

FOREWORD

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This volume brings together the papers presented at the Banca d'Italia workshop held in Perugia from 3 to 5 April 2014.

The workshop had two main objectives: to examine the changes that public policies should undertake in the coming years to adapt to a challenging new environment; to assess policy responses to the crisis. In many countries the recent crisis accelerated preexisting trends and made even more urgent a rethinking of the tax and welfare systems. The workshop contributed to this reassessment offering insights on the consequences of specific reforms carried out in and outside Europe. Policy-makers' reaction to the crisis, at the national and supranational level, had a markedly short-term focus, but also aimed, in a longer-term perspective, at guaranteeing the credibility and sustainability of public finances. The reaction to the euro-area sovereign debt crisis included institutional reforms as well as fiscal adjustments. In the workshop, together with discussing the recent reform of EU governance, a number of topics related to the timing, the effectiveness and the composition of fiscal consolidations were examined on the basis of theoretical and empirical works.

The first session focused on the various effects of both tax and expenditure policies. The first two papers tackled the issue of the impact of changes in tax rates and work-related tax expenditures on revenues, taking into account behavioral responses which, in both cases, significantly affect the results. Two works analyzed the effects of fiscal policy on labor markets and on the economy in general in a sample of OECD countries, thus providing guidance for the design of a policy mix which could respectively favor job creation and minimize the impact of consolidation on economic growth. Finally, the remaining two papers discussed actual and potential pension reforms respectively in Eastern Europe and South America. Even though the institutional contexts are quite different, in both cases the authors argue that the reforms were to some extent disappointing: the main issues discussed in the two articles relate respectively to the returns and the allocation of private pensions funds and to the low coverage guaranteed by contributory pension schemes, the latter due to the extent of the informal labor market.

The works included in the second session were largely concerned with budgetary adjustments. The first paper investigated the factors conducive to a successful exit from IMF official assistance, indicating that, together with determined actions such as fiscal adjustment and decisive financial sector repair, stringent conditionality and supportive external conditions increase the probability of success. The second study assessed the impact of government's payment delays and arrears on the private sector, arguing that increased delays negatively affect the suppliers' liquidity and ultimately economic growth. Two papers investigated, respectively, the influence of fiscal policy uncertainty in the propagation of government spending shocks, and debt dynamics resulting from shocks to the budget, inflation and growth. A fifth research examined the possible effects on public opinion of fiscal policy, contributing to the literature which assign importance to confidence effects when assessing fiscal multipliers. Finally, the last two papers directly estimated, with different techniques and data, fiscal multipliers for a panel of euro-area countries.

The third session dealt with the effects of recent changes in fiscal rules. In particular, the first paper reviewed the innovations to the European fiscal framework introduced by the so-called "Six-pack", the "Two-pack" and the Fiscal Compact, and formulated several recommendations for

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their improvement. The second paper examined instead the impact of national and European fiscal rules on the Polish fiscal policy, pointing out that the former were much more effective than the latter in influencing government behaviour. The authors of the third work built a unique worldwide dataset, showing that the number of fiscal councils surged in recent years and that only well-designed councils are associated with stronger fiscal performance and more accurate forecasts. A final paper – concerned with the Euro area – examined the possible establishment of a supranational fiscal capacity (a fiscal union), in order to buffer country-specific shocks. The authors argued that steps in this direction are desirable, even if they acknowledge that there are significant implementation and political obstacles. They also suggested that one way to create a euro-area fiscal union could be via a euro-wide, notional-defined contribution pension scheme.

The panel discussion, at the end of the conference, examined fiscal rules, focussing on the European context. The three panelists agreed that progress in addressing the shortcomings of the pre-crisis institutional setting has been made, but they also recognized that the current set of rules has become too complex. Intricate rules allow for more than one interpretation, thus increasing the probability of disagreement among member states as well as between member states and the Commission. Furthermore, they reduce the accountability of policy-makers. All panelists recommend that the design of fiscal rules do not discourage structural reforms, and that a proper space be left for market-based fiscal discipline.

Banca d'Italia is grateful to the institutions that contributed to the success of the initiative, to the experts who provided research papers and to all who came to Perugia to take part in the discussion.

This volume extends the analysis of fiscal policy issues carried out in the previous workshops, which were devoted to *Indicators of Structural Budget Balances* (1998), *Fiscal Sustainability* (2000), *Fiscal Rules* (2001), *The Impact of Fiscal Policy* (2002), *Tax Policy* (2003), *Public Debt* (2004), *Public Expenditure* (2005), *Fiscal Indicators* (2006), *Fiscal Policy: Current Issues and Challenges* (2007), *Fiscal Sustainability: Analytical Developments and Emerging Policy Issues* (2008), *Pension Reform, Fiscal Policy and Economic Performance* (2009), *Fiscal Policy: Lessons from the Crisis* (2010), *Rules and Institutions for Sound Fiscal Policy after the Crisis* (2011), *Fiscal Policy and Growth* (2012) and *Public Finances Today: Lessons Learned and Challenges Ahead* (2013).