

POLICY ADVICE IN CRISIS: HOW INTER-GOVERNMENTAL ORGANISATIONS HAVE RESPONDED TO THE GFC

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Since the 1970s, key Inter-Governmental Organisations (IGOs), notably the International Monetary Fund (IMF) and the Organisation for Economic Cooperation and Development (OECD), have subscribed to neo-liberal orthodoxy. This was evident, for example, in the labour market and macroeconomic policy prescriptions of the OECD Jobs Study (1994) and the IMF's imposition of structural adjustment policies during the Asian Financial Crisis (Feldstein, 1998).

Has the Global Financial Crisis (GFC) made a fundamental difference to the policy advice of these IGOs? The GFC heralded the worst recession since the Great Depression (IMF, 2009) and continues to pose a major challenge to policymaking. Most developed economies have been adversely affected through sustained below-trend or even negative growth accompanied by rising unemployment. Budget deficits have grown significantly mainly due to the operation of automatic stabilisers, but also marginally as a consequence of modest fiscal stimulus measures in countries, including Australia, the U.S., Japan, Korea and China and also Eurozone members, including Spain and Luxembourg.

Since the advent of the crisis there has been a flood of policy documents, from the OECD, IMF, World Bank and also the European Union (EU), concerning the conduct of macroeconomic and labour market policy. By 2009, these institutions had all acknowledged that short term fiscal stimulus measures were appropriate in some countries, albeit with some qualifications, but *sound public finance* was advocated through the medium term pursuit of *fiscal consolidation* (ECB, 2009; Freedman *et al.*, 2009; OECD, 2009a,b,c, 2010a,b; IMF, 2010a,b,c; World Bank,

2011).¹ In addition, the IMF has been actively involved with the EU in the provision of bailout funds to Eurozone countries, including Greece, Ireland and Portugal.

In this article we provide a synthesis of these policy documents which serves as a basis for addressing two questions: 1) to what extent have these IGOs departed from neo-liberal principles in constructing their policy advice during the GFC? and 2) irrespective of the answer to the first question, is their policy advice based on a coherent theoretical framework? Our answer to 2) will be informed by the principles of modern monetary theory.

Notwithstanding a brief period in 2008-2009 when fiscal stimulus measures were advocated for some advanced economies, we argue, first, that the IGOs, in particular the OECD and IMF, have adhered closely to neo-liberal principles by advocating fiscal consolidation measures, albeit with some qualifications in 2011 in the light of poor growth projections for Eurozone and some advanced economies, including the U.K. and U.S.A.. These IGOs also continue to advocate structural reforms of labour markets, despite these policies, which were articulated in the OECD Job Study (1994), being largely discredited.

Second, our analysis indicates that there are serious flaws in the policy advice of these IGOs, which in part reflect their collective failure to differentiate in their policy documents between Eurozone countries and those (sovereign) countries which operate with their own fiat currency and flexible exchange rates, and face no *ex ante* fiscal budget constraint. Eurozone countries are subject to fiscal budget constraints through the Stability and Growth Pact (SGP) (which will be strengthened under the new EU Treaty forged in late 2011) and are required to borrow Euros to fund their deficits. Since the advent of the GFC, the operation of automatic stabilisers has undermined these budget rules, forcing many Eurozone economies to adopt pro-cyclical fiscal policy, which is an extreme form of neo-liberal economic policy. Also, member countries have limited capacity to influence monetary policy and, for small countries, in particular, the nominal exchange rate is insensitive to their economic circumstances.

Notwithstanding the seriousness of the GFC with respect to the long term welfare of citizens of developed and developing economies, the conduct

1 We define these concepts more formally in Section 3.

of fiscal policy and, in particular, the imperative for fiscal consolidation is viewed as an accounting exercise by these international organisations, rather than being guided by clearly defined principles of public purpose (Mitchell, 2010a).²

The IGOs' policy framework has been largely unchallenged by the international academic literature, although Stiglitz advocated further fiscal stimulus, and warned of the risk of austerity measures producing a 'Japanese-style malaise' (CEDA, 2010).

This article is organised as follows. The next section provides background on the policy frameworks of the IMF and OECD prior to the crisis and their relationship to neo-liberalism. Details of the IGOs' policy responses to the ongoing GFC are then presented. Next, the principles of modern monetary theory are utilised to critique the collective failure of the IGOs in their policy advice to distinguish between sovereign and non-sovereign governments. We then summarise the main arguments of the article and offer some concluding remarks.

Background

The International Monetary Fund was one of many international institutions established immediately after World War 2 (1944). A consensus had emerged that an international clearing union should be established to support the development of the post-war global economy. Since countries were moving away from the gold standard, the main objectives for Keynes and White, the key drafters of the IMF documentation, 'was to engender postwar economic growth by establishing an institution that would prevent a relapse into autarky and protectionism, not just to avoid a recurrence of the depression' (Boughton, 2004:5). The IMF (2010e) views its current mission as assisting in the achievement of stability in the international economic system by 'keeping track of the global economy and the economies of

2 This terminology was originally used by J.K. Galbraith, but more recently has been used by Mitchell to refer to pursuit of full employment. Mitchell (2009:11) outlines the broad charter for advancing public purpose, which includes, 'full employment and price stability, poverty alleviation and environmental sustainability...' Here, full employment is defined as 2 percent unemployment, no hidden unemployment, and no underemployment (see also Mitchell and Muysken, 2008).

member countries; lending to countries with balance of payments difficulties; and giving practical help to members.’ However, the IMF’s structural adjustment loans are usually accompanied by harsh policy constraints on recipient countries, which emphasise export-led growth, privatisation and deregulation (Mitchell, 2011), thereby promoting the neo-liberal globalisation agenda.

The Organisation for European Economic Co-operation (OEEC) emerged because the U.S. and Canada were prepared to contribute to the Marshall Plan for the reconstruction of post-war Europe but wanted European countries to take responsibility for its implementation (Bainbridge, 2000; OECD, 2011a). The OECD superseded the OEEC in September 1961, and now has 34 member countries (OECD, 2011a). The original aims were ‘to promote policies to secure the highest sustainable economic growth and employment, and thereby a rising standard of living, in member countries; to contribute to the expansion of world trade on a multilateral, non-discriminatory basis; to promote social and economic welfare in the OECD area by coordinating member countries’ policies’ (Bainbridge, 2000). Both organisations initially espoused Keynesian economics.

Following the inflation breakout initiated by the oil price shocks of the early 1970s and the subsequent stagflation and accumulation crisis, the OECD commissioned the McCracken Report. McCracken (1977) argued that demand management should be used to fight supply-side inflation, despite its origins, and also that government regulation be reduced via supply-side reforms. The Report contributed to the OECD’s shift towards more market oriented policies which followed the policy shift already under way in macroeconomics, led by Milton Friedman and Ed Phelps. The IMF’s policy orientation was profoundly affected by Friedman’s seminal work on floating exchange rates and monetarism.

