

# FISCAL RULES AND THE SCOPE FOR RISK-SHARING

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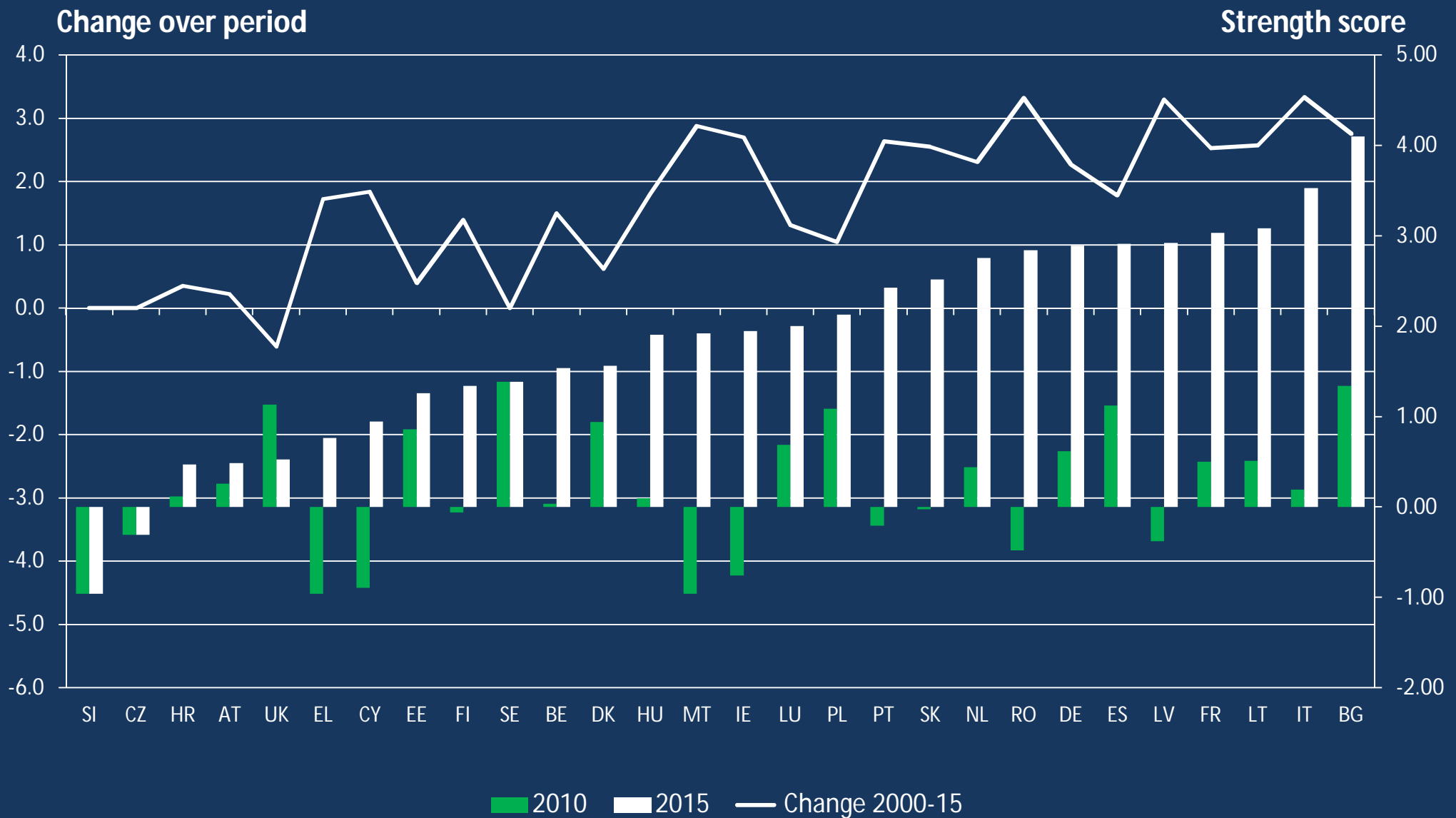
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# AN ERA OF MORE INTRUSIVE RULES

