



What is the debate about?

- The rules have not worked
- Monetary policy has run out of space
- Low for Long: the trade off has shifted.
- A common stabilization tool tries to bridge the dichotomy of “rules vs. institutions”



Have the rules inhibited the “right” policies?

- Have the rules worked as regards fiscal sustainability or not?
- Have the rules inhibited necessary/desirable stabilization policies?
- Have the rules prevented desirable/necessary public investment?



First conclusion:

The Fiscal Rulebook has in practice left a fairly high degree of interpretation and latitude of action to national governments (and the European Commission).

It is not, as sometimes portrayed, the super-stringent straightjacket of fiscal policies.



Standards

Three different cases of how standards are applied:

- Policy has achieved its stabilization target (or not) and sustainability constraints have been respected.
- Policy has achieved its stabilization target (or not) and sustainability constraints have not been respected.
- Policy has respected its sustainability constraints and has been too tight.



Second conclusion:

At first sight interesting, but may lead to higher volatility of policies: Sustainability constraints would become binding at later stages and would require larger and longer adjustments. Corrections in the cases of too tight or too expansive policies may be even more pro-cyclical than nowadays. Hopes that actions of the watchdog and the adjudicator would be less “political” are difficult to reconcile with experience to date.



On the composition of public expenditure

Two cases:

- Rules/standards influence the composition of public spending, not the level.
- Rules/standards influence the composition of public spending by allowing higher overall deficits, provided they are the result of investment spending.



Third conclusion:

Incentivizing public investment is necessary, but the impact on demand spillovers and sustainability is uncertain, and may well not achieve the desired effects.

Progressive co-financing of public investment by SFs depending on maintaining or increasing levels?



Common rules, common policies, and some constitutional aspects



To summarize:

Some observations on the rules:

- worked to a certain extent in terms of debt sustainability
- not worked as mechanically as some hoped for and some feared
- “sedimentation” has produced complex and politically incomprehensible rules



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- not meaningfully and sensibly applicable in real time
- MS unhappy but afraid of “losing” if rules change.
- rules have not been the hard constraint on policies as often portrayed.



Can proposed changes work? Other proposals?

- Standards may increase size of adjustments and delay them
- Simple rules that are by and large respected are better than complex rules that are massaged nearly every year in order to accommodate reality.



- EFB proposals focusing on the long term evolution of public debt and the expenditure benchmark seem better suited to the trade off between sustainability and stabilization.
- Looking for alternative judge and jury will not overcome political and constitutional hurdles. Having Ministers and PMs to explain their policies in front of the EP could be one way of increasing political pressure.



- SDR needs to be visibly retained in order to have a modicum of market pressure.
- Incentivizing or protecting investment is a priority, but may only work for adjustment paths well within the boundaries of sustainability concerns.