

**DISCUSSION – PART II OF SESSION ON “THE FUTURE OF EMU”**

**ATTINASI & FREIER: “GUIDING PRINCIPLES FOR FISCAL UNION IN EU”**

**SUSEC: “STEPS TO TRANSFORM THE ESM INTO A EMF”**

**CIOFFI, RIZZA, ROMANELLI, TOMMASINO: “DEBT REDEMPTION SCHEME”**

**Javier J. Pérez**

Banco de España

20th Banca d’Italia Workshop on Public Finance

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# INFLATION OF PROPOSALS IN A LOW INFLATION WORLD



## Economists



**Attinasi & Freier**  
**Susec & Hamel**  
**Ciofi et al.**

Reconciling risk and discipline: A constructive approach to euro area reform

Agnès Bénéassy-Queré, Paris School of Economics and University of Paris 1; Markus Brunnermeier, Princeton University; Henrik Enderlein, Hertie School of Governance and Jacques Delors Institute Berlin; Emmanuel Farhi, Harvard University; Marcel Fratzscher, DIW and Humboldt University Berlin; Clemens Fuest, Ifo Institute and University of Munich; Pierre-Olivier Gourinchas, University of California at Berkeley; Philippe Martin, Sciences Po, Paris and Conseil d'Analyse Économique; Jean Pisani-Ferry, Bruegel, EUI, Hertie School of Governance and Sciences Po; Hélène Rey, London Business School; Isabel Schnabel, University of Bonn and German Council of Economic Experts; Nicolas Véron, Bruegel and Peterson Institute for International Economics; Beatrice Weder di Mauro, INSEAD and University of Mainz; and Jeromin Zettelmeyer, Peterson Institute for International Economics

## Political Scientists & other



*The Political Quarterly*, Vol. 88, No. 4, October–December 2017

Lack of European Identity and the Failure of the Eurozone



**Political constraints**

**Key decision players:**  
**Governments**  
**EU-wide fora**



## **SOME THOUGHTS TO PUT PROPOSALS INTO PERSPECTIVE**

**in search for missing elements in the debates**

# THOUGHT #1: NATIONAL VS. TECHNOCRATIC PREFERENCES



THE SUPPORT OF THE PEOPLE

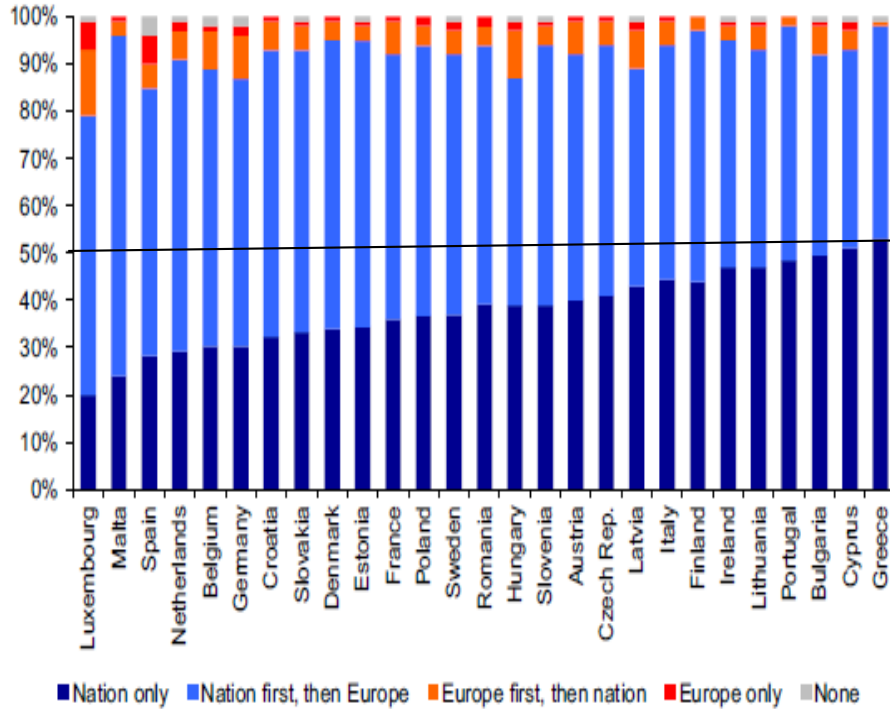


Figure 1: National versus European self-identification in twenty-seven EU member states [Colour figure can be viewed at [wileyonlinelibrary.com](http://wileyonlinelibrary.com)]

