A New Framework for Fiscal Policy Consolidation in Europe

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Working Paper 03/2010*)
May 2010

*) Working papers reflect the personal views of the authors and not necessarily those of the University of Wuerzburg and the German Council of Economic Experts. The current working paper is not an official publication of the German Council of Economic Experts and does not necessarily reflect the views of all members.

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Abstract

Current developments in Greece make clear that the rules of the European Stability and Growth Pact (SGP) were neither strict enough nor enforced strictly enough. To deal with the ongoing fiscal exit and its related phenomena of crisis, we propose a new framework for fiscal policy consolidation in Europe. Centre stage takes a European Consolidation Pact (ECP) supplementing the SGP, with five distinguishing features. First, members are obliged to detail a path to balancing their budgets, including a concrete course to cutting non-cyclical government expenditure, and second to implement an automatic tax increase law in case of straying from the defined path. Third, pact members may apply for ECP guarantees for each newly issued government debt that is in line with the specified path. These guarantees are, fourth, paid for by a percentage fee. Fifth, non-compliance with the automatic tax increase law or voluntary exit from the consolidation pact leaves future government bond issues without ECP guarantees: either the country does not need the guarantee any longer, or it is willing to default. In the latter case, the new framework spells out the details of an orderly government default.

JEL-classification: E6, F5, H6

Keywords: Stability and Growth Pact, European Consolidation Pact, Sovereign Default, European Monetary Fund

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* This research is partly based on ideas first published in the German Council of Economic Experts' Annual Report 2009/10. We thank the German Council of Economic Experts and its scientific staff for valuable discussions and support, first and foremost Uli Klüh and Benjamin Weigert. Correspondence: Peter Bofinger, Chair for Monetary Policy and International Economics, University of Wuerzburg, Sanderring 2, 97070 Wuerzburg, Germany; Peter.Bofinger@mail.uni-wuerzburg.de; Stefan Ried, German Council of Economic Experts, Gustav-Stresemann-Ring 11, 65180 Wiesbaden, Germany; stefan.ried@destatis.de, phone +49 611 75 2185, fax +49 611 75 2538.

1. The European Economic and Monetary Union in deep crisis

Eighty one years after Gustav Stresemann raised his voice in front of the League of Nations to call for a European currency, the object of his wish is in a devastating state. When the Euro's predecessor, the Ecu, was introduced 50 years after Stresemann's speech, it took about a decade until the members of the European Monetary System found themselves in choppy waters, with Italy deciding to devalue the Lira and the United Kingdom to leave the exchange rate mechanism. When the Euro superseded the Ecu in 1999, it took again about a decade until Europe finds itself in choppy waters again. The plot of the current crisis resembles the one from 1992: markets spotted potentially unsustainable developments in some member countries and put their finger on the weak spots. Like these days, the countries in trouble faced twin deficits, and like these days, reactions by other EU members and the European Commission do not give the impression of being in control of the situation – at least until May 9, 2010.

The European Stabilization Mechanism (ESM) that was adopted on that day – together with supporting measures of the European Central Bank (ECB) - are significant steps towards a solution to the current crisis. Together they reduce the pressure financial markets put on the crisis countries, and they make self-fulfilling speculation improbable. Of course, these steps do come at a cost: a decline of reputation in the case of the ECB and a weakening of incentives for fiscal consolidation in the case of the ESM. While only time and good conduct will help the ECB to regain its former reputation, the incentive problem can be addressed institutionally. To that end, we propose a European Consolidation Pact (ECP). This pact takes up elements of the Greek rescue package and the ESM, but includes them in a consistent, systematic framework for the long-run. Why build another pact after the existing one – the Stability and Growth Pact – has proven ineffective? The next section gives four reasons for an additional measure.

2. The Stability and Growth Pact has proved to be inadequate in periods of crisis

It has become obvious that the procedures of the Stability and Growth Pact (SGP) did not deter EU member states from unsustainable fiscal policies. Neither the preventive arm of the stability and convergence programmes nor the dissuasive arm of the excessive deficit procedure (EDP) gave the right signals that would have led governments to strict fiscal consolidation. The EDP itself is rather opaque for outside observers (Chart 1). After its changes in March 2005 - initiated by Germany and France - it has essentially become a closed loop procedure that so far never reached steps six and seven that would have allowed for sanctions. In the current period of crisis, the pact is inadequate because of four reasons.

