A Global Government Forum event
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Knowledge Partners

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The Global Government Finance Summit brings together senior public officials from treasuries and finance ministries around the world: delegates discuss their shared challenges around taxation and spending, fiscal sustainability and financial management, seeking solutions and developing relationships to help them deal with common problems. The Summit provides a uniquely informal space in which public finance leaders can share their experiences, concerns and opportunities, covering relevant topics from talent development to the global economy.

Hosted in London by the Permanent Secretary of Her Majesty’s Treasury in May 2017, this third annual event was attended by high-ranking civil servants from 12 countries, along with representatives from knowledge partners EY & Mastercard and event organiser Global Government Forum.

Although the event is held under Chatham House Rules and some of the discussions are too sensitive to put into the public domain, many of the ideas and solutions that emerge may be of value to civil servants around the world. So Global Government Forum has sought delegates’ permission to use specific quotes, producing this report to help public servants understand and address some of the issues and agendas facing the world’s finance ministries.

It’s really good to hear a perspective from virtually every continent on the globe on how very different countries deal with common issues and challenges, picking up new ideas that we can all take back to our finance ministries and think about. The challenge is to return to work more enthusiastic about our ability to think differently and constructively in trying to address these things.”

James Bowler, Director General for Public Spending, HM Treasury, UK
### Delegates List

**United Kingdom** – Sir Tom Scholar, permanent secretary, HM Treasury  
**Angola** – Walter Aires, Director of National Treasury  
**Botswana** – Cornelius K. Dekop, Secretary for Development and Budget  
**Estonia** – Veiko Tali, Secretary General, Ministry of Finance  
**Finland** – Martti Hetemäki, Permanent Secretary, Ministry of Finance  
**Germany** – Torsten Arnswald, Head of the Fiscal Policy Division, Federal Ministry of Finance  
**Hong Kong** – Carol Yuen, Deputy Secretary for Financial Services and the Treasury  
**Iceland** – Guðmundur Árnason, Permanent Secretary, Ministry of Finance and Economic Affairs  
**Mexico** – Dr. Luis Madrazo, Chief Economist, Ministry of Finance  
**Russia** – Vladimir Kolychev, Deputy Finance Minister, Ministry of Finance  
**Singapore** – Ping Yi YEE, Deputy Secretary (Policy), Ministry of Finance  
**USA** – Andrew Baukol, Acting Deputy Secretary, U.S. Department of the Treasury  
**USA** – Thomas G. Shack III, Comptroller of the Commonwealth, Commonwealth of Massachusetts  
**United Kingdom** – James Bowler, Director General Budget, Tax and Welfare  
**United Kingdom** – Lord Gus O’Donnell, former permanent secretary, HM Treasury and former cabinet secretary of the UK civil service

**Global Government Forum** – Kevin Sorkin, Director  
**Global Government Forum** – Matt Ross, Editorial Director  
**EY** – Mark MacDonald, Global Lead Partner, Public Financial Management; and Lead Partner, Government & Public Sector  
**EY** – Greg Orencsak, Partner, Government and Public Sector, National Leader, Canada, Public Policy and Fiscal Innovation  
**EY** – Ruta Makareviciute, Partner, EMEIA Advisory Center, Government & Public Sector  
**EY** – Tom Huertas, Partner  
**Mastercard Advisors** – Antonia Stroeh, Senior Vice President  
**Mastercard Advisors** – Louise Holden, Senior Vice President  
**Angola** – Mr. João Quipipa - Chairman of the Support Fund for the Agrarian Development  
**Angola** – Mr. Armando Manuel, Lecturer of Macroeconomics and Econometrics in University Agostinho Neto, Instituto Superior  
**Metropolitano of Angola** – She-ra Costa, Executive Assistant of the Board of Directors  
**Singapore** – Rachel Lam, Senior Associate (Strategic Planning), Ministry of Finance  
**Global Government Forum** – Chris Punch, Research Director

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*Back row from left to right: Ryan Siabi, James Bowler, Torsten Arnswald, Ruta Makareviciute, Martti Hetemäki, Sheenagh Baxter-Martin, Vladimir Kolychev, Greg Orencsak, João Quipipa.*  
*Middle row from left to right: Melissa Helmer, Kevin Sorkin, Guðmundur Árnason, Luis Madrazo, Andrew Baukol, Mark MacDonald, Sam Mazloum, She-ra Costa, Louise Holden.*  
*Front row from left to right: Nasser Siabi, Cornelius Dekop, Antonia Stroeh, Carol Yuen, Ping Yi YEE, Armando Manuel, Walter Aires.*
The 2017 Global Government Finance Summit: purpose and goals

“Governments and finance ministries have always had to face new challenges, but in this modern world these are faster moving and more globalised than ever before,” said Kevin Sorkin as he opened the event. “Many of the solutions demand partnerships with other nations, and stronger relationships between the public, private and social sectors. All of them require civil servants to develop new skills in topics such as digital services, financial and data management, public engagement, policymaking, staff development and organisational reform.”

