Recent Fiscal and Labour Market Adjustment Experiences in Europe

Lessons for the Low-Income Countries

Professor Louka T. Katseli

18 November 2014
Dhaka, Bangladesh

CENTRE FOR POLICY DIALOGUE (CPD)
BANGLADESH
a civil society think tank

CPD Anniversary Lecture 2014

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Published in November 2014

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Design concept by
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Printed at

Enrich Printers
41/5 Purana Paltan, Dhaka 1000

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Introductory Note by the Executive Director

CPD's journey of two decades which is being celebrated, among others, through this first Anniversary Lecture, has been unique in many ways. Over these years CPD has emerged as a leading civil society think tank that takes pride in its *local roots and global reach*, championing the cause of the underprivileged and the marginalised sections of the society in Bangladesh, and articulating the demands of the low-income countries in regional and global fora. This journey embodies an exceptional experience in terms of bridging research and policy making, by blending research outputs with targeted policy activism. By pioneering a tradition of dialogue and constructive engagement among key stakeholders in Bangladesh's development, CPD has tried to promote a culture of informed debate and discussion between non-state actors and the official policymakers. CPD's ambition has been to come out of the mould of traditional think tanks, by looking at research, dialogue and outreach as a seamless spectrum of activities so as to contribute towards transformational changes in economy, society and polity. CPD has looked at these activities as interrelated and sequential, drawing upon each other's strengths, and complementing each other.

Much experience has been gained and many lessons have been learnt in the course of this exciting journey: that evidence-based knowledge empowers civil society; that an informed and empowered civil society is a major force to advance the cause of good governance, transparency and accountability in our country; that vested interests that work against these causes should not be let go unchallenged; that there is a need for civic activism if this challenging role is to be played; and that partnerships and coalition building are important if such initiatives are to be successful. This experience of CPD is embodied in the wide-ranging research that we have carried out including CPD's flagship *Independent Review of Bangladesh's Development (IRBD)* programme, its work on inclusive growth and distributive justice, research focused on mainstreaming gender issues and environmental concerns in the development process, studies on productivity enhancement, diversification of the economy and reduction of vulnerabilities, our work on economic reforms, improving macroeconomic management and political governance. This experience also draws lessons from the activism that CPD had pursued over these years and a number of initiatives stand out in this context: *Developing a Policy Agenda for Bangladesh: Civil Society's Task Force Reports* in 2001; *Monitoring the Implementation of Bangladesh's Development Policies: Civil Society's Review Reports* in 2003; Citizen's Committee which prepared the *Bangladesh Vision 2021* in 2006; *Post-Rana Plaza Monitoring Initiative* in 2013; *Citizen's Forum for Inclusive Elections* in January 2014.

In the recent past, through programmes such as *LDC IV Monitor* and *Southern Voice on Post-MDG International Development Goals,* CPD has extended its reach by carrying the voice of low-income countries and the developing South to inform and influence global discourse on issues of concern and interest to our countries. Going forward, we hope to build on what has been achieved, remaining honest to our ideals and being true to our aspirations, continuing to develop demand-driven agendas, and servicing the needs of Bangladesh civil society and citizens at large, through evidence-based policy analysis and public agenda building.

As CPD celebrates this anniversary of its foundation, we are truly privileged to have someone of such high stature as *Professor Louka Katseli* with us. *Professor Katseli* brings a unique blend of distinct scholarship, wide-ranging policy exposure and a formidable experience in real politics. We have requested her to share with us her reflections on the salient features of the financial crisis in the context of globalising economies, her assessment about the way the crisis was managed, and her insights on lessons that we can draw for our own policy making. We are truly honoured that *Professor Katseli* has kindly agreed to be the first Anniversary Speaker of the CPD. Indeed, we plan to continue this by organising Anniversary Lectures on a regular basis in the coming years.

