

Session 1

Innovations in fiscal rules after the global financial crisis

Comments

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What makes fiscal rules more effective?

- The “inconsistent triangle between simplicity, enforceability and flexibility” will always be there.
- There is also a “rules vs. discretion” question, as in the case with monetary policy. Is it better for economic stabilization to stick to one policy stance or to adjust the stance according to how the economy is doing?
- So we need to walk the fine line, and it would seem impossible to find one single fiscal rule that will be successful for all countries, under all circumstances.
- The answer to this question includes the reaction of voters (or economic agents such as consumers, firms, investors etc.).

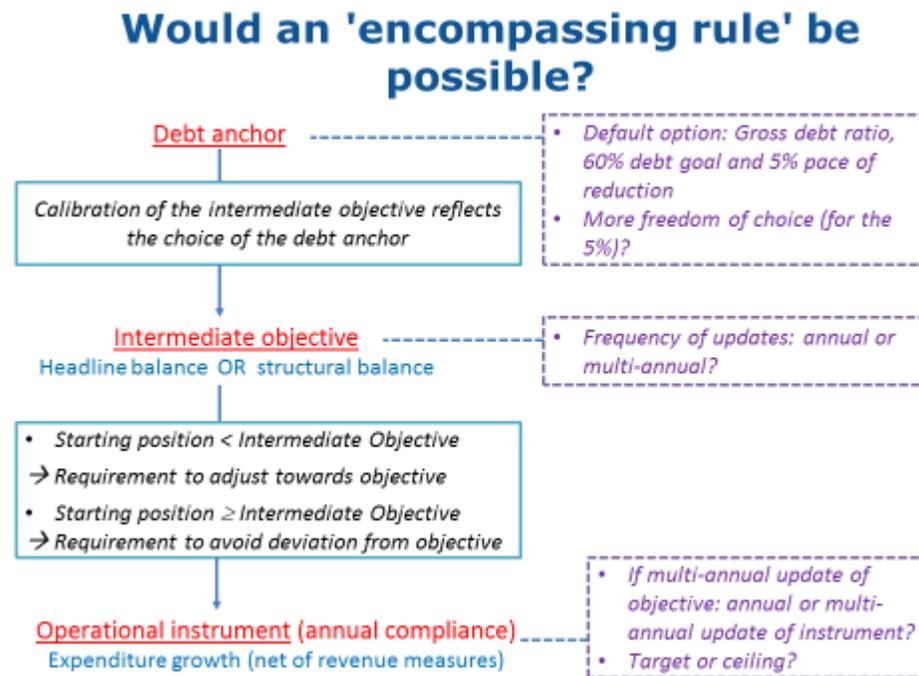
Questions: Lin presentation

- Why is the local government debt, which after all is only 35% of GDP, a source of fear?
- You mention “efficiency”, if the investments were not efficient, what were the reasons? Are the reasons economic?
- Would fiscal rules serve to improve this situation?
- Is there an estimate on the hidden PPP debt?
- Are there local governments with a surplus? If yes, what is the source of their success?
- Japan shares the worry over the sustainability of social security.
- Do tax revenues partly fund social security?

Questions: Pench presentation

What does “encompassing” do to the fundamental trade-off between simplicity, flexibility and enforceability?

Why is it more difficult than a “narrow” rule in a supra-national context?



