

European Council: wait and sink?

By [Jérôme Creel](#), Paul Hubert and [Francesco Saraceno](#)

The European Council meeting being held at the end of the week should have been spent, according to the wishes of the French authorities, on renegotiating the European Fiscal Compact adopted on 2 March 2012. However, renegotiation has not been on the agenda. Alas, the Fiscal Compact does need to be re-opened for debate: it should be denounced for being poorly drafted, and its overly restrictive character needs to be reviewed; ultimately, the text should be amended. The focus of the debate on the structural deficit rule, which is unfairly described as the “golden rule”, is wide of the mark in so far as it is the rule on the reduction of public debt that is the more restrictive of the two rules included in the Fiscal Compact. This is the rule that demands to be discussed, and urgently, in order to avoid sinking deeper into a contagion of austerity plans that are doomed in advance...

The conflict over European growth between the French and Italians on the one side and the Germans on the other was probably defused by the agreement late last week with Spain in favour of a coordinated European recovery plan. The plan represents 1% of Europe's GDP, *i.e.* 130 billion euros, though its contours and funding remain to be clarified. The slogan of the European Council has thus been, by a process of elimination, “banking union”, in an effort to prevent a new wave of banking and financial crises in the European Union. Is the creation of a banking union important? Certainly. Is it urgent? Less so than a return to growth, which, while it certainly cannot be decreed, can be prepared. Given the state of the current Fiscal Compact, we can conclude that what is being prepared is not economic growth, but recession [\[1\]](#).

The Fiscal Compact, which is contained in Title III of the [Treaty on Stability, Coordination and Governance in the Economic and Monetary Union](#), explicitly includes two fiscal rules. The first clarifies what constitutes a budgetary position that is “balanced or in surplus”, a term enshrined long ago in the Stability and Growth Pact. According to the Fiscal Compact of March 2012, a budgetary position that is “balanced or in surplus” means a structural deficit of at most 0.5% of GDP. The structural deficit is the cyclically adjusted public deficit, *i.e.* adjusted for the well-known automatic stabilizers; this includes interest charges, among other items. When the structural deficit is exceeded, apart from exceptional circumstances, *e.g.* a “significant” downturn in activity, an automatic adjustment mechanism, whose nature is not specified, must bring it back below this limit. The structural deficit rule is relaxed for Member States whose public debt is below 60% of GDP: the structural deficit ceiling is increased to 1% of GDP.

The second fiscal rule is also a requirement for euro zone Member States with a public debt in Maastricht terms that is greater than 60% of GDP. In 2012, this rule applies to 12 out of the 17 Member States of the euro zone. This second rule aims to reduce the public debt by one-twentieth every year. Unfortunately, the text adopted is poorly written and opens the door to different interpretations, as we show below. It is therefore inapplicable. Even worse, given the current state of the economy, this rule is the more restrictive of the two rules in the Fiscal Compact. It is therefore urgent to pay attention to it and modify it to make it enforceable.

According to Article 4 of the Treaty, “When the ratio of a Contracting Party’s general government debt to gross domestic product exceeds the 60% reference value..., that Contracting Party shall reduce *it* at an average rate of one-twentieth per year as a benchmark...” The problem is that “*it*”, which we have put in italics, refers to the public debt ratio rather than to

the difference between the public debt and the 60% reference value. So, in 2012 should Germany, with a public debt in 2011 of a little more than 80% of GDP, reduce its debt by 4 GDP points (one-twentieth of 80% of GDP) or by 1 GDP point (one-twentieth of the difference with the reference value of 60% of GDP)? Legally, it is essential that a clear answer can be given to this kind of question.

Moreover, the Fiscal Compact is silent on the nature of the surplus to be used to reduce the debt: if, to leave room for maneuver in case of a cyclical deficit, this rule were to address the structural deficit – which would therefore need to be explained in the Compact – the debt rule would be even more restrictive than the golden rule: a structural *surplus* would be systematically required to reduce the public debt to 60% of GDP in the 12 Member States whose debt exceeds the reference value. Again, the formulation needs to be clear.