This is also an opportunity to register our deep gratitude to our founding Chairman *Professor Rehman Sobhan* and members of the CPD Board of Trustees for their inspiring guidance over all these years. A profound debt of gratitude is owed to all my colleagues at CPD for the talent, singular dedication and enormous hard work that lie behind everything that CPD has been able to achieve. A special thank is also due to them for their excellent efforts in organising this Anniversary Lecture event. May I also take this opportunity to register our deep appreciation of the support, encouragement and solidarity, which we have unfailingly received from all our well-wishers and partners, over all these years. We look forward to working together with all of them in the days to come in the pursuit of our common aspirations for inclusive governance and a society built on notions of justice, equity and fairness which at the same time are also the founding mandate of the CPD.

Mustafizur Rahman
November, 2014

A Brief Bio of

Professor Louka T. Katseli

Dr Louka T. Katseli is Professor of Economics at the National Kapodistrian University of Athens, and the President of the *Social Pact Party*. She was Greece's Minister of Labour and Social Security (2010-2011) and Minister of Economy, Competitiveness and Shipping (2009-2010). An expert on international economics and development policy, Katseli, has served as Director of the OECD Development Centre (2003-2007), a Member and Vice President of the UN's Committee for Development Policy (1996-1999) and a consultant for many international organisations. She has also served as Special Economic Advisor to the Greek Prime Minister (1993-1996), a Member of the Comite des Sages for the Reform of the EU Social Charter (1995-1997), a Member of the EU Monetary (1983-1985) and Economic Policy Committees (1982-1984) and Director General of the Hellenic Centre for Planning and Economic Research (1982-1986). A PhD recipient from Princeton University, she started her academic career as Assistant (1977-1982) and subsequently Associate Professor of Economics (1982-1985) at Yale University. She is the author of many contributions on EU integration, macroeconomic policy, migration management and development cooperation.

CPD Anniversary Lecture 2014

Beyond Austerity Policies
Mapping a Sustainable Transformative Agenda

Professor Louka T. Katseli

18 November 2014

Introduction

Ladies and Gentlemen, dear friends,

It's a great honour and pleasure for me to be here today to share with you thoughts and lessons drawn from the Eurozone's recent experience with tackling the crisis. I hope that despite differences you would find them interesting and relevant to Bangladesh as you try to promote sustainable and inclusive development in a fiscally constrained environment. Is the task feasible? What needs to be avoided and what can be done?

I will draw evidence mainly from my own country, Greece, not only because it found itself at the epicentre of the financial crisis or because I know it better, but because it continues to face three policy challenges which are similar to those of most developing countries:

- how to promote growth, investment, employment creation and social inclusion in the context of severe fiscal constraints and high public and private debt;
- how to combat high unemployment rates, increasing poverty and inequality under limited degrees of freedom for national government spending and for expanding the tax base;
- how to improve governance and uphold democratic institutions and processes in the context of growing political segmentation and lack of confidence in the capacity of national governments to initiate change.

I will try to answer these questions and highlight their implications for global and national policy making, first, by commenting on the nature and characteristics of the crisis in the context of a globalising economy. I will then examine and evaluate the manner in which the crisis was handled and managed by the International Monetary Fund (IMF), the European Commission and the European Central Bank, i.e. the so called Troika, and then draw policy implications which could be helpful in guiding our steps forward. Finally, I will conclude with some thoughts on what could constitute a sustainable transformative agenda for the world economy and our countries.

I. The European Crisis in a Global Perspective

The crisis in Greece erupted when, towards the end of 2009, the country's access to international financial markets was put in question due to rapidly rising spreads for Greek bonds. In less than five months, it evolved into a full-fledged sovereign solvency crisis. By April 2010, Greek government debt was downgraded to junk bond status and private capital markets were no longer available for Greece as a funding source. On May 2, 2010, following the hasty creation of the European Financial Stability Fund (EFSF), the Eurozone countries and the IMF agreed on a 110 billion euro bailout loan for Greece conditional on the implementation of austerity measures, privatisation of government assets worth 50 billion euros and introduction of structural reforms to improve competitiveness.

