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SESSION 5:

Policymaking: Finance as an enabler, not a constraint

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Ladies and gentlemen,

Public finances have always faced numerous challenges, which have increased due to the series of crises of the past few years.

As Alan Greenspan said in 2007 in his book "**the age of turbulence**" : "*Global economy is a new and turbulent system, vastly non flexible, resilient, open, self-directing and fast changing than it was even twenty years ago.*"

This reflects the world evolution which makes it hectic and almost volatile.

Making public finance decisions, which require forecasting and visibility, becomes, in this context, a complex and difficult exercise.

Public finance officials, who are in charge of implementing these decisions, find themselves, due to their expertise, assigned as advisers and must support political decision-makers and their actions.

However, economic and social situation today is different from the ones we have experienced before.

And even if some compare it to the 1970s crises, it's clear that solutions that worked at that time, namely the use of debt, will not work today.

Indeed, the two years of crises weakened the whole world and, more recently, the war in Ukraine makes the situation more complicated.

Therefore, we need more innovation to better spend, in order to maximize the return on investment (ROI) of public expenditures and use its leverage effect for all the economy.

These two years of health crisis have clearly shown, to those who still doubt, that we fundamentally need more health and education spending,...In short, spending centered on human.

This was well highlighted by Geoffrey Rose, a famous epidemiologist from the second half of the 20th century who said "*Medicine and politics cannot and should not be kept apart*"¹

All subjects dealing with society are political matters, and especially public finance.

Innovating in terms of public spending and making the right budgetary choices should also be accompanied by judicious choices and clear and equitable strategies in tax matters and public debt control as well.

Richard Wilkinson and Kate Pickett claim that "*reducing inequality is one of the most effective and humane ways to reduce government intervention*"².

Moreover, equality improves the well-being of citizens. In countries where inequalities are too marked, there is, for example, more infant mortality, more health and addiction problems, more school failure and a higher rate of incarceration.

All these weaknesses will not only weigh on public finances but they represent a real threat to democracy³.

¹ Richard WILKINSON, Kate PICKETT, « *Pourquoi l'égalité est meilleure pour tous* » Éditions Petits matins – 2013, page 411.

Richard WILKINSON, Kate PICKETT, « *Why Equality is Better for Everyone* », édition Penguin Books - 2010

² Ibid, 437.

³ Ibid, 438

Ladies and gentlemen,

To consider finance as an enabler not a constraint, politicians and public finance decision makers have to understand the environment where they are operating. I mean both national and international environment.

At the national level, it is essential to know well the real needs of the state, companies, households and civil society (or third sector), by using institutions, tools and others,... that provide accurate information about the reality of society.

This requires building trust and a real proximity that could encourage exchange and collaboration.

And as such, the stronger democracy becomes, the more fully it plays that role. It would work better, because it has been observed that citizens have less confidence in their governments in the most unequal countries: Indeed, inequalities undermine democracy and the market⁴.

Politicians should understand this. Furthermore, they should be convinced of this and change their attitude towards inequalities⁵. The example of Scandinavian countries, not far from us, is an enlightening example.

It seems obvious indeed, that in a country where the citizen feels supported, cared for, and protected by the community, he is less likely to seek accumulation of capital, since he no longer feels the need.

And this is the path Morocco has chosen to follow, by generalizing the health and social protection system, all categories combined: diseases, pensions, unemployment, and so on.

⁴ Ibid, 438.

⁵ Ibid, 442.

At the international level, decision makers must well understand how the world works. They have to adapt their mind set to these new realities.

International relations are no longer the same and rules, which were once commonly accepted, appear to be running out of steam lately.

Protectionism is coming back. And one of the most liberal countries (the USA) ends up subsidizing households and companies to help them facing the economic and social crisis that affected the country.

Also in France, Government had to put his hands in his pocket to mitigate the effects of the very special situation he was enduring. We all remember the President famous formula "no matter how much it costs".

On the other hand, new elements are upsetting the existing balance, such as renewable energies and all related geostrategic issues.

The weight of multinationals is also an important element in understanding the international environment, particularly through their influence on fiscal policies (especially tax policies) and on the regulation/law in general.

It is, at this point, more than necessary to return to a fair balance, especially if we consider the impact of digital technology and the digital economy, even if the subject remains complex.

But, we must not forget the consumer, one of the main economic activity drivers. Consumption habits are no longer the same as before. E-commerce and digital currencies have profoundly transformed international markets and value creation patterns.

However, this should not make us lose sight of the link between consumption and social stratification⁶. The “Veblen effect” has been known since the end of the 19th century. Economists convey it to explain the fact that products are chosen more for their social value than for their usefulness⁷.

This seems even more true today than it was in the time of Thorstein Veblen (1899) since we live in a society where everything is exposed and exhibited and where everything is ostentatious.

Consumerism may create growth, but it is far from creating a society that is doing well.

Understanding all this is, in fact, fundamental to be able to set up an environment that takes reality into account, an environment that is conducive to development and promotes the full development of all these actors.

yet, to reach these targets, law should be the emanation of a well-thought-out and well-adapted law.

Indeed, it is important that policymakers become aware of the central place of the rule of law and its essential role in releasing energies and stimulating initiatives.

A clear, realistic, applicable and applied law, labor law in particular, encourages actors to invest and take economic initiatives.

But we should not expect any success if everyone tries to bypass the rules⁸.

⁶ Ibid, 336.

⁷ Ibid.

⁸ Ibid, 339.

By ensuring the security of goods and people, this brings stability and reassurance at national, regional and international levels.

We have recently noted the negative impact that tensions and disruptions in many countries have had on supply chains and on certain sectors activities.

Security and political stability have taken all their measures and have shown once again that they are an essential need for human beings, in general, and for “homo economicus”, in particular.

Ladies and gentlemen,

The succession of crises raises more and more challenges to public finances around the world. In this context, it is imperative to overhaul and adapt public governance.

Indeed, beyond national constraints and the challenges faced by each country, we are evolving in a globalized world. The ever-deepening interdependence of our economies makes these crises even more complex and more difficult to manage.

With the disruption of supply chains, rising prices of raw materials, especially energy, inflation, etc., “good governance” of public finances has become more important than ever.

For decision-makers, it is necessary to have a clear and global vision of the medium-term evolution of public finances, which is centered on challenges and risks and adapted to national contingencies.

This is precisely the challenge we have to take up if we want to find a sustainable balance between our current needs and our medium and long-term goals.

It is important today not only to adjust measures according to the current situation, but also to think about ways to make our economies more sustainable for the future.

However, as I previously stated, improvements in the quality of life are no longer dependent on economic growth, assuming that we know the type of growth we are talking about, but that is another debate.

The main challenge is now the collective life and the relationships between each other⁹. Covid-19 pandemic has made it clear.

Indeed, many governments encourage, for instance, employee shareholding, based on the assumption that it reduces friction between employers and employees and, thus, improve their relationship¹⁰ allowing the development of activities and companies.

However, this will not be effective unless it is accompanied by a real participation of employees in the decision-making process.

The challenge also lies in the fight against “the concentrations of power that are at the heart of economic life”¹¹.

But, we must be aware that the way to achieve these goals is very hard. We will find on our way many “Merchant of doubt”¹² who will try to discredit scientific facts and proven truths in order to delay or even avoid political decisions.

Thank you.

⁹ Ibid, 373.

¹⁰ Ibid, 374.

¹¹ Ibid.

¹² Ibid, 412.