Suppose now that the “it” in Article 4 concerns the difference between the debt and the reference value, and that the rule on debt reduction applies to the entire public deficit. The question can then be asked, which of the two rules – the “golden rule” or the debt reduction rule – places greater restrictions on the Member States, and thus needs to be applied. We have set out, in an appendix [\[2\]](#), the small set of fiscal rules compatible with the Fiscal Compact. The total deficit is the sum of the cyclical deficit and the structural deficit. The cyclical deficit depends on the difference between actual and potential GDP, *i.e.* the output gap, which has an elasticity of 0.5 (average elasticity customary in the literature on the European countries, cf. [OECD](#)). The “golden rule” relates only to the structural deficit, while the debt reduction rule concerns the total public deficit, and thus depends on both the output gap and the structural deficit.

For what values of the public debt and the output gap is the “golden rule” more restrictive than the debt reduction rule? Answer: when the output gap is greater than 1 plus one-tenth

of the difference between the original debt and the reference value. This means that, for a country like Germany, the debt reduction rule would predominate over the “golden rule” except in cases of very high growth: the real GDP would have to be at least two points higher than the potential GDP. According to the OECD economic forecast published in May 2012, Germany’s output gap in 2012 will be -0.8. The debt reduction rule is thus much more restrictive than the “golden rule”. This is also true for France (debt of 86% of GDP in 2011), which would have to have an output gap of at least 3.6 points for the “golden rule” to be binding; yet the OECD forecasts an output gap of -3.3 in 2012. The same holds true for all the countries in the euro zone with a debt greater than 60% of GDP, without exception.

Except in cases of very strong growth, the debt reduction component dominates the structural deficit component. Yet it is the latter that is the focus of all the attention.

When a treaty is open to such differences in interpretations, isn’t it normal to want to revise it? When a treaty requires intensifying austerity measures in an area like the euro zone, whose GDP is almost 4 percentage points below its potential, according to the estimates of an organization, the OECD, that is generally not suspected of overestimating the said potential, is it not desirable and urgent to renegotiate it?

[\[1\]](#) A recent post emphasized the risks of social instability and the potential losses that might result from austerity-induced contagion in the euro zone (cf. [Creel, Timbeau and Weil, 2012](#)).

[\[2\]](#) Annex:

We start by defining with *def* the total public deficit, which includes a structural component *s* and a cyclical component *dc*:

$$\text{def} = s + \text{dc}$$

All the variables are expressed as a proportion of GDP. The cyclical component is composed of the variation in the deficit that occurs, thanks principally to the action of the automatic stabilizers, when the economy deviates significantly from its potential. A reasonable estimate is that the deficit increases by 0.5 point per point of lost output. The cyclical component can thus be expressed as:

$$\text{dc} = - 0.5 y$$

where we define y as the output gap, *i.e.* the difference between GDP and its potential level.

The rules introduced by the fiscal compact can be expressed as follows:

$$s_1 < 0.5,$$

that is, the structural deficit can never exceed 0.5% of GDP (s_1 refers to the first aspect of the rule), and

$$\text{def} = - (b_0 - 60)/20,$$

that is, the total deficit must be such that the public debt (expressed as a proportion of GDP) is reduced every year by one-twentieth of the difference between the initial public debt (b_0) and the 60% reference level. The debt rule can thus be re-written in terms of the structural deficit as:

$$s_2 = \text{def} - \text{dc} = 0.5 y - (b_0 - 60)/20.$$

We thus have 2 possible cases for when the structural deficit component is less restrictive than the debt reduction component:

Case 1

$$s_1 < s_2 \text{ if } y > 1 + (b_0 - 60)/10.$$

Assume the case of a debt level like Germany's ($b_0 = 81.2\%$ of GDP). Case 1 implies that the structural deficit component will be less restrictive than the debt reduction component if and only if $y > 3.12\%$, that is, if Germany has a GDP that is at least three points higher than its potential. If a country has a higher level of debt (e.g. Italy, at 120% of GDP), then $y > 7\%$!

Case 2

If the debt reduction rule concerns the structural deficit (rather than the total public deficit), then we have:

$$s_1 < 0.5$$

and

$$s_2 = - (b_0 - 60)/20$$

In this case, $s_1 < s_2$ if $1 < - (b_0 - 60)/10$, which will never happen so long as the public debt is greater than the reference level.