- 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

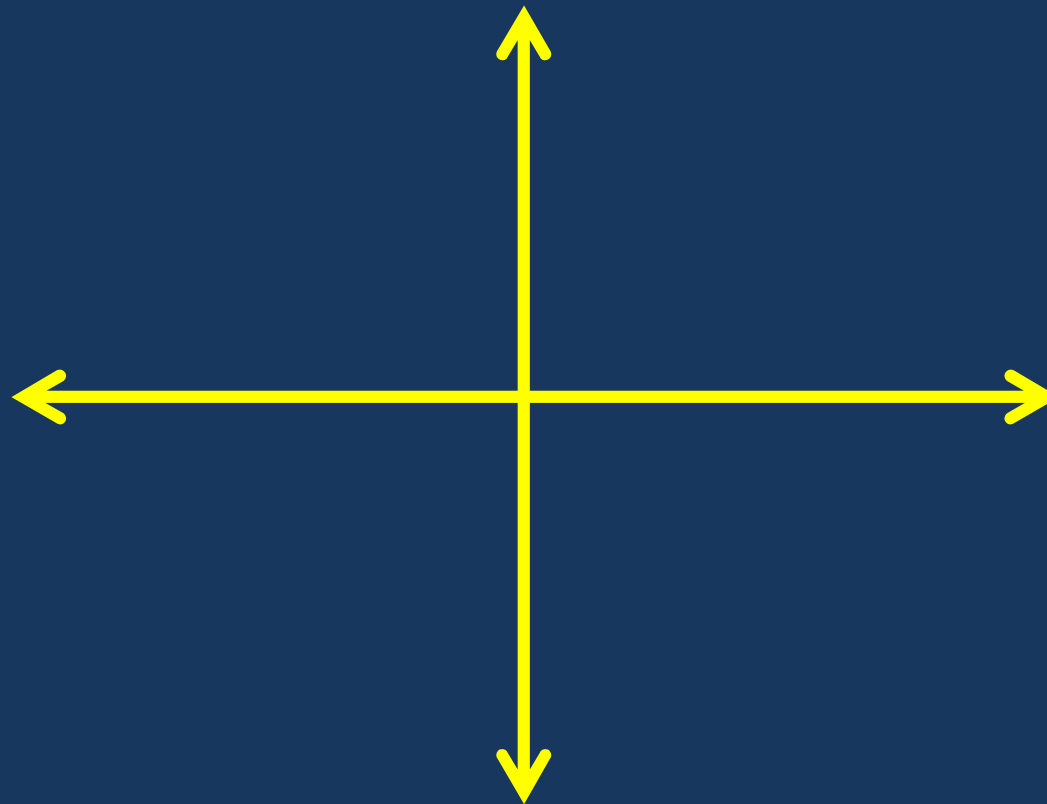
# STRENGTH OF FISCAL RULES



# RISK SHARING OR RULES: THE PROBLEM

HIGH DEGREE OF SHARING

ELASTIC  
RULES

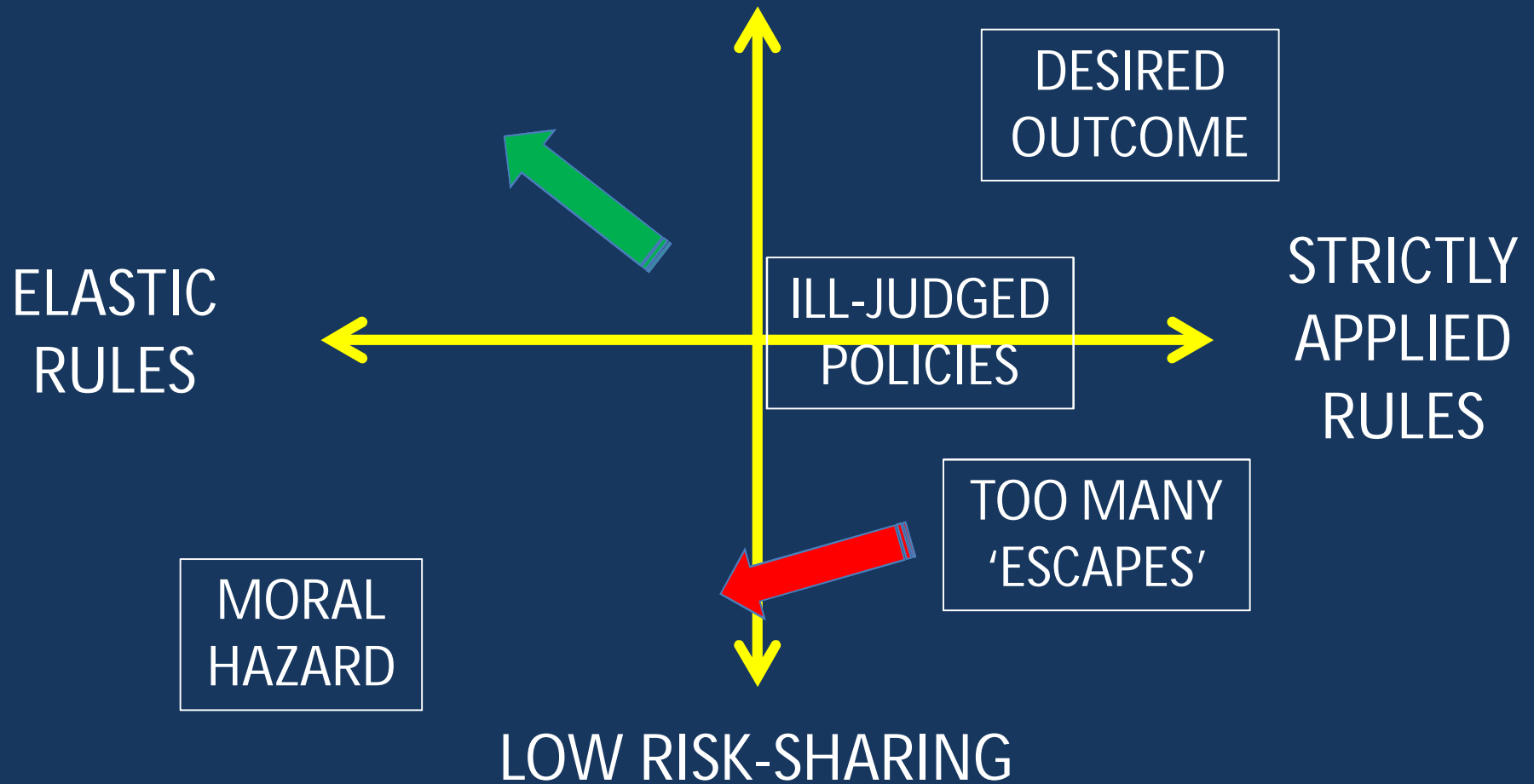


STRICTLY  
APPLIED  
RULES

LOW RISK-SHARING

# RISK-RULES TRADE-OFF

HIGH DEGREE OF SHARING



# IMPLEMENTATION AND COMPLIANCE

- Most debate has been on optimal design
- 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
  - Similar for excessive imbalances
- The dubious relevance of the semester cycle
- The adverse incentives facing governments
  - For example Italy in relation to SGP 'flexibility' guidance

# TO WHAT AVAIL?

- Quantity of rules only one measure of reform
  - Quality and implementation crucial
  - Escape clauses and political over-rides
- Mixed outcomes on fiscal variables
  - Gradual reduction in headline deficits
  - But limited progress on debts
  - Divisions visible in draft budget scrutiny
- Macroeconomic imbalances in doubt
- Caveat derived from 'speed limit' metaphor

# 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

Assessment	Year	2013	2014	2015	2016
Compliant		DE, EE	DE, IE, LU, NL, SK	DE, EE, LU, NL, SK	DE, EE, LU, NL, SK
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}
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}
Subject to MAP Not in Euro		EL, IE, CY, PT LV, LT	EL, CY, LT	EL, CY	EL

# CASE STUDIES: SOME FINDINGS (I)

## ITALY

- In principle, strong rules
  - Though recently adopted
