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Fiscal Rules, Fiscal Institutions or Both?

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Director

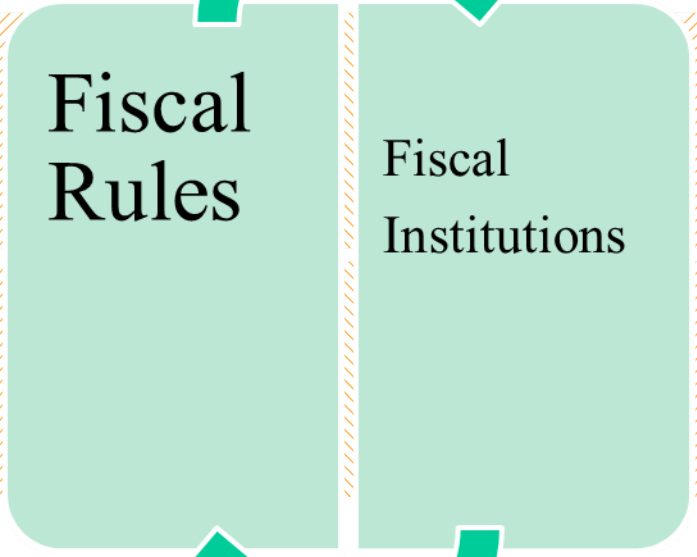
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Fiscal Rules

“We need more binding and more ambitious rules and commitments for the Euro area Member States. They should reflect that sharing a single currency means sharing **responsibility for the Euro area as a whole. (Letter from Chancellor Merkel and President Sarkozy to Herman Van Rompuy, **7th December 2011**).**



Crisis Prevention

- Task Force on Economic Governance (Autumn 2010)
- Six Pack
- Fiscal Compact
- Two Pack

“non compliance with rules was identified as the cause of the crisis, not the good or bad performance of economies”



**EU institutions have a more
visible and **intrusive** role than
ever before in scrutinising and
guiding national economic,
fiscal, and social policies,
especially within the eurozone**



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Institutionalising Rules- European Semester

- Institutional architecture for socio-economic governance
- **Calendar** approach to policy coordination
- Clearer budgetary hierarchy between the centre and Member States
- Common timeline on the elaboration of draft budgets
- Introduces more stringent reporting requirements for euro area countries under EDP
- **'Communitarizes'** the decision-making regime on conditionality



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The European Semester brings together within a **single annual cycle a wide range of **EU governance instruments with different legal bases and sanctioning authority**, from the **Stability and Growth Pact (SGP)**, the **Macroeconomic Imbalance Procedure (MIP)**, and the **Fiscal Treaty** to the **Europe 2020 Strategy** and the **Integrated Economic and Employment Policy Guidelines****



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What kind of Governance?

- Robust hierarchy for ensuring compliance- top down?
 - Shadow of sanctions
- Does the Semester's new governance architecture offer opportunities for joint exploration and recursive learning among Member States and EU institutions?



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Evolution of Semester 2010-2015

- Move from 'one size fits all'
- Change in the priorities of the Annual Growth Survey to become more employment oriented
- Significant rebalancing between social, economic, and employment objectives



EU-Member State

- The Social Protection Committee (SPC) and the Employment Committee (EMCO) of national officials have established themselves as key players in monitoring, reviewing, and assessing national reforms within the European Semester
- Joint Assessment Framework for the implementation of the Employment Guidelines ((Enhanced Peer Review)

Assessment Framework



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Reform Capacity of the Member States

- State Capacity- administrative and public policy robustness
- Politics- Reform coalitions
- How to overcome/outflank rent seekers and fractious minority interests within the member states



