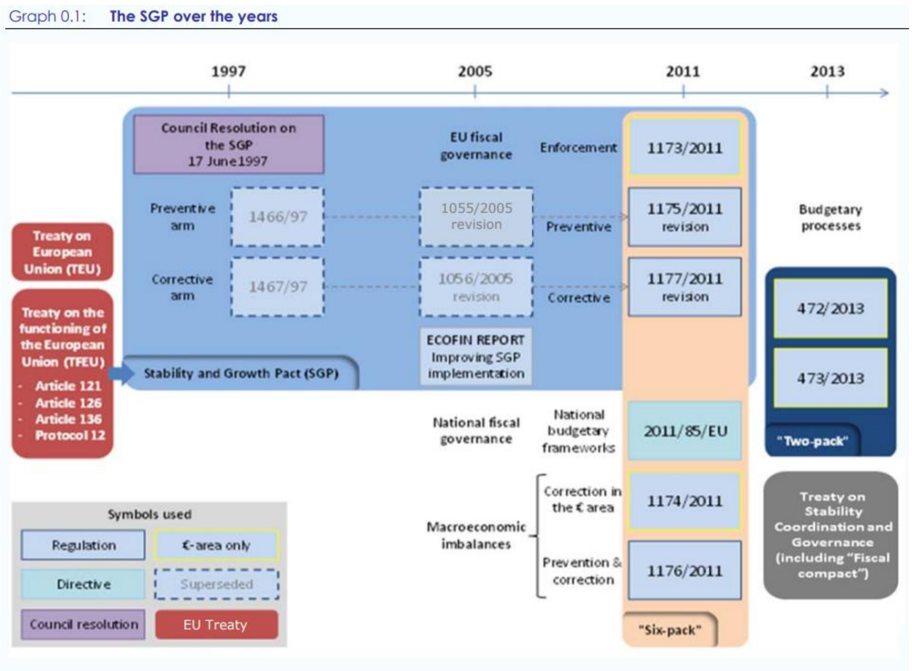
99. While being aware of the core competencies is helpful, there remain significant challenges. Elected officials are likely to have left formal education behind and will inevitably have extensive commitments as part of their political lives. As well as that, the public finances are often a challenging and unappealing subject. The next section considers ways to overcome these challenges.

3.4. How should fiscal literacy activities be delivered? Overcoming barriers to learning

100. The public finances may not be terribly alluring, nor simple to grasp, and yet they carry with them immense responsibility. Together these factors serve as barriers to enhancing learning.

101. Take the fiscal rules. The European Commission may have shortened its epic tome detailing the inner workings of the EU fiscal rules, the "Vade Mecum on the Stability and Growth Pact", from 220 to 108 pages as of 2019. Yet the introduction's opening paragraphs still read at the most extreme levels of difficulty on readability metrics.[5] And the introduction's first illustration of the rules is a complex graphic on the Pact's legal history (Figure 3.4).

Figure 3.4. A complex introduction to EU fiscal rules



Source: European Commission (2019).

[5] The opening paragraphs are estimated to be readable to just 30% of the general public and requiring almost 17 years of schooling (basically, a post-graduate student).

102. Moreover, the complexity of the rules poses challenges even for experts. Between a third and half of EU IFIs report having experienced at least some material differences between their own assessment of the fiscal position and compliance with the rules and similar assessments made by the European Commission (Network of EU Independent Fiscal Institutions, 2023).

103. This inscrutability means it is likely to be far less appealing to engage with these issues relative to other more salient issues of the day.

104. Consider also peoples' aptitude for numbers. The OECD's research suggests that more than four-out-of-five adults never use advanced maths or statistics, one-in-five never use a calculator, and three quarters report that they seldom read charts — no more than once a month (Jonas, 2018[3]).

105. The typical adult also displays a fairly rudimentary understanding of finances. This is evident from the weak results in the most recent OECD/INFE international survey of adult financial literacy (OECD/INFE, 2023[1]). The survey finds that less than one-third of adults correctly understand simple and compound interest calculations. They also struggle to apply inflation in a real-life context.

106. It is safer therefore to assume a low level of numeracy. As Ellen Peters (2020) quips in her studies of innumeracy, we can assume "there are three kinds of people in the world, those who can count and those who can't count".