- Yet repeated efforts to:
  - Apply escape clauses
  - Slow correction path
- Fiscal council finding way
- Backdrop: lack of growth
- > Doubts about value of rules

## POLAND

- Hard constitutional basis
  - Debt rule deemed inviolable
- Softer rules less effective
- Fiscal council not missed
  - Function still achieved
- Tensions, but outcomes generally positive

# CASE STUDIES: SOME FINDINGS (II)

## SLOVAKIA

- Firm debt rule
- Public finances disciplined
  - Helps to facilitate
    - FDI
    - Quality of public admin
- EU rules judged helpful
  - National rules matter more
- Fiscal council a positive development

## UK

- Long experience
- Chequered results
- Recent trends to over-ride
  - Targets more than rules
  - Timetable stretched out
  - In short rules do not bite
- Yet intriguing question:
  - Is fiscal policy well-judged?

# CONCLUDING REFLECTIONS

- New economic/fiscal governance framework
  - Still more on stability (control) than solidarity (sharing)
  - The risk that process overshadows content
  - Compliance and appropriateness can be in conflict
- Rules: a nuanced verdict
  - Help in some circumstances
  - Political economy dimensions given too little attention
  - May be least effective in 'abnormal' times: e.g. ZLB
- Not a sufficient basis for justifying risk-sharing
  - Need to look afresh at the underlying economics
  - And at broader institutional context, e.g. role of fiscal councils

“Useless laws weaken the  
necessary laws”

Montesquieu, *The Spirit of the Laws*