Neo-liberal policies are designed to facilitate the unfettered operation of the market, based on the belief that a private sector dominated economy is the most efficient. State intervention must be minimised since ‘the state cannot possibly possess enough information to second-guess market signals [relative price movements] and because powerful interests will inevitably distort and bias state interventions (particularly in democracies) for their own benefit’ (Harvey, 2007:23). By broadening the private market sphere, neo-liberalism has reconfigured the political, economic and social fabric of modern economies.

Neo-liberalism was conceived as a means of restoring class power to the top end of the income distribution (Duménil and Lévy, 2001). The share of national income accruing to the richest was declining and under increased (political) threat with socialist and communist parties gaining widespread support in the post-war period until the 1970s (see Harvey, 2007). The oil shock and subsequent stagflation throughout the 1970s led to a crisis of capital accumulation.

The principles of neo-liberalism had materialised in Chile following the military coup in 1973. The Chilean 'experiment' orchestrated by 'the Chicago boys', a group of economists heavily influenced by Friedman's Monetarist views, advocated privatisation, and the exploitation of natural resources, while promoting inward foreign direct investment (FDI), free trade and export-led growth (Harvey, 2007). These policies informed the decision making of the Thatcher and Reagan administrations and underpinned the subsequent Washington Consensus.

Williamson (1990) outlined ten policy instruments, known as the Washington Consensus, which represented a synthesis of the prevailing policy recommendations of the IMF, World Bank and the U.S. Treasury. Fiscal discipline was included, since sustained fiscal deficits were viewed as an important source of inflation, balance of payments deficits and capital flight. Williamson (1990) suggested that the 'standard economic objectives of growth, low inflation, a viable balance of payments, and an equitable income distribution' should motivate the design of these policies. Their implementation has been shaped by IGOs but their economic advice often takes the form of broad principles rather than being contextualized (Watts, 2010).

The role of the OECD in the design and dissemination of labour market and macroeconomic policy gained momentum after member states commissioned the *Jobs Study* to explain their persistently high unemployment in the early 1990s. The reforms canvassed in the report were based on the imperative to remove the institutional fetters allegedly inhibiting the operation of markets, in particular labour markets (LaJeunesse *et al.* 2006). Unemployment was seen as mainly structural, so it was considered to be in part an individual problem, arising from a skills mismatch, but the *Jobs Study* also signalled the need for supply-side reform. Recommended reform measures included greater wage price flexibility; reform of employment security provisions; introduction of active labour market policies; and reform of unemployment and related

benefit systems and their interaction with the tax system (OECD, 1994). The imperatives of sound public finance and price stability were reasserted with no suggestion that there had been a systemic failure of macroeconomic policy:

Macroeconomic policy has two roles in reducing unemployment: over the short term it limits cyclical fluctuations in output and employment; and over the longer term it should provide a framework, based on **sound public finances and price stability**, to ensure that the growth of output and employment is sustainable, *inter alia* through adequate levels of savings and investment (our emphasis) OECD (1994:3b).

The IMF also ‘gradually abandoned the view that persistently high unemployment was due to weak demand and increasingly focused on rigid labor markets and other supply side issues as the source of the problem’ (Boughton, 2004:17).

Prior to the GFC, the IMF had expressed concern about the conduct of fiscal policy due to long lead-lag times, general operational constraints, and its link with the political process. Thus, monetary policy ostensibly geared to the achievement of low and stable inflation was favoured by policymakers. The inflation objective tended to override concerns about the level of economic activity, *per se*, because low inflation was regarded as the most effective means for reducing the output gap (Blanchard *et al.*, 2010).

This key role for monetary policy, along with concerns over the efficacy of fiscal policy which was expressed by other variants of mainstream theory (see Barro, 1979), led to the latter’s marginalisation within the IMF’s policy agenda. Furthermore, financial regulation was considered a microeconomic intervention which was conducted at the institutional level, with little regard for the broader macroeconomic environment.

Thus, prior to the GFC, both IGOs (i) emphasised the need to remove obstacles to participation and job creation via supply-side initiatives; and (ii) reaffirmed the importance of sound budget balances for the conduct of macroeconomic policy and gave priority to monetary policy in the pursuit of low inflation.

Policy Proposals in Response to the GFC

Fiscal Stimulus Measures

In response to slowing growth and rising unemployment in 2008, the IMF advised policymakers to ease monetary policy, particularly in advanced economies. Also the use of fiscal policy was justified by its stabilising role, but the emphasis remained on the operation of automatic stabilisers. Any 'stimulus must be timely, well targeted, and quickly unwound' (IMF, 2008a:xvi). By the end of 2008 the IMF was considering stimulus measures more seriously. However, the multiplier effects of discretionary measures were 'found to be quite low' and sometimes negative (IMF, 2008b:xiii). Consequently policymakers were encouraged to strengthen the cyclicity of automatic stabilisers.

The European Central Bank (2009) cautioned that, while fiscal policy action was 'largely justified', EU countries had obligations under the Treaty and SGP to conduct fiscal policy 'within a predictable, medium-term oriented framework'. OECD (2009b:10-11) differentiated between countries with 'a weak initial fiscal position' and those with 'most scope for fiscal manoeuvre', but '[f]or others, action would only be warranted in case activity looks to turn out even weaker than projected'. 'The scope for further stimulus depends on the degree of government indebtedness....Evidence shows that adverse reactions in financial markets are likely in response to higher government debt and that such reactions may depend on the initial budget situation' (quoted in Watts, 2010).

The IMF echoed the OECD's concerns about the prospect of financial crowding-out, and stressed the imperative for fiscal space and fiscal discipline to ensure that a temporary stimulus did not compromise fiscal sustainability, particularly given the prospect of rising health and social spending in those advanced economies with ageing populations (Freedman *et al.*, 2009; see also World Bank, 2011, which provided similar advice to developing/emerging economies).

Thus, the IGOs claimed that, if stimulus measures were not implemented with a credible plan for their eventual withdrawal, higher interest rates would exacerbate concerns over fiscal sustainability, and thus necessitate more severe consolidation measures (Freedman *et al.*, 2009; Blanchard *et al.*, 2010; IMF, 2010c).

As the GFC worsened, central banks continued to ease interest rates, in addition to 'bail-out' offers and deposit guarantees in an attempt to maintain confidence in the banking system and to counter contagion. Once nominal policy rates approached zero, the IMF favored unconventional monetary measures such as altering the size and composition of central banks balance sheets via quantitative or credit easing, notwithstanding the weak inducement to invest in many countries due to the depressed economic climate.