According to existing evidence today, fund managers had started taking open positions against a possible Greek default as early as 2007 while also covering themselves against potential losses via purchases of credit default swaps; while everyone was aware of the serious fiscal and external imbalances of the Greek economy as well as the need for adjustment, neither the newly elected government, nor the European Commission, the European Central Bank or even major international banks had predicted, let alone prepared for the crisis. Throughout the fall term of 2009, banks were busy to prepare the placement of Greek bonds in international capital markets and the Greek government to prepare a medium-term plan to be submitted in January to the European Commission under the usual Growth and Stability Pact obligations. All parties were working under the assumption that there was time and opportunity for gradual adjustment to redress the imbalances at hand. If anything, the government had been elected a few months earlier with a clear 44 per cent majority to address these challenges as well as to improve governance and wipe out corruption that had brought down the previous conservative government.

Markets had a different opinion. The speculative attack against the Greek bonds and indirectly the euro itself, triggered by the downgrading of ratings for Greek bonds in mid-December 2009 by Fitch, Moody's and Standard and Poor, brought the Greek government to its knees and the Eurozone to the brink of collapse. **The first lesson to be drawn therefore from the Greek crisis is that concerted action by few financial speculators can produce an unprecedented crisis for a national government.**

This is not a new lesson for South East Asia which experienced the grave consequences of a financial crisis at the end of the 1990s. The characteristics of the Asian crisis are strikingly similar to the Eurozone one ten years later. Already, by the first half of the 1990s, in East and South East Asia foreign portfolio investment attracted by favourable investment opportunities had risen rapidly. Assets of international banks accumulated, attracted by large interest-rate differentials. Banks in the region made short-term loans in international markets to finance the investment needs of domestic firms, thereby increasing their exposure to foreign exchange and maturity risks. At the same time, given high liquidity and high expected returns, financial institutions increased their lending to domestic firms and to non-tradable activities including real estate, financial services and infrastructure investment, some of which had low productivity. As a result, financial and corporate institutions in those countries became extremely vulnerable to a slowdown in short-term capital inflows, let alone a reversal of the flows and currency depreciation. When this happened with the speculative attack of the late 1990s, the economies of the countries were crippled.

At that time, the UN's Committee for Development Policy, of which I was a member at the time, issued a Report warning against the danger of successive financial crises if the global financial system continued to be left without adequate oversight and proper regulation. East Asian countries learned their lesson the hard way, started building sizeable own reserves and adopted a pro-active transformational agenda through active trade and investment policies. For many European countries, including my own, joining the Eurozone was considered to be a sufficient condition to hide vulnerabilities and risks and piggyback on the strength of the German economy. We were able to do so for seven years borrowing in international markets at extremely low interest rates to finance consumption, real estate and financial services much as the Asian countries had done in the 1990s.

The international community did not learn any lesson either. In that same 1998 Report we had called for the creation of a World Financial Organization "to provide overall guidance in the development and monitoring of international standards and codes of conduct for private financial management and capital flows, and to identify new needs for supervision of private capital markets in particular as they arise." We argued that a WFO was needed to curb destructive competition and inconsistency in national regulatory frameworks and to review, establish and monitor sound international principles, practices and standards in such areas as accounting, payments and settlements, financial supervision, the functioning of credit-rating agencies as well as the establishment and operation of international bankruptcy regimes. A WFO could also devise, in cooperation with other public and private institutions, acceptable formats for regulating short-term capital movements to complement national measures and to monitor the application of international guidelines for short-term lending and borrowing by private creditors and borrowers. These recommendations were never seriously considered.

Instead, the repeal of the Glass–Steagall Act in 1999 encouraged financial institutions to engage freely in investment and speculative activities alongside with commercial ones and incentivised them to minimise risks via securitisation of loans and Credit Default Swaps, etc. They proceeded to set up unregistered and unregulated offshore hedge funds, promote derivative trading and develop complicated financial products and instruments so as to bypass transparency and/or capitalisation requirements imposed by regulating authorities. They started speculating in capital markets and manipulating currency markets for which they face today prosecution and severe penalties. Congress's subsequent decision to relax the Commodities Futures Trading Commission's (CFTC) mandate to regulate commodity futures and option markets, left many market participants unprotected from price manipulation, abusive sales or practices and fraud. In 1999, the European Commission passed the Financial Service Action Plan, relaxed the regulatory framework of banking institutions, and enabled the creation of a highly profitable single European sovereign debt, household credit and mortgage market.