107. Finally, there is the matter of immense responsibility. In a sense, elected officials carry the weight of a nation's taxes and public supports on their shoulders. This might compel them to learn more about these areas, but it also adds a substantial amount of pressure. In some cases, elected officials might lean on their short-term political interests and ignore the risks. In other cases, the pressure can limit one's ability to ask simple questions at the risk of betraying a lack of understanding. In turn, this limits one's ability to raise fiscal literacy.

108. It is therefore understandable that many people may be less than enthusiastic when broaching fiscal literacy. All told, these difficulties might impart a sense of dread rather than excitement.

3.5. Three principles to overcome these challenges

109. Recognising these challenges, what is the best way to broaden fiscal literacy? There are three principles one should recognise:

1. **Time is precious**

110. Time is a scarce commodity for all stakeholders, particularly elected officials. They find themselves juggling myriad responsibilities, political pressures, and the relentless march of legislative deadlines. The luxury of dedicating time and attention to the high principles of the public finances is highly aspirational.

111. To address this time constraint, initiatives to develop their understanding should be a) concise, b) focused, and c) available at optimal times or even on demand. This means that training initiatives should avoid providing excessive levels of detail across all the technicalities of a fiscal framework. Moreover, they should be a part of a wider structure of support that allows elected officials access the information they need as they need it.

112. A key finding from the experiences of OECD countries is that larger programmes of support are better targeted at the start of a new government term. This "induction" period offers a unique chance to engage newly elected officials in a constructive and open way while introducing them to key issues. After the honeymoon period, time inevitably becomes scarcer and the willingness to ask questions that might betray a lack of understanding diminishes. Finding time and appetite thereafter will require more thought. This is where the likes of breakfast seminars, annual planning days, and other well-tailored initiatives prove useful.

2. **There are tried and tested ways to promote learning**

113. Techniques to enhance our ability to acquire knowledge are not a mystery. Box 3.2 breaks down some of the findings from cognitive science, which can be applied to training sessions geared towards elected officials.

114. The advice from cognitive science poses some practical challenges to developing well-designed interventions for elected officials. Stakeholders' time is precious, but enhancing fiscal literacy will inevitably take time — ideally involving smaller, more frequent interventions. Ensuring that the material can be delivered in multiple ways and elaborated on requires substantial forethought. Testing the material is appealing in terms of enhancing learning but might not be practical.

115. One way to overcome the scarcity of time is to structure activities in such a way that they build on the induction period. Follow-up seminars can be selected to broaden understanding, offering ample ways to widen the delivery format and chances to elaborate on the key principles with more tangible real-world examples. These offer useful opportunities to embed the concepts more deeply. In addition, planning days can give further scope to reinforce concepts.

Box 3.2. Enhancing learning — reviewing the cognitive science

When it comes to learning, there is plenty of empirical support in the field of cognitive science showing that certain techniques work. This box reviews some of the methods which can be applied to enhancing fiscal literacy among elected officials.

A) Space out training sessions

We are more likely to retain information if material is spread out over time rather than bunched into a larger mass (Baddeley and Longman, 1978[10]; Lee and Genovese, 1988[11]; Kapler, Weston and Wiseheart, 2015[12]). As well as promoting retention, the benefits may also extend to enhancing an individual's conceptual understanding and reflective thinking (Yuan, 2022[13]). At a cognitive level, spacing out sessions can provide more opportunities to repeat new knowledge, both consciously and unconsciously. Retrieving the information at intervals may therefore strengthen the neural pathways underpinning the memory. In practice, this argues for smaller, more frequent means of acquiring knowledge.

B) Deliver material in multiple ways

A classic finding in cognitive science is that multiple forms of delivery work better than single forms (Kobus, Moses and Bloom, 1994[14]). Groups that receive only the spoken or printed word show significantly poorer recall than multimodal groups where a mixture of print, picture and spoken word are used. There are nuances: related information should be introduced together; the speed, continuity, and complexity of information must be considered; and verbal and graphical information should align well in terms of their meaning to be effective (Park and Etgen, 2000[15]).