Must balancing the public finances be the main goal of economic policy

By [Henri Sterdyniak](#)

The financial crisis of 2007-2012 caused a sharp rise in public deficits and debt as States had to intervene to save the financial system and support economic activity, and especially as they experienced a steep drop in tax revenues

due to falling GDP. In early 2012, at a time when they are far from having recovered from the effects of the crisis (which cost them an average of 8 GDP points compared to the pre-crisis trend), they face a difficult choice: should they continue to support activity, or do whatever it takes to reduce public deficits and debt?

[An in-depth note expands on nine analytical points:](#)

– The growth of debt and deficits is not peculiar to France; it occurred in all the developed countries.

– France's public bodies are certainly indebted, but they also have physical assets. Overall the net wealth of government represented 26.7% of GDP in late 2010, or 8000 euros per capita. Moreover, when all the national wealth is taken into account (physical assets less foreign debt), then every French newborn has an average worth at birth of 202 000 euros (national wealth divided by the number of inhabitants).

– In 2010, the net debt burden came to 2.3% of GDP, reflecting an average interest rate on the debt of 3.0%, which is well below the nominal potential growth rate. At this level, the real cost of the debt, that is, the primary surplus needed to stabilize the debt, is zero or even slightly negative.

– The true “golden rule” of public finances stipulates that it is legitimate to finance public investment by public borrowing. The structural deficit must thus be equal to the net public investment. For France, this rule permits a deficit of around 2.4% of GDP. There is no reason to set a standard for balancing the public finances. The State is not a household. It is immortal, and can thus run a permanent debt: the State does not have to repay its debt, but only to guarantee that it will always service it.

– The public deficit is detrimental to future generations whenever it becomes destabilizing due to an excessive increase in public spending or an excessive decrease in taxation, at

which point it causes a rise in inflation and interest rates and undermines investment and growth. This is not the situation of the current deficit, which is aimed at making adjustments to provide the necessary support for economic activity in a situation of low interest rates, due to the high level of household savings and the refusal of business to invest more.

– For some, the 8 GDP points lost during the crisis have been lost forever; we must resign ourselves to persistently high unemployment, as it is structural in nature. Since the goal must be to balance the structural public balance, France needs to make an additional major effort of around 4 percentage points of GDP of its deficit. For us, a sustainable deficit is about 2.4 GDP points. The structural deficit in 2011 is already below that figure. It is growth that should make it possible to reduce the current deficit. No additional fiscal effort is needed.

– On 9 December 2011, the euro zone countries agreed on a new fiscal pact: the Treaty on Stability, Coordination and Governance of the European Monetary Union. This Pact will place strong constraints on future fiscal policy. The structural deficit of each member country must be less than 0.5% of GDP. An automatic correction mechanism is to be triggered if this threshold is exceeded. This constraint and the overall mechanism must be integrated in a binding and permanent manner into the fiscal procedures of each country. Countries whose debt exceeds 60% of GDP will have to reduce their debt ratio by at least one-twentieth of the excess every year.

This project is economically dangerous. It imposes medium-term objectives (a balanced budget, a debt rolled back to below 60% of GDP) that are arbitrary and are not *a priori* compatible with the necessities of an economic equilibrium. Likewise, it imposes a fiscal policy that is incompatible with the necessities of short-term economic management. It prohibits

any discretionary fiscal policy. It deprives governments of any fiscal policy instrument.

– As the rise in public debts and deficits in the developed countries came in response to mounting global imbalances, we cannot reduce the debts and deficits without addressing the causes of these imbalances. Otherwise, the simultaneous implementation of restrictive fiscal policies in the OECD countries as a whole will lead to stagnating production, falling tax revenues and deteriorating debt ratios, without managing to reassure the financial markets.

– A more balanced global economy would require that the countries in surplus base their growth on domestic demand and that their capital assumes the risks associated with direct investment. In the Anglo-American world, higher growth in wage and social income and a reduction in income inequalities would undercut the need for swelling financial bubbles, household debt and public debt. The euro zone needs to find the 8 GDP points lost to the crisis. Instead of focussing on government balances, the European authorities should come up with a strategy to end the crisis, based on a recovery in demand, and in particular on investment to prepare for the ecological transition. This strategy must include keeping interest rates low and public deficits at the levels needed to support activity.

Should the Stability and Growth Pact be strengthened?