Despite its earlier opposition, the IMF (2009:xix) now maintained that 'past experience suggests that fiscal policy is particularly effective in shortening the duration of recessions caused by financial crisis'. Further, 'consolidation should not be launched prematurely' and 'it is now apparent that the effort [fiscal stimulus] will need to be at least sustained, if not increased, in 2010, and countries with fiscal room should stand ready to introduce new stimulus measures as needed to support the recovery' (IMF, 2009:xix). This caution on the part of the IMF could be attributed to the criticism it received regarding the tight fiscal requirements it imposed on some East Asian countries following the Asian Financial Crisis (AFC) of 1996-7 (IMF, 2000).³

The stimulus measures adopted by advanced and emerging economies in response to the GFC were considered essential to the restoration of global demand growth, which was estimated at 5.25 percent in the first half of 2010 (Freedman *et al.*, 2009; IMF, 2010b). These measures were estimated to have contributed 1 percent and 1.75 percent respectively to GDP growth in the U.S. and Asia in 2009 (IMF, 2010a). Thus the major IGOs cautiously acknowledged the appropriateness of fiscal stimulus measures as a counter-cyclical device following a severe economic contraction. Also the IMF opposed 'beggar-thy-neighbour' policies such as trade and financial protectionism.

Notwithstanding this qualified support for stimulus measures, little space in policy documents was devoted to providing a rationale. Blanchard *et al.* (2010) suggested that fiscal policy was being advocated since

3 Despite the AFC not being caused by profligate government spending, fiscal withdrawal was adopted to reduce domestic demand and current account deficits. In hindsight, the IMF (2000:5) conceded that the 'initial fiscal objectives...were too tight'. However, notwithstanding the criticism, the IMF (2011b:2) maintains Asia's 'resilience' to the GFC can be attributed to 'the enduring, and often difficult, reforms undertaken over the past decade'.

monetary policy had largely reached its limits, and the recession was expected to be long lasting, so fiscal stimulus could be effective, despite implementation lags (see also OECD, 2009a,b,c, 2010a,b). However, at face value there was no scope for fiscal intervention in economies which were subject to cyclically invariant NAIRUs and exhibited strong equilibrating properties.⁴ However, the IMF (2010a:23) expressed concern regarding ‘the potential for temporary joblessness to turn into long-term unemployment and to lower potential output growth’, which implies a cyclically sensitive (hysteretic) NAIRU. This is an important theoretical concession.

Fiscal Consolidation and Fiscal Space

While the limited role for monetary policy in many countries and the uncertainty surrounding unconventional monetary measures provided a rationale for short term stimulus measures, the IGOs maintained that the latter had to be guided by the imperative of *sound public finance*, through the medium term pursuit of *fiscal consolidation* which was defined somewhat vaguely as ‘a policy aimed at reducing government deficits and debt accumulation’ (OECD, 2010c). The IGOs did not define sound public finance in an operational manner. However the algebra of debt dynamics requires that, for fiscal sustainability, the present value of future budget surpluses, expressed as shares of prevailing GDP, is equal to the current debt to GDP ratio.⁵

The IGOs have often drawn upon financial crowding-out theory to buttress their arguments for *fiscal consolidation* measures. While the OECD (2009a:124) acknowledged that the impact of *fiscal imbalances* (deficits) on long term interest rates was ‘both mixed and controversial’, it reported research which found that ‘higher expected deficits increase long-term interest rates’ when the debt-to-GDP ratio exceeds 75%, but the impact was lower in Japan (OECD, 2010b). Consequently, ‘a

4 The Non-Accelerating Inflation Rate of Unemployment (NAIRU) is a controversial concept that indicates the rate of unemployment at which the inflation rate is stable. Conservative economists claim that it is cyclically insensitive and represents the lowest sustainable rate of unemployment. Supply-side reform policies are required to reduce it.

5 Given the policy orientation of this article, we do not outline the underlying algebra of debt dynamics but refer the reader to Watts and Sharpe (2011).

temporary fiscal injection may be more effective than a more sustained fiscal injection which is likely to significantly worsen the long-term fiscal outlook' (OECD, 2009a:128).

Fiscal space is the government's residual capacity to respond to future economic uncertainties subject to its intertemporal budget constraint, so it defines the economic limits of future stimulus measures, 'without endangering the sustainability of government debt' (Freedman *et al.*, 2009:16). Fiscal space can be expanded via a fiscal consolidation.

Due both to the operation of automatic stabilisers and rising risk premiums on some European government bonds, particularly those issued by Greece, Ireland and Spain, government debt was growing at an unprecedented rate in these Eurozone countries, so fiscal space was diminishing rapidly (IMF, 2010b). Thus, fiscal consolidation was advocated for most advanced economies in 2011 (IMF, 2010a,b; and World Bank, 2011 for developing economies), but the OECD claimed that consolidation should commence in 2010, with an earlier cessation of the stimulus measures.

IMF (2010b) found that a reduction of 10 percentage points in the debt to GDP ratio would increase output by 1.4 percent in the long term and reduce real interest rates by 30 basis points (i.e. by 0.3 percent) in Japan, the Euro area and the U.S., which, in turn, would increase the stock of physical capital by 2.1 percent in Japan, the Euro area and the U.S. and 1.6 percent elsewhere. The reduction in real interest rates was expected to occur via higher saving rates and improved current account balances which, over time, would increase the supply of savings (IMF, 2010b:111). This argument is based on the discredited loanable funds theory of interest rate determination. Also, it is impossible for all countries to simultaneously improve their current account balances.

By contrast, according to the IMF, in the short term 'a fiscal consolidation equal to 1 percent of GDP typically reduces GDP by about 0.5 percent within two years and raises the unemployment rate by about 0.3 percentage points and consumption and investment falls by about 1 percent' (IMF, 2010b:94). In the above simulations, fiscal consolidation, which results in a decline in the deficit to GDP ratio, is comprised entirely of spending cuts, since these adjustments are found to be less contractionary than tax-based adjustments (IMF, 2010b; see also Alesina and Perotti, 1995). So, 75 percent of these spending cuts consisted of permanent reductions in government transfers while 25 percent

represented cuts to consumption (IMF, 2010b). To ensure the debt to GDP ratio declined and stabilised at 10 percentage points below its initial level, ‘savings’ from lower interest payments would be used to ‘finance’ a cut in labour income taxes which was expected to increase labour supply and output (IMF, 2010b).