Deregulation and capital market liberalisation in the absence of proper incentives for prudent lending or investment facilitated the build-up of risky assets in global financial institutions' portfolios. Globalisation led to a concentration of world savings and resources in the hands of few. In a path-breaking study, entitled 'The Network of Global Corporate Control', published in October 2012, the Swiss Federal Institute (SFI, 2012) analysed a database of 37 million corporations and investors. It found out that through close interconnections between the world's largest corporations, a small consortium of 147 corporations, most of which are banks, form a 'super entity' which has control over 40 per cent of the world's wealth; Barclays, Goldman Sachs, JP Morgan Chase & Co, Vanguard Group, UBS, Deutsche Bank, Bank of New York, Melon Corp, Morgan Stanley, Bank of America Corp, and Société Générale figure prominently in this group.

The control of potent financial interests over the global allocation of resources has had profound implications both for financial stability and domestic policy making. As connections to controlling groups are networked across the world, contagion risks are exacerbated while financial institutions are becoming too big to fail.

At the same time, a dramatic shift of political power towards financial capital has taken place. The solvency of sovereign governments and enterprises as well as their access to liquidity and credit provision rest in the hands of financial institutions. They determine, to a large extent, the capacity of governments to cover imbalances, refinance debt and provide needed liquidity to the real economy. They refinance or restructure loans at their discretion without having to abide by specific rules or to disclose the criteria or the terms guiding their operations. For example, only four out of Europe's 10 biggest banks ranked by assets disclose information on the amount and the terms of renegotiated loans.

As financial institutions are becoming the dominant players both at the national and global levels, their interests shape the conduct of policy making. As governments succumb – by fear, choice or capture – to pressures from the financial sector, non-financial enterprises, especially the small ones, as well as wage earners, taxpayers, pensioners or the young progressively lose voice and political representation in influencing policy making. **Policy making therefore, especially in times of crises, is shaped by the interests of a global financial system which, in the absence of regulation, appropriate incentives or effective oversight, caters to its narrow financial interests as opposed to the national interest: this is the second lesson to be drawn from the Eurozone crisis.**

II. Strategic Pitfalls in Managing the Eurozone Crisis

In responding to the crisis, the European Central Bank (ECB) and European policymakers downplayed the systemic characteristics of a Eurozone-wide debt or solvency crisis as well as the risks generated by the accumulation of toxic assets in the European banking system and focused instead on the fiscal and structural imbalances of individual member states.

In the Greek case, they chose not to intervene in the Greek sovereign bond market to stop the speculative attack and dismissed the possibility of a Greek debt restructuring. They chose not to restructure the debt as such a move would have entailed losses for large European banks which not only held that debt, but had also sold insurance against default – in the form of credit-default swaps. (http://www.project-syndicate.org/commentary/captured-europe#phrLw7egXcCCHcHt.99). No 'bail-in clauses' were considered or applied to large European banks which proceeded over the next two years to restructure their portfolios by divesting 130 billion euro worth of Greek sovereign bonds. When restructuring could no longer be postponed, private investors agreed a voluntary 50 per cent haircut in converting their existing bonds into new loans. This was accompanied by additional compensatory financing for the banking system through massive recapitalisations of banks paid by taxpayers' money. At the same time, the ECB used quantitative easing as an asset swap to replenish bank reserve accounts and to clean up the toxic assets that have been clogging their balance sheets (Brown, 2012).

No corresponding compensatory provisions were made for individual sovereign bond holders or public entities (universities, hospitals, chambers of commerce, etc.) whose assets were halved overnight due to the 50 per cent haircut imposed, and no provision has been made so far for liquidity to be channeled to a credit-thirsty real sector.

Thus European policymakers chose to focus their collective efforts on protecting creditors and the banking system at the expense of European productive enterprises. Large European banks managed not only to avoid paying the costs of past dubious lending practices or toxic derivatives, but were compensated for their losses through taxpayers' money. Implicit subsidies to the EU banking sector have been estimated by a recent study at 233.9 billion euros. European taxpayers have thus been made to bear a significant burden to mitigate the losses of financial institutions as a consequence of the crisis.

