

ARE FISCAL AND OTHER MACROECONOMIC POLICY RULES PAST THEIR 'SELL-BY' DATE?

Iain BEGG

European Institute

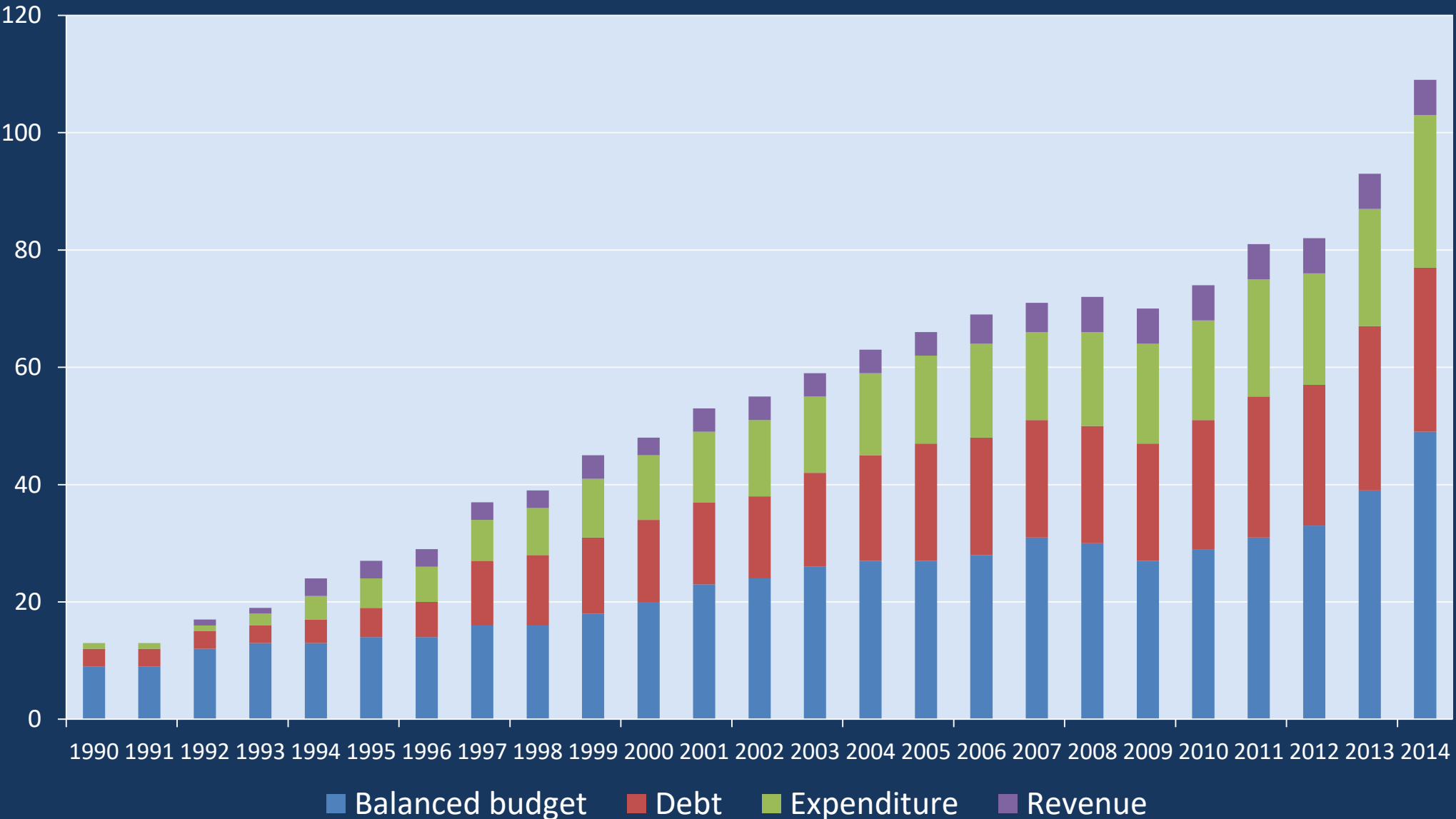
London School of Economics and Political Science