Moreover, fiscal consolidation allegedly would promote currency depreciation and contribute 0.5 percentage points to GDP via net exports which would be enhanced by accommodative monetary policy (IMF, 2010b). Clearly the reliance on exchange rate buffers was problematic when consolidation measures were being implemented simultaneously across countries. Also once interest rates were close to the floor of zero percent ‘the output costs of fiscal consolidation are much larger’ (IMF 2010b:110).

On the other hand, the OECD (2010a:6, footnote 4) was bullish about the impact of *fiscal consolidation* on short term output growth: ‘[e]ven large fiscal contractions can be expansionary because they signal a permanent and decisive change in fiscal policy’.

The real effects of consolidation measures have been downplayed by the IGOs. For example, OECD (2010a:8-11) cites countries which ‘successfully’ undertook large multi-year adjustments to their fiscal positions. From 1993 to 1997, Spain reduced its deficit to GDP ratio by 4 percentage points to improve its chances of gaining access to the European Monetary Union, but average unemployment rates were between 16 and 19 percent over this period (ILO, 2010), which the OECD failed to acknowledge. Likewise, Ireland reduced its public debt to GDP ratio from 120 to 107 percent from 1986 to 1989 (Alesina and Perotti, 1995), but registered unemployment averaged 18 percent over this period.⁶

A more cautious IMF (2010d:xi) contended that fiscal adjustment strategies must ‘strike a balance between addressing market concerns about fiscal fundamentals and avoiding an abrupt withdrawal of support to the nascent recovery’, and stressed that the level of private demand

6 In Australia, the implementation of neo-liberal policies had its origin in the Hayden budget of 1975, which cut public sector spending and social welfare outlays, providing a template for the subsequent Federal governments to follow (Solidarity Magazine, 2008). The current political imperative to return the budget to surplus highlights the ongoing identification of ‘responsible’ economic management with neo-liberal economic policy principles.

was important to the success of consolidation (IMF, 2010b). Also, countries in stronger economic positions should ‘frontload’ fiscal consolidation measures since short term (negative) multiplier effects are expected to be weaker, and there is greater scope for offsetting monetary policy (OECD, 2010e; see also European Commission, 2011a), but some mainstream economists questioned the pursuit of fiscal consolidation when economic growth remained weak (OECD, 2010g). The IMF (2010d) warned that frontloading measures was very risky and should be avoided unless necessitated by market pressure, although some up-front fiscal tightening may be required to signal a commitment to future tightening.

Both IMF (2010b) and OECD (2010d) suggest that automatic stabilisers and exchange rate adjustments should be allowed to operate, except in countries facing considerable risks of losing credibility, usually characterised by rising risk premiums. However individual Eurozone countries faced difficulties on both fronts, given that the nominal exchange rate did not usually reflect their particular economic circumstances and the imposed pro-cyclical nature of fiscal policy, as policymakers attempted to constrain automatic stabilisers to satisfy the SGP requirements. The European Central Bank (2011a:7) was undeterred: ‘it is now essential that all governments fully implement their fiscal consolidation plans in 2011’. Trichet (former President of the ECB) linked sustainable economic growth to sustainable public finances and also emphasised the importance of creating fiscal buffers, akin to the concept of fiscal space (OECD, 2011c).

The U.S. Congressional Budget Office (2011) revealed that fiscal stimulus measures did improve economic conditions, through higher output and employment growth. IMF (2010b:xiii) also acknowledged that ‘inventory accumulation and fiscal stimulus were driving the recovery’. In 2010, the IMF had admitted ‘we were wrong’ with respect to the importance of counter-cyclical fiscal policy (Blanchard *et al.*, 2010:3-9). Furthermore, ‘[t]he crisis was not triggered primarily by macroeconomic policy. But it has exposed flaws in the pre-crisis policy framework...’ (Blanchard *et al.*, 2010:16). The IMF (2011a) remained committed to pursuing fiscal credibility as ‘sovereign risk’ remains high, but with the uncertain growth in private consumption and investment, fiscal consolidation forecasts were downgraded in 2011 from 1 to 0.25 percent of GDP among advanced economies.

Thus both the OECD and IMF continued to advocate the importance of credible fiscal strategies to appease financial markets and enhance market sentiment, despite their problematic short and longer term effects on output and employment, particularly in developed economies which had been adversely affected by the GFC. The emphasis on fiscal consolidation measures was justified by the need to regain fiscal space to buffer near-term shocks and fund new priorities,⁷ thereby achieving more sustainable public debt positions (ECB, 2009; Freedman *et al.*, 2009; IMF, 2010a,b,c; OECD, 2009a,b,c, 2010a,b; Blanchard *et al.*, 2010; World Bank, 2011). Further, it was claimed that greater fiscal credibility would improve the capacity to borrow, and relieve upward pressure on risk premiums (OECD, 2010a). Thus the major IGOs have not departed from their core neo-liberal principles of sound finance and the primacy of monetary policy.

Structural and Institutional Reform

A sustainable recovery following the GFC was alleged to require structural labour market reforms to improve job skills and competitiveness, even though the policy priority was job creation (OECD, 2010f). Furthermore, '[w]hile fiscal consolidation is an essential pre-requisite for growth, it is not sufficient to drive growth' (European Commission, 2011a:2). As the OECD has asserted: '[A] combination of structural and fiscal reforms thus constitutes the best strategy to reduce the risks that the weak growth observed in many OECD countries in the post-crisis period will turn into stagnation' (OECD, 2011e:249; see below).

The proposed reforms include: 'active labour market policies, with a priority being given to ensuring strong activation measures for job seekers; rebalancing employment protection towards less strict protection for regular workers...scaling back crisis-related improvements in benefit generosity and tightening eligibility criteria for benefit measures that might otherwise be used as pathways out of the labour force' (OECD, 2010d:69). Increasing the retirement age is viewed as essential, while

7 At a time of extreme economic hardship, it is curious to argue that restraint is required now to generate additional fiscal space to finance priorities which *may* arise in the future.

sustaining public investment and spending on R&D is also emphasised (OECD, 2011e).

In addition to restoring confidence in institutions and re-establishing sound public finance, the OECD policy agenda focuses on ‘ways to foster and support new sources of growth through innovation, environmentally friendly ‘green growth’ strategies and the development of emerging economies’ (OECD, 2011d).⁸ These reforms are expected to increase resilience to stagnation, promote growth and improve the fiscal position (OECD, 2011e).

Since its influential Jobs Study report (OECD, 1994), the OECD has emphasised the primacy of supply-side reform in addressing persistent unemployment in the context of largely passive fiscal policy and monetary policy designed to control inflation. However, OECD (2006) acknowledged that no single combination of policies and institutions was required for good labour market performance. Rather, *market reliant* countries were differentiated from *Nordic* countries which emphasised ‘coordinated collective bargaining and social dialogue’. *Nordic* countries achieved a higher average employment rate, lower income inequality but at a higher budgetary cost (OECD, 2006:18-19), which revealed that there was no efficiency/equity trade off (Watt, 2006). Despite these concessions, the OECD (and the IMF) continued to encourage the adoption of this neo-liberal (market) model, rather than the Nordic model (Watt, 2006; Watts, 2010).

