Notes from working lunch discussion - Oslo Conference 2010

Table 8: Chair Sudha Pillai, Secretary, Planning Commission of India

Fiscal sustainability/credibility

- There was praise for governments for their initial fiscal response to the crisis; "a Great Depression may have been avoided". But now countries were starting fiscal cuts, some of their own accord (UK, Germany) and some under pressure from "markets" ("rating agencies"). Participants were concerned about the effects of these cuts on the economies of the countries and on vulnerable groups.

- Many participants said the IMF/ILO background paper for the conference was right in pointing out that "fiscal space" is not rigidly tied to the public debt-to-GDP ratio but depends on many factors, including a country's past track record of fiscal adjustment. We need to think in a flexible manner about how to define fiscal sustainability.

- There was angst that even though the behavior of markets and rating agencies has "often been disgraceful", they were once again the ones who were passing judgments on fiscal sustainability of sovereign governments. "We've become so used to governments being judged by the markets; shouldn't governments be judging the markets?"

- Participants thought that it would be good to have a public rating agency to compete with private sector ratings agencies. While this is part of the surveillance job of the IMF, the IMF does not hand out clear ratings "like 'AAA'" to countries in its surveillance reports. The new credit lines that the IMF is offering can be a step in this direction if they catch on; "the IMF would become a rating agency that puts its money where it mouth is" (i.e. backs up its surveillance report with a credit line).

- Some cautioned against being too critical of markets; after all, when things are going well, it the markets stamp of approval that brings foreign capital into the country. Now we have to accept that markets are genuinely worried that the potential for fiscal adjustment in some countries is low. Others disagreed, stating that the markets are like a "kangaroo court" that passes hasty judgments and walks away.

- Participants stressed the need for thinking carefully about fiscal sustainability for developing economies. The standard framework seems to constrain government expenditures that might be conducive to growth, and the resulting low growth is then taken to be a constraint on the available fiscal space. This is self-defeating.

Reforms of the IMF

- The financial crisis had weakened the hold of the "Anglo-Saxon" model of organizing the economy (one based on "excessive reliance on markets") and therefore of standard IMF prescriptions. As a result, the messages coming from the IMF today are different from that in the past, though there still seems to be a gap between messages from the top and what is happening in the field (particularly in program countries). Many in civil society welcome the change in attitudes and rhetoric but are looking very carefully at the details of what the IMF actually prescribes in its programs.

- Many participants felt that deep reform of the IMF requires deep changes in the governance of the IMF. Without a substantial increase in the voting power of emerging markets, there would a "deficit of democracy" in the institution that would bias its policy advice or keep its policy advice, even if it was unbiased, from being considered "legitimate". The emergence of the G-20 as a major group for international policy coordination during the crisis was welcome. But during "peacetime" a better way to discuss policy coordination would through a reformed IMF. (Referring back to the discussion on fiscal sustainability, some participants said that if the IMF surveillance was to have some "clout", it would have to be perceived as not the voice of the G-7 but the voice of the international community.)

- Some participants were skeptical that even a reformed IMF would have much clout. They said that as long as the "G-2" (US and China) remain averse to policy coordination and to taking the IMF's policy advice, there is not much the institution could do to persuade others to take its advice or to facilitate international policy coordination.

ILO-IMF collaboration

- Participants agreed that this was a historic opportunity to deepen ILO-IMF collaboration. Between them the two institutions have the mandate and the expertise to devise a "framework" to promote growth and employment within a sustainable macro envelope. Some participants said that working on this will require flexibility not just on the part of the IMF but also the ILO, which would have to make some tough calls. Some participants thought the best way would be for the two institutions to work together in a few "pilot countries"; others disagreed, stating that more groundwork was needed on a framework before it could be tested in countries.

- Participants discussed specific areas where having an "employment-friendly macro framework" would help in the design of policies. One area was in the setting of minimum wages. The IMF would have to recognize that in many countries minimum wages play an important countercyclical role and are important to maintaining aggregate demand in recessions, even if the fiscal costs are high on average. But the ILO too might have to recognize that the level of minimum wages in some countries was too high to be fiscally sustainable. Another area discussed was inflation. Here a number of participants said that having an "employment-friendly macro framework" should not be viewed as a call for higher inflation. One participant said that many countries had learned the hard way that "inflation was a cruel tax on the poor" and there was no appetite for higher inflation.

- Some participants cautioned against thinking that a joint ILO-IMF macro framework would provide a recipe for growth. It would be good to have such a framework, but growth depended on a lot of "microeconomic" policies that were beyond the purview of the two institutions. For example, primary education "seems to do wonders for both growth and equality" but education policies are not in the domain of expertise of either the ILO or the IMF. Others felt that a joint macro framework would play a more positive role in encouraging growth; for instance, such a framework would ensure that productivity gains get translated into wage gains, thereby setting the basis for sustained growth. In recent decades, there has been a long disconnect between the two ("productivity goes up the escalator and wages go up the stairs"), which leads to inequalities that then fuel crises and growth setbacks.

- The discussion concluded on the note that the Oslo conference was a rousing start but the two institutions would have to deliver more concrete evidence of collaboration over the coming months.