Notes from working lunch discussion - Oslo Conference 2010

Table 9: Chair Maria João Rodrigues, Institute for European Studies

Fiscal sustainability in a broader development context

It is essential to place fiscal consolidation within a broader growth and development policy context. As a recent report of the International Institute for Labour Studies (IILS) suggests, if a preoccupation with fiscal consolidation translates into rapid spending cuts, it could bring short-term gains but longer term fiscal losses as a result of prolonged anaemic growth and protracted unemployment caused by premature spending cuts.

Moving away from an ideologically driven approach to fiscal consolidation implies a new understanding of the role of fiscal policy in stimulation and sustaining growth and development. The relationship between growth and development is not a one-way street, but a mutually reinforcing cycle in which the proactive role of the State, notably through fiscal policy, is essential.

In the current conjecture, timing but also content is of the essence. There are strategic spending areas that should be ring-fenced from future cuts and even strengthened to ensure a quicker and more job-rich recovery. These include social protection, education, active labour market policies and mechanisms to support entrepreneurship, especially SMEs (including through risk-sharing, public-private partnerships).

Fiscal consolidation means looking not just at the spending but also the revenue side of the equation. As the Greek Prime Minister indicated in the Leaders Dialogue, collective efforts need to be stepped up to close tax havens and loopholes. New and fairer sources of tax revenue must be put in place. These would include green taxes and most importantly, a financial transaction tax (FTT), which over 60 Member States have been advocating in the build-up to the September 2010 "MDG Summit." It was noted that the leadership of one of the European countries promoting the most drastic self-imposed austerity measures is also among the most opposed to the idea of an FTT.

Giving in to the pressures of financial markets for strong austerity does not necessarily pay off even in the short term. Another European country that earlier undertook stark fiscal cuts in response to bond market pressure is still suffering from bad ratings—not least because the resulting poorer growth prospect seem to trump the so-called "confidence" argument for rapid fiscal consolidation. It is essential to develop new instruments to counter the vagaries of the current bond market, including through international insurance mechanisms funded from public sources.

Current reforms of the financial system should not stop at measures to prevent or limit future crises and instability. The present financial system has created a culture of high short-term rewards for investors through financial arbitrage and intermediation that does not produce value-added and productive employment in the real economy. Reforms must now begin to seriously explore ways to direct finance to long-term productive investments capable of generating sustained decent employment. This should include changing the practice of central banks that too often focus on "one instrument for one objective" (namely interest rates and consumer price stability). There are a range financial instruments and practices that central banks in tandem with other regulatory authorities and public development banks used in post-World War II reconstruction to help direct finance to social desirable goals. These could be revisited and adapted to the current context, along with other innovative approaches.

Better economic governance at national and international levels has become essential. The political will for better macroeconomic coordination should not falter (as the last G20 may have signalled), but needs strengthening to ensure a sustained recovery—which as the IMF Managing Director mentioned will not happen until there is full job recovery. The proactive role of the State in economic development is part of the quest for better economic governance, as is need for strong social dialogue and effective collective bargaining in policy setting. The "shock tactics" of the 1980s (draconian measures imposed without social dialogue) caused long-lasting damage to social cohesion and must imperatively be avoided in current fiscal consolidation strategies.

Oslo Conference follow-up action and collaboration

Since the crisis, there has been much talk about the "end of the Washington consensus" which however has a tendency to resurrect itself in other forms, as the recent rush to austerity in Europe may suggest. However, the Oslo Conference marks a historic turning point in the IMF secretariat's new perception of full decent employment as a driver of growth and its emphasis on the need to remedy the global decent work deficit as an underlying cause of the global economic crisis and global imbalances. Can we venture to talk of a new "Oslo consensus"?

More policy coherence between the prerogatives of two institutions needs to happen:

- at the global level (for instance, through more weight given to ILO perspectives in their joint work on the G20 Mutual Assessment Process aimed at ensuring strong, sustained and balanced global growth) and
- at the local level (for instance by including ILO staff in IMF missions, starting in a few pilot countries).

The IMF should lend technical support to the ILO on how to finance a universal social protection floor.

Broad efforts should be undertaken to raise the capacity of governments and public financial institutions to pursue more employment-intensive projects and job-rich growth through employment-centred macroeconomic policies, strategic planning, regulation, and partnerships with the private sector.

Human development indicators should be revised to include decent employment goals.