It was the need to develop these partnerships, learn from other nations, and build new capabilities that had drawn senior officials from 12 nations distributed across five continents to London’s County Hall, just over the Thames from Parliament and HM Treasury, for this informal, two day event. Sorkin, the director of event managers Global Government Forum, explained that “the Global Government Finance Summit exists to help you as leaders in finance ministries to learn from and build links with your peers overseas, helping you to identify ways of overcoming the challenges we face.”

“We aim to provide an environment where you can exchange ideas about what works and what doesn’t,” said Sorkin. Sessions would begin with presentations from some of the delegates, he added – but the real value of the event lay in the open, frank and free-flowing discussions catalysed by them. “I encourage you all to intervene throughout the event,” he concluded. “Please don’t wait for permission to speak: the summit’s success rests on its informality, and on the continued input of all our participants throughout the event.”

“This is an opportunity to take some time out, and to think and talk and reflect with other people doing similar jobs in other countries. I think that is immensely valuable, and I really applaud Global Government Forum for their initiative in bringing us here together this evening.”

Tom Scholar, Permanent Secretary, HM Treasury, UK
The global economy and its underlying weaknesses

The summit opened with an overview of the global economic outlook from Lord O’Donnell, an economist and former Treasury Permanent Secretary who was the UK’s Cabinet Secretary and Head of the Civil Service between 2005 and 2011.

The most striking change in the world’s economy since the credit crunch, said O’Donnell, is the decline in trade: flows of goods, services and capital have fallen from 53% of global output in 2007 to 39% in 2014. For years, he added, trade grew at twice the rate of GDP; but now they’re both pottering along at about 2.5% per annum. This might be because most of the efficiencies available by globalising supply chains have already been realised, he suggested, or because trade liberalisation has slowed. “This to me is a really big issue,” said O’Donnell. “Believe me, if trade slows down then it has very bad consequences for all of us.”

Patchy progress

Of course, some regions are moving faster than others. The latest IMF forecasts, O’Donnell pointed out, show that in terms of GDP “the advanced countries grow at 2%, and the emerging and developing economies grow on average at 4%—that’s the new norm.” And there are wide variations between the emerging economies once lumped together as the ‘BRICs’: whilst Turkey, China and India are set to grow by 5-7% this year, Russia is languishing at 1% growth and Brazil is struggling to stay above zero.

Taking the historical perspective, O’Donnell pointed out that China is regaining its long-lost role as the world’s economic superpower. “In the grand sweep of economic history, China was the world’s largest economy,” he said. “We’re living through a brief period when the West has overtaken it for a couple of hundred years, but we’re now returning to what many people would say is a more normal state of affairs.” As recently as 1820—at the height of the British Empire—China’s economy was six times the size of the UK’s, and its GDP/capita was 84% of the global average. As the West’s fortunes eclipsed those of the East, that latter figure fell to 25%; but it’s now back at 103%, and growing fast. “There’s a growth shift going on globally, and we need to understand that and to think about how we design our international institutions to work with that kind of pattern,” O’Donnell argued.

Flatlining real incomes

In the West, O’Donnell pointed out, the decade since the credit crunch has seen median earnings remain static for much of the population—whilst the top 1% reap the rewards of technology, innovation and globalisation in a “winner takes all” distribution of wealth. “A combination of globalisation and technology is leaving groups
behind,” he said. “We’ve got a lot of losers. They’ve got skills that are no longer useful, and we haven’t been very good at finding ways to compensate them. One of the things we need to work on is how the winners in this process compensate the losers.”

The answer cannot lie simply in tackling unemployment, said UK Treasury Director General James Bowler in a later session; for in the UK “we have the highest employment rate since 1975. But we’ve got relatively low productivity; and it’s long been a puzzle for officials and academics as to what is the correct policy response”.

Those policy responses must be found, though, argued O’Donnell – for when large swathes of the population feel excluded from the benefits of economic growth, they express their anger through the political system. “You can understand why they go into protectionism and populism,” he said; but those responses offer no solution to their economic woes, whilst threatening both global growth and international security.

**Demographic challenges**

These issues around productivity and growth cut deeper still, O’Donnell pointed out, because many countries have rapidly ageing populations – whose pensions must be paid by a shrinking pool of economically active workers. Many western countries have plugged the gap through immigration; but immigrants too will grow old, whilst rapid flows of migration have created political push-back in many countries. “We have to think about a world in which there’s a greater than 50% probability that a baby born today will live to over 100,” said O’Donnell; that points to a “multi-stage life, in which people retrain mid-career, maybe spend some time out of the jobs market looking after children or caring for family members, then come back in doing something different”.

