



Bundeskanzleramt



Meeting of Senior Officials from Centres of Government

*Ways out of the Crisis: Managing Fiscal Consolidation and Investing in
Future Growth*

Réunion annuelle des Hauts responsables de Centres de gouvernement

*Sorties de crise : Assainir les finances publiques, investir dans la
croissance future*

SUMMARY REPORT

Berlin, Germany • Berlin, Allemagne

22-24 September 2010 • 22-24 septembre 2010

CENTRES OF GOVERNMENT MEETING

**Berlin, 22-24 September 2010,
hosted by the German Federal Chancellery**

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Overview

The 2010 meeting of Senior Officials from Centres of Government was held against a backdrop of continuing economic uncertainty and competing pressures to generate growth while reining in public spending. Senior officials from 34 countries with very different economic contexts and diverse policy approaches participated in the meeting.

The three sessions of the meeting addressed the role of the Centre of Government in supporting policy responses to key topical debates, notably how governments move to restore fiscal sustainability without adversely constraining growth and how governments try to target investment in order to maximize long-term growth potential. The meeting also addressed how the Centre of Government supports collective commitment across the whole government despite tensions generated by imminent spending cuts.

The meeting confirmed trends noted at the 2009 Centres of Government meeting in Paris in the context of massive expenditure packages, especially the continued recourse to streamlined decision-making at cabinet level. On the other hand, new pressures have emerged in terms of effective processes to identify budget savings, managing expectations of and communications with markets, and more diverse configurations of governments following inconclusive elections.

The trend from 2009 confirmed -- Centres of Government play an increasingly prominent role in effective decision making...

In the current search for complex policy solutions, Centres of Government are confronted with a shift in the weight of their traditional roles – from (i) privileged advisors to the prime minister/president; and (ii) managers of the decision-making process to (iii) final arbiters for the trade offs between competing policy initiatives. In each of these roles, the past 12 months has brought increased pressure and unprecedented demands. Unpredictable movements in economic performance, financial market volatility, extreme fiscal pressure, social unrest, minority and caretaker governments – all of these factors have contributed to increasing the need for strong, decisive and co-ordinated action by government, led from the centre. As such, they have also increased the burden on Centres of Government to mobilize comprehensive and timely evidence, build consensus and obtain buy in. Delegates attested to the extreme pressure faced by the centre in managing complex and often conflicting demands from markets, social partners, government agencies, citizens and the international community.

Economic uncertainty means that the need for decisive leadership from the centre will remain strong...

The challenging context for the meeting was outlined by Chancellor Angela Merkel, who welcomed participants, and by OECD Secretary General Angel Gurría. Their interventions underlined the fragility of global economic recovery and the long-term nature of some of the challenges OECD governments face, notably fiscal sustainability and unemployment/job creation.

They agreed that the crisis has now moved on to its second phase; a phase marked by a weak recovery, over-leverage of public budgets and persisting high levels of unemployment in many countries. Although emerging economies are, in most cases, still experiencing strong growth, both Mrs. Merkel and SG Gurria emphasized that the global picture remains highly unstable and international co-operation is more important than ever. In this context, the German G 20 Sherpa reported on the preparations of the upcoming leaders meeting in Korea, and commented on the monetary stability framework for the EU.

Budget negotiations and fresh debate over fiscal consolidation will test the ability to Centres of Government to build and maintain consensus...