The burden from income losses and the size of the transfers to the banking system have been excessive in the case of Ireland, Portugal, Spain, Italy and Cyprus as these member states were forced to adopt austerity policies in exchange for financial support from the EFSF and the subsequent European Support Mechanism, the ESM. Nowhere was the loss of income and employment more dramatic than in the case of Greece.

The Greek Experience

Between 2010 and 2013, Greece ended up borrowing from official creditors 219.2 billion euros. More than 97 per cent of this funding has been used to pay back interest and amortisation payments, cash obligations against the private sector involvement (PSI) or to cover the recapitalisation needs of banks. Less than 8 billion euros have been used to support pressing domestic budget needs or to channel liquidity to a starving market.

Sharp reductions in fiscal expenditures such as drastic reductions in public sector wages and pensions, cuts in public investment and social expenditure coupled with exorbitant increases in excise, VAT and property taxes have plunged the economy into a deep recession which has lasted for seven years. Many of the so called 'structural reforms', such as firing 15,000 public servants, have been fiscal measures in disguise. Most of the labour market reforms, including the dismantling of collective agreements and of the minimum wage, have had further depressing effects on economic activity. Cuts in social protection benefits have reduced productivity. At the same time, much needed regulatory, governance or legal system reforms have not been implemented.

According to the recent 2014 IMF Evaluation of the 2010 Greek stand-by arrangement, the effects of the programme have been disappointing even for the programme's designers:

- The ensuing recession has been much stronger and lasting than projected: real GDP today in Greece is 25 per cent lower than in 2007 compared to an expected 5.5 per cent decline;
- Unemployment has exceeded 26 per cent compared to the original 15 per cent envisaged;
- Public debt has increased, overshooting projections by a large margin: while the Greek general government gross debt was projected to peak at 155 per cent of GDP in 2013, it is now projected by the European Commission to reach 175.2 per cent; the target rate of 124 per cent set for 2020 seems unattainable;
- The financial sector has become increasingly vulnerable as a consequence of the sovereign debt distress, liquidity shortages, capital flight and rising non-performing loans: despite the recapitalisation programme, additional funding will be needed to meet required bank-capital ratios;
- As the underlying debt dynamics are worsening and growth prospects remain uncertain, private investment has fallen by over 10 percentage points of GDP since 2008;

- High unemployment, reduced incomes, increased uncertainty and a bleak outlook have contributed to high levels of undeclared work, increased tax evasion, non-performing loans and unpaid social security contributions;
- To the notable economic failures of the programme, one needs to add the extreme social costs incurred for large segments of the Greek population and the dangerous political repercussions of the policies pursued. Middle class families have been impoverished as their personal after-tax disposable income or pensions have been reduced by approximately 60 per cent. Lower income families have been marginalised and are unable to cover basic expenses for food, shelter or medical expenses. More than 400,000 families with children try to make ends meet with no single employed adult in the family. Poverty rates have risen dramatically; so is inequality. With the unemployment rate for young people exceeding 50 per cent, a growing number of productive-age adults and professionals are seeking employment abroad with detrimental consequences for long-term productivity. The Greek solvency crisis has thus evolved into a social and political crisis.

In Greece as in other Southern European countries, austerity policies have eroded public confidence in the capacity of national governments, traditional political parties and European institutions to safeguard decent livelihoods. It has brought about political instability, social polarisation, xenophobia and rising Euroscepticism. According to a recent IPSOS/CGI opinion poll, three out four Europeans believe that the economic crisis will worsen in their own country, and that European institutions are incapable of reversing the trend or narrow the growing divide between North and South.

Europe and not only Greece is becoming rapidly segmented, polarised and weaker as a global actor. Seven years after the eruption of an unprecedented financial and economic crisis, economic activity is practically stagnant in Europe with the EU-28 unemployment rate exceeding 11 per cent. Unemployment and the overall economic situation are cited as the principal concerns of European citizens. According to the December 2013 Eurobarometer, unemployment has become a nightmare for more than 60 per cent of the population. It is in this rapidly deteriorating economic, political and social context that we need to revisit and evaluate the underlying principles behind the actions and decisions made and draw the relevant lessons. I am deeply convinced that these do not pertain only to Europe, but also to many other developing economies.