That alone will not suffice, though; state pension provision will have to fall over time, O’Donnell suggested, whilst governments strengthen the expectation that workers save privately to fund their own retirements. Like the issues around environmental sustainability and climate change, Bowler argued, these long-term challenges present a substantive test of democratic political systems – whose medium-term electoral cycles push politicians away from offering sacrifices now in the pursuit of future gains. “The interesting thing

_This event has been great, and the frankness of the discussions has been commendable._

Luis Madrazo-Lajous, Chief Economist, Ministry of Finance, Mexico
is can the political system, which is used to taking short-term decisions, take those longer-term decisions that will impact on the economy and public finances in 20, 30, 40 years' time?”, he asked. The rise of artificial intelligence Globalisation and automation have cut the number of manufacturing jobs in the West and moved most of the rest to the East; but as O'Donnell pointed out, the next wave of technological change presents a major threat to the professional, skilled jobs traditionally monopolised by the middle classes – both in the developed economies, and in those fast catching them up.

Take auditing, he said: whilst human auditors examine a sample of transactions before approving a company’s accounts, artificial intelligence systems will soon be examining every transaction – eradicating errors, spotting more frauds, providing cast-iron consistency, and using analytics to generate invaluable management information. “The machine's going to do it much better,” commented O'Donnell. “So what do we do with the middle class graduate who's learned skills that are completely useless?”

As the applications of big data, analytics and AI expand over the coming years, O'Donnell concluded, the economic insecurity and flatlining real incomes that have hit blue collar communities will reach into white collar professions. “I don't think you can block technology,” he said. “All these things are going to happen. How do we use them to our advantage?”

Vulnerabilities in global finance

In the wake of the credit crunch, finance departments and central banks acted to prop up and recapitalise the finance sector – heading off the looming disaster of seized-up finance markets and crashing banks. But in a later session Martti Hetemäki, Permanent Secretary of Finland’s Ministry of Finance, raised concerns that deep-seated risks remain within global finance markets.

During these rescue actions, governments lent to banks “against poor collateral, and I would be assuming that the investors would expect that they would be saved again” in any future crisis, he warned. “The investors believe in the all-powerfulness of central banks, because they did it once.”

Yet banking reforms, introduced to reduce leverage across the sector, may only have created a false sense of security, he argued. “The fact that we have enhanced regulations on capital requirements and liquidity requirements may only contribute to complacency,” said Hetemäki: if finance businesses are making risky investments, greater cash reserves won’t save them from hitting the wall in any future financial shock.
And the seeds of that financial shock may lie in the strange environment fostered by rock-bottom interest rates, which prop up asset prices and cushion inefficient businesses. Rising interest rates, he argued, could quickly lead to rising home repossessions and company insolvencies – undermining confidence in asset values.

**Shorter levers**

High inflation, public sector deficits or shrunken central bank reserves could make it difficult for governments to repeat their rescue act of 2008-10, suggested Hetemäki: “Then all the investors could all of a sudden think that perhaps there is no ultimate lender of last resort that can fix the crisis and calm the panic,” he said. “This is guesswork. But if something happens to make people ask questions about the collateral behind the debt they hold, the markets could react in a very violent way.”

As James acknowledged, governments would at that point have fewer tools to deploy. There’s a “question about central bank and finance ministry levers, and the extent to which there’s room for their further use,” he said. “Our central bank has reduced interest rates to historically low levels; and our debt levels went from 40% to 80%. There are fewer levers that can be pulled,”

The levers are shorter these days, replied Cornelius Dekop: the country’s Secretary for Budget and Development in the Ministry of Finance and Development Planning. Botswana spent years carefully building up its foreign currency reserves, he recalled, but those stocks were seriously depleted when the global downturn depressed demand for its exports. “I cannot say now we have the same capability, if a shock were to happen now, in terms of our reserves and the levels of our debt,” he said. “Our reserves are low.”

“**For me this event is very important because we can hear different experiences, and that allows me to analyse some situations that we have in our country. We each think we are facing a unique problem, but actually the problems are very similar.**”

Walter Aires, General Secretary, Ministry of Finance, Angola
A return to ‘normality’

“We have not allowed markets to operate as markets,” commented Torsten Arnswald, Head of the Fiscal Policy Division in Germany’s Federal Ministry of Finance. “We've helped the situation by interventionalism, but we have to find ways to go back to a real market environment. I really do not see a reason to be complacent about the situation in the financial sector.”

In Arnswald’s view, central banks must return to “normal” levels of interest rates; whilst governments should work to drive down public and private debt, and to “downsize the financial sector”—for “the issue of ‘too big to fail’ has only become bigger” in recent years.

Countries may be slow to raise interest rates, suggested Hetemäki—in part because they don’t want to increase their currencies’ relative values, weakening exports. He raised concerns about a “lack of international coordination”, and argued that governments lack an exit plan to match the intervention plan with which they addressed the credit crunch and global downturn. Former US general “Colin Powell used to say that when you go to war, use overwhelming force,” he recalled. “That’s what the central banks did in the financial crisis. But the Powell doctrine also calls for an exit strategy, and the central banks entered this war without having a clear view of how they’ll exit.”

