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The Future of Policy Advice by the Inter-governmental Institutions:

Lessons from the UK's EU referendum Leave vote

Introductory Remarks

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Merci, Monsieur l'Ambassadeur Duquesne.[1]

Lors des conférences de presse que j'ai pu tenir en tant que chef économiste de l'OCDE, j'utilisais votre langue, au moins pour répondre aux questions posées par des journalistes francophones, le français étant, avec l'anglais, l'une des deux langues officielles de l'Organisation. On me disait d'ailleurs que mes prédécesseurs à ce poste de l'OCDE ne s'exprimaient jamais en français dans de telles occasions.

Cela dit, pour notre réunion d'aujourd'hui, à Paris mais en dehors de l'OCDE, vous avez souhaité utiliser l'anglais comme langue de travail ; c'est donc dans cette langue que je vais poursuivre.

So let me now turn to the main subject for today's discussion meeting.

Some years after my fourth and last departure from the OECD in 1999, I created an informal group, the "International Economic Policy Studies Association".

The Association focuses on international economic policy issues, with special reference to the role of the main international institutions in dealing with them.

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[1] Pierre Duquesne, Ambassador, Permanent Delegation of France to the OECD and former French executive director at the IMF.

For example, with Paul Atkinson, Executive Director of my Association, as a co-author, and with help for some research work from Nick Vanston, a senior fellow of the Association, I wrote a paper titled "Surveillance by International Institutions: Lessons from the Global Financial Crisis". The paper was discussed at a seminar the OECD Economics Department organised at the Paris headquarters in early 2011 and subsequently published in the OECD Economics Department Working Paper series.[2]

In September 2013, we organised an international conference in Paris on the theme "The Limits of Surveillance and Financial Market Failure: Lessons from the Euro-Area Crisis". It was attended by several distinguished economists and other experts, and the proceedings were subsequently published by Palgrave MacMillan.[3]

Earlier this year, we became interested in the Brexit issue. In the run-up to the UK referendum, most economists were unanimous that a Brexit would have a negative impact on the UK economy, perhaps a very substantial one. The UK Treasury, the OECD and the IMF, all published quantitative estimates of the impact, using different approaches. These were largely ignored or dismissed by the Brexiters, either because they preferred to believe other and less credible scenarios, or because for them a Brexit was as much a political and social issue as an economic one.

Indeed, analysis of the voting patterns suggests that many of those who voted to leave the EU had recently benefited very little if at all from "regional integration" in the EU framework which tended to be mixed caintensify. A similar phenomenon could perhaps explain, at least in part, the victory of Donald Trump in the US presidential election.

My view is that the main international organizations made a strategic error in focusing solely on the macroeconomic issues in their anti-Brexit campaign in the run-up to the UK referendum. Their messages would have been more persuasive if they had been backed up by analysis of the social issues that result simultaneously from regional integration within EU and globalisation: how best to compensate those who lose out from changing trade patterns, and how to accommodate migration flows in a more socially and politically acceptable way.

[2] Kumiharu Shigehara and Paul Atkinson, "Surveillance by International Institutions: Lessons from the Global Financial Crisis", OECD Economic Department Working Paper No. 860, May 2011.
[3] Kumiharu Shigehara (editor and a chapter author), "The Limits of Surveillance and Financial Market Failure", Palgrave Macmillan, 2015.

The OECD itself is well placed to offer social policy advice. The IMF appears to be realizing that social policies are also important.

Now, in assessing both the relevance and the effectiveness of policy advice or early warnings given, and instruments used, by the inter-governmental institutions, we should have clearly in mind the targeted receivers of such advice or early warnings.

(1) In the run-up to the global financial and economic crisis, the main receivers to be targeted in early warnings should have been central banks, the supervisory authorities, governments and private financial market participants. And the main problem at that time was that the inter-governmental institutions such the IMF and the OECD as well as the BIS, an international institution uniting national central banks, failed to give warnings in a timely manner.

(2) In the run-up to the euro-area crisis, the main receivers to be targeted in early warnings should have been governments and politicians and the vested interest groups resisting the reform of product and labor markets and other sectors of the economy needed to sustain the proper function of the single-currency area where member countries have lost monetary policy independence to deal with local economic and financial shocks. My view is that, compared with the euro-area and EU-based regional surveillance bodies and the IMF, the OECD on the whole gave somewhat better policy advice to some euro-area member countries, but not systematically and not consistently across the euro-area member countries.

(3) In the UK referendum campaign, the main final receivers of policy advice to be targeted by inter-governmental institutions should have been voters and politicians, not the UK government and the Bank of England. The latter two, as well as the British economics profession more generally, had more or less the same views as the OECD and the IMF about the macro-economic costs of Brexit.

These observations lead to my next point. As far as I could follow as an outside observer, the IMF's message with respect to the UK referendum was issued in the context of its 2016 Article IV consultation with the UK.

For example, Box titled "If UK leaves the EU: substantial negative effect" was included in the IMF Survey on UK Article IV consultation which was published on June 17 this year, the day when an IMF press release on the IMF Executive Board Conclusion on its 2016 Article IV consultation was issued.

The wording adopted by the IMF Executive Board in its Conclusion was more careful about Brexit. It says:

"*this broadly positive baseline scenario is subject to risks, including those related to the referendum; the current account deficit ...., uncertainty about the degree to which productivity ... will slow down; and vulnerabilities associated with property markets.*"

In the IMF press release "United Kingdom: 2016 Article IV Consultation and Staff Report" published on June 17, it is noted:

"*(G)iven the importance of the referendum, this report and the accompanying Selected Issues paper include analysis of the referendum's macroeconomic implications for the UK and the global economy, while recognizing that this choice is for UK voters to make and that their decisions will reflect both economic and noneconomic factors.*

This analysis finds that the economic effects of an exit would likely be negative and substantial for the UK. In this event of a vote to leave the EU, policies should be geared toward supporting stability and reducing uncertainty".

On the other hand, the OECD's campaign against Brexit appears to have been carried out as an independent communication activity of its Secretariat, outside the framework of country surveys conducted by the Economic and Development Review Committee (EDRC), and is noteworthy not only in terms of visibility but also in terms of instruments used for communication.[4]

Its campaign included the Secretary-General's speech at the London School of Economics, titled "To Brexit or not to Brexit: A Taxing Decision", which was delivered on 27th April. On the same day, the

[4] The latest OECD Economic Survey on the United Kingdom was published in February 2015.

Head of the UK desk posted an article “The economic consequences of Brexit: A Taxing Decision” on the OECD Economics Department website “Ecoscope”.

In his article of 25 September, Wolfgang Münchau, a columnist of the Financial Times, wrote:

“*... **scare stories have added to a generalised loss of confidence in the economics profession and its reputation of independent judgement. With that loss also goes respect for international institution such as the OECD and the IMF, all willing participants in the anti-Brexit scare***”.

Given greater visibility of the OECD than the IMF in the UK referendum campaign, it was not surprising that Münchau put the OECD ahead of the IMF in his article.

In this context, one of the issues we might wish to discuss today is: **how the inter-governmental institutions should go beyond the member governments to reach out to voters and the public more generally.**

Voilà donc les quelques éléments de réflexion que je souhaitais porter à votre attention pour alimenter nos débats d’aujourd’hui.