

Surveillance of Fiscal Policies

Charles Wyplosz

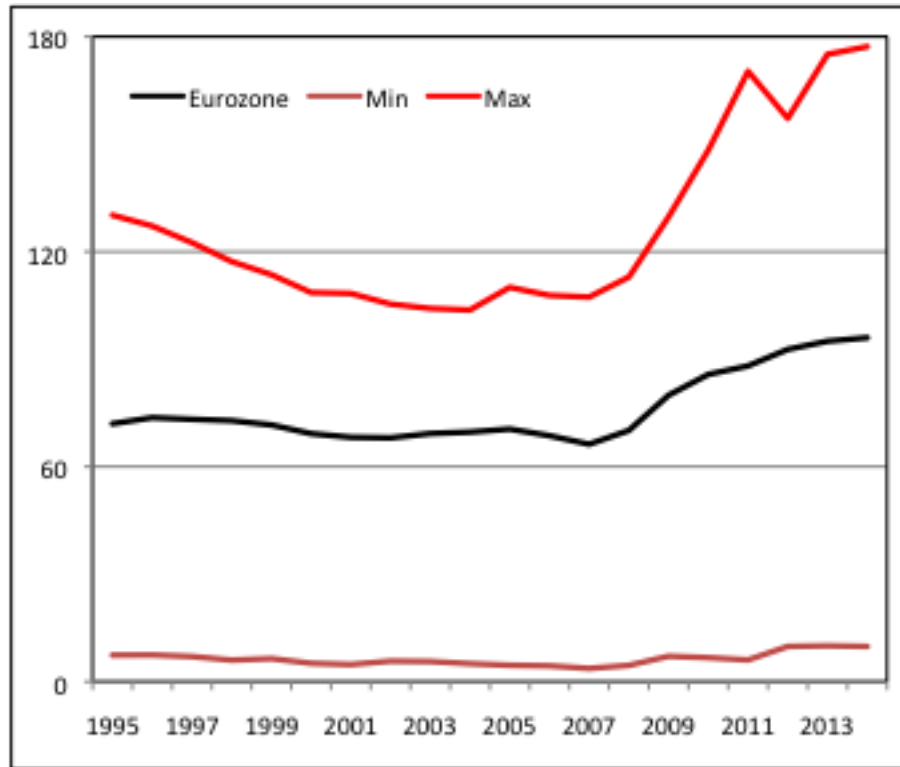
The Graduate Institute, Geneva

Seminar on “Experiences with the current EU Economic
Governance Framework”

European Parliament, 10 December 2014

The SGP has not worked

Debt/GDP (%)



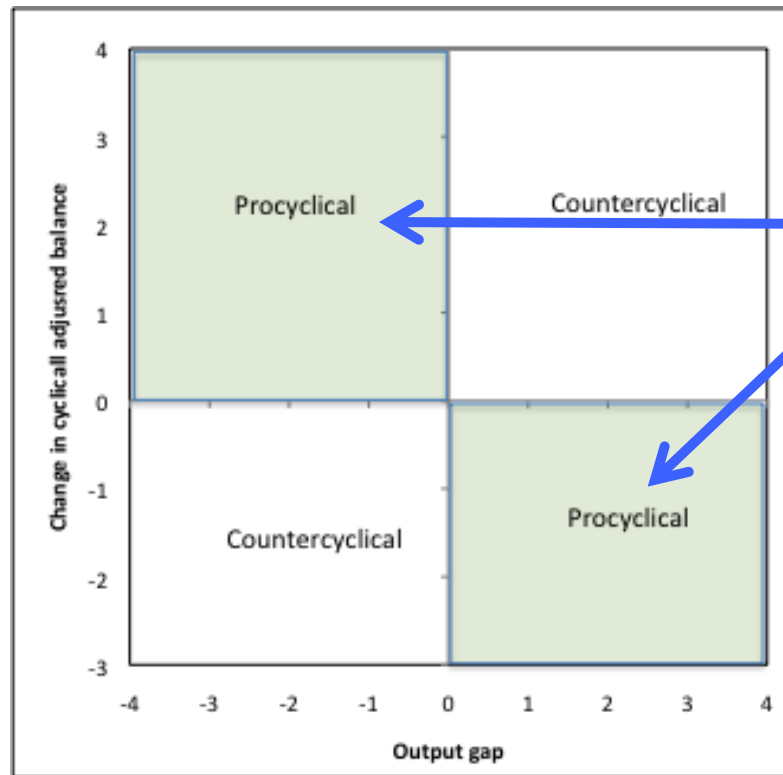
The flaws of the previous SGP

- Arbitrary numeric rules
 - Deficit of 3% and debt of 60% of GDP
 - Bureaucratic approach and arbitrary implementation
- Rigid objectives
 - Pro-cyclical fiscal policies
- Conflict with national sovereignty
 - Sanctions not credible

The reforms (1)