## EU membership is a bad thing, %

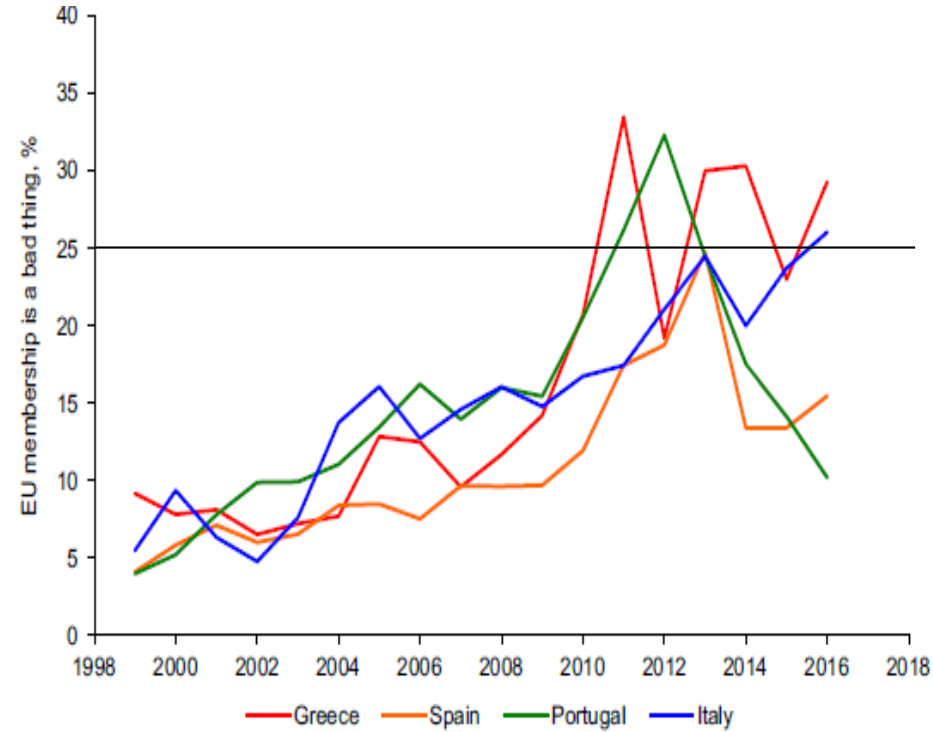


Figure 3: Anti-EU sentiment in major southern European countries, 1999–2016 [Colour figure can be viewed at [wileyonlinelibrary.com](http://wileyonlinelibrary.com)]