The underlying premise was that unemployment was the manifestation of market failure, rather than insufficient aggregate demand, which explained the focus on supply-side reform, and the need to sustain potential output growth. Limited attention has been paid to the factors which adversely affect the components of aggregate demand. This point is particularly relevant for those advanced economies with both public and private sectors being highly indebted, following the GFC.

Broad institutional reforms have also been advocated by the other major IGOs. European Council (2010) developed proposals to achieve more effective economic governance in the EU and the Euro area, with a

8 The OECD is a heterogeneous organisation, with, for example, the Directorate for Employment, Labour and Social Affairs promoting inclusive or innovative liberalism, rather than neo-liberalism which is advocated by the Economics Department (Mahon and McBride, 2008).

particular focus on fiscal discipline through a stronger SGP, which appears likely to occur. The Eurozone established the European Stability Mechanism (ESM) and associated European Financial Stability Facility (EFSF) which offered permanent crisis management and relief mechanisms (IMF, 2011a).

The IMF (2011a) argues that credible plans must be established for the medium term which requires transparent fiscal and budgetary institutions. Despite the difficulty in establishing evidence of causality between fiscal performance and fiscal institutions, improving the latter is considered 'a precondition to enforcing fiscal frameworks and rules' (Gutiérrez and Revilla, 2010:17). The IMF (2010a,b) supports the strengthening of fiscal rules for nations facing limited fiscal space or sustainability pressures (see also OECD, 2010e; IMF, 2011a), but '[t]argeting an overall balance rule is not considered a good practice for countercyclical fiscal policy...nor does it allow automatic stabilisers to function freely over the cycle...' (Gutiérrez and Revilla, 2010).

In February 2010, the IMF canvassed the issue of capital controls to counter the impact of speculative flows on emerging economies. This represented a major departure from their pro-globalisation agenda which was pursued during the Asian Financial Crisis. The IMF argued that 'those countries that deployed capital account regulations were among the least hard-hit during the worst of the global financial crisis' (Gallagher, 2011). In April 2011, the IMF provided a set of guidelines for the use of capital controls, advocating that countries only deploy such measures as a last resort – after measures, including building up reserves, letting currencies appreciate and reducing budget deficits had been introduced. On the other hand, at the G20 meeting in October 2011, host President Sarkozy was clear that 'the use of capital controls...is now accepted as a measure of stabilisation.' Also an independent task force, co-chaired by Gallagher, argued that 'consigning such measures to 'last resort' status would reduce the available options precisely when countries need as many tools as possible' to address crises.

We do not canvass the merits of capital controls here (but see Mitchell, 2010c). We note that the IMF has exhibited recalcitrance, despite being receptive to G20 opinion earlier in the crisis.

Projections - Towards Growth?

In the light of sluggish world growth, the OECD and IMF have become increasingly concerned about the prospects for recovery. With some major qualifications, the OECD (2011e, Box 4.1:229) developed a stylised long term scenario in which the GFC reduces the level of potential output with no permanent adverse impact on its rate of growth, despite fiscal consolidation, although demographic factors reduce it marginally. However, the IGOs retain a largely supply-side focus with no serious analysis of aggregate demand components.

With some exceptions, output gaps are generally assumed to close by 2015 due to a sustained above-trend average annual growth rate of 3 percent over the period 2010-15 (OECD, 2011e, Table 4.2:232), which is faster than the 2½ per cent per annum pre-crisis average between 2000 and 2007 (OECD, 2009c:227 displays similar optimism). Output grows in line with potential thereafter. Also, countries are expected to return to targeted inflation once output gaps close. No explanation is provided as to why output gaps appeared during the GFC, when private sector expenditure fell sharply in many countries, yet fiscal consolidation measures are assumed to be accompanied by above trend output growth.

Once output gaps close, any remaining unemployment is, by definition, structural, which warrants further supply-side reform. Over the post-crisis period the structural unemployment rate was apparently subject to hysteresis effects but is then assumed to return to pre-crisis levels, albeit at a speed reflecting labour market flexibility, with the unemployment rate in some countries being above pre-crisis levels until 2026 (Guichard and Rusticelli, 2010, quoted in OECD, 2011e:229). The area-wide unemployment rate is expected to fall from 8¼ percent in 2010 to just over 6¼ percent by 2015 and just under 6 percent by 2026. The unemployment rate is expected to fall from 13.5 to 10 percent in Ireland by the end of 2015; from 20.1 to 14.5 percent in Spain; from 5.1 to 4.1 percent in Japan; from 7.9 to 5.7 percent in the U.K.; and from 9.6 to 5.3 percent in the U.S.A.⁹

⁹ The projected falls in the Irish and Spanish unemployment rates appear optimistic. In February 2012, the harmonised unemployment rates for Ireland and Spain were 14.7 percent and 23.6 percent, respectively, as compared to corresponding harmonised rates in 2010 of 13.7 percent and 20.0 percent (OECD, 2012).

Most countries are expected to have a higher ratio of gross liabilities to GDP in 2026 than in 2010, even those Eurozone countries which have negotiated new stringent borrowing arrangements. Ireland's ratio is posited to rise from 102 to 131 percent; Spain from 66 to 78 percent; U.K. from 82 to 109 percent; and the U.S., from 94 to 148 percent. Increasing public indebtedness would be accompanied by significantly higher 10 year government bond rates in 2026 as compared to 2010 for sovereign and Eurozone countries, with the OECD average increasing from 3.5 to 6.2 percent. Reference is again made to the controversial literature about the sensitivity of bond yields to expected deficits (OECD, 2011e:238).

The OECD (2011e:226) presents an ominous picture for Japan and the U.S., which do not have official medium term fiscal plans. These countries require a 10-11 percentage point 'improvement' in their primary balances as a share of GDP from 2010 to stabilise their debt to GDP ratios by 2025. Other vulnerable countries, including Greece, Ireland, Portugal and the U.K., require consolidations of 6 to 8.5 percentage points of GDP. The typical OECD country needs a further offset of 3 percentage points to meet increased health and pension expenditures.

The prospect of prolonged stagnation due to 'large fiscal imbalances' is also canvassed by OECD (2011e). Stagnation is defined as potential output *per capita* growth of less than 1 percent for 6 or more years. Because the slow pace of consolidation and resulting high debt levels are likely to be unsustainable in some countries, the rate of fiscal consolidation must be increased if debt to GDP ratios are to be reduced, rather than merely stabilised. The accounting benefits of such a reduction are emphasised, with lower debt levels and associated interest rates alleged to promote economic growth, as well as creating fiscal space.