III. Learning from Mistakes: Lessons for the Future

The IMF, in its 2012 evaluation of the Program, attributes its failure to three main factors: the underestimation of fiscal multipliers, the ineffectiveness of structural reforms to boost private investment and the decision by authorities to rule out debt-restructuring at the onset of the programme.

All three factors do not address however the fundamental problem with the programme's design and objective, namely to support at all costs the banking system itself and to extract, through internal devaluations, a sizeable surplus to be transferred to creditors. The creation of an escrow deposit account at the Bank of Greece where all funds from any primary budget surplus or from privatisations need to be deposited to service future debt payments provides sufficient testimony to the underlying objective of the programme. So do the legal provisions embedded in the loan agreements that in case of inability to pay, creditors can seize national public assets based on a decision by a Luxembourg Court of Justice.

What was in fact attempted was a massive forced redistribution of resources from the real economies and taxpayers of the Eurozone to private and official creditors. This massive redistribution has in fact backfired: the capacity of debtors to service their obligations is rapidly deteriorating, non-performing loans and debt obligations are rising and European policymakers are trying to find politically acceptable ways to shift gears and resume investment and growth.

Secular stagnation in Europe therefore is not the outcome of the crisis itself, but of the way the crisis has been handled. Austerity policies guided by the overarching objective of policymakers to support at all costs the European financial system as opposed to its real economies have brought Europe to an impasse. This is the third important lesson to be learned. Unless these policies are reversed the soonest possible, there is a great risk that the Eurozone will crumble, the European project will be discredited and stalled, and Europe will be severely weakened as a global power.

Useful lessons can also be drawn with regard to fiscal, monetary and labour-market policy effectiveness which can provide insights for the future:

a) The primacy of fiscal goals as the backbone of a policy strategy that aimed to improve financial stability, competitiveness and growth turned out to be self-defeating; deep expenditure cuts and tax increases have led economies into a deeper than expected recession and 'an austerity trap'. Despite concerted efforts to discredit them, Keynesian economics have been proven valid. Fiscal policy is an effective tool to spur demand, much more than quantitative easing and monetary policy which is relatively ineffective when the economy is in stagnation.

b) In the absence of exchange rate adjustment, the combination of a major credit crunch resulting from deleveraging of the banking sector and "internal devaluation policies" which slash real wages, pensions and asset prices, tend to result in a dramatic reduction of aggregate demand, firm closures and a massive surge in unemployment. Improving bank solvency and recapitalisation of the banking sector does not guarantee liquidity provision to the real economy; this needs to be secured via special provisions and instruments that in essence bypass the banking sector especially in times of financial crises.

c) Despite the sharp reduction in wages in both the public and private sectors and major labour-market reforms to enhance flexibility, the improvement in final price competitiveness in almost all vulnerable countries has been minimal as taxes, energy prices and social security contributions have not adjusted concomitantly while productivity has dropped. Price competitiveness in final export price terms has in fact deteriorated in the case of Greece. The sizeable improvement in the trade and current account balance which has been highlighted as proof of the Program's success is the result of a sharp drop in import demand as opposed to improvements in price or structural competitiveness due to structural reforms.

d) Despite major labour market reforms to enhance flexibility, sharp increases in unemployment, particularly among the young, have been recorded. In fact, massive horizontal reductions in wages and remunerations, coupled with the replacement of full employment contracts by temporary and intermittent work contracts, have reduced purchasing power, aggravated the recessionary impact of the fiscal cuts, caused many SMEs to close and contributed to rising as opposed to falling unemployment.

e) Last but not least, the deterioration of living standards has undermined the credibility of governments to manage the economy and to guarantee decent livelihoods for citizens; even though social unrest has not been prevalent, distrust towards the political system and democratic institutions is on the rise which is already being expressed politically through the rise of an extreme right-wing party. This is not only a Greek phenomenon. According to a recent Eurobarometer (December 2013) only 31 per cent of respondents say that they trust European institutions today as opposed to 47 per cent in 2008; more alarming is the fact that 66 per cent of respondents declare that "the citizen's voice does not count" (Eurobarometer, December 2013).

