COMMENTS ON SESSION I: ASSESSING PUBLIC LIABILITIES

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Let me start by thanking the organizers for inviting me to participate as a discussant in this conference. Though I found all the presentations very interesting, I thought it would be more useful to focus my comments on the paper by Ferretti and Moriyama, as they address a key issue in the EU fiscal framework. As it is well known, several national governments implemented recently or plan to implement fiscal operations that improve the main fiscal indicators used in the excessive deficit procedure, but have no structural impact on government finances. Indeed, the fiscal balance (even if compiled according to a complete system of accounts by all member states) and the gross consolidated debt of general government are variables vulnerable to "creative accounting". Unfortunately, as the authors underline, there is still very limited empirical work on this issue.

My comments on the paper focus on the relative merits of gross debt and net worth as far as the analysis of non-structural measures, fiscal sustainability and vulnerability to "creative accounting" are concerned. Additionally, I elaborate very briefly on the empirical results presented by the authors and on how to curb "creative accounting". The table below shows a very simplified typology of the transactions that may affect the deficit, gross debt and net worth.

Several points should be highlighted:

- Net worth is, up to a point, superior to gross debt as a fiscal indicator as: i) it is not affected by the recomposition of general government financial assets/liabilities (type III non-structural measures), ii) it is not affected by acquisitions/sales of non-financial assets (type II non-structural measures – in this respect net worth is also superior to the deficit).
- However, net worth requires the measurement of the general government capital stock and its depreciation (a non-trivial practical problem indeed).
- Distinct indications from gross debt and net worth will tend to fade away in the long-run, as the stock of marketable non-financial assets and financial assets declines (type II and type III measures).
- Both gross debt and net worth are affected when type I measures are implemented. It should be underlined that many operations involving capital transfers are of a self-reversing nature, increasing simultaneously future liabilities. They may encompass, for example, a rise in future pension payments or in payments related to the construction of infrastructures under some forms of

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Table 1

Typology of non-structural measures that may affect the deficit, gross debt and net worth

	Type of measure		Deficit	Gross debt	Net worth
Transactions	I	Impacting net savings/capital transfers [1)]	Δ	Δ	Δ
	II	Sale of non-financial assets⇒debt redemption	Δ	Δ	=
	III	Sale of financial assets⇒debt redemption	=	Δ	=
Other flows	IV	Impacting other changes in volume of debt [2)]	=	Δ	Δ

Notes: 1) For example, a capital transfer from a public corporation in exchange for the taking over by general government of future pension payments.
2) For example, a debt assumption from an institution that already ceased to exist.

PPP. In this context, neither the gross debt nor the net worth provide useful information. The only way out is to take into account additional information showing imputed liabilities stemming from future expenditure commitments. This is important, for example, in the framework of the inclusion of pension funds and their liabilities in the general government.

- Finally it is important not to mix measures, as privatisations, which have an economic rationale independent from the assessment of public finances in the context of the excessive deficit procedure and the SGP, with measures that simply aim at benefiting of ESA loopholes for “window dressing” as some capital injections. Both indicators are vulnerable to the latter problem.

Turning now to the empirical results, according to the authors, in contrast with what happened between 1992 and 1997, from 1997 to 2002 the correlation between the changes in government assets and liabilities is almost nil, and thus the changes in the net worth follow quite closely the changes in the gross financial liabilities. A possible explanation could rely on the less punishing nature of fiscal rules after 1997. However, it should be reminded that the SGP came into force at the beginning of 1999, strengthening, – at least apparently – the fiscal discipline in the EU. Therefore, I would rather think that it was the favourable macroeconomic developments that allowed the fulfilment of the fiscal rules without requiring the implementation of non-structural fiscal measures. As most EU economies

decelerated in 2001-03, fiscal temporary measures reappeared, in the context of a very loose implementation of the SGP.

I suppose we all agree that creative accounting is an ugly outcome stemming from fiscal rules. But how is it possible to limit it? I would make only two points. Firstly, in my view, in the fiscal policy assessment at EU level, a central role should be attributed to a set of sustainability indicators, beyond the fiscal balance and gross debt already taken into account in the excessive deficit procedure and the SGP. However, any use of the sustainability indicators for policy assessment requires that they are calculated in a comparable way for all EU member states. That should be assumed as a priority both by the Commission and the national authorities. Secondly, the transparency in the compilation of data on public finances should be substantially increased in several member states, defining a common standard to be followed by every country at the EU level, reinforcing the independence of the national statistical institutes and beefing up the ability of the Parliaments to follow fiscal developments. If these guidelines were followed, the role of the Commission in the assessment of national fiscal policies would have all the conditions to be much more effective and we would be spared from having unpleasant surprises when the governments of some countries change.