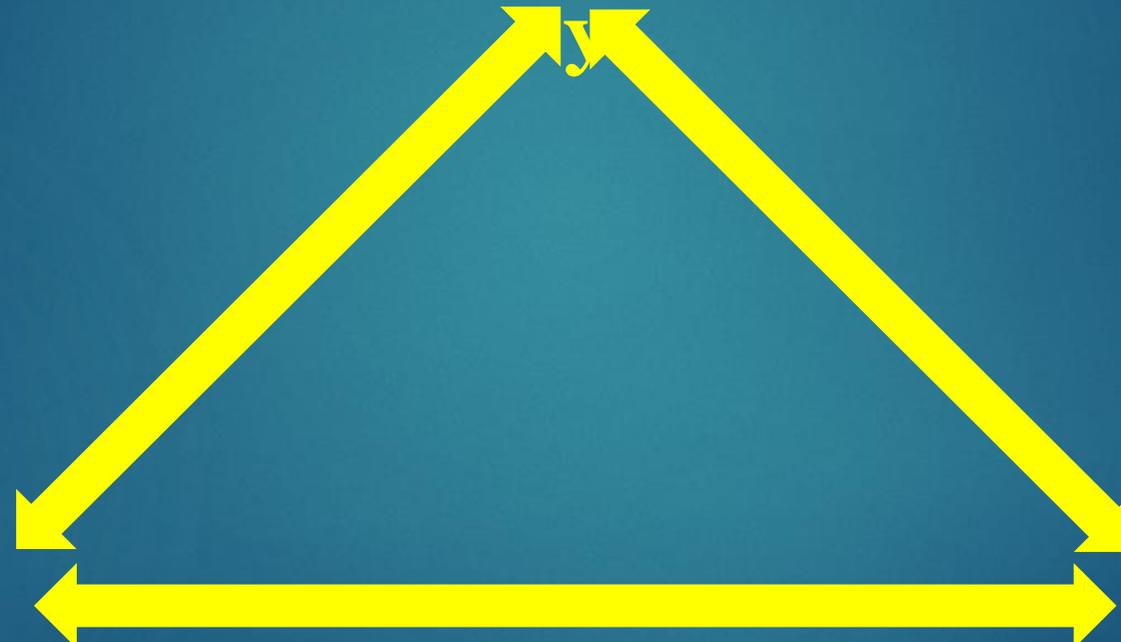
Questions: Eyraud presentation

- Regarding this inconsistent triangle, why would choosing “simplicity and flexibility” necessarily rule out “enforceability”?
- It is true that “enforcement procedures were underdeveloped before the crisis”, but was that because you chose “simplicity and flexibility”?
- In fact, it seems to me “enforceability” is on a separate plane from simplicity and flexibility, on a more fundamental level.
- Even if we have simplicity and flexibility, if it is not enforceable the fiscal rule will not work.

Difficult to achieve three properties of rules simultaneously

Escape clauses, cyclically-adjusted balance rules

Flexibility



Simplicity

Nominal budget balance rules

Enforceability

Sanctions, correction mechanisms, fiscal councils

Enforceability

- Enforceability --- what is the definition?
 - “Sanctions, correction mechanisms, fiscal councils” --- slide 6.
- There is a type of enforceability that is more fundamental;
 - Voters must support the fiscal rules.
- ← “Fiscal rules need national ownership” in the van Riet presentation
- What is happening in Europe shows that supranational rules can take us only so far without voter support/national ownership.
- In Japan, where there are not even national rules, the reason for failure is lack of enforceability (voter support).

Questions: van Riet presentation

- ***Making risks to fiscal sustainability explicit** may justify a faster pace of reducing government debt-to-GDP and/or a level below 60% of GDP.*
--- slide 18, van Riet presentation
- “How do we do this?” seems to be a key question.
- Fiscal sustainability is a question of intergenerational resource allocation.
- Where the number of young (and not-so-young who care more about the future) is large enough, then fiscal sustainability would seem explicit and rules are more likely to be supported.

Japan's Fiscal Consolidation Plans

- Both the plans in 1997 by the Hashimoto administration and in 2006 by the Koizumi administration had to be abandoned with the arrival of recessions.
- One reason was because these plans were made when times were good, so the assumed growth rate (and tax revenues) were too optimistic.
- What was new about the 2015 plan was that it failed in the midst of economic expansion, because the assumed growth rate was too high even before we had a recession.
- Our next plan is to achieve a primary balance surplus by 2025.

Enforceability

- In the successful countries, why did voters support the rules?
 - Demographics?
 - Development stage?
 - Economic cycle?
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- Do we have examples of countries whose voters supported fiscal consolidation BECAUSE OF the existence of fiscal rules?