By [Jérôme Creel](#), Paul Hubert and [Francesco Saraceno](#)

The European fiscal crisis and the ensuing need to reduce the levels of public debt accelerated the adoption of a [series of reforms of European fiscal rules in late 2011](#). Two rules were introduced to strengthen the Stability and Growth Pact (SGP). Given that many Member States in the euro zone have structural deficits and public debts that exceed the thresholds under consideration, it seemed worthwhile to assess the macroeconomic implications of compliance with these fiscal rules by four countries, including France.

The current limit of the public deficit to 3% of GDP was supplemented by a limit on the structural deficit equivalent to 0.5% of GDP, and by a rule on debt reduction requiring heavily indebted countries to reduce their level of public debt every year by 1/20th of the difference with the reference level of 60% of GDP. Moreover, the limit on the structural deficit goes beyond the 3% rule because it is associated with a requirement to incorporate a balanced budget rule and automatic mechanisms for returning to balanced budgets in the constitution of each Member State in the euro zone. Due to an unfortunate misnomer, this is now often called the “golden rule” [1]. To distinguish this from the “golden rule of public finance” applied by the French regions, the German Länder and, from 1997 to 2009, the UK, we will henceforth call this “balanced budget rule” the “new golden rule”.

Because of the international financial crisis raging since 2007, the euro zone States often fall far short of the demands of the new rules. This raises the question of the consequences that flow from imposing these rules on the Members. To this end, we decided to study the paths of convergence with the different rules of four countries that are representative of the euro zone, using a [standard theoretical model](#).

We chose a large country with an average level of public debt (France), a small country with a somewhat larger debt (Belgium), a large country with a large debt (Italy) and a small country with a relatively low level of debt (Netherlands). The size of the country, large or small, is associated with the size of their fiscal multiplier, i.e. the impact of public spending on growth: large countries that are less open than the small countries to international trade have a greater multiplier effect than the small countries. The four countries also differed with respect to the size and sign of their structural primary balance in 2010: France and the Netherlands ran a deficit, while Belgium and Italy had a surplus.

In the model, the evolution of the public deficit is countercyclical and the impact of an increase in the public deficit on GDP is positive, but excessive indebtedness increases the risk premium on the long-term interest rates paid to finance this debt, which ultimately undermines the effectiveness of fiscal policy.

The rules that we simulated are: (a) a balanced (at 0.5% of GDP) budget or the "new golden rule"; (b) the 5% per year rule on debt reduction; (c) the 3% ceiling on the total deficit (status quo). We also evaluated: (d) the impact of adopting an investment rule along the lines of the golden rule of public finance which, in general, requires a balanced budget for current expenditure over the cycle, while allowing the debt to finance public investment.

We simulated over 20 years, i.e. the horizon for implementing the 1/20th rule, the impact of the rules on growth, on the inflation rate and the structural public deficit and on the level of public debt. First, we analyzed the path followed by the four economies after the adoption of each fiscal rule in 2010. In other words, we asked how the rules work in the context of the fiscal austerity that Europe is currently experiencing. Second, we simulated the dynamics of the economy after a demand shock and a supply shock, starting from the base situation of the Maastricht Treaty, with the economy

growing at a nominal rate of 5% (growth potential of 3% and inflation rate of 2%), and a debt level of 60%. It is interesting to note that the real growth potential in the euro zone countries has been consistently below 3% since 1992, which has helped to make the rule limiting public finances even more restrictive than originally planned.

Our simulations led to a number of results. First, in every case the adoption of the rules produced a short-term recession, even in small countries with a small fiscal multiplier and a small initial public debt, such as the Netherlands. This complements the analysis that the widespread implementation of austerity in Europe is inevitably undermining growth (see [The very great recession](#), 2011) by showing that there is no fiscal rule that, strictly applied in the short term, makes it possible to avoid a recession. This finding points to an incentive on the part of government to dissociate the use of the fiscal rules de facto and de jure: in other words, if the ultimate goal of economic policy is the preservation and stability of economic growth, then it is wise not to act on the pronouncements.

Second, recessions can lead to deflation. Under the constraint of zero nominal interest rates, deflation is very difficult to reverse with fiscal austerity.