First, the pact's EDP has a **narrow focus on deficits**. Deficit targets are formulated as percentages of GDP, but GDP itself is endogenously reacting to the consolidation measures. Given the harsh tax increases and expenditure cuts under the current special circumstances, GDP growth will be substantially lower than it would have been without these measures, as shown in Table 1 and dramatically learned from the experience of the Latvian deficit target for 2009 and the evolution of its GDP forecasts. Relying on structural instead of actual deficit ratios is even more problematic, as potential GDP forecasts become more uncertain in times of crisis. Owing to the complex calculation method, the EDP is pretty much of a black box for the general public and policymakers alike.

Table 1

Real GDP Forecasts for 2010[1)]

%

Country	Nov 09	Dec 09	Jan 10	Feb 10	Mar 10	Apr 10	May 10
Greece	+ 0.8	+ 0.2	– 0.1	– 0.4	– 1.3	– 2.6	– 3.6
Portugal	+ 0.4	+ 0.7	+ 1.0	+ 0.7	+ 0.6	+ 0.5	+ 0.4
Ireland	– 1.1	– 1.2	– 1.0	– 1.1	– 1.2	– 1.1	– 1.0
Spain	– 0.5	– 0.4	– 0.4	– 0.4	– 0.4	– 0.4	– 0.4
Italy	+ 0.7	+ 0.9	+ 0.9	+ 0.8	+ 0.8	+ 0.8	+ 0.8
Germany	+ 1.5	+ 1.7	+ 1.8	+ 1.7	+ 1.7	+ 1.6	+ 1.6
France	+ 1.2	+ 1.5	+ 1.4	+ 1.4	+ 1.4	+ 1.4	+ 1.5
Euro area	+ 1.2	+ 1.3	+ 1.3	+ 1.3	+ 1.1	+ 1.2	+ 1.1

1) Published at the given date.

Source: Consensus Economics

Second, there is **no co-ordination of national consolidation efforts**. In a phase of high co-movement in which nearly all member states simultaneously post a large deficit there is the problem of structuring the required consolidation steps such that they do not hamper Europe's economic progress. According to the current Stability Programmes, the average structural deficit reduction in the Euro area between 2010 and 2013 will be about 0.6 percentage points (Table 2). In view of past experience of the fiscal consolidation during the run-up to monetary union between 1995 and 1999, when the average annual structural deficit reduction was about 0.8 percentage points, the current aggregate consolidation plan seems to be manageable. To make sure that this plan works out, international coordination is a prerequisite, not the least to shun contagion and adverse effects of foreign policies.

Third, the SGP does not spell out **mechanisms for mutual support**. While Article 122 of the Treaty on the Functioning of the EU (TFEU) allows for the possibility of mutual support, it is not clear how this interacts with the often perceived prohibition of a bail-out of Article 125. While this "no bail-out clause" actually only says that (a) a country cannot rely on a bail-out and (b) a bail-out is not the rule and does not happen in a majority of cases, the case for a singular mechanism for mutual support is still very much unclear. The pure risk of contagion makes the "no-help policy" derived from this no-bail-out clause of Article 125 TFEU unrealistic, and the current record shows that a spelled-out mechanism is needed.

Fourth, there is **no mechanism for government insolvency**. If no support were the only intention of the treaty, the way how to deal with government insolvency should have been laid out as well. But also if limited, conditional and exceptional support were foreseen, the possibility of failure should also be taken into account. Leaving out default regulations may be seen uncritically in normal times. In extraordinary times like these days it is a source of uncertainty and hence possibly irrational exuberance by the markets.

Summing up, one can say that the silence about mutual support and sovereign default increase market uncertainty to an unnecessary degree. What is needed now is a framework that extends the regulations of the SGP for times of crisis and delivers a consistent and binding set of rules not only for the fiscal exit from the extraordinary and highly expansionary fiscal policies during the financial crisis, but also towards the 60 percent debt level relative to GDP that was written in the Maastricht treaty. While extending the existing SGP framework for support and default issues seems impossible, coordination and overall debt issues may be improved in the SGP. With respect to these, the European Commission has proposed some new measures on May 12, 2010. We dwell on these proposals in section 4.