C) Elaborate on the material

Elaborating on material has long been known to help deepen one's knowledge, moving the material from a transient experience to a more persistent understanding (Craik and Lockhart, 1972[16]; Coleman, Brown and Rivkin, 1997[17]; Leutner and Schmeck, 2014[18]). The idea is that once some material has been recognised, getting individuals to enrich or elaborate on the material themselves deepens the degree to which it is understood. Elaboration involves triggering associations, images or stories based on one's past experience with the material. This helps make meaningful connections rather than engaging in activities that involve simple repetition. Useful examples include getting individuals to predict their expectations first (Tucker et al., 2024[19]), asking individuals to generate simple drawings of the material (Leopold and Leutner, 2012[20]) short, even one-sentence, written summaries of it (Doctorow, Wittrock and Marks, 1978[21]), and reflecting on and answering questions related to graphs and figures based on the material (Menekse et al., 2013[22]). A useful summary of ways to promote this form of learning is provided by (Fiorella and Mayer, 2015[23]).

D) Test the material as part of the learning process

A robust finding in cognitive science is that taking tests on material to assess retention enhances retention itself as well as providing feedback on what one knows. This phenomenon is known as the "testing effect" (Roediger and Karpicke, 2006[24]) and is found to be independent of individual cognitive ability (Jonsson et al., 2021[25]). Moreover, repeated tests and tests with feedback are found to produce better retention (Karpicke and Roediger, 2009[26]). However, the complexity of the material matters, with the testing effect found to decrease or even disappear with more complex learning tasks (van Gog and Sweller, 2015[27]).

116. On-demand supports can help with delivery when time is scarce. The standard format has tended to be briefing papers, but there are various newer forms that are more accessible and able to foster deeper engagement:

- **Short video explainers** — these offer a useful and permanent resource that can be accessed as needed. Ideally, these should be highly focused and as short as possible. If more detail is warranted, additional video explainers can be developed. It should be possible to string these together to form a cohesive whole. A useful example outlining the annual budget process is provided by the Scottish Financial Scrutiny Unit (Burnside, 2023[28]).
- **Storytelling** is considered to have proven useful in the financial literacy sphere as a means of conveying information. The view here is that simpler narratives allow individuals to learn from vicarious experience (OECD/INFE, 2015[29]). Storytelling offers a useful pathway to understanding the real-world impacts of fiscal sustainability and fiscal risks. In particular, the experiences of past and present elected officials could be a useful way to cut through the more turgid aspects of core competencies. It also offers another way to deepen and elaborate on understanding.
- **Online interactives** — another avenue is to use online interactive content to enhance fiscal literacy. This can include tested content. Initiatives in the *financial* literacy space offer some useful examples. For instance, New Zealand has developed workplace programmes to improve financial education. The "Sorted at Work Programme" provides flexible programmes, with face-to-face and virtual webinar options. The webinars can comprise a series of 1 hour virtual seminars over a number of weeks or alternatively, they can consist of longer, more condensed sessions. They cover topics such as budgeting, debt, goals, savings, retirement plans, and investments (OECD/INFE, 2015[29]). They have been shown to improve understanding and result in significant and sustained improvements in staff work satisfaction, capability, confidence and productivity.

117. There are other useful initiatives in the *financial* literacy space to draw on. Interactive methods, such as games, competitions, and visualisations have been used to good effect. A useful example is provided by the Financial Consumer Agency of Canada, which has launched an online Budget Planner tool incorporating Canadian statistical data, behavioural insights, and gamification to enhance financial literacy (OECD, 2022[30]).

118. There are few examples in the fiscal domain. One useful example is "The Fiscal Ship" — a game that simulates policy choices intended to highlight the trade-offs involved in putting the federal budget on a sustainable path while meeting wider policy priorities.[6]

- **Blog posts and social media** — one avenue for delivering insights relevant to fiscal literacy is the use of blog posts and social media. These represent a simpler and more succinct format, often being delivered in more casual and accessible language. The Scottish experience here is insightful. The use of blogposts and social media by the Scottish Parliament Information Centre (SPICe) is mutually reinforcing. The SPICe Twitter account alerts Twitter users to new SPICe blogs, which are often very topical. When SPICe blog posts are tweeted, on average they get 26% more views (Von Trapp and Nicol, 2019[31]). Moreover, briefings promoted through social media attract more than double the views of briefings not promoted in this way. SPICe is particularly good at linking tweets to ongoing parliamentary business, which helps increase its relevance and reach.
- **Artificial intelligence (AI) bots** — one avenue that will become increasingly useful is the potential for AI to deliver domain-specific knowledge in a user-friendly way. Modern AI models can be trained on domain-specific content to develop bots with specialised knowledge and an ability to generate responses to user questions related to these domains. For instance, in the medical field, models can be trained on medical literature, journals, and clinical records to understand medical