Thomas Huertas— a partner in EY’s Risk Practice, and formerly a member of the Basel Committee on Banking Supervision, the UK’s Financial Services Authority’s board, and the board of the European Banking Authority—agreed with Hetemäki’s analysis of the potential risks in the system. “The comments you’ve made are very much on the mark in terms of what could happen in financial markets,” he said.

Weaknesses in the system

However, Huertas emphasised that other scenarios are possible. First, he argued, steps to boost banks’ capital liquidity, and the development of skills and processes for rescuing failing banks—whilst ensuring that the pain is felt mainly by investors rather than taxpayers—have improved the system’s resilience.

Second, the crisis could have another cause. “The banks are still suspect number one—but by no means the only suspect,” he said. “Cyber is clearly a risk. The whole financial system is built on data. If cyber attacks were to destroy some portion of that capability, it would be a financial crisis of a different order of magnitude—and one that cannot be fixed by central banks providing liquidity.”

The lesson of previous crises, he added, “is that what ultimately causes a crisis is the assumptions one makes—classically, house prices never decline. What is being assumed today?”
Although he agreed with Hetemäki that people assume that in any future crisis “the central banks will ride to the rescue,” Huertas questioned whether they would actually be able to do so. Rock-bottom interest rates and high public debt, he argued, leaves governments with little room to manoeuvre. “There is no longer a lot of dry powder in most countries.”

Furthermore, he asked, “is there the same degree of international cooperation that prevailed in 2008? I would question that.”

In Huertas’s view, governments have taken useful action to address the causes of the last crisis – but they used up much of their ammunition ameliorating it, leaving them ill-equipped to face the next. “It’s just not the same starting point,” he concluded. “We have both an opportunity and, I would submit, an urgency to tackle these problems and to create the capacity to deal with a crisis, should one develop.”

Staff recruitment and retention for finance ministries

As well as the capacity to deal with such a crisis, finance departments need the capability – and that is dependent on their ability to recruit and retain skilled, experienced staff. This is one of the biggest organisational and management challenges facing government treasuries, which must fish in the same pool as high-paying industries such as banking; and whose staff are often seen as desirable hires by suppliers to government, which value their understanding of procurement, outsourcing and policymaking.

Whilst salaries in the private finance sector continue to rise, many public sector leaders find their ability to offer competitive packages constrained. James Bowler pointed out that the

“It’s a good opportunity to listen to others’ comments and experiences, and to know more about what finance departments are doing in other countries. It’s useful to understand the situation in other economies, and how they deal with similar problems.”

Carol Yuen, Deputy Secretary, Financial Services and the Treasury Bureau, Hong Kong
UK’s civil service has been subject to a 1% annual pay rise cap, whilst recruitment at senior levels is made harder by regulatory and presentational difficulties. “The prime minister is paid about £150,000 (US$194,000 or €164,000) and if you’re paid more than that, you need to be cleared by one of the Treasury ministers,” he said.

“Additionally, the press will understandably scrutinise how many people are paid more than the prime minister,” he added – something that can create a problem for those trying to hire specialists from the private sector.

Similar political and media pressures have created even greater problems in Mexico, reported Luis Madrazo-Lajous. Nearly 20 years ago President Ernesto Zedillo, a former Bank of Mexico official, raised civil service wages and offered “support to recruit people and to keep them”. Then “politics happened”, and a pay freeze was introduced. Although the freeze has since been formally revoked, Lajous explained, “it’s been impossible politically” to raise wages. “After 15 years of, on average, 4% inflation, you can see what this does to salaries.”

**The power of policymaking**

Many finance departments try to overcome this disparity in pay levels by recruiting people early in their careers—when the pay gap is smaller—and offering the opportunity to work on major public policy issues, enjoying levels of responsibility only available to much more senior figures within the private sector.

Veiko Tali, Secretary General of Estonia’s Ministry of Finance, has found this proximity to power a powerful recruitment tool. “In big private organisations like banks, telecommunications companies, even in the higher level you have less independence and less ability to create something new” than in the civil service, he said. His offer to staff is that “you are making history; this is the main message when I’m attracting [recruits to] these positions.”

Interestingly, Mark MacDonald – Global Lead Partner for Public Financial Management at the event’s knowledge partner EY – has found the draw of public policy work just as valuable in attracting recruits for his team from other parts of EY. Bright young staff offering consultancy to major corporates often find that “you’re not really solving problems, and you’re really just trying to make somebody else’s shareholder a lot of money,” he commented. “Then you say to them: ‘Why don’t you come over and work for a little bit in the government and public sector practice, and help us to redesign a service to protect children at risk or family and domestic violence or whatever. Very quickly, we find that people want to move into something which is meaningful.”
Secondments and staff culture
Several delegates agreed that arranging clear career pathways – including secondments outside government and to other departments – can help bolster staff retention whilst pulling new skills into the organisations. In Finland, said Hetemäki, the government arranges secondments to the OECD, the IMF and the European Commission; though he stressed the need to guarantee secondees a good job on their return, boosting takeup and ensuring that people return to the civil service. It’s important, he explained, that “when they come back they have a good position; that makes it easier for people to go for a secondment.”

