

Towards fiscal consolidation: An agenda for national dialogue

Why a Dialogue?

- Last two major attempts to fix the fiscal situation failed
- Ministry of Finance would develop a technical solution and send it as a bill to Congress.
- It is debated, negotiated and approved there.
- Meanwhile, public opinion becomes very negative.
- Constitutional court struck down both bills.

Timeline of the Dialogue

- This time: last year of government. A bill would be too close to national elections (February 2014).
- Strategy is to build public opinion and legitimacy.
- Jan-Oct 2013: Over 60 meetings with technical experts and opinion makers. From these meetings a document was written to serve as a basis for the National Dialogue.
- Oct 2013-Feb 2014: National Dialogue, open forums, open website, meetings with stakeholders.
- After Feb 2014: Bill or set of bills to achieve fiscal consolidation.

Documenting the Dialogue

- The main question: Why should we do this?
- To break a vicious circle: low taxes, low-quality public services, then pressure for even lower taxes.
- Need to strengthen the Costa Rican social compact.
- Different from previous attempts which emphasized fiscal deficits and the potential for a fiscal crisis.

Costa Rican social compact

- Four major pillars:
 1. Steady economic growth: 5% average over 60 years, allows young people to enter the workforce.
 2. Democracy: strong institutions.
 3. Environment: 25% of land is nature preserve, 90% of energy is from renewable sources.
 4. Inclusiveness: Social security, public education and a social net for the poor.

Strengthening the compact

- Five major topics:
 1. Fiscal governance
 2. Income
 3. Expenditure
 4. Debt management and investment
 5. Environmental and fiscal policy

Fiscal governance

- Fiscal Transparency
- Stronger enforcement of constitutional requirement to approve laws with an income source.
- Budgetary requirements should apply to the entire public sector

Income

- Improve the strategies against tax non-compliance and contraband.
- Review tax expenditures
- Taxpayer safeguards
- Modernize sales and income tax.
- Heterodox tax sources?

Expenditures

- Lessen budgetary rigidity: more than 95% of budget is already allocated by Law or Constitution.
- Contain growth in public sector wages.
- Focus on improving quality of public services: accountability and results-based budgeting.

Investment and debt management

- New financing mechanisms: public-private partnerships.
- Legal safeguards for investors.
- Make investment easier without endangering environmental and social protections.
- Develop expertise in debt management through a single specialized office for public bond emission.

Fiscal and environmental policies

- Historical: focused on tax expenditures.
- Green taxes
- Budgetary allocation for climate change disaster damages.
- Environmental satellite national account