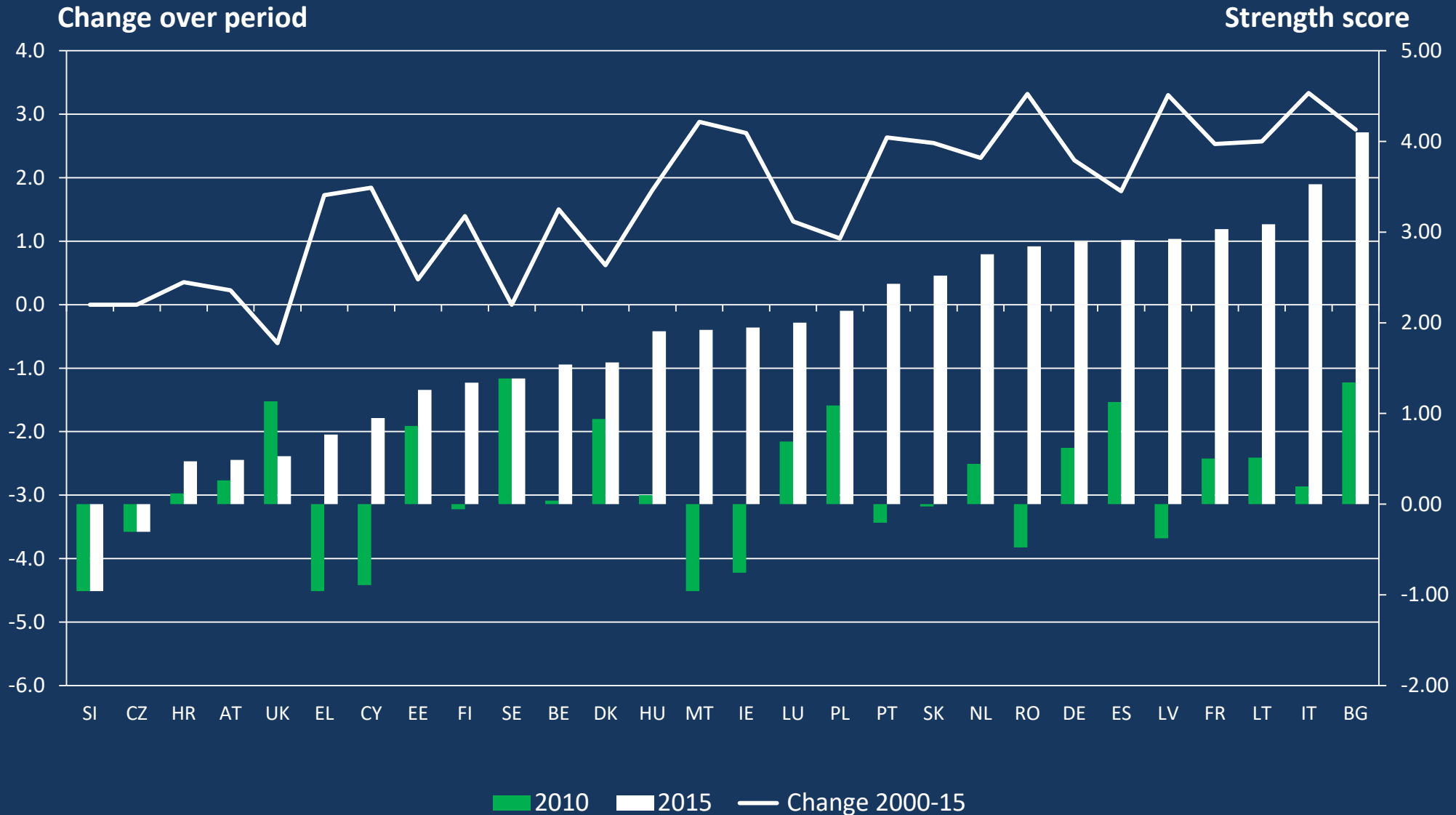
AN ERA OF MORE INTRUSIVE RULES

- The 'Six-pack' and beyond, leading in principle to:
 - More easily triggered SGP sanctions
 - Other EU curbs on fiscal discretion
 - Debt as well as deficit rules now susceptible to sanctions
 - Scrutiny of draft budget plans
 - Rule-based approach to macroeconomic imbalances
 - Though reliant on two-year lagged indicators
- Enhanced EU level scrutiny through semester
 - Complemented by fiscal councils at national level
- Nearly tenfold increase in national rules

NUMBER OF FISCAL RULES IN EU28



STRENGTH OF FISCAL RULES



TO WHAT AVAIL?