Organisational culture offers another draw – and for Germany’s Torsten Arnswald, his department’s “bottom-up” decision-making culture has proved crucial to its ability to recruit and retain staff. “It’s the civil servants who generate procedures, generate thinking, and then that output is moved up the ladder to whoever is at the very top,” he explained. In countries and international institutions with top-down decision-making processes, he added, he observes “more frustration than in these bottom-up cultures”.

The civil service can also offer a better work/life balance than many private sector bodies, Arnswald said, and more family-friendly HR policies that help retain those with caring responsibilities within the workforce. “People are quite satisfied,” he said, “to the point that I would say we’ve got to be a bit cautious that we don’t overstretcher the comfort zone.”

Guðmundur Árnason, Permanent Secretary of Iceland’s Ministry of Finance and Economic Affairs, agreed that – as finance ministries’ roles and skills requirements change in a fast-evolving policy and economic environment – it’s important that civil service posts don’t become so comfortable that helpful staff turnover is curtailed. “Earlier we would have wanted to get people in to stay for a longer period, and that is not necessarily the priority any more,” he said. “If we want to be able to recruit the best, we need to construct the work environment so that people want to come but they don’t necessarily want to stay for life.”

“So for us, hearing those perspectives, listening to others, learning about the solutions, is something we derive benefit from. I find the openness in the discussion an added benefit.”

Guðmundur Árnason, Permanent Secretary, Ministry of Finance and Economic Affairs, Iceland
That is not, however, the main problem for most finance departments. Unable to compete with the private sector on remuneration, and tasked with a range of new responsibilities in the wake of the ‘Great Recession’, many are struggling to recruit and retain the skills and expertise they need for the scale of the challenges facing them.

So let’s turn those challenges into a recruitment asset, concluded James Bowler. “The more challenges you have – financial crisis, Brexit – the easier it is to say: ‘This is exactly the right time to be working in the finance ministry’,” he said. “In virtually every team you’ll be doing some really exciting, ground-breaking work.”

**Disruptive technologies and public finance**

Some of that work involves getting to grips with the impact of digital technologies – both on economies and societies, and on the work of public finance professionals.

Starting with the former, Antonia Stroeh, a Senior Vice President at the event’s knowledge partners Mastercard Advisors, pointed out that the greatest economic and social changes are catalysed not so much by the “technology itself – that’s the tools – but by the disruptive business models. Think about the sharing economy; ‘freemium’; crowdsourcing”. So, for example, online retail is having a huge impact on high streets; platforms such as Airbnb, Uber and Tripadvisor are reshaping how we buy services and earn money; social media is dramatically altering the nature of public debate; and crowdsourcing is generating innovative ideas, raising capital – even delivering cybersecurity protections.

Increasingly, automation and artificial intelligence will deliver further changes in the world of work. And evolving public expectations will apply as much to public services as to private companies, said Stroeh: digital technologies are “driving customer attitudinal shifts: we’re expecting personalisation, transparency”.

These developments, Stroeh said, have major implications for economic management, labour markets, and business regulation as well as public service delivery. But innovation is not without risk – and the public sector, she argued, must respond within three broad areas: “One is policymaking; the second is oversight and enforcement; and the third is to realise some of the benefits for internal management.”

**Looking outwards**

Combining the first two points, she pointed out that “policymakers have to adapt to the fact that the rate of change is way faster than the regulatory cycle. The challenge is to run alongside consumers and the private sector, rather than waiting until it gets too big to regulate.” An example of this
may be social media channels such as Twitter and Facebook, which are not subject to the rules governing publishers – and are now so influential that governments are wary of requiring them to moderate content.

Certainly, some regulators have learned this lesson: in the USA, Stroeh noted, the US National Highway Traffic Safety Administration introduced guidelines on autonomous vehicles in 2013, “long before they were perceived to be the next big thing. The notion is to keep informing the private sector on where the trajectory’s going, without completely locking them down and stifling growth.”

She also pointed to “regulatory sandboxes”, creating spaces in which companies and regulators “have a place to try out new products and approaches and business models without necessarily having full regulations in place.” And she highlighted the opportunities for regulators to get faster feedback from consumers, alerting them to emerging threats and regulatory weaknesses before problems gather momentum.

