What are the Global Benchmarks and High Value-Add Best Practices in Minimizing the Negative GDP Impact of Government Expenditure Consolidation?

Executive Summary: *The High Value-Add best practices in minimizing the negative GDP impact of government expenditure consolidation are reforming unsustainable pensions, reducing subsidies, reforming social transfers, efficient public spending on healthcare and education, introducing and raising tuition fees, revisiting government wages, ending unjustified tax expenditures and raising rates on less discretionary tax bases. The key performance indicators and global benchmarks are listed in the Tables below.*

1. **Reforms to Pensions:** Growth-enhancing structural policy reforms would support fiscal consolidation especially in the case when reforms lead to a higher sustainable employment level, because such a change will have a permanent impact on the primary balance. Notably, reforms to unsustainable pension systems (KPI #1) will be desirable and in many cases inevitable.[1] Such measures have resulted in savings of 2.7% of GDP in many countries. Reforms to pension systems that delay retirement and increase labor force participation can significantly reduce long-run budget pressures. Reforms that link retirement age to gains in longevity would ensure that pension systems are robust to future shocks to longevity.

2. **Reducing Subsidies:** Many subsidies may have surpassed their initial intended objective and may now have adverse economic effects. The elimination of subsidies (KPI #2) could yield sizeable savings in a number of countries up to 2.4% of GDP.[2] Furthermore, by reducing the distortions they create, cutting subsidies offers the potential to boost growth.

3. **Reforming Social Transfers – Disability Benefits**: Provision of universal benefits needs high tax intake to finance them. Some transfers might have dysfunctional consequences - for example high unemployment benefits may limit labour force participation. Further, some transfers such as disability benefits have been prone to misuse. Having 'means tested transfers' could limit the cost compared to universal benefits and result in savings of over 1.3 to1.4% of GDP, while boosting long term output.[3] Measures which address

[1] "Pensions at a Glance 2011," OECD Publishing, 2011.

[2] Hagemann, R. "Improving Fiscal Performance through Fiscal Councils," OECD Economics Department Working Papers, No. 829, OECD Publishing, 2010.

[3] Hagemann, R. "Fiscal Consolidation: Part 6. What are the Best Policy Instruments for Fiscal Consolidation?" OECD Economics Department Working Paper, No. 937, OECD Publishing, 2012.