## THOUGHT #1: NATIONAL VS. TECHNOCRATIC PREFERENCES



### POLITICAL ECONOMY LITERATURE

**Governments have the wrong incentives to implement time-consistent policies**

**Technocrats have the right incentives to do the right things**

*Automatism, “independence”*

**Implication for governance (EMF, fiscal councils, ...):**

**Let's move tasks and policy instruments from Govs to Techno**

**But governments interact with “the people”**

**Could “Technocrats” do the same? *Only proxy...***

*Accountability to Parliaments*

*Transparency in decisions, methodologies, ...*

*National bias (given explicit preferences)?*

**THOUGHT #2:  
NOT SO MUCH ON ENFORCEMENT TECHNOLOGY**



**IS IT ENOUGH BY CREATING “INDEPENDENT” BODIES AND EMPOWERING THEM? (EMF?)**

**[Ex ante, real-time, crisis-related task] vs. [Ex post, normal-times decisions]**

**type-I vs type-II errors**

**Issues that still will be there:**

**real-time information problems;**

**identification of shocks;**

**measurement issues (“output gap”, “medium-term spending”, ...)**

**identification of a liquidity vs. sustainability problem**

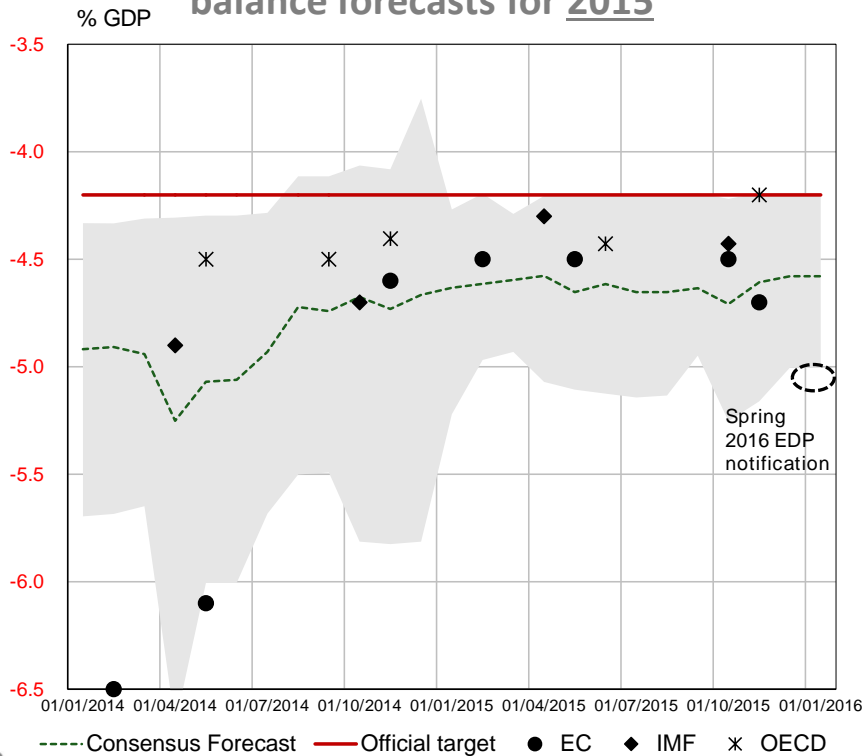
**THOUGHT #2:  
NOT SO MUCH ON ENFORCEMENT TECHNOLOGY**



**IS IT ENOUGH BY CREATING “INDEPENDENT” BODIES AND EMPOWERING THEM? (EMF?)**

**Issues that still will be there:**

Spain: evolution of govnt budget balance forecasts for 2015



EU-wide: data reliability – govnt Budget balance revisions (EU-15 countries)

**Revision within the 1st year:**

$$r_t^2 = d_t^2 - d_t^1$$

Mean 0.00

**Revision after 4 years:**

$$r_t^8 = d_t^8 - d_t^1$$

Mean -0.34\*\*\*

**THOUGHT #3:  
WHAT IF TOMORROW THERE IS A CRISIS?**



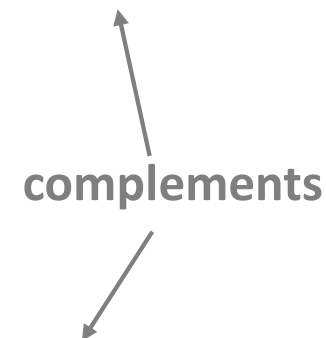
**THE MOST PRESSING ISSUE, WITHIN THE LARGE SET OF PROPOSALS**

**Attinasi & Freier: *from a bottom-up perspective...***

**central capacity to absorb symmetric or (too large) asymmetric shocks**

**Susec & Hamel:**

**EMF: crisis assistance and crisis prevention**



**Cioffi, Rizza, Romanelli & Tommasino:**

**European Sovereign Debt Restructuring Mechanism**



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**Design issues: automaticity,  
neutral contributions,  
withdrawal rules –  
preference?**

