

How to strengthen EU economic governance

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Other necessary measures

- Deal with the crisis
 - Bank restructuring
 - Clarification of the framework of Eurozone fiscal transfers
- Structural reforms
 - Flexible labour markets
- Competitiveness
 - Wage formation

Reforms of economic governance

1. Strengthening EU fiscal rules
2. Broader macroeconomic surveillance
3. Stronger national fiscal frameworks
4. Independent fiscal institutions
5. A permanent crisis resolution mechanism

References:

Calmfors, L (2010), Fiscal Policy coordination in Europe.

Baldwin, R, D Gros, and L Laeven (eds.) (2010), Completing the Eurozone Rescue: What more needs to be done?

Strengthening EU fiscal rules

- Sanctions should be earlier, more gradual, simple, and transparent
- No possibilities to extend deadlines for correcting an excessive deficit
- More effective decision-making procedures in the Ecofin council

Broader macroeconomic surveillance

- Ireland and Spain
- Set up a mechanism to *identify* and *eliminate* macroeconomic imbalances
- Monitoring of private debt developments
- BUT: evaluation of the fiscal risks arising from macroeconomic imbalances require judgement and should not be mechanical

Stronger national fiscal frameworks

- Well-defined fiscal objectives
- Ex-ante guidelines for fiscal policy as a stabilisation tool
- Commitments to transparency
- Incentives to avoid deviations from fiscal objectives
- Address the disconnect between policy processes at the European and the national levels

Independent fiscal institutions

- Fiscal watchdogs / fiscal policy councils
- Sweden (2007), Canada (2008), Hungary (2008), Slovenia (2009), and the UK (2010)
- Increase fiscal transparency
 - E.g. by ex-ante and ex-post evaluation of fiscal policy against its targets
- Implementer of macroeconomic surveillance
- Independence important!
- European fiscal council, outside Commission

A permanent crisis resolution mechanism

- European Monetary Fund (Gros & Mayer 2010)
- Strict conditionality regarding fiscal consolidation
- Linked to surveillance:
 - Stability Pact fines & sanctions could go into the fund, “insurance fees”
 - Surveillance to determine the amount of risk that private investors would have to take. Decided in advance (by an independent European fiscal policy council)
- Put end to bail-out “blackmails”.

Did the crisis weaken or strengthen the European cooperation?

- Weaken – Member States have broken against the rules.
- Strengthen – common actions to help member States in trouble.
- Possibly strengthen – crisis started a process, based on cooperation, to reform the economic governance. Success or failure? The future will show.