The OECD area is said to require an improvement in primary balances of 13 percentage points of GDP to reduce the debt ratio to pre-crisis levels by 2026. This figure is compared to the 7 percentage points that would be necessary merely to stabilise the ratio (OECD, 2011e; see also the estimates by IMF, 2010c). These projections are worse than those presented by OECD (2010d:11). OECD (2011e:237) acknowledges that rapid consolidation creates the likelihood of larger cumulative adverse effects on GDP than a gradual consolidation, particularly given the inability to implement offsetting changes to monetary policy.

Based on this empirical work and the OECD's debt projections, a reduction in the trend GDP growth rate of $\frac{1}{2}$ - $\frac{3}{4}$ percentage points is expected, due to higher interest rates and the crowding-out of private investment and R&D expenditure, which would reduce trend productivity growth. There are, however, difficulties in isolating a one-way causal relationship between trend growth rates and public debt, because causation also runs from slower growth to rising debt. Thus these estimates should be treated with caution (OECD, 2011e:247). The OECD acknowledges, however, that their analysis of three stagnation episodes all revealed that stagnation was a cause, rather than a consequence, of the more rapid build-up in public debt.

Even though stimulus measures were briefly advocated, and some qualifications have been expressed about the timing and extent of fiscal consolidation measures in view of the extreme macroeconomic conditions, the major IGOs have continued to promote the principles of so-called sound finance. Their adherence to fiscal sustainability in the medium term, in line with the algebra of deficit and debt dynamics, has not wavered. Also structural labour market reform is being advocated for many countries with renewed vigour, given the high rates of unemployment (OECD, 2011b; ECB, 2011a; World Bank, 2011).¹⁰ Thus the IGOs' neo-liberal policy agenda has remained largely intact, despite fundamental shortcomings of their macroeconomic policy framework which are highlighted in the next section.

A Critique of the IGOs' Policy Prescription

Institutional Arrangements

In their espousal of *universal* policy principles, albeit with somewhat vague qualifications, the IGOs fail to acknowledge that the conduct of fiscal policy is fundamentally different in Eurozone countries, because

10 The imposition of fiscal consolidation and structural reforms on Ireland (also Greece and Portugal) followed similar principles to those imposed on the Asian economies (e.g. Thailand and Indonesia) by the IMF during the AFC, although the economic circumstances were fundamentally different. Thus, for example, tight monetary policy was not enacted by the ECB (and sovereign governments), nor was it advocated by the IGOs.

their governments are voluntarily budget constrained. The Eurozone countries have the formal requirement to finance deficits by borrowing within the debt and deficit limits imposed under the rules of the SGP, which are to be strengthened under the new Treaty initially proposed in December 2011.

By contrast, drawing on the principles of functional finance developed by Lerner, and modern monetary theory (Forstater, 1999; Wray, 1998; Mitchell and Muysken, 2008), a quite different analysis can be developed. Countries, including Japan, U.S., U.K. and Australia, which operate with their own fiat currencies under flexible exchange rates, are not budget-constrained because, as monopoly suppliers of the currency, they do not need to borrow to finance their expenditure (Mitchell and Muysken, 2008). Further, by operating under a floating exchange rate, monetary policy in these countries is freed from the need to defend foreign exchange reserves.

Government spending by these sovereign countries is the source of funds that the private sector needs to pay its taxes and to net save. *Ceteris paribus*, if a national government runs a deficit, then the reserves in the domestic banking system increase, because the bank accounts of sellers of goods and services to government have been credited with additional balances. If the support rate, which is paid on excess reserves, is set below the target rate,¹¹ then these excess reserves place downward pressure on short term (overnight) interest rates which would threaten to compromise monetary policy (Reserve Bank of Australia, 2011). By offering an attractive interest rate, the sale of bonds would remove the excess reserves. Thus bond sales do not finance net government spending (Mitchell and Muysken, 2008). Likewise, taxpayers do not fund government spending in these countries (*cf.* OECD, 2010a:5).¹²

Fiscal space, like fiscal sustainability, is an elusive concept, but is also irrelevant for a sovereign economy operating with its own fiat currency. Government spending within sovereign economies is only constrained, at

11 The support rate is set 25 basis points below the target (cash) rate in Australia.

12 Debt issuance via 'independent' government bodies (e.g. the Debt Management Office in the U.K. and Australian Office of Financial Management in Australia) appears to break the nexus between monetary and fiscal policy. However, these institutions do not limit the capacity of their respective Treasuries to net spend (Watts, 2012).

any point in time, by the availability of domestic real resources priced in the national currency (Mitchell and Muysken, 2008).

The IGOs trivialise the conduct of fiscal policy by implying that, like prudent households, *all* national governments are budget constrained (Watts, 2010). Fiscal sustainability, the overarching principle driving fiscal consolidation, is based on the flawed principle that net government spending in all countries is confined within the limits of, at best, an inter-temporal budget constraint or, at worst, an *ex-ante* budget constraint in the face of growing risk premiums and/or institutional constraints, such as the SGP within the Eurozone. In fact, if monetary authorities set the support rate equal to the target rate, sovereign governments do not need to issue debt, since excess reserves can accumulate without compromising monetary policy.

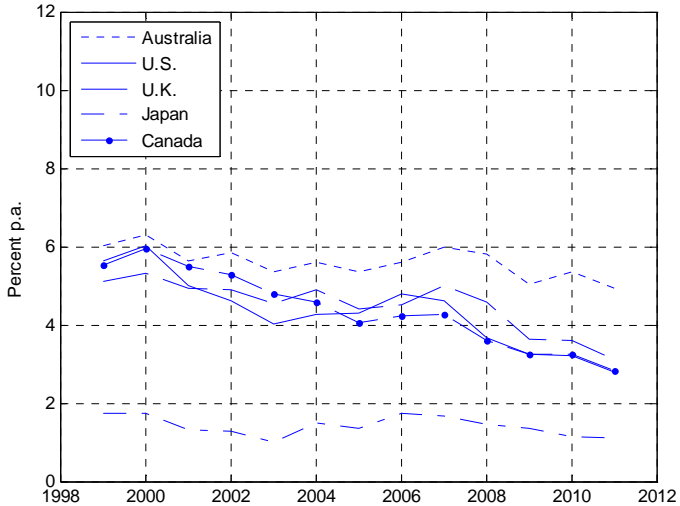
The targeting of a balanced budget over the cycle is considered appropriate by orthodox and some Post Keynesian economists, but this strategy is inconsistent with sustained full employment. If the private sector is to net save ($S > I$), thereby accumulating assets, then it is necessary to attain a trade surplus, ($X > M$), if the budget is always to be balanced at (sustained) full employment ($G = T$). This argument can be represented by the *ex post* macroeconomic identity:

$$(X - M) \equiv (T - G) + (S - I)$$

where X is exports, M is imports, T denotes tax revenue, G is government expenditure, S is saving and I is investment. A balanced fiscal budget over the cycle cannot be construed to be a prudent universal policy, because in total there is balanced trade across the world, which precludes sustained full employment in all countries, unless their private sectors are to become increasingly indebted.