3. A new framework for fiscal policy consolidation

To deal both with the ongoing as well as future fiscal crises, we propose a new framework for fiscal policy consolidation in Europe. At its centre stages a **European Consolidation Pact (ECP)** that supplements the SGP in times of crisis. This pact may be used as common ground for the consolidation conditions currently imposed on crisis countries in an ad-hoc manner in return for a rescue package or the European Stabilization Mechanism. There are at least three angles to view this proposal: an economic angle focussing especially on incentives, a legal angle focussing especially on the compatibility with current laws, and a procedural angle, focussing on the roadmap of a practical implementation. In the following, each angle will be addressed.

Economic aspects

The ECP has five distinguishing features. First, participating countries are obliged to detail a **path to balancing their budgets**, including a concrete course to cutting non-cyclical government expenditure and a binding roadmap for planned changes to tax legislation. All pact members coordinate and decide about their national efforts together. Decisions shall be in line with those of the excessive deficit procedure of the SGP, but possibly going beyond them.

This path could be set up by adopting and adapting the route plan concept of the stability and convergence programme which all EU member states have to draw up annually pursuant to Article 121 TFEU under the preventive rather than dissuasive arm of the fiscal provision. It requires plotting an adjustment path for the current year and at least the three following years detailing how a country will progressively align its revenue and expenditure with the medium-term goal of a close-to-balance budget. In contrast to the SGP's excessive deficit procedure, which aims merely to push the deficit down to 3 per cent, the stability programme aims to pull it down to zero over the medium term. Given the present large structural deficits, however, it would be more conducive to consolidation to insist that every country chart its path right up to full attainment of a balanced budget, meaning that the national consolidation programmes could extend further along the time axis than the national stability programmes.

To achieve greater transparency, each country's consolidation path, rather than merely projecting the revenue and expenditure ratios, has to define a binding medium-term **expenditure path** for non-cyclical spending. The track record of expenditure rules in European countries (Netherlands, Finland, Sweden) as well as in the United States (Budget Enforcement Act of 1990, Balanced Budget Act of 1997) is generally assessed positively in the literature (Savage and Verdun, 2009; Dabán et al., 2003). Their key advantage compared with a deficit target is that most expenditure components are little affected by cyclical developments, so that a rule for non-cyclical spending can instil effective fiscal discipline. Any deviations from this predefined expenditure path can be identified relatively easily and, to boot, can clearly be laid at the politicians' door. Looked at from another angle, it gives politicians a positive incentive to earn themselves a reputation as fiscal champions by sticking to the proclaimed expenditure path.

However, an expenditure rule is likely to succeed only if the revenue trend, too, evolves as projected in the consolidation programme. A credible consolidation strategy thus also requires countries to commit to a detailed roadmap over the consolidation horizon listing all planned tax law changes that will affect revenue. This would facilitate an easy and timely assessment of whether a country is indeed taking the promised consolidation steps.

The Commission should make a twice-yearly assessment of the expenditure paths and the changes to tax legislation in all member states and identify, and publicly name and shame, countries that systematically deviate from target. Such a cross-country report would make an important contribution to enhancing the transparency of European fiscal policy.

Why would a country be willing to participate in such a pact? There are two perspectives. For a low-deficit, low-debt country, the ECP offers strict consolidation rules for all members. Given the European economies' interdependence, it would be highly beneficial if fiscal consolidation were organized as a disciplined march of the whole troop rather than a courageous foray by the vanguard. At the same time the other EU member countries, too, should have an incentive to gain the confidence of market players through a credible commitment to budgetary discipline as an essential prerequisite for low long-term interest rates.

Second, countries willing to participate in the ECP are obliged to implement an **automatic tax increase law** in their national legislation. This states that the tax rate of a specific ECP member country will automatically rise by a certain amount in case that country is straying from the defined path ("debt surcharge"). The resulting tax receipts completely remain with the straying country to enable it to improve its fiscal stance. This element serves a special purpose, namely to make clear to the voters of a country that it is in their hands to deal with excessive deficits. This should give incentives to both voters – to carefully decide about which fiscal policy proposal to vote for – and governments – to make sure every fruitful opportunity other than the automatic tax increase is used.

Third, every country participating in the pact may apply for ECP **guarantees** for each newly issued government debt that is in line with the specified path to balancing its budget. This implies that the soundness of fiscal policies has to be monitored before and after each new government bond issue that applies for the guarantee. The monitoring could be either accomplished by either the European Commission or by independent ECP staff members – in case the pact evolves into an independent organization. While consolidation path and automatic tax increase law belong to the stick principle, guarantees serve as a carrot that makes the ECP attractive to the country in difficulties. The increased credibility of a lasting consolidation effort that is to be expected for ECP members serves as another “carrot”.