Against this background, delegates to the meeting reported that preparation of government programmes and budgets for 2011 – many of which are to be submitted to parliaments in October or early November – represent a particular challenge. There is emerging critical questioning within governments and within society of the rationale for fiscal consolidation in a time of sluggish growth. From a situation several months ago of general acceptance of the need for decisive action to curb deficits, the issue is now the extent of deficit reduction that is compatible with economic recovery – with very sensitive implications for the structure and allocation of cuts and the need to provide “fair” packages. There were contrasting examples: Germany’s early adoption of a balanced budget rule gave credible reassurances to markets without removing the government’s capacity to invest in key sectors. Ireland delivered a real time example of the dilemma of a policy of severe austerity that still does not improve the outlook for the economy and fails to reassure markets fully or restore trust in public institutions

Presentations by delegates showed that many countries are positioned somewhere between these two situations. Written contributions by participants attested to the efforts that are planned to reduce public spending and introduce structural reforms over the next 3-5 years. However, there was general agreement that the situation is fluid and political momentum for reform is not guaranteed, especially in countries which are more advanced on the way to recovery . For Centres of Government this means managing the flow of highly sensitive information (sensitive for government departments, for public sector employees, for trade unions, for business, for markets...). In this respect, Centres of Government are (increasingly) expected to ensure that sound, relevant data and analysis are available for decision making.

Despite ongoing pressures, there is a need to rebalance power and limit the tendency to over-centralise...

Most countries have used extraordinary mechanisms to manage short-term situations. The challenge for Centres of Government has been to accelerate Cabinet decision making and roll-out of decisions, while maintaining accountability and oversight. Delegates reported a call for a return to "rigorous process" at Centres of Government after having loosened procedures during the crisis. At the same time, as negotiations for the 2011 budget are likely to represent a new test for the procedures used by Centres of Government. Despite this difficult political environment, delegates underlined the importance of ensuring a correct balance of roles between the executive and the parliament. It was suggested that OECD look into mechanisms and institutional arrangements to counterbalance the strength of the executive, as witnessed in some cases through the establishment of independent or parliamentary budget offices. A similar concern about over-centralisation was raised with regard to the relation between the executive and lower levels of government,

Maintaining momentum for reform across the whole of government is now a key task for Centres of Government...

Delegates confirmed that a wide range of reforms aimed at streamlining public service delivery are underway. Countries cited initiatives such as fusion of government offices, reduction in the number of government agencies, consolidation of purchasing offices, administrative simplification and red tape reduction inside government, and many others. Many were reforms that were either planned or long overdue. Others were more experimental and innovative – for example, in France, as a temporary measure SMEs can apply to ignore regulations that impose additional costs on their business.

There was strong support for the need for structural reforms, as championed by OECD. For example, the Minister of State in the Federal Chancellery outlined Germany's drive to improve the quality of its regulatory framework (recently reviewed by OECD) as a key element in economic recovery. The OECD Secretary General offered to brief Centres of Government on the findings of the 2011 edition of *Going for Growth* as soon as it is ready. Given that the main areas for reforms aimed at reducing costs and improving productivity are inevitably the major spending items, in particular education, health and social welfare, OECD briefings on policy recommendations in these fields could also be helpful for Centres of Government.

Centres of Government emphasise their role in ensuring continuity and strategic vision despite short-termism brought by the crisis...

Participants noted the concern that reforms tend to respond to a short-term need to act without having a coherent longer-term strategy. The spotlight put on the activities of government during the crisis represents an opportunity to make long-term improvements to the way public services are delivered. Several countries – such as Australia and Japan -- reported that they have launched fundamental reviews of the public sector, led from the Centre but addressing the whole of government. In other cases – Finland, Ireland Greece and Estonia – OECD comprehensive public management reviews have supported the process of internal review. In Finland, for example, reforms focus around three key areas: (i) strengthening the capacity of the government to develop a strategic vision; (ii) building collective commitment to reform across the whole of the government, and (iii) using resources flexibly to support reform. The Centre of Government plays a leading role in each of these three areas.

Opening the debate to perspectives from non-OECD members...

For the first time, India and China sent observers to the Centres of Government meeting. The role of the observers was to report back to the capital on the discussions and the relevance of the network for them, with a view to full participation in 2011.

Looking forward to 2011...

Canada, represented by the Privy Council, confirmed that the 2011 meeting of the Network of Senior Officials from Centres of Government will take place in Canada (date to be decided).