

# Fiscal rules

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# Preliminary: the context

- Euro crisis management (2010-2011)
  - Incredible incompetence
  - Extreme politicization
  - No checks and balances
- The “crime” of May 2010
  - Ditching of no-bailout clause
  - Refusal of sovereign defaults
- Fiscal indiscipline is natural
  - SGP never was the answer

# Natural indiscipline

## Percent years of deficits – 1960-2011

	Australia	Austria	Belgium	Canada	Germany
Percent	80%	82%	96%	76%	78%
Last surplus	2008	1974	2006	2007	2008
	Denmark	Spain	Finland	France	U.K.
Percent	48%	78%	20%	90%	84%
Last surplus	2008	2007	2008	1974	2001
	Greece	Ireland	Italy	Japan	Netherlands
Percent	80%	80%	100%	68%	88%
Last surplus	1972	2007		1992	2008
	Norway	New Zealand	Portugal	Sweden	USA
Percent	4%	46%	100%	42%	92%
Last surplus	2011	2008		2008	2000

# SGP performance (1999-2011)

Number of years in compliance, out of 13 years

Austria	Belgium	Finland	France
4	3	0	7
Germany	Greece	Ireland	Italy
5	13	4	8
Luxembourg	Netherlands	Portugal	Spain
0	4	10	4

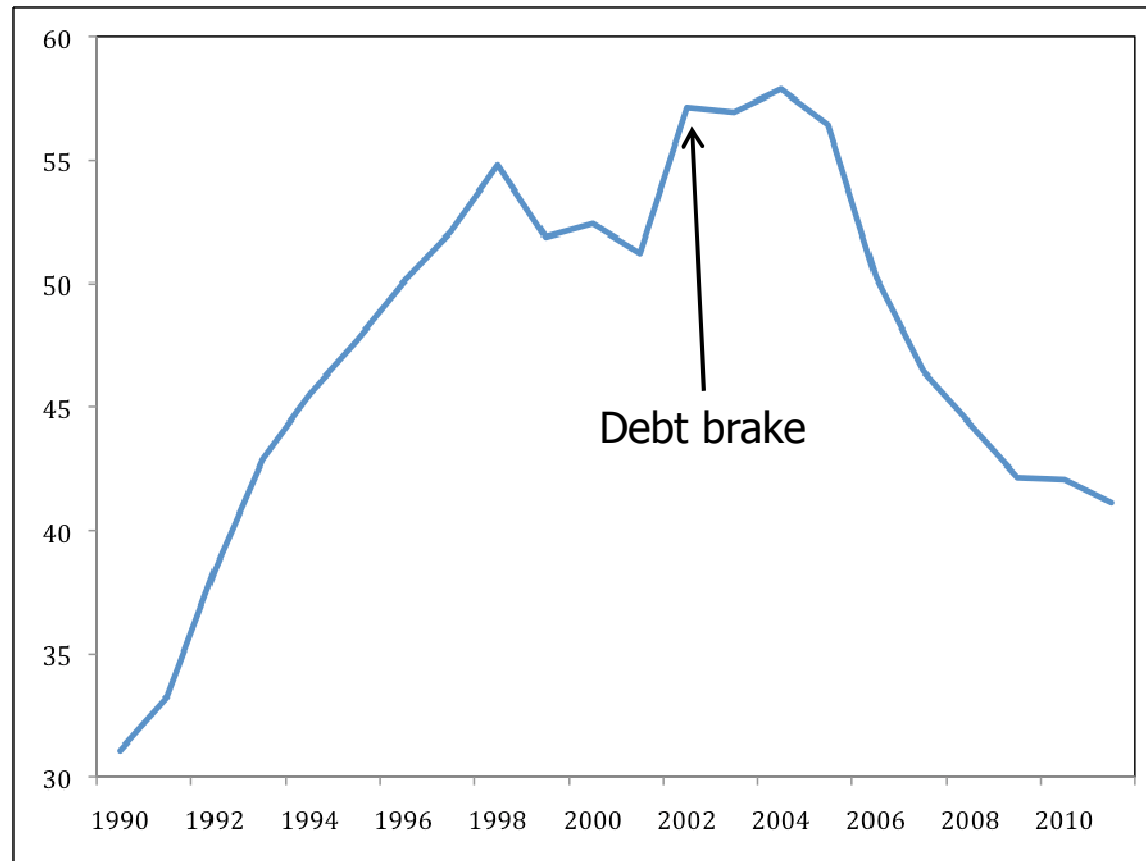
# Answers to fiscal discipline

- The problem: long-run discipline and short-term flexibility
  - Avoid pro-cyclical policies
- Ideal solution: clever principles
  - Long-run debt path
  - Short-run intelligent implementation
    - Governments can't do it
      - Unless delegation is possible
    - Fiscal councils can do it
    - Some examples (NL, Sweden, UK)

# Answers to fiscal discipline

- Semi-clever rules
  - Many examples (Chile, Brazil)
  - Swiss debt-brake: a good example
    - Structurally adjusted “balance”
    - Notional account

# Switzerland 2001 (and Germany coming up)



# Euro area

- Two federal models
  - Germany: centralization
  - USA: decentralization ← Best for Europe
- Implication: decentralization
  - Best-fit national arrangements
  - Restoration of no-bailout
    - Europe's "year 1840"
  - Implementation
    - Not Brussels (centralization, politization)
    - Not European Court (centralization, competence)
    - ECB can do it