



# ***Fiscal rules and fiscal coordination: The Greek watershed?***

Cinzia Alcidi

# Overview: rules & policy coordination

## 1. Economic perspective:

- Rationale depends on spillovers
- Theory on gains from policy “cooperation”
  - OCA, Fiscal federalism and club goods
- In reality, little is known about spillover effects

## 2. Political economy perspective:

- Obstacle to coordination: gains from coordination are unclear while costs are clear

## 3. Democratic legitimacy perspective:

- democracy versus coordination in the EMU

# 1. Economic perspective

- Spillover effects associated with asymmetric shocks or policies justifies the need for coordination
  - Internalization of externalities
  - Absence of coordination= suboptimal outcome (always?)
- In the EMU fiscal policy is the most prominent tool for domestic macroeconomic management => source of spillovers => fiscal rules and fiscal policy coordination
- Problem of spillovers:
  - Empirical literature on spillover effects is limited and rather “inconclusive”. Spillovers may depend on
    - On the nature of the shock: Permanent vs. transitory, supply vs. demand, small vs. large
    - On the country’s size?
    - On the channels at work: trade/demand, prices and financial linkages
- Rationale for coordination may be weak under certain circumstances and gains are difficult to identify

## 2. Political economic perspective

- Incentives for coordination rely on gains
  - They are unclear (see literature)
- (political) Costs of coordination can be high
  - Example: austerity policies during the crisis
- Perception of national interest vs. Union's interest
  - Optimal level of coordination?
  - Coordination only possible in dramatic situations

### 3. Democratic legitimacy perspective

- Treaties (and MoU) signed by democratically elected governments
  - They imply acceptance of constraints on domestic economic policy beyond the political term
  - In certain circumstances, the electorate can manifest in a democratic way its opposition to the implications of such commitments (time inconsistency)
    - E.g. Greek referendum (could have been German or Finnish referendum)
- Does it mean that the EMU is incompatible with democracy?
- What conclusions about policy coordination as key element of the E(M)U governance?