[6] A good explainer on how The Fiscal Ship can act as a teaching tool is available at:
https://www.brookings.edu/articles/the-fiscal-ship-as-a-teaching-tool/

terminology, diagnoses, and treatments. An example here is Ada Health. These models can be fine-tuned by developers, meaning that they can leverage the knowledge encoded in pre-trained natural language models and adapt it to their specific needs.

119. These models could be usefully applied to the field of the public finances. AI-powered bots can be trained on literature relevant to the wider public finances, fine-tuned to incorporate national specificities and then used to enter natural language conversations with users. This would allow them to query the bot for information or help in areas specifically related to fiscal literacy. This avoids the risk that comes with using standard AI tools such as Chat GPT or Gemini, which rely on a wide array of content with greater risk of inaccuracies or "hallucinated" content. In this vein, chatbots are already being rolled out by tax administrations to answer citizens' queries on tax legislation.

120. These approaches present a convenient way to enhance fiscal literacy. They leverage modern technologies and multiple forms of delivery. At the same time, many of them are free of the risks of potential embarrassment, while also being adaptable to busy schedules.

3. The material should not be rocket science

121. It is easy to be lulled into thinking that the public finances are uniquely complex and therefore cannot be explained in a simple manner. While it is true that there are lots of conditions to consider and wide uncertainties, this does not mean it is impossible to convey in a simple manner.

122. Let us consider the challenge of conveying complex issues by once again thinking of fiscal sustainability.

123. When it comes to fiscal sustainability, the definitions are often loose. There are many aspects to consider and plenty of uncertainty. The OECD (2013[32]) has in the past defined fiscal sustainability as "the ability of a government to maintain public finances at a credible and serviceable position over the long term". This definition refers to government capabilities as well as credibility and long-term economic conditions. These aspects are either unobservable or highly uncertain. The definition could also entail thinking of fiscal sustainability as referring to the net financial and non-financial worth of a country or in terms of its ability to service financial liabilities.

124. As one potential measure of fiscal sustainability, debt sustainability is influenced by multiple factors. Growth, inflation, prevailing interest rates, the structure of sovereign debt securities, the balance between revenues and expenditure, the composition of those as well as their variability, whether or not policymakers will be able to run smaller deficits or even sustained surpluses, and so on.

125. The mutli-faceted nature of debt sustainability highlights the substantial amount of variability is involved. As Blanchard, Leandro and Zettelmeyer (2021[2]) note, "there is no single, time-country-invariant, magic debt or deficit number." Rather than simple "yes" or "no" answers to questions like "if I do this, will it be sustainable", the answers are more likely to warrant probabilistic assessments. For example, "we estimate that pursuing these tax cuts would raise the probability of an unsustainable debt path from 5% to 15%".

126. At this point, an easy response to the number of factors and the level of uncertainty involved might be to conclude that fiscal sustainability is irredeemably complex. Not only that, but we might also conclude that it is inevitable that elected officials will struggle to grasp it fully.

127. However, there are ways to reduce the problem to the things that matter the most. Rather than engaging in "compulsive hedging" — a use of multiple caveats and cushioning our explanations with wads of fluff — we can give general guidelines and then spell out circumstances in which these general statements do not hold (Pinker, 2014[33]). And people deal with uncertainty all the time. It is an unavoidable part of our everyday work commute, how we think of the weather, the success of a marriage or career.

128. It should be possible to address complex topics such as debt sustainability with general statements at first. Then, one can outline the circumstances where these statements do not apply. One can also assume that, while uncertainties are high, people will nonetheless be able to reason intuitively with some degree of uncertainty without the need for excessive hedging.