The form of guarantees is already being used in the ESM via a special purpose vehicle (up to an amount of € 440 bn). Guarantees have the advantage that no money flow directly from the ECP to the country in difficulty is necessary; in the current context they are also proposed by e.g. Konrad (2010), though his proposal may also include the old stock of debt. From a macroeconomic perspective, a similar approach was advocated by George Soros under the heading International Credit Insurance Corporation (Soros, 1998; for critical assessments see Frenkel, 1999 and Rogoff, 1999). As an alternative to guarantees one could also think about a direct credit from the ECP to the country in difficulties. In this case, all elements of the financial transaction with the creditor country would be with the ECP, which then of course has to be financed accordingly. In contrast to that, our envisioned guarantees transfer only the credit default risk to the ECP – for a commensurate fee. All other elements of the interest bearing transaction, i. e. the direct flow of money, the riskless real rate paid to compensate for intertemporal substitution, and the respective premia paid for the risks originating from inflation, liquidity and maturity - will be borne by the markets, which are well-trained to handle these.

Fourth, **each guarantee issued is paid for with a percentage fee** to the ECP, as a compensation for the risk taken. The fee is to be distributed among the pact members. The size of the fee should be such that there are gains for both side: on the one side, the ECP has to be compensated for bearing the default risk of that specific tranche of government debt, on the other side for the good of all pact members there should be a positive effect of the guarantee in terms of credit costs. This implies that the percentage fee should have a positive size bounded from above by the interest rate spread that the markets (currently) demand for a government bond without guarantee relative to a benchmark bond like the 10-year Bund. E.g., the fee could be set to 150 basis points, which for the case of a direct credit translates to 150 basis points above the average interest rate the ECP members have to pay for their own debt. With this fee, the topic of moral hazard from obtaining a guarantee is addressed.

Fifth, **non-compliance** with the automatic tax increase law or voluntary exit from the consolidation pact leaves future government bond issues without ECP guarantees: either the country is in good health and does not need the guarantee any longer, or it is willing to default. As argued before, the monitoring could be done by either the European Commission or ECP staff or finance ministers of the pact members. Our preference is for a strong and independent organisation, be it the Commission or an ECP that turned into a kind of fiscal mirror image of the ECB, the European Central Bank.

Given the ECP, it is clear that the case of a default has nothing to do with illiquidity, but is freely chosen after a government did all necessary pondering of the immediate and permanent pros and cons of either servicing high levels of debt or declaring insolvency. As this decision is and remains in the hands of the sovereign country, the ECP has to respect the decision. Nonetheless, an **orderly government default** can be of high value to both the debtor and the creditors. The role of the ECP should be that of a mediator between creditors and debtor, with three main tasks. It should increase the efficiency of renegotiations, improve information on both sides, and work as a commitment device, as it is much more influential on the debtor country than any particular creditor (Panizza et al., 2009).

Finally, the ECP works as a **coordination device** for the consolidation efforts of the pact members and therefore within the EU. As the pact members decide together about the path to balancing their budgets, the overall applicability and the spill-over effects can be taken into account and taken care of. E.g., it might be to the benefit of all pact members to allow some of them to postpone a full-speed consolidation if the resulting relative growth effect is positive for the sum of the pact members.

Legal aspects

The Treaty of the European Union (TEU) and the accompanying Treaty on the Functioning of the European Union (TFEU) provide the current legal framework for the EU. After the Treaty of Amsterdam came into force in 1999 and the Treaty of Nice in 2003, the so-called Treaty of Lisbon was developed in reaction to the failed attempt for ratification of the European Constitution agreed upon by the heads of state in 2004. It was signed in December 2007 and finally came into force on December 1, 2009. Taking into consideration the long and highly difficult process of ratification alone, not to mention the arduousness to come to a single joint position between 27 EU members, we take the stand that **the Treaty of Lisbon should be the legal basis** for the new framework for fiscal policy coordination described here.

