COMMENT TO
"CHOOSING FISCAL CONSOLIDATION INSTRUMENTS COMPATIBLE WITH GROWTH AND EQUITY"
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Introduction

The topic of the paper is a most relevant issue and therefore rightly to be addressed here. In times, where we have a pressing need to consolidate public finances it is of utmost importance to look at the side effects and to search for a well suited consolidation strategy.

The problem with conflicts in politics, however, cannot easily be solved. It can be better to pursue only one goal. According to Tinbergen it is the best to have a clear assignment of economic policy goals to the respective instruments. In any case, one should avoid too complex goals. One candidate for such a complex goal would be a balanced global growth, as mentioned in the paper.

Main thrust of the paper

- The paper is very comprehensive and well and intense elaborated. It is also a package of very good analyses and I can concur with many things which had been outlined. I will therefore focus on things where I have problems but this should not be misread as being overly critical. Turning to the origin, the rise of public deficit and debt levels is primarily attributed to the legacy of the financial crisis. But it should be noted that most European countries had already a too high debt burden before the crisis. The main reasons were the failure in application of the Stability and Growth Pact and a not symmetric application of the so-called Keynesian approach.
- The paper therefore also not addresses the failure of fiscal policy coordination in the past. This should also include an assessment if the enforced fiscal rules of this coordination work more efficient. If this is not the case it has also consequences for the topics raised. It should also be more questioned that Keynesian politics have not worked sufficient. There were always arguments in bad times for deficit spending but you always miss the point in good times to save enough. This feature should also be incorporated when designing a consolidation strategy.
- The paper addresses the confidence or expectation effects of consolidation, but it gives them no big weight. It is stated that there is "no consensus on the existence of these potential expansionary effects of consolidation". I know that in economic literature this is at the moment state of the art. But, was economic literature always right in the past? To give an example, there was over decades among most economists a sheer neglect of the role of financial markets and the banking sector for the real sector. For such a neglect we all had to pay a very high price, as the most recent severe crises have shown. I am therefore here more proactive because I think expectations really matters. The sentence "deeper consolidation would, through multiplier effects, reduce growth" should be therefore revisited in this context. Literature normally states that consolidation is far more efficient when it is triggered on the expenditure than on the revenue side. The paper would benefit from addressing this issue more thoroughly.

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Ranking of policy instruments

- This ranking is well-taken but the political process is normally heavily built and don't like such a fine tuned approach. It is therefore an imminent task how to sell all this to the politicians. I think the rational and empirical base for such a ranking should also be considered and the criteria for the rational base should be clearer. On the rational, it is obvious that subsidies and pensions are on the top because these are the normal candidates for a deeper consolidation. The top positions should also be held from expenditure items since the revenue side is normally not so efficient in consolidation.
- The further items in the list are then more or less revenue items such as property taxes and income taxes. However, consumption taxes are listed at the back. Why? Are they really so regressive? Isn't also a risk that the early recourse on income taxes have negative side effects for growth? It is justified to group public investment at the end although unfortunately they are often the first choice of municipalities when it comes to expenditure cuts. The same is true for health service, childcare, family and education since these positions are the cornerstones for the wellbeing of a society. On the empirical basis, I rely on the work of the OECD.

Comments in detail

- The paper states that the debt ratio should be stabilized at 60 per cent of GDP in 2060. Is this not too late, also in the context of the huge demographic challenges? In the following private-sector indebtedness is mentioned. Would it not prudent to explore more on this? Furthermore, the baseline scenario assumes that substantial pension reforms are implemented to reduce public pension expenditures. The debate in Germany, however, shows that even with done reforms there are always risks of reversals, especially in good times.
- It is also mentioned that "other countries, including in particular Italy and Germany, face little or no short- to medium-term structural consolidation needs". I am interested in hearing by which facts such a statement for Italy can be underpinned. There is also a discussion about a possible higher public debt to GDP ratio ceiling. It is obvious that the 60 per cent value has a certain smell of being artificial. But it should be common sense that all approaches towards the 100 per cent level will create debt sustainability problems even in the short term.

Way forward

To sum up, the critical points mentioned should not blur the clear perception that the paper addresses the topic in a thorough and substantial way. However, further research and rethinking is required which is certainly a crucial element for all macroeconomic studies and should therefore not be seen as a point of criticism. Examples:

- Works fiscal policy coordination in Europe well?
- How efficient is a Keynesian approach?
- What is with expectations, how much they matter?
- What is with a very detailed advice which is for politicians not easy to handle?
- Would it not be easier to follow fiscal rules?
- Or would be the reliance on independent bodies also a way out? Obviously not, since in our world independence is in a certain way also an artificial concept. The struggle in aiming at an so called "independent" macroeconomic forecast is a good example for that.