129. Here, as an example, we consider an application of this approach to the concept of debt sustainability. We can imagine an introduction to the subject for policymakers that would read as follows:

Simplifying debt sustainability

> *"If governments spend more than they take in, they will run deficits. Ongoing deficits lead to rising debt, higher interest payments, and risks that debt cannot be repaid. This leads to bankruptcy. For governments, that means a sudden need to cut spending, or hike taxes, usually at a time when people are already losing their jobs. In other words, austerity. Austerity is bad for jobs, bad for growth, and bad for running a stable democracy."*

130. In six sentences, we have a reasonably clear way to conceive of debt sustainability. This is exactly the type of phrasing that finance ministers might deliver in pressurised media engagements. Indeed, the phrasing is inspired by the recollections of Michal Horvath, the Slovak economist that briefly served as Minister of Finance in 2023. He recounts having at most "five sentences" to deliver difficult messages about the public finances on breakfast TV.

131. Now, most economists would shudder at this exposition of debt sustainability. They would no doubt point to numerous caveats, nuances, and qualifiers that can be added.

132. For instance, an economist might note that persistent deficits can be perfectly sustainable in the right conditions. High growth, low interest rates or limited deficits might still produce a sustainable debt path.

133. Next, an economist would probably take issue with the word "bankruptcy". They would likely note that, technically, government's do not go bankrupt. There is no formal bankruptcy process and governments often have many options businesses do not such as stoking inflation to devalue outstanding debt and reducing borrowing costs by forcing banks to hold more government debt.

134. They might also quibble with the likelihood of austerity arising in these situations. Fiscal consolidations might be avoided, they may be stretched out over a long period of time to limit their impact, they may not coincide with a general downturn in the economy, and monetary policy could offset their worst effects.

135. But there are many advantages to starting with a general statement along these lines.

136. First, it sets out a clear linear narrative for why fiscal sustainability matters, running from the basics of a deficit to its impact on debt and finally linking it to painful societal outcomes.

137. Second, as Thomas and Turner (2011[34]) note, this exposition serves as important scaffolding rather than the promise of covering every eventuality. In other words, it is the gateway to a far deeper understanding. It does not preclude the caveats and nuances from coming later.

138. Third, it is couched in the language of everyday experience rather than economic jargon. Bankruptcy is a commonly understood phrase, even if the specifics of every bankruptcy are uniquely different. And few policymakers will be oblivious to the pain of the austerity era that followed the financial crisis, not least its political ramifications.

139. It's worth remembering that rocket science is often mythologised out of proportion to its true difficulty. As John Carmack, the computer programmer and financial backer of various aerospace pursuits, notes, "aerospace work, while it may be simple, is not easy…we can sketch out all of our vehicle subsystems essentially on the back of a napkin…but making them actually work reliably every single time, that actually has a lot of challenges".

140. In much the same way, we can say that the sustainability of the public finances is simple but not easy. That is, the equations are known. We can estimate the uncertainties involved. The real challenge is our inability to be precise, consistent, and robust in our assessments of how to maintain fiscal sustainability in a world that is prone to new and unexpected shocks.

3.6. Fostering a culture of evaluation and learning

141. These initiatives should be part of a framework that encourages a wider culture of evaluation and learning. Including elected officials, stakeholders and the wider economic community in the process of re-evaluating and re-defining the goals and objectives can help ensure buy-in, while reinforcing the quality of the initiatives being delivered.

3.6.1. Tracking progress

142. Thinking about how to evaluate fiscal literacy early on is a key lesson from the OECD's work on financial literacy. The goal of the initiatives considered in this paper is to enhance fiscal literacy. As such, tracking the success of any initiatives and refining them will be essential to ensuring that this goal is achieved.

143. Measuring the success of initiatives should involve looking at quantitative indicators. This could include measuring participation, measuring the change in fiscal knowledge associated with each initiative, measuring the increase in access to information, and using waves of fiscal literacy surveys. These can translate to Key Performance Indicators (KPIs) that can then be assessed and tracked over time. In designing these there needs to be a good understanding of what the priorities and assumptions are underpinning any evaluation.

144. Funding for evaluation should be earmarked in advance. This may require resources to engage professional and external evaluators so as to bring the relevant skills and an external perspective.

3.6.2. Making the most of key time periods and fiscal literacy as a two-way process

145. There are likely to be specific windows during the year that can be best used to enhance fiscal literacy. At the same time, we can think of efforts to raise fiscal literacy as being a two-way process. That is, elected officials can reinforce the case for sustainable fiscal policy by enhancing their citizens understanding at the same time as their own.