That said, the new framework could be integrated into the Treaty of Lisbon as part of an enhanced corporation along Article 20 TEU in connection with Articles 326 to 334 TFEU. As the treaty says, "enhanced cooperation shall aim to further the objectives of the Union, protect its interests and reinforce its integration process" (Art. 20 TEU). While this point seems to be fulfilled easily, the more complex demand is formulated in Art. 326 TFEU: "Any enhanced cooperation shall comply with the Treaties and Union law." One aspect of the new framework described above is the most critical candidate for a conflict with Union law: the mutual support of government debt guarantees. As mentioned in section 2, Art. 125 (1) TFEU excludes a general bail-out: "The Union shall not be liable for or assume the commitments of central governments". Restrictions similar in spirit are formulated in Articles 123, 124 and 125 (2). On the other hand, Art. 122 (2) TFEU says that "where a Member State is in difficulties or is seriously threatened with severe difficulties caused by natural disasters or exceptional occurrences beyond its control, the Council, on a proposal from the Commission, may grant, under certain conditions, Union financial assistance to the Member State concerned." The mutual support framework looked for should therefore rely on Art. 122 (2), but should not violate Art 125 (1). As the legal literature points out (Häde, 2009, Herdegen, 2010), this possibility exists: **as a last resort, without establishing a legal claim to it, as an exception to the general "no-bail out",** and **under Council conditions,** mutual support **may be provided**.

Another question is **which and how many countries** should form the ECP. For the countries outside the Euro area, financial "balance of payment" assistance is already possible through Art. 143 TFEU, so the ECP may prima facie not be a necessary for these countries. If all Euro area member countries are willing to participate, Art 136 TFEU may be the basis for the ECP. This article allows the Council to adopt measures for the Euro area members "to strengthen the coordination and surveillance of their budgetary discipline" (Art 136 (1a)

TFEU). If less then all Euro area members, but at least nine EU member states are willing to form the ECP, it may be based on enhanced cooperation along Art. 20 TEU.

Procedural aspects

For the time being, the Greek crisis is handled in a concerted action of European Council and International Monetary Fund (IMF), together with the European Commission and the ECB. This "rescue package" specified on March 25, 2010, probably clarified some more on May 2, 2010 and approved on May 8, 2010 features credit to Greece under ad-hoc conditions for the necessary deficit reduction over the years 2010 to 2012. The European Stabilization Mechanism adopted on May 9, 2010 extends these ad-hoc measures for other countries. It allows for credit and guarantees to all other member states in need through a comparable procedure. Assuming – and hoping – that this package and the fulfilment of the conditions prove to be successful, the Greek drama will have crossed its climax. But it is another question whether the **dénouement** will be complete after 2012.

To make sure that this drama leads to a catharsis, a positive long-run consolidation effect is needed, with close to balanced budgets. This is the final and pivotal element of dénouement in the current drama. Setting up the ECP will be a major step forward to get there. And in case the current drama will have a new scene with rising action, politicians may choose to either rely on ad-hoc EU-IMF credit within the ESM or the ECP's guarantee within the new framework.

4. Alternatives discussed so far

Next to the European Consolidation Pact, there exist a number of alternative concepts to deal with future crises comparable to the current one. Each of them will be shortly described and discussed.

The European Stabilization Mechanism and the current EU-IMF support programme for Greece

The Greek support programme of the EU and the IMF and the subsequent European Stabilization Mechanism can be seen as first attempts of the EU to become independent in the solution of a European liquidity crisis. This first attempts are made under the supervision and with the help of the experienced and reputation-rich IMF. Nonetheless, both the measures and the conditionality are set up in an ad-hoc fashion and without cross-European coordination. Hence, it does not seem to be suited to grow into a future resolution regime for liquidity crises in EMU.

The European Commission's proposal "Reinforcing economic policy coordination"

To improve on the existing SGP within the current treaty, on May 12, 2010 the European Commission proposed measures to reinforce compliance with the SGP, to broaden surveillance, to increase coordination and to build a "robust framework for crisis management" (European Commission, 2010). With respect to the first three goals, most measures – the "European Semester" for fiscal policy coordination, the call for national laws on sound fiscal policies (like the German "debt-brake"), the increased emphasis on the debt criterion and fiscal sustainability, the view on macroeconomic imbalances - go in the right direction. It is only the issue of sanctions that remains problematic. The Commission's proposals – interest-bearing deposits also for the preventive arm of the SGP, suspension of the Cohesion fund, conditionality of the use of EU budget expenditures – all have the effect that the punishment of a country in trouble even increases the trouble instead of putting in back on track. Hence these sanctions are no more credible than the existing sanctions have proved to be.