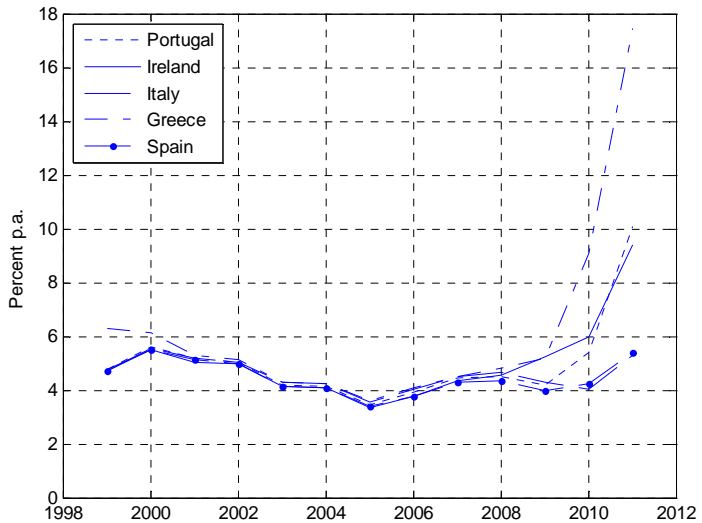
The claim by both the OECD and IMF that creditors will bid up risk premiums associated with all government debt, thereby undermining a recovery is fundamentally wrong (see Sharpe, 2011). In contrast to countries with their own independent fiat currencies, Eurozone countries must formally borrow to finance budget deficits, and so are exposed to bond market pressures and rating agency antics. These propositions are illustrated in Figures 1 and 2 which show relatively stable/declining long term bond rates for countries with their own fiat currencies (Australia, U.S., U.K., Japan and Canada) and rising rates for Eurozone countries facing rising debt ratios, particularly Greece, Ireland, Portugal and Spain.

Figure 1: Sovereign Long Term Government Bond Yields



Data Source: OECD (2011f)

Figure 2: Non-Sovereign Long Term Government Bond Yields



Data Source: OECD (2011f)

For example, Japan currently experiences a gross debt to GDP ratio of above 200 percent, yet continues to sell debt at long term rates below 2 percent. Further, following the decision by U.S. politicians to increase the 'debt ceiling' (a political constraint on debt sales), and despite the unprecedented credit rating downgrade by credit rating agency Standard and Poors, the U.S. continues to sell government debt at low yields.

Notwithstanding volatility in the financial environment, claims that U.K. gilts are considered 'secure' due to confidence generated from the government's consolidation measures is hard to justify, given the persistently low Japanese bond rates despite their apparent fiscal profligacy.

The Eurozone Countries

The SGP rules which were revised in 2005 (see Alves and Afonso, 2007) limit public deficits and debt of Eurozone members countries to 3 percent and 60 percent of GDP respectively. During a downturn, automatic stabilisers typically drive a country's budget into deficit, sometimes exceeding the statutory target. An attempt to re-align the deficit (and/or debt) to its target ratio requires the imposition of fiscal austerity measures typically via expenditure cuts, even if the structural position was consistent with a balanced budget over the cycle. Targeting general government deficit and gross debt to GDP ratios in the Eurozone represents an attempt by policymakers to control allegedly profligate spending in these countries. These fiscal outcomes are, however, largely endogenous, in that they depend on non-government expenditure, that is private sector spending and the trade surplus. Thus adherence to these rules promotes pro-cyclical fiscal policy (see, in particular, Ireland and the projections in OECD, 2011e) and represents a more extreme form of fiscal austerity than the pursuit of a balanced budget over the cycle. Breaches of the SGP requirements by members have occurred (e.g. Germany and France in 2003, and Bulgaria, Cyprus, Denmark, Finland and Luxembourg in 2010).

At the time of writing, policymakers within the EU have proposed changes to the Treaty which would strengthen fiscal sustainability requirements. A central element of the new Treaty is a 'fiscal compact' which reinforces the current SGP requirements and enhances reporting and surveillance of budget and debt issuance plans. A new fiscal rule is

also proposed, whereby general government budgets must be balanced or in surplus, which is satisfied if the annual structural deficit does not exceed 0.5 percent of nominal GDP (European Council, 2011).

Debt reduction requirements are also canvassed within the proposed changes. Generally, the difference between the prevailing gross government debt ratio and the 60 percent debt to GDP target must be reduced by 5 percent p.a. (the 1/20 rule). This requirement is likely to impose considerable adjustment cost in terms of economic growth, unemployment and social unrest. The OECD (2011f) projections of gross government debt to GDP in 2012 imply that the majority of Eurozone economies, including France and Germany, will exceed the 60 percent requirement.

The major IGOs have been advocating such changes for some time, even though both the OECD and IMF have expressed major reservations about growth prospects, particularly in the light of the recommended austerity measures. Notwithstanding this, the IMF (2011c) supports the new measures, principally those which enhance fiscal discipline and accelerate the implementation of the European Stability Mechanism (ESM).

The problem is that the current trajectory of fiscal consolidation among Eurozone economies is both economically and socially unsustainable. Even harsher pro-cyclical fiscal policies would be required to satisfy these new, more stringent rules. During a period of subdued private demand growth, a universal policy of stimulating net exports cannot work, as argued above. Consequently, growth will stagnate and social unrest will persist. Elected policymakers who approve such austerity measures are shirking their responsibilities to advance the public purpose by filling the spending gap and achieving full employment over the business cycle (Mitchell and Muysken, 2008; Mitchell, 2010a).

Given that the Eurozone is a monetary union of non-sovereign economies, its policymakers face limited policy options in the face of stagnant growth. If a common currency is to be retained, the only (economically) viable option for Eurozone countries would be to scrap the SGP and introduce a supranational fiscal authority that could spend like a sovereign government (Mitchell, 2010b). Under these circumstances, macroeconomic policy should be geared to the achievement of full employment in member countries, although all policy sovereignty would then be relinquished. However, given the

prevailing EU attitudes to fiscal deficits and debts, it is unlikely that a commitment to full employment in the Eurozone would be made. Furthermore, a fiscal union may well intensify political and economic conflict between Eurozone member countries. If ratified, the proposed changes to the Treaty will attempt to force a convergence of policies towards a ‘fiscal stability union’, not a fiscal union.