**Cioffi, Rizza, Romanelli & Tommasino:**

**European Sovereign Debt Restructuring Mechanism**

**Superior to coordination if  
spillovers are large?**

**THOUGHT #3:  
WHAT IF TOMORROW THERE IS A CRISIS?**



**THE MOST PRESSING ISSUE, WITHIN THE LARGE SET OF PROPOSALS**

*Attinasi & Freier: from a bottom-up perspective...*

central capacity to absorb symmetric or (too large) asymmetric shocks

**Susec & Hamel:**

**EMF: crisis assistance and crisis prevention**

**Do standard tools for crisis prevention work in ex ante, pseudo-real-time exercises?**

**Cioffi, Rizza, Romanelli & Tommasino:**

**European Sovereign Debt Restructuring Mechanism**

**Identification of liquidity vs. Sustainability crisis**

**... and the burden of mistaken decisions**

**THOUGHT #3:  
WHAT IF TOMORROW THERE IS A CRISIS?**



**THE MOST PRESSING ISSUE, WITHIN THE LARGE SET OF PROPOSALS**

Attinasi & Freier: *from a bc*  
central capacity to absc

**Clean start (European Redemption Fund) that mitigates type-I error: self-fulfilling debt crisis for fundamentally solvent countries**

**repeated game?**

**Complex yearly transfer system?**

Susec & Hamel:

EMF: crisis assistance a

**Consolidation: would the current generation be willing to pay down the “extra” in exchange for enhanced stabilisation**

**Cioffi, Rizza, Romanelli & Tommasino:**

**European Sovereign Debt Restructuring Mechanism**

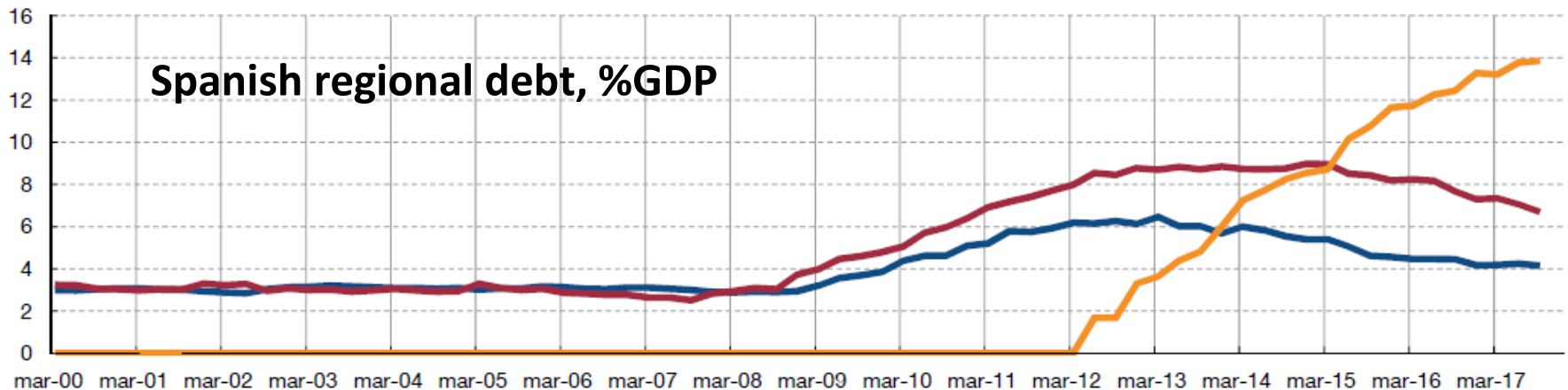
# THOUGHT #4: LEARNING FROM EXISTING FEDERATIONS



THE POLITICAL ISSUE OF SELF-IDENTIFICATION BY CITIZENS: CONVERGENCE/DIVERGENCE WITHIN NATION-STATES/BEYOND NATION-STATE?

ANOTHER CLASSICAL ISSUE: SOFT BUDGET CONSTRAINT PROBLEM - HOW TO ENFORCE THE NO-BAIL-OUT CLAUSE?

Example: SPANISH “FEDERATION” (AN UPCOMING ERF?)



— VALORES  
**Securities**

— **Loans with private banks**

— **Loans with central government**