

## **Robert Holzmann: Stress in public finances - the need for international policy coordination**

Welcome remarks by Dr Robert Holzmann, Governor of the Oesterreichische Nationalbank, the Austrian central bank, at the 2024 Annual Meeting of the Standing Field Committee "International Economics" of the Verein für Socialpolitik, Vienna, 3 May 2024.

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Ladies and gentlemen,  
esteemed colleagues,

It is my pleasure to welcome you in the newly renovated Kassensaal of the Oesterreichische Nationalbank to the discussion event on the occasion of the 2024 annual meeting of the Standing Field Committee "International Economics" of the Verein für Socialpolitik.

Today's economic policy forum will discuss the topic of "Stress in public finances: the Need for international policy coordination." Since stress in public finances has a tendency to exert stress on financial stability and on interest rates, you can imagine that the topic of the panel discussion is of great interest to me as a central banker. I am very much looking forward to listening to our excellent panel of highly experienced experts.

Following many decades of rising globalization, including a "hyper-globalization period" between the 1990s and 2008, the 2008 global financial crisis led to a slowdown of this trend, sometimes called "slowbalization." In recent years and fueled by the COVID-19 pandemic, the war in Ukraine and growing ideological differences with respect to tackling the green transition, a trend toward de-globalization has emerged.

So, based on forward-looking ideas and my personal experience – let me share a few remarks on how international policy coordination and cooperation can still work in a de-globalizing world:

First, a lot of ink (or time) has been spent over many years on identifying the cooperation space for critical areas of economic policy-setting that promise welfare improvements of some size. A critical starting point for measuring welfare improvements is the Nash equilibrium – as non-cooperative game theoretical outcome. This equilibrium assumes full information about the states of the world (and mutual interests and differences) and is quite likely quite some distance from the origin and state of ignorance. It thus reflects a relatively advanced welfare state to which cooperation can contribute a variable extend. Hence, analytical policy events organized by international organizations primarily aimed at identifying country-specific positions may achieve such a valuable non-cooperative equilibrium. For me, a historic and still relevant example – the OECD Working Party No 1 – may fall into such a category but is not the only one.

Second, identifying minimum critical points of cooperation is key. As it is becoming more difficult to achieve cooperation on important and broad topics, it is advisable to

identify minimum points of cooperation, with which many countries can go along and which promise major improvements compared to the status quo.

An example would be the minimum rate of effective taxation of 15% for multinational companies, which was negotiated by the OECD/G20 and finally agreed upon by 137 jurisdictions in October 2021. In the EU, the rule came into effect on January 1, 2024. This new framework brings greater fairness and stability to the tax landscape in the EU and around the globe and will benefit all countries.

Another example would be the introduction of a "carbon club," a club for countries that have introduced carbon pricing. Everybody would be welcome to join the club, and those countries holding back from introducing a carbon tax will not be allowed to free-ride on it.

Third, the Bretton Woods institutions – the IMF and the World Bank – can be involved in issues of global concern if these issues are deemed macrocritical. The specific macroeconomic challenges linked to climate change – if considered highly macrocritical – could be dealt with by introducing a, say, "Climate Macroeconomic Assessment Program (CMAP)." This idea was raised and discussed during the conference hosted by the OeNB on March 4, 2024, on the occasion of celebrating 80 years of Bretton Woods institutions and 75 years of Austrian membership at the IMF. The integration of the banking and financial sector into the Fund's analyses and surveillance activities only occurred in the 1990s. Nowadays, Financial Sector Assessment Programs – FSAPs – are an established surveillance practice to gauge the stability and soundness of a country's financial sector and to assess in which areas the financial sector can contribute to growth and development. So, one could imagine a similar process for climate-related macro issues, which could become a future practice of the Bretton Woods institutions and which could help overcome the challenges arising from climate change. The Bretton Woods institutions can play a significant role in this respect, given that they have the advantage of technical soundness, a signaling effect and global outreach.

Last but not least, when looking for workable interventions to keep up the spirit of multilateralism as a major prerequisite for international cooperation, we need to stay open to contacts and interactions with countries across the world, even if we do not share their views, values and partner countries. An example includes the course participants provided by the Joint Vienna Institute – the JVI – which is managed by the IMF with financial and other support provided by the Austrian Ministry of Finance and the OeNB. The JVI offers policy classes to civil servants of member states in Central, Eastern and Southeastern Europe (CESEE) and in Central Asia. Should it remain open to all member states without limitations or can, and should, some limitations be imposed that make a moral point but also signal support for multilateralism?

Besides these down-to-earth considerations, I consider a discussion on international policy coordination eminently important at the current juncture. Two weeks ago, I returned from the IMF spring meetings in Washington, D.C., where stress factors like fiscal legacies of the pandemic, growing geoeconomic fragmentation, military conflicts and climate change were on everybody's mind. All these things are happening at the same time and are partially reinforcing one another. This creates a situation that has been referred to as a "polycrisis." No nation can solve a problem like climate change or

geoeconomic fragmentation on its own. Therefore, the polycrisis would warrant a coordinated policy response from all nations affected. If we coordinate our political efforts, we are likely to produce positive spillovers from one country to another. But how likely is it that we will see such a coordinated response?

To coordinate economic policies among sovereign nation states, we would need a reliable international policy framework, a rules-based order if you will. But in the recent past we have witnessed a decline in the general willingness to accept the rules of a multilateral order. Several nation states took unilateral decisions which served their national interest, and a more power-based system has been emerging. This reflects a certain short termism. While it may be in the national self-interest to diverge from established rules at any particular moment, doing so undermines the very existence of the multilateral order that benefits us all in the long run. This is a classic example of dynamic inconsistency which has also affected monetary policy and which was the motivation for central bank independence. In the field of international policy coordination, we are also faced with a prisoner's dilemma: There may be political incentives to reject cooperation unilaterally. However, this short-term optimization reduces the prospects for productive policy coordination in the future.

Dynamic inconsistency has been a problem for international policy coordination ever since. It is very difficult to enforce international policy coordination if some of your partners refuse to play along the rules. This problem has become more prominent recently. Why? There are poor countries which feel that our multilateral rules are biased against them. An emerging superpower like China may have second thoughts about a global order in the formation of which it had no say. And even in rich countries, a rising share of the population thinks that the current global framework is not operating in their favor. This sentiment is feeding a surge in populist movements.

In comparison to global policy coordination, we in EU member states have a great advantage. We have a multilateral order in the *acquis communautaire* and these rules can be enforced by the European Court of Justice. This supranational framework allows us to engage in policy coordination far beyond the level of global treaties and agreements.

Or does it?

Last year the European Commission proposed a reform of the Stability and Growth Pact. The new regulation on the preventive arm is entitled "regulation on the effective coordination of economic policies and multilateral budgetary surveillance." It contains a lot on surveillance and almost nothing on policy coordination. A meaningful coordination of fiscal policies within the EU or even within the euro area that would ensure effective collaboration among national policymakers is not foreseen. It is foreseen that each nation follows the fiscal rules, which is a necessary condition for policy coordination. But it is not foreseen that each national government takes into account the effects of its policies on the other member states. This is akin to football players who were trained to run fast and control the ball well, but who have never practiced coordinating their actions in the field. They may be a bunch of good players, but they are not a team.

So we see: there is scope to improve cooperation by better institutions and scope to improve existing institutions to yield better outcomes. But in any case, we need more

international policy coordination. The question is: How will we get there? I am sure that we will get some fruitful insights from our distinguished panel today, and I am sure that you are as curious and excited as I am to listen to them.

So, without further ado, I hand over to you, Professor Felbermayr.

Thank you.