COMMENTS ON SESSION III: PUBLIC DEBT, AGEING AND FISCAL SUSTAINABILITY

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Together the papers in this session provide a useful base for thinking about the issues of public debt, ageing and fiscal sustainability. I would like to thank the contributors for providing a number of important insights on both analytical and policy issues.

The paper by Antolín, de Serres and de La Maisonneuve on the budgetary implications of tax favoured pension schemes provides a perspective on an aspect of the projections that often gets simplified for modelling purposes, namely tax revenues. Whether tax favoured pension schemes succeed in boosting private saving has an important bearing on the net fiscal outcome and so provides another angle to the discussion of public and private saving in Steindel's paper.

Because they are typically associated with long-lived infrastructure assets, Public-Private Partnerships (PPPs) are similarly concerned with long-term fiscal issues. In terms of the IMF work on PPPs by Cangiano and Ter-Minassian, I would reiterate the importance of the government gaining a cost saving and transferring risk. Success in achieving this is more likely when there is:

1) a high degree of certainty that the government and other stakeholders will commit and that the tender process is transparent and credible.
2) a gain to both parties sufficient to cover contract and other transactions costs. Although the size of the arrangement may be a factor, the complexity of arrangements is the biggest driver of costs. Small straight forward arrangements would need to have relatively small contracting costs to be viable as PPPs.

The paper by Köhler-Töglhofer and Zagler on debt dynamics and policy regimes extends the analysis on so-called expansionary fiscal contractions. The analysis in this paper seems appropriate to papers in Session II on the relationship between deficits and interest rates. It is also relevant to the implementation of fiscal adjustments implied by long-term sustainability analysis.

Höppner and Kastrop note the proposal for the Federal Ministry of Finance to produce a sustainability report covering the long-term implications of population aging on Germany's public finances. Such a report is in line with the growing body of analysis worldwide.

Countries such as the United Kingdom and Australia have incorporated specific long-term fiscal reporting requirements into the frameworks guiding their fiscal policy:

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1) the Australian Charter of Budget Honesty requires that an Intergenerational Report, covering a 40 year projection period, be produced every five years.
2) the United Kingdom's Code for Fiscal Stability requires the annual Economic and Strategy Report to present illustrative projections of the outlook for key fiscal aggregates for a period not less than 10 years. Published projections have covered longer time periods as the paper by Robert Woods in Session II illustrates.

Currently, New Zealand's Fiscal Responsibility Act requires the annual Fiscal Strategy Report to include projections for the variables identified as long-term fiscal objectives (including the operating balance and debt). The projections are for a period of ten or more years. Proposed changes to the Act will require:

1) the government to specify the time period to which its long-term fiscal objectives apply (being a minimum of 10 years).
2) the Treasury to prepare a statement, at least every four years, on the long-term fiscal situation. The Treasury would provide its best professional judgement about the risks and the outlook over at least the next 40 years. These judgements will be informed by qualitative and quantitative information including the use of various analytical indicators.

The proposed legislative requirement has been drafted to give sufficient flexibility around what is required in the statement. A flexible approach is important because it allows for projections and indicators spanning a range of issues (e.g., pensions, health, education and the aggregate fiscal position). There are sufficient caveats to the analytical indicators and fiscal projections to not want to rely on any particular method and to also warrant the consideration of alternative scenarios.

The importance of scenario analysis is highlighted in the paper by Klyvične on population ageing in Lithuania. The potentially significant implications of changes in net migration and the role of alternative pension reform options are hinted at rather than explored through scenarios. Similarly, the paper by Pattnaik, Prakash and Misra would benefit from a consideration of the cyclical influences on the Indian fiscal position and whether demographic changes are important for longer term debt sustainability.

Steindel's paper surveys fiscal sustainability type estimates for the United States. He reminds us that a full assessment of potential changes in programs needs to go beyond fiscal consequences and consider the effect of such changes on the ability of the economy to deal with the imbalance. The key channel for these effects is through saving and capital accumulation.

Finally, the paper by Kajaste on public debt sustainability and the fiscal framework of EMU highlights the significant challenge in designing fiscal frameworks and reporting systems that:

i) give credit and so create incentive for policy changes with longer term sustainability benefits, and

ii) make the most of fiscal "good times". The lesson from the New Zealand experience is that meeting this challenge requires ongoing refinements to fiscal reporting and budgetary frameworks.