With respect to the fourth goal, the demanded "robust framework for crisis management" is so far missing; only in the "medium-to-long term" the Commission intends "to make a proposal for a permanent crisis resolution mechanism". Given the current amount of uncertainty in the markets on this issue, the need for such a framework might be more urgent than foreseen.

"Constructive ambiguity"

Going back to Henry Kissinger and foreign policy, this concept has proved fruitful in the field of economics as well. Ambiguity constrains excessive risk-taking, as mutual support is ambiguous. Much of the European – and especially of the German – statements on Greece prior to March 25, 2010 can be seen as following this concept. But there are times when this kind of ambiguity becomes destructive, as market fears abound. Political ambiguity then becomes an invitation for speculation, and "rules rather than discretion" should become the guiding principle also in this field.

An IMF programme

There are strong arguments in favour of a single IMF programme to deal with this kind of crises. Actually, this is what the IMF was made for, and every EU member is also a member in the IMF to be eligible to IMF help. The IMF has some credibility for demanding strict consolidation and enforcing its terms and conditions. So why is there an interest in solving an intra-EMU crisis without the IMF (or IMF dominance)? In our view the strongest argument is a public feeling of European federalism that is violated once the IMF interferes: as the IMF is not called in case of Californian liquidity problems, it should not be called in case of Greek liquidity problems. While this comparison is legally wrong, it contains a chance for political progress in Europe that we do not want to diminish.

Euro bonds

De Grauwe and Moesen (2009) propose issuing common Euro bonds that may well solve liquidity problems for single EMU members. The interest rates that each government has to pay for the bond should be exactly the rate that it pays on its national bonds. Leaving out a broader discussion of the concept supplied in the articles following the original paper in the same journal number, this concept has much in common with the ECP's guarantee and fee concept. It is relatively simple and easy to implement. What is missing, though, is both a strong support element and the conditionality that leads to fiscal consolidation. Both features could be added, such that e.g. Euro bonds could be used instead of guarantees within the ECP framework. As long as the supportive element is applied sufficiently seldom, this concept should also be legally viable.

A European Monetary Fund

The basic idea of a European Monetary Fund (EMF) is intriguing: an independent institution to deal with liquidity and insolvency problems for the EMU countries. The proposal of Gros and Mayer (2010 a, b) has many similarities with the ECP, beginning with the strong conditionality of a credit supply, going over to a possible funding cut-off in case of consolidation misconduct until regulations for an orderly default. Gros and Mayer are also indifferent whether the EMF should give a direct credit or "provide a guarantee for a specific issuance of public debt". The major difference is the financing mechanism of the EMF, which implies a direct penalty payment for countries with an excessive debt or deficit ratio. As Häde (2010) points out, this mechanism is probably in conflict with the excessive deficit procedure Art. 126 TFEU, as this article clearly states under which conditions penalty payments are foreseen.

Compared to the EMF, the ECP has several advantages. First, it can be implemented on short notice. As the ECP functions with just nine members within the EU's enhanced cooperation framework, this pact can be used immediately, e. g. to help Portugal in case of urgent need. Second, there is no need to change or amend the Lisbon treaty because of the ECP. Third, in the medium to long run the ECP may be used as a nucleus for the evolution of an independent institution similar to a "European Monetary Fund". Like the so-called Schengen-Acquis that started in 1985 was incorporated in the Treaty of Amsterdam to become European law in 1997, a thus institutionalised and extended ECP may perhaps become part of a new or amended EU Treaty in the future. 29 out of the currently 186 member countries signed the International Monetary Fund's Articles of Agreement in 1945. In our view, the best way to reach a European institution with comparable tasks is to rely on a similar evolutionary process.

Though referring to the EMF, the **mutual fiscal insurance fund** proposal by Buiter (2010) is perhaps closer to the ECP than to the EMF of Gros and Mayer. It includes funds that are given conditional on macroeconomic and structural reforms, together with the option of sovereign default, and is, together with a proposed financial institution recapitalisation fund, worth a second thought.

5. Conclusions

On May 12, 2010 the European Commission demanded "reinforcing economic policy coordination" in the Euro area (European Commission, 2010). It proposed important measures to improve on the existing Stability and Growth Pact, like a strengthened role of the debt criterion and a "European Semester" for the coordination of fiscal policies. This is exactly what the German Council of Economic Experts had in mind when it published its idea of a European Consolidation Pact in November 2009. But as things have dramatically changed in the past months, there is a need for a new, broader framework for fiscal policy coordination in Europe that includes measures for stricter consolidation and its control, for mutual support and for government insolvency. This new framework is described here. We hope that like the choppy waters of the European Monetary System crisis of 1992/93, the choppy waters of the European Economic and Monetary Union crisis of 2009/10 give rise to policies that make Europe stronger and more stable. We presume that a European Consolidation Pact may be a valuable measure in the process towards the next stage of the European development.