As an example of the dangers, Stroeh noted companies’ growing dependence on algorithms to shape business decisions. This can lead to discrimination, she said: one USA study by Propublic found that car insurance premiums in areas with high ethnic minority populations were 30% higher than average – not because accident rates were higher, but because the algorithm relied on credit score data. “I think there’s a need for government to step in and say: ‘We need to have transparent algorithms’,” she argued. “Algorithms aren’t any better than the data that feeds them. So if you’re using one to inform important business decisions, you should publish all the main drivers and variables so that people can see whether they’re reasonable, fair and judicious.”

“I really liked the format of the summit and the topics selected. It’s really big, big issues and big trends which have been discussed. For me, it’s very helpful to understand the most critical issues and challenges governments are facing and to tailor innovative solutions to address them.”

Ruta Makareviciute, Partner, EMEIA Advisory Center, Government & Public Sector, EY
On the other hand, similar technologies can be hugely helpful to public servants. "Here in the UK, HMRC is reportedly using predictive analytics to scrutinise tax returns. That is estimated to generate £1.2bn [US$1.6bn or €1.4bn] in incremental tax revenue," said Stroeh, adding that “neural network modelling” also provides a powerful tool to help tackle international money laundering.

It’s also important for governments to address ‘digital exclusion’, she said, noting that 200m more men than women have mobile phones; and that whilst 90% of the world’s urban population have mobiles, in the countryside that figure falls to about 30%. Data security is another huge issue, as is privacy; and on the latter, she praised the incoming EU data protection regulations – which give individuals a “right to be forgotten” by those holding data on them, restrict the movement of data internationally, and provide transparency over how data is being used.

**Looking inwards**

Turning to how public finance professionals can use digital technologies in their working lives, Stroeh skipped past well-understood ideas to discuss distributed ledgers: replicated, shared and synchronised datasets visible to participating bodies around the world, built on blockchain or similar technologies. These, she said, can streamline complex international transactions.

Take international trade, she explained: distributed ledgers can help businesses and government authorities to “manage the whole value chain and eliminate fraud” because “all of a sudden you’ve got authentication of the seller, the buyer, the product itself and its origin; and you can digitise the documents associated with customs and clearing the shipment. That information is verifiable and irrefutable. So if you’re a small firm, this allows a bank to start thinking about underwriting you for trade finance—and that increases trade.”

Veiko Tali, Secretary General of Estonia’s Ministry of Finance, raised further possibilities for the use of digital tech in streamlining tax collection. Estonia is widely seen as a leader in digital government, and Tali explained that the country is working to build on its automated declarations systems—which pull in data from various data sources linked to the user’s tax account to streamline tax submissions.

Estonia’s next generation of tax services will use mobile phone apps which can be linked to service users’ bank accounts, he explained, permitting fully automated reporting to tax authorities as well as other bodies such as statistics agencies.

These days, Tali added, “you can create a digital country”: Estonia permits people living in other nations to register as e-residents and then create
e-companies, “and some of our business guys are saying that within five years we’ll have 10 million e-residents. It’s a question of providing service frameworks that are user-friendly, effective, and protected against risks such as cybersecurity threats.”

Estonia is, in part, so far down the digital road because it rebuilt its entire government system from scratch after it gained independence in 1989. And as Stroeh pointed out, digital technologies allow countries to “leapfrog” whole stages of development – moving directly from paper-based systems to mobile digital technologies. Rwanda and Kenya, for example, are building mobile payment gateways offering services just as advanced as those in many developed western nations.

### Fiscal sustainability and efficiency in public spending

Opening the session on financial sustainability and budgeting for performance, Martti Hetemäki, the Permanent Secretary of Finland’s Ministry of Finance, pointed out that many governments face underlying structural problems that threaten their ability to bear down on persistent budget deficits.

In most countries, he pointed out, state pensions, benefits, and health and care services are funded out of current tax receipts – so governments are dependent on the working population to pay for the services and money needed by the elderly, disabled and unemployed. Costs rise dramatically for those aged over 74, he explained, as many suffer from long-term health conditions or need social care services – and this group is expanding fast in many populations. In Finland, he said, 65-74-year-olds cost the state 30% more than children – but those over 74 cost twice as much.

In Finland, Hetemäki went on, the population of over-74s is expected to rise by 59% between 2016 and 2030. In the UK, Office of National Statistics figures anticipate an increase of 50% in that group over the same period. “So what I’ve done is, taking into account the costs of different age groups and the changing demographics, calculate what employment rate is required to keep the

“Now there’s a permission – almost an expectation – that we should take this knowledge and turn it into something.”

Mark MacDonald, Global Lead Partner for Public Financial Management, EY
government’s books in balance,” he explained: his research estimates the proportion of the population that must be in work to support the needs of the rest.

The answer, he said, is that by 2030 Finland will need an employment rate of 80% – far greater than its 2015 figure of 68%. Countries with similar demographics – meaning most of the western world – will face equivalent challenges, Hetemäki pointed out. And this raises questions over proposals for a ‘universal income’: a concept currently in fashion amongst left-wing politicians and academics, and one that is currently being piloted in Finland (see box on page 18).