In view of the failure of the Program, the question remains: are there degrees of freedom available to map a different course of transformational agenda that is compatible with growth, employment, decent livelihoods and social inclusion?

IV. Mapping a Sustainable Transformative Agenda

My answer to this question is yes subject to an important precondition: that there exists suitable leadership with the vision and the independence to pursue a sustainable transformative agenda and reach political settlements conducive to support it. History is full of such examples: men and women who have exercised leadership and changed the course of history, by reforming their communities, enterprises or countries, by initiating change, and by serving the public interest. Change is needed both at the global and the national levels.

It is clear from my narrative on the Greek crisis that the degrees of freedom available to any single government depend on the global political and economic environment that it operates in.

The present global financial system is clearly not fit for purpose. Financial crises such as the one that hit both the US, Europe or East Asia in the past will continue to occur as long as commercial and investment activities of global financial institutions are not kept apart and there are no clear rules of conduct, standards or effective oversight to mitigate collusive practices, speculative attacks or manipulation of currency and interest rates. That's why we should all join forces to push for a major reform agenda in this area. Given the reluctance and difficulties to create a WFO as proposed by the Committee for Development Policy, a first step could be the creation of a Global Council on Sustainable Development Finance, as a UN or G-20 initiative. The purpose of such initiative could be to engage the financial sector in an open debate with other global social partners and stakeholders on how to improve information-sharing, transparency and accountability, how to promote financial stability and how to facilitate the provision of long-term finance, trade finance and SME financing for countries at different levels of development. The Addis 2015 forthcoming conference on Financing for Development provides an opportunity for progress in this direction.

Our collective global efforts should also focus on revisiting both sovereign and private debt restructuring procedures and mechanisms. It is highly likely that other countries will find themselves in the place of Greece or Argentina and more banks or enterprises, some 'too big to fail', will need to have their debt restructured. The inertia that has characterised the European response to over indebtedness has been one of the major causes behind European stagnation and has exacerbated the social costs of the crisis. Five years after the eruption of the crisis, it is clear that the Greek debt needs to be restructured if Greece is to move forward. We need to agree on how to do it best, sharing costs and benefits between creditors and borrowers and between generations as equitably as possible and avoiding moral hazard. Creating Debt Redemption Funds and equitisation of excessive debt might be one promising solution (Buiter, 2014); there might be others. There is a pressing need however to address collectively this challenge.

Our third major global collective effort should concern the fight against tax avoidance and tax havens. According to a recent study (Zucman, 2014) based on an analysis of foreigners' bank holdings released by central banks in Switzerland and Luxembourg, approximately USD 7.6 trillion, i.e. 8 per cent of the world's personal financial wealth is stashed in tax havens. According to the author, "if all this illegally hidden money were properly recorded and taxed, global tax revenues would increase by more than US$200 billion a year." These numbers do not include corporate tax avoidance which has become so widespread that from the late 1980s until now, the effective corporate tax rate in the United States has dropped from 30 per cent to 15 per cent even though the tax rate has not changed. In the presence of growing fiscal needs and fiscal constraints, especially in times of crises, all should contribute according to their means. Let us therefore raise our collective voices and support initiatives and efforts to promote transparency and cross-country information sharing, the abolition of tax havens and the promotion of stringent rules and regulations against bank secrecy and/or transfer pricing.

In the presence of globalised markets, productivity growth and competitiveness-enhancing measures are at the core of any transformational agenda. European competitiveness cannot be enhanced on the basis of drastic wage reductions or by internal devaluations. Developing countries, including Bangladesh and even many emerging economies are in a better position to reap low labour cost competitive advantages. Europe's competitiveness can only be enhanced via investments in R&D-intensive products and services, human capital, innovation, infrastructure and high quality business and social services, both public and private; these would make Europe able to attract global enterprises, export high value-added products and services and provide higher quality jobs. Each country needs to have a vision for its future and a transformative strategy for its implementation shaped by its history, endowments and culture. Fiscal consolidation or repayment of debt does not constitute a vision or a strategy for the future; at best it is a means towards an end.