Third, the investment rule leads to a better macroeconomic performance than the other three rules: the recessions are shorter, less pronounced and less inflationary over the time period considered. Ultimately, the levels of public debt decreased admittedly less than with the 1/20th rule but, as a result of the growth generated, France's public debt shrinks by 10 GDP points from its 2010 level, while the Belgian and Italian debt are reduced by 30 and 50 GDP points, respectively. Only the country that was least indebted initially, the Netherlands, saw its debt stagnate.

Fourth, while ignoring the investment rule, which is not part of European plans, it appears that, in terms of growth, the status quo is more favorable than the "new golden rule" or the rule on debt reduction; it is, however, more inflationary for

the large countries. This indicates that, in terms of growth, the strengthening of the Stability and Growth Pact, brutally applied, would be detrimental to the four economies.

Fifth, when the economy in equilibrium is hit by demand and supply shocks, the status quo seems appropriate. This confirms the idea that the current Pact provides room for fiscal maneuvering. The simulations nevertheless suggest that the status quo remains expensive compared with the investment rule.

To conclude, it is difficult not to notice a paradox: the rules designed to prevent governments from intervening in the economy are being discussed precisely after the global financial crisis that required governments to intervene to help cushion the shocks resulting from market failures. This work aims to shift the debate: from the goal of fiscal stabilization to the goal of macroeconomic stabilization. The European authorities – the governments, the ECB and the Commission – seem to consider the public debt and deficit as policy objectives in their own right, rather than as instruments to achieve the ultimate objectives of growth and inflation. This reversal of objectives and instruments is tantamount to denying a priori any role for macroeconomic policy. Many studies [2], including the one we have conducted here, adopt the opposite position: economic policy definitely plays a role in stabilizing economies.

[1] This misnomer has been criticised in particular by [Catherine Mathieu and Henri Sterdyniak](#) in 2011, and by Bernard Schwengler in 2012.

[2] See, for example, the cross-disciplinary study that appeared in English in 2012 in the [American Economic Journal](#), Macroeconomics, and the bibliography that it contains, or in French, the study that appeared in 2011 by [Creel, Heyer and Plane](#) on the multiplier effects of temporary fiscal stimulus policies.

Regaining confidence in the euro: Three pressing issues

By [Jérôme Creel](#)

In a communication on European economic governance before the European Parliament's ECON Committee on Monday, 17 October 2011, three pressing issues were identified in order to save the euro and improve its management.

Saving the euro without further delay is the priority. To do this, it is necessary to provide the EFSF with sufficient funds and to require the ECB to continue intervening in the market for government bonds, so as to resolve the difference between the long-term rates of the peripheral countries and those in the countries in the heart of the euro zone (Germany, France, Netherlands), where these rates are falling and thus benefiting these countries, whereas the rise in the periphery is placing a heavy burden on the public finances of Greece, of course, but also of Portugal and Spain.

Second, the new legislation amending the Stability and Growth Pact and setting up a symmetrical device for monitoring macroeconomic imbalances needs to be implemented as soon as possible. This second priority is urgent, too: it should in the future allow the euro zone to avoid a new crisis, or at least to protect itself with proper instruments and surveillance. In this context, the European Parliament is being asked to "check the checkers" so as to give a real boost to Europeans' trust in their institutions.

Finally, it is necessary to ensure the proper functioning of European governance. Nothing has been lost, intelligent rules do exist: they must be applied after consultation. Inflation

targeting on the monetary side and a genuine golden rule of public finances on the budget side both need to emerge.

Communication to the European Parliament ECON Committee, 17 October 2011

Dear Honorable Members,

After almost two years of European turmoil related to the bad management of public finances in a few Eurozone countries, and more than four years after a deep worldwide crisis, time is certainly ripe for reaching European solutions to cure the crisis. Two emergencies are at stake: first, stopping distrust's contagion vis-à-vis Eurozone members; second, stopping misbehaviors' contagion among Eurozone members in the future. By the way, this second emergency certainly necessitates a separation between two periods: the short run and the longer run.

