



# Growth-Enhancing Fiscal Policy: a discussion

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# A need for growth-enhancing fiscal policy

## Rationale:

- Weaker productivity increases demands on public spending...  
..., but fiscal space is shrinking and debt is rising.
- All three presentation agrees that this should lead to the need for more efficient fiscal spending...  
... aiming for productive growth rates through better spending allocations and efficiency; ...  
... each focusing on slightly different but tightly related aspects.

**Davide Furceri:** Growth comes from spending smarter—through better allocation and higher efficiency—not simply spending more.

- Pointed at large efficiency gaps in spending...
  - ... most are not necessarily pro-growth ...
  - ... governments could gain substantially (1/3 better outcomes) by improving spending efficiency of their current budget.
- Reallocating to pro-growth areas for a long term gains...
  - ... Investment, education, health, and R&D ...
  - ... Needs stronger institution to support this (governance, reviews, and management).

**Hiroaki Miyamoto:** Growth-enhancing fiscal policy is more than choosing high-return spending; it is about making public resources to yield high-return

- Rethink about better spending composition...
  - ... prioritizing high-return spending (public investment, R&D, human capital) and reducing inefficient expenditures.
- Raising fiscal transmission through multiplier effects...
  - ... Strengthening governance, institution, and labor market flexibility.
- Ensuring sound financing and debt sustainability...
  - ... effective and efficient revenue mobilization.

## **Marta Ruiz-Arranz:** Reorient fiscal policy toward growth, not just stabilization

- Weaker growth...
  - ...driven by declining productivity and investment.
- Strengthening fiscal institutions to support investment and growth...
  - ... removing/reducing fiscal constraints are essential; reducing uncertainty about future capital taxes and tax administrative burdens ...
  - ... reducing spending rigidities to enhance fiscal policy flexibility and create room for pro-growth spending ...
  - ... enhancing the efficiency of public investment to gain additional fiscal space.

## **Comments/questions:** Limited discussion on political, institutional, and distributional constraints

- How do we deal with vested interests, electoral incentives, and institutional rigidities?
- How do we deal with the function of fiscal stimulus during downturns? ...
  - ... While prioritizing high-return spending (e.g., R&D, human capital) may yield long-run gains, it tends to be weak as short-term stimulus.
- What about the fiscal effects on equity? ...
  - ... Chilean “precarious middle class” problem; small fare hike in Santiago triggers the 2019 social explosion.
- Should we focus on enlarging the government size? ...
  - ... Slimmer government size may also be considered when ensuring more efficient use of government fiscal policy tools. How could this be incentivized?

**Thank you!**