Shaping and implementing a transformative strategy for the future is a must both for Greece and for Bangladesh. It focuses on how to promote structural change and productivity-enhancing reforms to upgrade the productive base, develop new sectors, products and services and invest on powerful enablers such as governance, infrastructure, human capital or local, regional and global networks. The European experience so far has demonstrated that creating an enabling environment through regulatory reforms alone is a necessary but not a sufficient condition for this to happen, especially in the presence of underdeveloped private and financial sectors. Such reforms need to be embedded in a clearly articulated long-term transformative strategy, supported by active industrial policies, effective implementation of a long-term public investment programme and capacity building initiatives to enable structural change as well as appropriate medium-term incentives, including risk-sharing and financial instruments, for private sector mobilisation. Special attention is needed in the design of effective and efficient social protection systems that would ensure the creation of jobs and the provision of quality social services open to all.

Based again on the European experience, investing in social service provision is a major component of a sustainable transformational agenda. Incentives embedded in such systems are crucial for formal employment, productivity growth and fiscal sustainability. To be able to perform their mission, social protection systems should be designed and allowed to function as counter-cyclical systems that complement fiscal systems. The opposite in fact happened in crisis-stricken Europe. Fiscal retrenchment was based on severe cuts in social benefits at a time of rising unemployment and drastic cuts in disposable incomes. The financial gap became even greater as more and more employers seized to pay social security contributions and employees moved into informal employment to avoid paying taxes.

A properly designed social protection system, which does not create disincentives for formal employment or hiring, coupled with effective delivery mechanisms can protect the poor, promote growth and facilitate structural change. In such cases, investments in social protection systems including active employment policies, investments in education and training activities, social entrepreneurship, etc. have sizeable economic and social net returns that, if properly estimated, could induce sizeable public as well as private investments in social services. Efficient and effective social benefit provision to families, to the old, the poor or vulnerable groups in our societies also have high net returns if one considers and measures appropriately the cost-savings generated by well-run preventive health services, adequate nutrition for children and child care facilities or the provision of jobs under active labour market policy schemes. Social entrepreneurship, for example, which has been on the rise in many developed and developing countries, points not only to the existence of gaps in basic service provision but also to the potential generation of profits from investments in such activities. Policy coherence across fiscal, industrial and social policies is needed if employment creation, social inclusion and fiscal sustainability is to be promoted.

Ladies and Gentlemen, dear friends,

Each country needs to set its own priorities and map its own course of action.

For my own country, a transformational agenda would require efforts and investments to unleash innovation in both traditional sectors such as the agro-food industry, tourism, energy or cultural services as well as move into new areas including pharmaceuticals, ICT, biotechnology or nanotechnology. It presupposes undertaking supportive structural reforms such as regulatory reform to open up oligopolistic markets and reduce the cost of doing business, public sector and administrative reform to upgrade efficiency and quality of services, tax reform to expand the tax base, legal-system reforms to expedite court decisions and redesigning our social protection system with the introduction of proper incentives for job creation and higher efficiency and quality of social services.

For Bangladesh, it would probably require diversifying its economy beyond textiles, pursuing active industrial policies, undertaking governance and institutional reforms, building public-private sector partnerships for development and mobilising development assistance, trade and domestic taxes to finance infrastructure and other specific enablers.

The challenges for our national governments and our political systems are enormous. There is a danger however that they will not be addressed successfully, if there is no change at the global level. It is up to us to create a more enabling global environment by building partnerships for change: to join forces to improve regulation and oversight of the financial system, to establish transparent and effective procedures for debt restructuring, to abolish tax havens and fight tax evasion, to mobilise resources for development and use these resources as effectively as possible. In such an enabling environment, the pursuit of sustainable and inclusive transformational agendas for the benefit of our societies will become promising.

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Before embarking on the arguments, allow me to say that the views to be presented are shaped by my personal experiences as Minister of Development and then of Labour and Social Protection in my own country, Greece, which is still trying to find its way out of an unprecedented crisis that erupted towards the end of 2009 and continues to this very day.

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