1. Short run emergency 1: improving trust in the Euro

In order to cope with the first emergency, Eurozone countries need a more automatic solidarity mechanism. There have been different options discussed and implemented so far at the Eurozone level, from the EFSF (then future ESM) to Eurobonds, or the intervention of the ECB on secondary markets. They all need to be enforced and implemented as soon as possible without limitations, otherwise discrepancies in long-term yields on public bonds will continue to grow across Eurozone members, at the expense of countries with twin deficits and at the benefit of countries which are closer to twin balance. Without strong automatic interventions, Eurozone countries take the risk of feeding distrust in their ability to support the Euro. The consequence might be distrust in the future of the Euro, distrust in the future of the EU project.

2. Short run emergency 2: enforcing the "6-pack" with improvement in its democratic content

In order to cope with the second emergency, the European Commission, the President H. van Rompuy and the European Parliament have dealt with the EU governance of the near future through a "6-pack" of legislative amendments which were adopted on 25 September 2011.

A major step has been made in the good direction: macro imbalances are no longer automatically related to deficits as they may also refer to surpluses; and a macro imbalance can be considered "excessive" only to the extent that it "jeopardizes or risks jeopardizing the proper functioning of the EMU". This is clear understanding that provided Eurozone countries are primarily partners rather than competitors, their trade links shall not be automatically confounded with risky imbalances for they do not impinge on the common currency, the Euro.

The "6-pack" also deals with the better enforcement of the Stability and Growth Pact, introducing earlier sanctions, and a more comprehensive fiscal surveillance framework. This is certainly necessary to make sure that the risk of moral hazard in the Eurozone is reduced to a minimum. However, the overall '6-pack' must pass beforehand criteria for the effectiveness of a fiscal rule.

There have been different ways to assess reform proposals for economic policies. A well-known and convenient one is a set of criteria first developed by George Kopits and Steven Symansky at a time when both were working at the IMF. According to them, a fiscal rule is effective if it is well-defined, transparent, simple, flexible, adequate relative to goal, enforceable, consistent and efficient. In an amendment by the European Parliament related to macro imbalances, one can read that the indicators in the scoreboard must be relevant, practical, simple, measurable and available; moreover, flexibility is advocated in the assessment of macro imbalances. The Kopits-Symansky criteria are thus still relevant, and only their seventh criterion, consistency, seems to have been forgotten from the list. Does it reveal that

through the current reform proposals, no one wishes to deal with monetary policy, which consistency with fiscal policies might well be assessed, and the other way round?

I have written elsewhere my own views on Kopits and Symansky's set of criteria ([Creel, 2003](#); [Creel and Saraceno, 2010](#)), but I think I need to insist on the simplicity one. I fear the existence of a so-called "simplicity" criterion when complex problems are arising. For instance, a strong public deficit may be due to 'bad times' (recession, slow GDP growth), interest rates hikes, wrong policies, a non-existing tax system, etc. A simple rule cannot handle the multiplicity of the causes for a deficit. I also fear that such a criterion is simply disrespectful towards the people: well-informed people can certainly approve complex rules if they believe that those who implement them target the common interest.

It leads me to propose that the "simplicity" criterion is changed into a "democratic" criterion. That change would not be substantial as regards Kopits and Symansky's justification of their criterion: simplicity is required, they say, to enhance the appeal of the rule to the legislature and to the public. Changing "simplicity" into "democratic" would thus be consistent with their view. It would add two advantages. First, there would be no need to target simple or simplistic rules, if more complex ones are required. Second, to enhance their appeal to the public, these rules should be endorsed and monitored by a Parliament: as their members are the representatives of the public, the latter would be fully informed of the nature and properties of the rule.

What would be the main consequences of assessing reform proposals through the lens of democratic content in the current context? First, the now-complex setting of fiscal rules in the EU, under the amendments of 25 September 2011, is well-defined but it is no longer simple. That should not lead us to assume that these rules will not be efficient. Second, if all European authorities, including the European

Parliament, approved a stricter surveillance mechanism for fiscal policies, macro imbalances, and employment guidelines, control over the misbehaving countries should be shared with all these authorities, hence also including the European Parliament. The implication of the latter, with that of the European Council, would enhance the appropriation of rules by the public, and the trust of the public in their institutions. Third, another consequence would be that automaticity in sanctions should not be an option for automaticity is contradictory with the essence of a democracy: contradictory debates.