- Arbitrary numeric rules
 - Progress:
 - Structural balances
 - Regress
 - Multiplication of criteria
 - Multiplication of obligations
- Rigid objectives
 - Regress
 - Conditioning of reforms.: a mix-up
 - More counter-cyclical fiscal policies

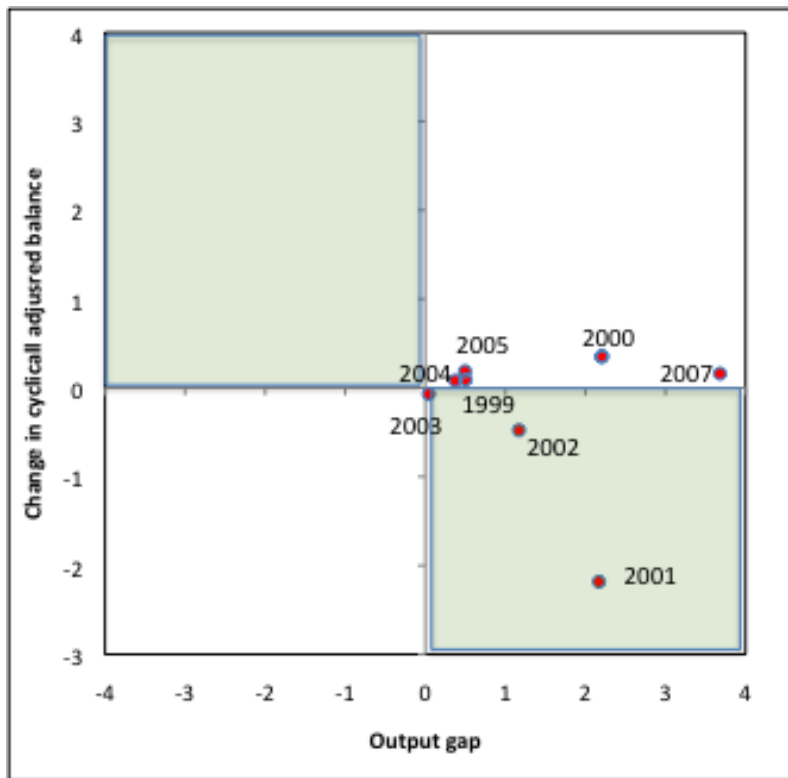
Pro/counter cyclical policies



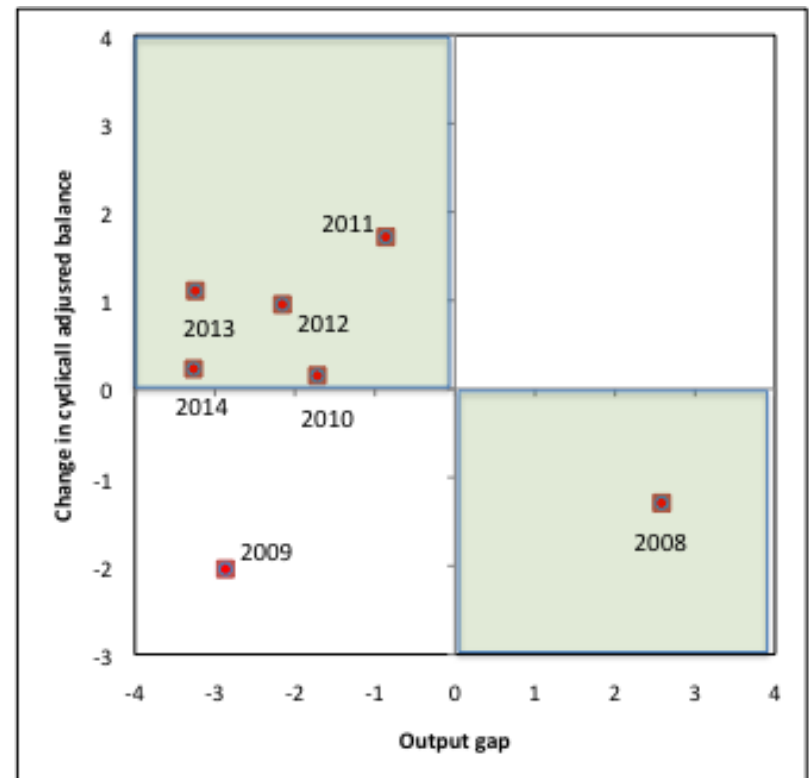
This is where we should not be

Pro/counter cyclical policies: Eurozone

Before crisis



After crisis



The reforms (2)

- Conflict with national sovereignty
 - Progress
 - TSCG: national legislation and independent evaluation
 - But uneven implementation
 - Independent evaluation of Commission's work
 - But flawed implementation
 - Regress
 - Violation of no-bailout rule
 - European semesters
 - Qualified majority reverse vote
 - More sanctions (preventive and corrective arms, macroeconomic imbalances)

Conclusions

- The wrong concept
 - Patch-up will not work
 - Sanctions and credibility
- Refusal to consider alternatives
 - Other “federal” discipline models
- No attempt at rescuing no-bailout clause
 - The only pro-discipline tool
- Denial of legacy debts