

Notes from working lunch discussion - Oslo Conference 2010

Table 2: Chair Josep Borrell, President, European University Institute

Fiscal sustainability

One participant noted that countries like the United States and Japan continue to have fiscal space despite high fiscal deficits and debt to GDP ratios because participants in bond markets have confidence in these governments. In the case of the US this was largely because the dollar remained the main international reserve currency. Many governments in Europe did not have this luxury and they may have less fiscal space despite lower deficits and debt to GDP ratios.

Another participant rejected the suggestion that fiscal sustainability can be determined by rules linked to the level of fiscal deficit or government debt levels. He noted that there was no provision in macroeconomic theory establishing the optimal size of the deficit. He further argued that the level of borrowing was far more important than but what the government did with the borrowed funds.

Another speaker suggested that restoring economic growth was a priority and in the absence of any pick up in private investment and consumption it was imperative to maintain and expand government expenditure despite current high deficits. At present markets were still prepared to buy government bonds and interest rates remain low. Consequently, there was no significant crowding out issue nor a fiscal space issue in most countries. In those European countries where bond spreads had increased significantly in the early part of 2010 it would appear the markets had not reacted in a rational manner. Bond spreads had increased because fiscal deficits and public debt levels were perceived as too high, which prompted governments to implement austerity measures, with cuts in economic growth and bond markets pushing spreads even higher.

Yet another speaker suggested it was important to make a distinction between the expenditure and revenue sides of the fiscal deficit. She argued that in the US there was no scope to reduce fiscal expenditures, yet there was significant room to raise taxes on the wealthy and on sources of income that currently avoid tax.

Growth friendly fiscal consolidation was described as a contradiction in terms by one participant. Several participants argued that fiscal consolidation would be highly undesirable for employment and that countries with ample fiscal space like Germany should be stimulating private consumption through a wage led growth strategy. Others agreed that the wage share in Germany and China were extremely low and needed to increase. This would boost growth in Southern European countries with less fiscal space.

Macroeconomic and employment policies

The debate focused on possible structural reforms. One participant suggested that it was important to promote activation strategies through labour market programmes and structural reforms that would make pension and social security systems sustainable in light of demographic changes. Other participants rejected these proposals, arguing that over the last 20-30 years labour market reforms had moved excessively in this direction and more balance was now required.

Training and skills development

Discussion also focused on the role of training and skills development. One participant pointed out that the current unemployment problem was entirely cyclical and not structural. In these circumstances increased expenditure on training was less appropriate than job subsidies or other employment generating programmes. With regard to youth unemployment it was noted that there had been a large expansion in non paid work through internships and similar programmes. This may be possible for wealthy families that can afford to support their children, but was not viable for working class and poor families.

Wages

The discussion concluded with a debate on increasing income inequality and the need to promote trade union membership, collective bargaining, minimum wages and other labour market institutions that could boost low incomes and produce more balanced growth. One participant stated that there were now more than 6 million German workers earning less than 5 Euro an hour. Another participant suggested that passing the "Employee Free Choice Act" would be a step in the right direction to reducing income inequality. Other participants made reference to the positive impact of minimum wages on low pay in Brazil and the UK without any negative consequences for employment.