The common issuance of bonds (‘Euro- or ‘Stability-bonds’) could be viewed as a step towards fiscal union. While coordinated public debt issuance within the Eurozone dates back to the late 1990s, the GFC has renewed policymakers’ interest in these proposals.¹³ However, ‘Eurobond’ proposals rely on either explicit or implicit ECB support, yet it is clear from the ECB’s press statements and policy documents that it is unwilling to intervene like other central banks. For instance, the ECB’s Securities Market Program (SMP) is coupled with a ‘sterilization’ procedure in an attempt to delineate its actions from the interventions of other central banks, such as the Fed and BoE. Furthermore, the ECB is unwilling to ‘channel’ funds through the IMF to lend to member states as this would be inconsistent with the provisions of the Treaty (see ECB, 2011b).

In the spirit of the Deutsche Bundesbank, the primary objective of the ECB is to maintain price stability. However, Article 282 of the Lisbon Treaty states, ‘without prejudice to that objective [price stability], [the ECB] shall support the general economic policies of the Union in order to contribute to the achievement of the latter’s objectives’ (quoted in Varoufakis and Holland, 2011:3). Despite actions to support bank lending and money market activity, such as reducing the quality of eligible collateral for Eurosystem operations, halving the required reserve ratio and conducting long term refinancing operations (LTROs), the ECB is constrained by Article 123 of the Treaty which prohibits the monetary financing of governments.

Without ECB support, ‘Eurobonds’ would attract significant risk premiums which would conflict with their intent. Notwithstanding this, ‘Eurobonds’ fail to eliminate the *need* to issue debt to finance net government expenditure. Thus unlike a sovereign government, Eurozone economies remain ‘hostage’ to the bond market. While the mounting uncertainty and limited growth prospects within the Eurozone may force

13 See European Commission (2011b) and Varoufakis and Holland (2011) for details.

the ECB to increase the frequency and scale of its interventions, the institution's relative unresponsiveness during the course of the GFC is unlikely to stimulate market confidence about its willingness to intervene decisively in the future.

This discussion has illustrated that Eurozone policymakers face limited macroeconomic policy options under the current and proposed Treaty rules. The political and economic consequences of implementing these fiscal rules within the Eurozone are adverse, and represent an extreme form of neo-liberal macroeconomic policy.

Full Employment Policy

A sovereign government should run budget deficits to fill any spending gap at full employment (Mitchell, 1998). The failure to run deficits of sufficient magnitude means that either an economy does not achieve full employment or its private sector becomes increasingly indebted, which ultimately leads to a harsh correction via reduced spending when the private sector decides to restore its balance sheets. This has been graphically illustrated by the impact of the GFC on many OECD economies.

Mitchell (1998) argues that the lowest fiscal stimulus required to achieve full employment is to guarantee all unemployed workers a job at the minimum wage. So once currency sovereignty for the Eurozone countries is restored, a Job Guarantee should be introduced, which is a solution that would best serve the public purpose.¹⁴ Elected policymakers should reflect upon their obligations and responsibilities to the populace. In 2012, unemployment rates are projected to average 10 percent among Eurozone members (reaching up to 22 percent in Spain) (see OECD, 2011f). Such forecasts reflect poor economic growth prospects and imply economic conditions that would seriously threaten social stability. Austerity measures must be abandoned which may require the dismantling of the common currency.

14 In contrast to intermittent fiscal stimulus measures, a Job Guarantee (JG) is perfectly calibrated to the level of unemployment, since a job is only created when an unemployed person seeks one. Thus debates over the timing and magnitude of stimulus packages and, in particular, when they should be phased out become irrelevant (Watts, 2010). Also the JG incorporates a counter-inflation mechanism (Mitchell, 1998).

Conclusion

The main IGOs followed most of the economics profession by discarding Keynesian principles and embracing the neo-liberal paradigm in the 1970s. Despite the profound macroeconomic consequences of the GFC, the IMF and OECD, in particular, have not departed in a meaningful way from their core neo-liberal principles. They continue to advocate the pursuit of sound public finance, monetary policy geared to low inflation, and energetic supply-side reform.

The IGOs generally supported the selective use of fiscal stimulus measures during 2008-2009 when the GFC deepened and monetary policy became constrained. The IMF and the OECD have remained adamant, however, that medium term fiscal consolidation strategies were essential for those countries facing rising budget deficit and debt ratios. Following sluggish growth in many advanced economies in 2011, both the OECD and IMF now acknowledge the potentially detrimental impact of ongoing fiscal consolidation on economic activity and employment. Their policy advice is heavily qualified, however, so that its practical value for policymakers is minimal. The EU is committed to changes to the Treaty that reinforce the obligation of EU members to pursue fiscal discipline, which also has the support of the other IGOs.

The use of terminology, such as *sound public finance*, *fiscal consolidation* and *sustainability* and more recently *fiscal space* and *fiscal fatigue*, has been an important feature of the IGOs' policy documents. Such language 'conveys a sense of authority and impartiality about policy design, despite these terms never being defined in an operational manner and the social and economic consequences of their implementation rarely being explained' (Watts, 2010:3).

The worsening macroeconomic outcomes during the GFC have highlighted the inconsistency and incoherence of the IGOs' neo-liberal policy framework. Moreover their proposed policy interventions have not been geared to restore employment, but rather serve the interests of bondholders and the broader imperative of accumulation within a globalised economic system.

The principles of modern monetary theory, as outlined in the article, demonstrate the fundamental flaws within the IGOs' theoretical framework. In their policy documents, IGOs fail to differentiate between countries which operate with their own fiat currencies and conduct

independent monetary policy under flexible exchange rates, and those which have voluntarily restricted their capacity to conduct independent macroeconomic policy. Moreover, by not challenging the principles underpinning the European Monetary Union, the IGOs have provided overt support for an extreme form of institutionalized neo-liberalism with respect to the conduct of macroeconomic policy.¹⁵ Furthermore, the imperative for supply-side reform made in the OECD *Jobs Study* is now largely discredited, given the limited reductions in average OECD unemployment rates from the mid-1990s until 2007 (Watts, 2010). By sacrificing the welfare of their citizens and hence the advancement of public purpose in order to pursue meaningless accounting imperatives, sovereign governments have disengaged from their electoral obligations.

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15 The Big Society policies of Cameron's U.K. Coalition Government have provided the means of reinvigorating Thatcher's neo-liberal agenda, which is construed as representing responsible economic management.

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