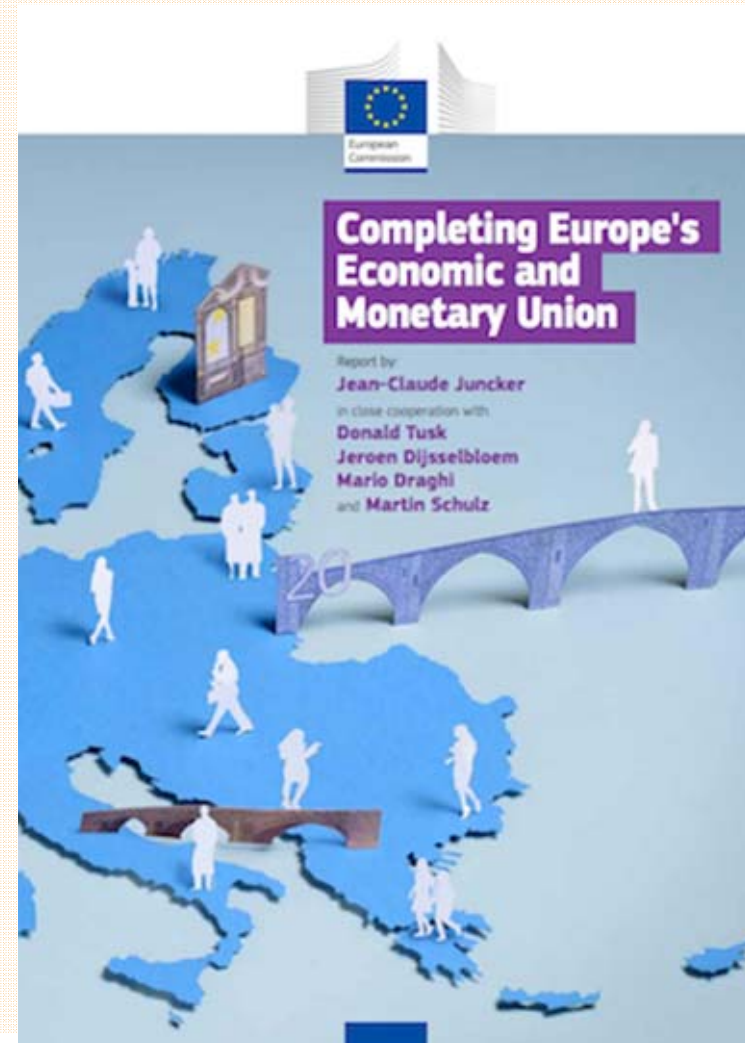
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Beyond Fiscal Rules

- Ambiguity
- ‘In spite of the undeniable importance of economic and fiscal rules and respect for them, the world’s second largest economy cannot be managed through rule-based cooperation alone’.

www.eui.eu/RSCAS





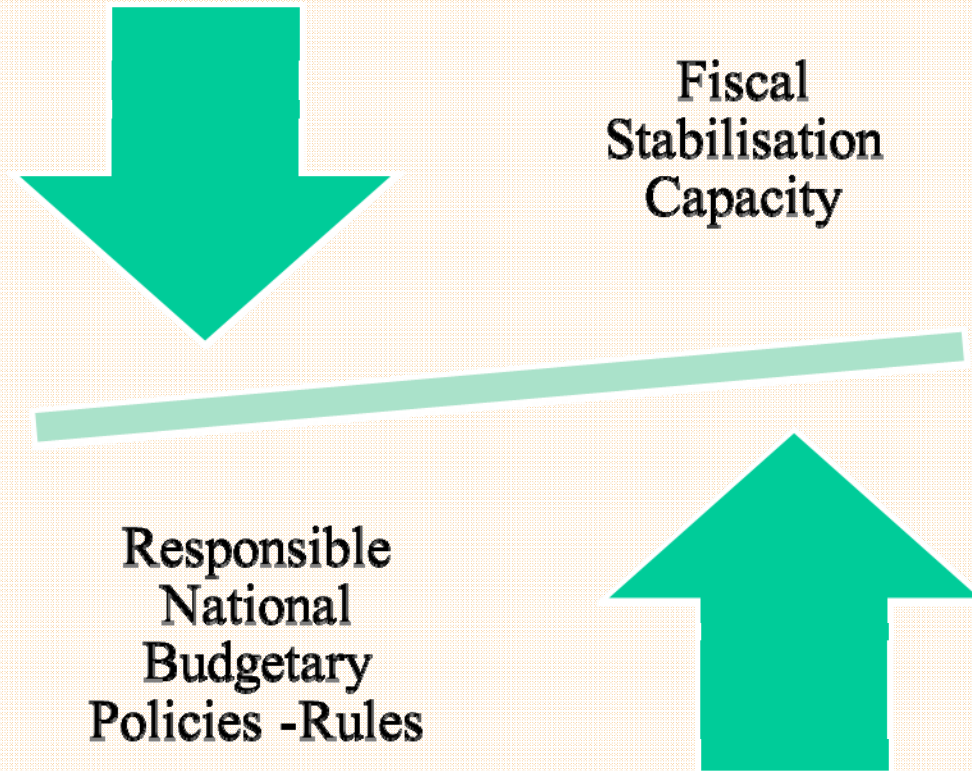
Genuine EMU

- For the euro area to gradually evolve towards a genuine Economic and Monetary Union, it will need to shift **from a system of rules and guidelines** for national economic policy-making to a **system of further sovereignty sharing within common institutions**, most of which already exist and can progressively fulfil this task



Convergence

- Stage 2
- Convergence process would be formalised and would be based on a set of commonly agreed standards with a **legal character**. Significant progress towards the latter would be regularly monitored
- Only then a shock absorption measure





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Institution Building

- European Fiscal Board
- Coordinate National Fiscal Councils
- Treasury