- Quantity of rules only one measure of reform
 - Quality and implementation crucial
 - Escape clauses and political over-rides
- Most debate has been on optimal design
- The adverse incentives facing governments
 - For example Italy in relation to SGP ‘flexibility’ guidance
- The dubious relevance of the semester cycle
- Caveat derived from ‘speed limit’ metaphor

IMPLEMENTATION AND COMPLIANCE

- Implementation as Achilles' heel of EU governance
 - Political over-rides: 2002/3 SGP – France and Germany
 - >> Signal to others: you do not need to make much effort
 - And again: summer 2016 – Spain and Portugal
- Mixed outcomes on fiscal variables
 - Gradual reduction in headline deficits
 - Explained by rules...or simply cyclical movements?
 - But limited progress on debts
 - Divisions visible in draft budget scrutiny
- Macroeconomic imbalances in doubt

IMBALANCES ASSESSED

	2014	2015	2016	2017
Excessive imbalances with corrective action plan	NONE	NONE	NONE	NONE
Excessive imbalances which require specific monitoring and continuing strong/decisive policy action	SI		BG, CY, FR, HR, IT, PT	BG, CY, FR, HR, IT, PT
Excessive imbalance which require specific monitoring and strong/decisive policy action	HR, IT	BG, FR, HR, IT, PT		
Imbalances which require specific monitoring and strong/decisive policy action	IE, ES, FR	IE, ES, SI	DE, IE, ES, NL, SI, FI, SE	DE, IE, ES, NL, SI, SE
Imbalances requiring monitoring and strong/decisive policy action	HU	DE, HU		
Imbalances require monitoring and policy action	BE, BG, DE, NL, FI, SE, UK	BE, NL, RO, FI, SE, UK		
No imbalances			AT, BE, EE, HU, RO, UK	FI
In adjustment or BoP programme (hence no in-depth review)	CY, EL, PT, RO	CY, EL	EL	EL

DRAFT BUDGET PLANS ASSESSED

Year	2013	2014	2015	2016	2017
Assessment					
Compliant	DE, EE	DE, IE, LU, NL, SK	DE, EE, LU, NL, SK	DE, EE, LU, NL, SK	DE, FI, LT, LV, LU, NL
Broadly compliant [or 'no margin for slippage' - only used in 2013]	BE, FR, NL, AT, SI, SK	EE, LV, SI, FI	BE, IE, FR, LV, MT, SI, FI	IE, LV, MT, AT, {FR}	CY, EE, {ES}, IE, MT, SK
At risk of non-compliance	ES, IT, LU, MT, FI	BE, ES, FR, IT, MT, AT, PT	ES, IT, LT, AT, PT	BE, IT, CY, LT, SI, FI, {ES, PT}	AT, BE, {FR}, IT, PT, SI
Subject to MAP	EL, IE, CY, PT	EL, CY, LT	EL, CY	EL	EL
Not in Euro	LV, LT				

“European fiscal rules have unfortunately become much **too complex and less predictable**. This is why **we have to develop these rules further**, with the debt rule at least on an equal footing with the deficit rule. As long as national debt is on a declining path, national deficits could be treated flexibly”

German non-paper

AN EVOLVING NARRATIVE

4 Presidents' Report
"Genuine" EMU, 2012



5 Presidents' Report
"Completing" EMU, 2015

- Now: from “deepening” (reflection paper) to “further steps towards completing” (St. Nicholas roadmap).
- Comment that “EMU is not an end in itself”
 - Implied end to austerity
- Surprisingly limited on fiscal rules
 - “everybody agrees ... they have become excessively complex, which hinders ownership and effective implementation”
 - Only statement is that simpler rules might be feasible
 - “review ... with the aim of substantial simplification by 2025”

‘all in all, the Commission might have more appropriately entitled its package: “A modest proposal to enhance the European Stability Mechanism”.’

Daniel Gros

IF NOT RULES, THEN WHAT?

- Defining fiscal policy framework afresh
 - Rethinking coordination
 - Prior challenge of working out why to have it
- EITHER: upwards transfer of power to EU level
 - € finance minister, European Fiscal Board
 - Evident need for legitimation – can it be resolved?
 - Incomplete Eurozone difficulty – tricky political economy
- OR: limit rules to national level
 - The “ownership” principle – advocated by Kopits
 - Can fiscal councils provide the answer?
- Nature of legitimation: transparency not enough

CONCLUDING REFLECTIONS

- Rules: a nuanced verdict
 - Can help; but least effective in ‘abnormal’ times: e.g. ZLB
 - Compliance and appropriateness can be in conflict
 - The risk that process overshadows content
 - Political economy dimensions given too little attention
- New economic/fiscal governance framework
 - Need to revisit underlying economics: why have rules?
 - Rethinking institutional context
 - Important to integrate role of fiscal councils
- France & Germany still disagreeing: plus ça change...

“Useless laws weaken the
necessary laws”

Montesquieu, *The Spirit of the Laws*