Hetemäki’s conclusion was that governments must focus on strengthening employment rates amongst all those able to work, lest the burden of funding services for the elderly create a stubborn, structural public spending deficit.

**The other side of the coin**

Meanwhile, governments can do a lot to improve efficiency within public services – making their taxes go further towards meeting growing demands for care and support. And delegates pointed to a weakness within much public debate, noting that many politicians tend to focus on how much they’re spending on an issue rather than the outcomes they hope to achieve.

“Politics is an input-oriented world,” said Germany’s Torsten Arnswald. “Instead of proposing to spend 10bn euros on education, why not say what you want to achieve and then work out how much money you need for that?” There is, Hetemäki suggested, a feeling among ministers that “we have to put in as much as other countries are putting in; basically, you measure policy success by how much money you waste.”

This problem, argued EY’s Mark MacDonald, points to the need for a new approach to public finance management. Traditionally, he said, finance professionals “have spent much of their time focused on accounting for public expenditure from the central budget authority’s perspective.” But what matters is results, he argued, rather than whether spending fits the central authority’s rules and regulations: “We need to reconcile that accounting and reporting perspective to a perspective around the way that resources are consumed, results are delivered and outcomes are achieved.” In essence, “what do I spend my money on, and what do I get for that?”

As it becomes easier to gather and share data, MacDonald, argued, central authorities and frontline service providers can develop a “shared and much more productive understanding of how to focus on achieving better outcomes.” And as money is targeted more closely on work
that generates the desired results in the real world, the efficiency of public spending rises.

A few administrations around the world have already begun to move towards this approach, said MacDonald – but not enough. And his colleague Greg Orencsak, EY’s lead on Public Policy and Fiscal Innovation, pulled out some lessons from the experience of Ontario’s provincial government, which has run a results-based budgeting framework for over ten years.

**Results-based budgeting in action**

Ontario, he explained, has found that results-based budgeting alone cannot overcome the constraints of the departmental system – under which many decisions are made on the basis of “departmental priorities, rather than government priorities such as, for example, increasing employment rates.”

The province, he went on, has made progress by introducing data systems that provide “one version of the truth” across government, and by strengthening “public service muscles that have atrophied” – particularly in terms of thinking long-term, and in applying evidence on policies’ effectiveness. By changing accountability rules and governance structures, he added, Ontario has managed to ensure that “projects are not necessarily driven by individual departments, but more horizontally across government.”

Russia has been moving in a similar direction, explained Vladimir Kolychev – the Deputy Finance Minister at the Russian Federation’s Ministry of Finance. Building on the foundations of its programme-based budgeting system, Russia has required that all additional spending “has to be designed in projects with objectives that contribute towards the overall, headline objectives of the government,” he said. “That tends to change the mindset of the ministries, because they have to work together and work on an integrated solution.”

Russia is even linking ministries’ future spending allocations to their success in delivering agreed public policy goals, Kolychev added. “The minister presents the outcomes they want to achieve for the next year,” he said. “Then he comes back a year later, and their funding allocations will take into account whether they achieve what was set out a year ago.”

Of course, it’s often hard to find metrics against which to judge departments’ success – it’s easy to measure cancer recovery rates, but much harder to assess the performance of a foreign affairs department. But the delegates were overwhelmingly positive about the principle of paying for results. “It’s a change of culture to move towards an output-oriented finance world, but I think it’s desirable,” said Torsten Arnswald. “And I also think it’s achievable.”
Short-term wins

As finance professionals move towards systemic change, it’s possible to find some shorter-term wins by getting senior ministers’ support for some political changes. As Martti Hetemäki pointed out, “the moment after a minister has his or her portfolio, they start to defend it” – always arguing for more cash for their ministry, even when cross-government programmes or action by another part of government might more effectively produce the desired outcomes. So “the window of opportunity for good ideas is just before the government is formed,” he said, suggesting that “ministerial portfolios are not distributed until ministers have decided departmental expenditures.”

This is just an idea, he stressed. But some governments have used similar systems, such as the UK’s resurrection of the ‘star chamber’ process. Deployed when the incoming 2010 administration needed to drive down public spending, this required ministers to defend their departments’ spending before a panel comprising their colleagues who’d already come to terms with the Treasury. Now that’s a tough audience.

The nature of the event allows people to talk as individuals, as thinkers, as experienced professionals as opposed to the deputy secretary of such and such. And they are saying: ‘Let’s go ahead and figure some of these solutions out.’ I was encouraged that people were willing to engage in that conversation, as opposed to representing their home base. That’s a tribute to the forum and to everybody who participated.”

