Il cambiamento di prospettiva dei macroeconomisti dopo la crisi e la politica economica dell'Unione Europea

Marco Buti
Dirigente Generale
Affari Economici e Finanziari
Commissione Europea

"Dalla teoria economica alle politiche pubbliche"
XXIX Conferenza della Società Italiana di Economia Pubblica - Università di Catania - 21 Settembre 2017
MUSGRAVE +

Economic roles for government (Musgrave, 1959):

i) economic efficiency (correct mkt failures and improve resource allocation)
ii) stabilisation of economic cycle (stable employment)
iii) income redistribution (achieve equity)
iv) sustainability (sound public finances)
MAASTRICHT ASSIGNMENT

• EMU policy framework is a strong version of the consensus on policy making of the 80s:

i) Monetary Policy (centralised) by independent central bank superior in dealing with cyclical shocks <= conservative, independent central banker to bring down inflation, Barro-Gordon (1983), Rogoff (1985)

ii) Fiscal Policy (decentralised) action limited to automatic stabilization (normal cycles) <= Barro (1979)


iv) Competition (trade and internal mkt) increases efficiency <= Cecchini Report (1988)

• Fiscal rules

i) ban on excessive government deficits & on monetary financing of government deficits <= avoid fiscal dominance, Sargent & Wallace (1981)

ii) no government bail out
MUSGRAVE + and the MAASTRICHT ASSIGNMENT

- **Efficiency**  ++
  (but certain aspects, like productivity/reforms fully decentralised)

- **Stabilisation**  +
  (only based on monetary policy and automatic stabilisers)

- **Equity**  0
  (fully in the hands of member states)

- **Sustainability**  +++
  (necessity of supranational fiscal rules to secure sustainability and protect monetary policy from deficit bias and debt spillovers)
IMPACT of the GREAT RECESSION

i) **Efficiency**: K mkts not efficient and shock amplifiers (Rodrik, 2010, IMF 2011/2 & de Grauwe, 2009), more bank regulation (Vickers Com.), CA indicate possible problems to come (EUVOX 2015)

⇒ banking and K mkt union & structural reforms as common concern

ii) **Stabilisation**: there are non-normal times, high fiscal multipliers (Blanchard et al., 2010; Blanchard & Leigh, 2013; Gros, 2014; Furman 2015)

⇒ More weight to stabilisation and co-ordination

iii) **Equity**: link with growth and political economy (OECD 2012)

⇒ Equity considerations reflected in the Commission Reflection Paper, Recommendations and budgetary instruments (youth initiative) – but still decentralised

iv) **Sustainability**: low government debt not sufficient (Gosh, 2011) because gvmnt debt can explode due to bank-sovereign nexus (Beck, 2012)

⇒ Fiscal rules reinforced and Banking Union
MUSGRAVE + and the POST MAASTRICHT ASSIGNMENT

• Efficiency  ++ → +++
  (but certain aspects, like productivity/reforms fully decentralised)

• Stabilisation  + → ++
  (only based on monetary policy and automatic stabilisers)

• Equity  0 → ?
  (fully in the hands of member states)

• Sustainability  +++ → +++
  (necessity of supranational fiscal rules to secure sustainability and protect monetary policy from deficit bias and debt spillovers)
(I) Efficiency: pre-crisis productivity, divergence across EU countries and structural reforms

Divergence in TFP growth performance impacted the CA position

Look at micro-data

Increasing misallocation of resources within manufacturing contributed to divergence in IT & ES, not in FR/DE

Response:

i) **Macroeconomic Imbalances Procedure**

ii) **Operationalisation of the Structural reform clause of SGP**

*Gap between measured and potential TFP in manufacturing attributable to resource misallocation*

*Graph taken from Chad Jones: to be replaced with ECFIN graph*
(I) Efficiency: Banking & Capital Mkt Union

- Financial markets behaviour: too late, too much

⇒ more stringent regulation and more euro-area wide intervention:

Single Rulebook

- Not enough cross-border efficient capital allocation

⇒ Capital Market Union: 33 action in 6 areas
(II) Stabilisation

• SGP implementation

i) **New indicators of fiscal effort**

ii) **Investment clause** (applies only in bad economic times)

iii) **Debt benchmark** considered as an anchor for fiscal policy not as an automatic trigger (see below)

• Aggregate fiscal stance in the policy debate

• Stabilisation Capacity
(II) Stabilisation: broadly neutral fiscal stance desirable in 2018

Structural adjustment and the cycle - EA

Fiscal effort very pro-cyclical

Structural adjustment in the EA fell disproportionately on the vulnerable countries

Source: Ameco, European Commission
Spring Forecast 2017
(II) Stabilisation: evolving view on fiscal policy in EMU

Conventional view on fiscal policies in EMU – pre crisis

"Put your house in order"

- Rules to tame deficit bias in absence of national exchange rate policy
- Automatic stabilisers: let them play
- Risk of debt monetisation dominates monetary-fiscal relations
- Low spillovers because of offsetting monetary policy reaction
- Negative coordination suffices

Revising the role of fiscal policy in EMU – post crisis

"Augustinian view"

- Discretionary fiscal policy needed in case of large shocks
- High multipliers and spillovers when monetary policy is constrained
- Aggregate fiscal stance and differentiated fiscal space matter
- Sovereign-banks nexus
- Institutions vs. rules
- Links fiscal policies/ structural reforms
- Difficult to sanction sovereign states
(III) Equity: economic growth and the income distribution

• Increased awareness that distributional effects co-determine potential growth

i) Distributional effects of growth: household disposable incomes remain below pre-crisis levels, in vulnerable countries (CY, EL, ES, IT, SI, PT)

ii) Distributional effects of the crisis: negative effects are more strongly felt by the relatively less endowed households (bottom 20%). Risk of increased inequality of opportunity via underinvestment in human capital by the less endowed households
(III) Equity: policy response

2017 European Semester: paying more attention to inclusive growth but action remains in the hands of member states

CSRs on social priorities:

- **DE**: promote investment into education and reduce tax-wedge on low-wage earners.
- **ES**: address disparities in income guarantee schemes, educational outcomes, and improve family support.
- **FR**: improve access to the labour market to less qualified workers and people with a migrant background
- **IT**: facilitate take-up of work for second earners and improve the composition of social spending.)
(IV) Sustainability

- High government debt a drag on growth (Chudik et al., 2017) and recovery (upper graph)

- High debt countries more subject to tensions in financial markets (lower graphs)


Note: 'Higher interest rate' scenarios correspond to a positive shock of 1 pp. on newly issued and rolled-over debt.
(IV) Sustainability: policy response

- The 2011 reform of the SGP introduced a debt benchmark as the anchor for fiscal policy

\[ \Delta d = 0.05 \times (60\% - d) \]

- The medium-term budgetary objective (MTO) is the instrument

- Reasonable implementation: debt benchmark in normal and not normal times

- Improving the quality of government expenditures
Conclusions

• Policy makers, who believe themselves to be quite exempt from any intellectual influences, are usually slaves of some alive economist

• The crisis made resurface visions and ideas that theory had dismissed (ex. on banks and fiscal policy)

• Research => bureaucracies => policy deciders. Difficulties in transmission channels:
  i) Good politicians want to win elections
  ii) Absorption capacity by politicians who skip the staff and by the staff when not sufficiently up-to-date
  iii) Policy has different timespan than research
  iv) Incentives to broaden the scope of research: "only once you've tenure"
  v) Additional difficulties in a multi-layer governance. Discount rate of COM < than that of Member States
Thank you for your attention