146. One example of this is parliamentary committees or hearings. These provide an opportunity to begin the two-way process. They are often about hearing from citizens in terms of their concerns or priorities. However, they can also provide a useful exchange for informing them about trade-offs and risks facing elected officials. Sectoral committees, in particular, have a role to play. They are primed to engage with citizens. However, they need to communicate their own constraints when doing so. As well as that, they need to ensure that these engagements feed into the budget process itself. This includes by coordinating parliamentary work across committees.

147. Another useful example is Ireland's annual forum, the National Economic Dialogue (NED). The NED seizes the opportunity to broaden fiscal literacy among both elected officials' and citizens' several months before the annual budget (Box 3.3).

Box 3.3. Ireland's National Economic Dialogue

Established in 2012, the NED is a key forum for public consultation and discussion on the annual Irish budget. It aims to facilitate an open and inclusive exchange between the government and stakeholders on the competing economic and social priorities facing the country.

The NED brings together a diverse range of stakeholders, including:

- Representatives from business associations, trade unions, and civil society organisations
- Social partners (employer and employee representatives)
- Economic and social policy experts
- Public interest groups
- Individual citizens (through online submissions)

The forum is held annually, typically in June, in the lead-up to October's national budget for the following year. This is a key period when discussions about the budget begin to heat up and there is a risk of runaway expectations in terms of what can be achieved with one budget.

The NED usually starts with a scene setter on the economic and fiscal landscape. Experts are asked to give a broad macroeconomic and fiscal outlook. This gives an opportunity to promote a shared understanding of the fiscal backdrop Ireland's budgetary decisions. In effect, this is a chance to raise fiscal literacy at a key juncture in the budgetary calendar.

The second part of the annual forum is designed to foster a broad-based discussion on the annual budget itself. All attendees are invited to contribute, with break-out sessions used to drill down into key themes or policy areas. These engagements help inform the government's budgetary priorities. The approach helps ensure the budget reflects the needs and priorities of Irish society, while also promoting a shared understanding of the context and raising levels of fiscal literacy.

3.6.3. Other considerations

148. There are other things that should be considered when seeking to enhance fiscal literacy. One is the extent to which participation in initiatives should be made compulsory or not. Another is whether a certain level of knowledge should be defined as reaching a reasonable standard. This feedback could be anonymously provided in a way that grades against peer standards to encourage development. Ultimately, enhancing fiscal literacy should involve encouraging rather than admonishing.

4 Conclusion

149. This paper reflects on fiscal literacy and its links to wider outcomes. It calls for renewed action to raise people's understanding of the public finances. This should serve as a stepping stone to realising better social, economic and political outcomes.

150. While there are many existing initiatives to raise fiscal literacy, more action and a renewed refocus is needed. This should recognise that time is precious, there are tried and tested ways to enhance people's understanding and it does not have to be rocket science.

151. More generally, efforts to raise fiscal literacy should invoke a wider culture of evaluation and learning. This should include a wide range of stakeholders, including elected officials and the wider economic community. It should involve a process of constantly evaluating and defining the goals and objectives of fiscal literacy to ensure buy-in, while reinforcing the quality of the initiatives being delivered.

To conclude, we can make five points:

1. Fiscal literacy is vital in helping elected officials understand the implications of tax and spending decisions on the economy and debt. The effects these decisions have can be particularly important where countries have high debt levels — as is currently the case in many OECD countries.
2. Little is known about existing levels of fiscal literacy. This includes among elected officials and the general public. However, evidence relating to financial literacy would suggest that this knowledge could be worryingly low.
3. While some bodies such as IFIs and parliamentary budget officials have taken steps to improve levels of fiscal literacy, the focus is often too narrow. Initiatives are preoccupied with detailed technical matters and miss the bigger picture.
4. This calls for a renewed approach to improving fiscal literacy. This would focus efforts on improving stakeholders understanding of how to assess the implications of tax and spending decisions on fiscal sustainability. It raises the ability to ensure accountability and fosters a clear understanding of the scale of action needed to put the public finances on a sustainable path.
5. Raising levels of fiscal literacy will help OECD countries take steps to manage their debt levels in a responsible way. It can help to avoid potential negative consequences for the economy and society at large. In turn, better fiscal decisions will help foster greater trust between citizens and their government, thus strengthening the foundations of democracies.

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