Are the current reform proposals respecting the “democratic” criterion? The implication of the EP in these reforms already calls for a positive answer. Nevertheless, the implication of the EP in “checking the checkers” is necessary to achieve a definite positive answer. This implication might be very productive in reassessing the effectiveness of the policies which are undertaken in a country where suspicion of misbehavior is developing. The implication of the Economic Dialogue and the European Semester should also be used to improve trust in the EU institutions and the Eurozone governments, with due respect to the subsidiarity principle. Sharing information, analyses, data should be viewed by all partners as a way to achieve cooperation, keeping in mind that John Nash showed through his solutions that cooperative equilibria always lead to a win-win situation.

“Checking the checkers”, as I mentioned above, involves an informed assessment of the effectiveness of fiscal policies. Such an assessment is not dealt with in the current Stability and Growth Pact. During the procedure of fiscal surveillance, and before sanctioning a country, it is of the highest priority to gauge the effectiveness of a fiscal policy which has led to higher deficits and debts.

Discussions about fiscal policies are usually very pessimistic nowadays, as far as their effectiveness is concerned, but

those endorsing these discussions take the risk that the people have finally no trust in their governments, for they are said to follow the wrong policies, and in the European institutions that are not able to stop these policies.

It may be useful to recall (once again?) that a consensus exists in the economic literature about the sign of the fiscal multiplier: it is [positive](#). And because of that, the Chinese, US, German, French, etc. governments decided to increase their deficits through discretionary policies during the worldwide crisis: these governments were conscious that their policies were helpful. Why shouldn't they during other 'bad times'? Why should we all think that a contagion of fiscal restrictions in the EU will help us thrust again? Good policymaking requires that policies are contingent to the economic situation (GDP growth, inflation rate, level of unemployment, etc.).

In my view, at this stage, there are two important prerequisites to a rapid improvement in the EU governance, and I do not think they require a new Treaty. We all know that at the ECB and beyond, some argue that political pressures led this institution to buy public bonds, in contrast, they add, with the EU Treaty. Its independence would have been at stake. For this reason, the first prerequisite is in recalling the independence and mission of the ECB. The ECB is a young institution and it needs confidence in itself, as a teenager does. Once definitely adult, after full confidence is reached, the ECB will not fear coordination or cooperation with governments and the EP that fully respect its independence but may wish to improve the consistency of their policies with its.

The second prerequisite is in recalling the objectives of the EU, growth and stability, and in admitting that there is not a single way to achieve these objectives, for countries are still so different within the EU, even within the Eurozone. The 'one size fits all' is no longer an option, hence the necessity to complement fiscal rules with an assessment of

macro imbalances and with regular, transparent, and democratically-controlled assessments of the relevance of the underlying analyses by governments on the one hand, and controllers on the other. There is a strong role for the EP in acknowledging and managing this no 'one size fits all' way of dealing with fiscal rules.

3. Longer run emergency 2: more intelligent rules?

In the longer run, if improvements by the ECB in cooperating with governments have not materialized, a binding commitment to follow a cooperative behavior could be included in the statutes of the ECB. A change in its statutes might also be considered, with a view to adopting, for instance, a [dual mandate](#) similar to that of the Fed. That way, it would be clear that "if 5% inflation would have (Central bankers') hair on fire, so should 9% unemployment" (Ch. Evans, 2011). Another possibility would be to urge the ECB to implement full inflation targeting. That would require the ECB to make public its forecasts and minutes of decisions, thus enhancing information and potentially influencing the private sector.

Lastly, the most important debate on fiscal policymaking is in wondering what governments are doing with tax and spending, and how they finance them. The European Semester and the monitoring of indicators of macro imbalances certainly go in the good direction, but rather than a global view on the evolution of deficits and debts, Eurozone countries should think about circumscribing the good and bad parts of taxes and spending and make sure they all target the good policy, at their benefit and at the benefit of others. Of course, this is not an easy task, but it is a task that would make the EU fiscal rules ever more "intelligent".

Having common objectives within Europe 2020, it could be thought of having common tools to reach them: a higher EU budget? Or an authentic but modified [golden rule of public finance](#) where some expenditures proved to be productive, with

the agreement of all EU member states, would be left out of the scope of binding rules? That is not the hot topic of the day, but had it been before the SGP reform of 2005 that the stability of the Eurozone might not have been at stake the way it has been since the worldwide crisis.

I thank you for your attention.