Mark MacDonald, Global Lead Partner for Public Financial Management, EY
Finland’s universal income experiment

The idea of a universal basic income (UBI) has been around for a while, with its champions arguing that giving every adult citizen enough money to live on each month would cut the huge costs of administering means-tested benefits and reduce inequality. And in recent years, fears over the potential of automation and artificial intelligence to wipe out millions of jobs have given the idea new impetus: its champions argue that, without dramatic interventions to transfer funds from the digital world’s winners to its losers, spiralling unemployment and depressed earnings will create mass poverty and foster a political backlash.

Given the links between western deindustrialisation and support for anti-establishment projects such as Brexit, France’s National Front and Donald Trump’s presidency, there is obvious potential for the next wave of technological and economic changes to further destabilise governments and societies. And the concept appeals to left-wingers who, in the increasingly polarised politics of many countries, are gaining ground: in the UK, Labour’s shadow chancellor John McDonnell has said that UBI is “an idea whose time may well have come.”

However, no capitalist country has introduced anything like a UBI – meaning there is intense interest in Finland’s pilot scheme, which covers 2,000 benefits claimants. Yet Martti Hetemäki, Permanent Secretary of Finland’s Ministry of Finance, raised a number of concerns about the concept.

In some versions of UBI, he explained, people are paid the universal income for doing work of social value. “But in order not to distort the market, you would want this work not to be very similar to what firms do nowadays,” he said: if competition from UBI-funded roles displaces private businesses paying market-rate wages, he warned, then average incomes and tax receipts will both fall, making the scheme unaffordable and the country poorer.

What’s more, he argued, UBI-funded work rarely sets people up to secure roles in the wider jobs market: “It’s extremely low probability that these people enter open labour markets, especially if young people are ‘activated’ in the third sector or if people stay there five years or longer.”

Where people are not required to work to secure UBI payments, Hetemäki warned, the temptation will be for them to increase their leisure time – and he pointed out that the fast-falling costs of digital entertainments, such as on-demand TV and gaming, make it more attractive to remain unemployed on a low income.

Finally, the Finn expressed fears that the levels of taxation of higher earners required to fund a UBI scheme would deter people from trying to increase their income – leading to an economy that creates less economic value. “We can be worried about the human capital effects of high marginal tax rates; you should provide incentives for human capital at work, and for people to upgrade their skills throughout their careers,” he said.

As an alternative approach, Hetemäki highlighted benefits reforms being introduced in Finland this year. These introduce a three-monthly cycle, with those claimants who haven’t undertaken a set number of hours of paid work during the previous quarter seeing their benefits fall for the next three months. This creates a rolling incentive for people to keep on looking for work, he said, helping to “retain a connection to the labour market throughout the period of unemployment.”
**Last words**

This is a report on an event, not a piece of research set up to produce a clear set of findings. But as the delegates offered their last thoughts before returning to their home countries, their comments summed up some of the key themes that emerged at the 2017 Global Government Finance Summit.

Lord O’Donnell had characterised recent global economic changes as a retreat from globalisation, said Germany’s Torsten Arnswald—“but I don’t have the impression that any of us here will be retreating from globalisation,” he commented. Whatever the political and economic dynamics, senior civil servants remain keen to communicate with and learn from one another. “We are heavily involved in exchanges—and that’s good,” he said.

Perhaps the most important discussion of the event was that on the risks lying within global economic structures and government finances—and on the difficulty of assessing the threat posed by those risks. Burnt by the credit crunch, governments are unlikely to be caught out in the same way again; but a polished rear view mirror is of limited help to civil servants driving forward into a foggy future. Like armies, finance departments are always preparing to fight the last war; the only fact about the next financial shock of which we can be sure is that it will—for most people at least—come as a surprise.

So governments need to keep on scanning the horizon and questioning their own assumptions; meanwhile, they urgently need to give themselves the financial space to respond to the next crisis. And, said Mexico’s Luis Madrazo-Lajous, they need to react to popular dissatisfaction with policies that heal the genuine pain behind that anger—not populist responses that simply redirect it. “There is nothing more dangerous than allowing policy answers to be determined by the discontent that we find,” he argued. “That discontent is real, it is legitimate—but if we fall for the easy answers, that won’t solve the problems.”

Pursuing those easy answers, he added, “will only make the discontent worse—and there’s a slippery slope here that we’ve been down before.” Events such as the Global Government Finance Summit, he said, can help governments develop policies, processes and people to improve the lives of their citizens—calming the anger and disillusion so evident in people’s attitudes to government. “Sharing information isn’t just fun; it isn’t just interesting” concluded Madrazo-Lajous. “It’s also really important in getting those answers right.”

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“I was surprised by two things. One was the similarity of aspirations and concerns across markets that are very different, and across practitioners that are very different. And the second was the very constructive, engaging and transparent conversation between the attendees. It was a very sincere and candid experience, and I think that’s possible because of the way that the event is set up to achieve precisely that.”

Antonia Stroeh, Senior Vice President, Mastercard Advisors
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