

Fiscal Dimensions of Sustainable Development

Introduction

One of the challenges facing the international community is to achieve sustainable development. Sustainable development has three pillars—economic development, social development, and environmental protection.¹ It entails “. . . balancing the economic, social, and environmental objectives of society . . . integrating them wherever possible through mutually supportive policies and practices and making trade-offs where (this) is not possible. This includes, in particular, taking into account the impact of present decisions on the options of future generations.”² In September 2000, the member states of the United Nations underscored the importance of sustainable development by re-affirming the Millennium Development Goals (MDGs), a set of time-bound targets for improving human development along several important dimensions.³

Fiscal policy—the range of the government’s taxing and spending decisions—has important effects on all aspects of sustainable development: economic, social, and environmental. Fiscal policy affects sustainable development through its effects on growth, the environment, and human resource development. These effects operate at both a macroeconomic level and through the myriad ways in which governments’ tax and spending decisions affect incentives to work, spend, save, and invest.

Fiscal policy is central to the work of the IMF. The IMF’s mandate is to promote international monetary cooperation, the balanced growth of international trade, foreign exchange rate stability, and orderly foreign ex-

¹United Nations (2002).

²OECD (2001a).

³The MDGs grew out of the agreements and resolutions of world conferences organized by the United Nations in the past decade. The goals have been commonly accepted as a framework for measuring development progress and include goals relating to eradicating extreme poverty and hunger; achieving universal primary education; promoting gender equality and women’s empowerment; reducing child mortality; improving maternal health; combating HIV/AIDS, malaria, and other diseases; ensuring environmental sustainability; and developing a global partnership for development (see <http://www.developmentgoals.org>).