COMMENTS ON SESSION II: EUROPEAN FISCAL RULES

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I would like to congratulate the authors for providing insightful intuition and stimulating ideas.

Because of the time constraints, I can not claim to synthesise all papers of this panel that covers a large scope, so I would rather focus on some aspects that seem to me of major interest for policy-making. The most prominent common feature of these papers is probably the critical assessment of the Stability and Growth Pact (SGP) they make. It appears as an imperfect approach to achieve fiscal discipline and could even be counterproductive in some respect.

Quinet and Mills endeavour to define the conditions of efficiency of fiscal policy. This aspect is also discussed in Bernsden's paper for the case of the Nederlands. Considering that automatic stabilisers should operate in full to allow for the stabilisation impact of fiscal policy, it requires to be able to measure accurately the size of automatic stabilisers or in other terms to be able to correctly assess the cyclical adjusted budget balance (CAB), which is nothing but a proxy for the structural budget balance. It is a controversial issue since some public expenditures have to be defined as sensitive or non sensitive to the business cycle (interest payments, public wages...). Moreover, there exists great deal of techniques either based on statistical approaches or more fundamental (economic) approaches providing different results to estimate trends. Eventually, the estimates of CAB rely on the estimation of tax elasticities. For the last two years, many European countries have recorded substantial tax receipts in line with the growth upswing, and in many cases, more important than expected on the ground of average tax elasticities. Should we consider that these tax surpluses are a structural outcome due for instance to a structural change (the impact of a "new economy", for instance) leading to an increase in potential growth or it is only the positive and temporary consequences of a

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buoyant economic climate which may vanish at the next turning point of the business cycle?

The stabilisation properties of the budget vary across the cycle and also depend on the nature of underlying economic disturbances, meaning that an accurate assessment of the CAB and of automatic stabilisers implies a correct identification of shocks (demand versus supply-side) affecting the economy.

Föttinger carefully addresses the accountability and transparency of the general government national accounts, by focusing on the need for distinguishing consumption versus capital expenditures.

Endogenous growth theory teaches us that some types of public spending yield positive externalities and may increase potential GDP. A large amount of the economic literature has been devoted to the positive impact of education, research-development, investment in networks on economic growth. For this reason, it would be of particular interest of being able to clearly identify public consumption expenditure from public capital formation and it can be an argument to relax expenditure norms on capital expenditures. Nevertheless, a large part of capital formation does not only consist of physical but also human capital. Everybody acknowledges that increasing the level of education is probably one the most useful investment for an economy. However, public spending on education is mainly represented by the public wage bill of teachers which is obviously not categorised as capital formation.

An other point raised by Föttinger is the partial view on public finances provided by national accounts. Economic agents have become over the last twenty years more and more forward-looking: they take better into account economic policy measures in their decision-making process. I fully agree with the fact that there is a substantial need for improving the building up of national accounts by adding reliable estimates of off-budget liabilities on a regular basis (such as unfunded pension claims or off-budget guarantees). Regarding the net wealth criterion, I think it could be valuably included in a set of fiscal indicators useful to assess the solvency constrain on fiscal policy.

However, it is necessary to keep in mind that we have to cope with the estimate of non-market assets which represent in some cases a large part of general government assets. Moreover, as it could be recently observed, the large fluctuations in the market value of telecommunications companies - still partially state-owned companies - have substantially affected the value of assets held by governments. It may be inappropriate to consider highly variable assets that may only temporary reduce the total debt.

In my view, Föttinger provides too a pessimistic view on the harmonisation process of standards of accounting in the public sector. A lot has already been done at the European level in that direction.

Buti's paper deals with the policy mix issue in the EMU and tries to provide some insights regarding fiscal and monetary policy co-ordination and co-operation. This paper is different from the other papers presented in this panel in his scope, since it does not develop a normative approach. It innovates since by taking on board the SGP fiscal rules and intends to define the conditions for an efficient policy mix in the EMU in a game theory framework. This topic has received a growing interest over the recent years and represents a crucial issue for the definition and implementation of fiscal and monetary policies in a decentralised framework such as the Euro-zone.

Among several other stimulating conclusions, this paper stresses on the fact that policy co-ordination may be looked at as an insurance against future shocks : it is true for demand shocks which is not surprising, that is also true for supply shocks, which is less intuitive.

The paper demonstrates in both a formal and clear manner that in all circumstances (whether there is a shock or not and whatever the nature of shock) that EMU economies are better off with policy co-ordination. This conclusion obviously brings a strong support for policy co-ordination in the EMU. And, if I want to be provocative in some way, I would say that this paper could be understood in a more critical manner, meaning the SGP does not provide in itself enough incentives or constrains toward policy co-ordination in order to reach an economic optimum.

Referring to my introduction remark on the critical assessment of the SGP made by all papers in this panel, I think it is necessary to recall that the 3% deficit ratio ceiling and the 60% debt ratio, combined with the "close-to-balance" provision of the SGP have been designed to avoid freeriding behaviours but are also a pedagogical tool towards the public. They play a role to enlarge political support in favour of sound fiscal strategies and they have been successful in that sense. It is probably time now to pave the way for improving their economic outcomes in a context of one monetary policy versus fragmented fiscal policy framework, by thinking of co-ordination scheme within the EMU.