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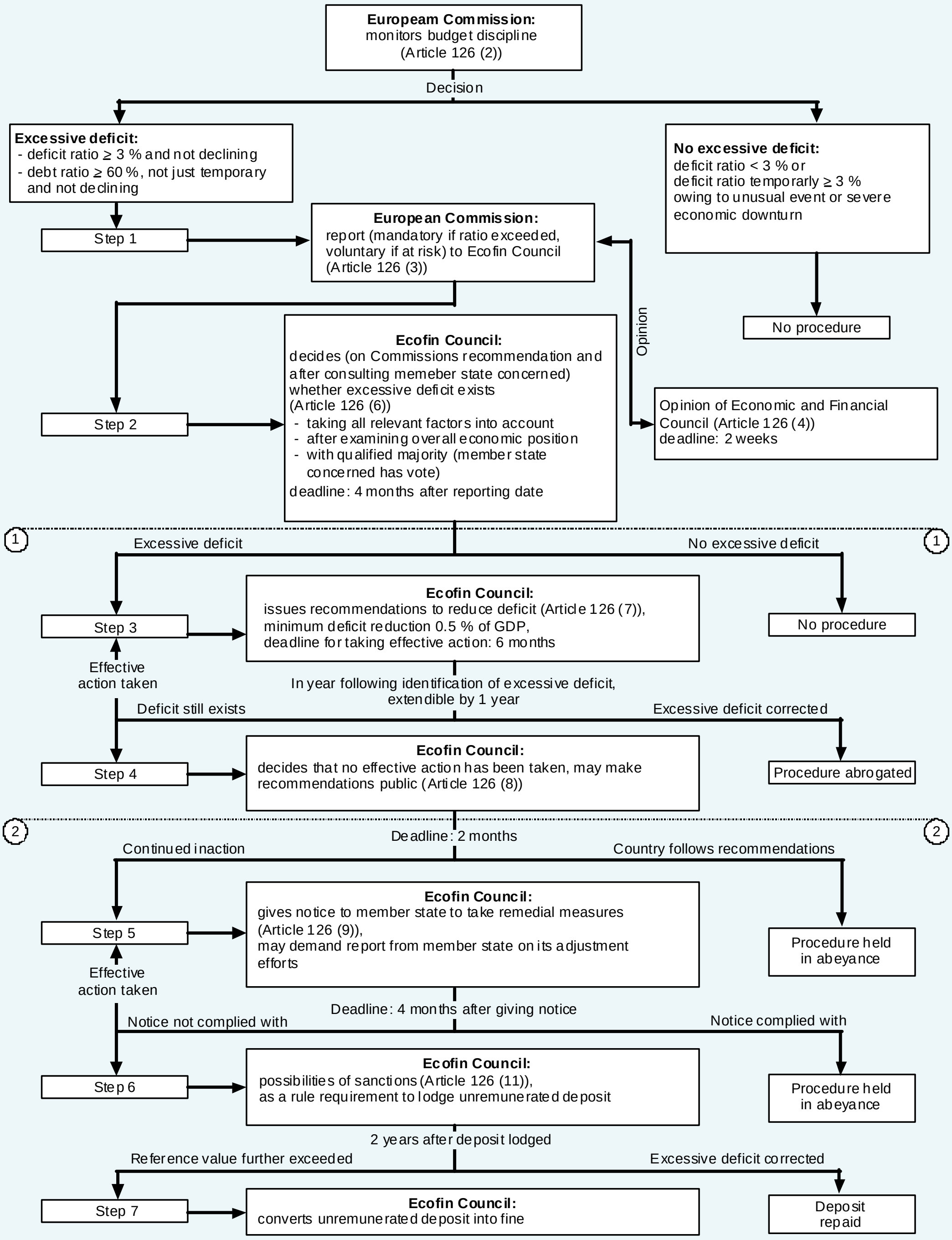
Chart 1

Excessive deficit procedure pursuant to Article 126 of the Treaty on the Functioning of the EU



(1) On European Commission's recommendation and with qualified majority, meaning 255 of 345 votes, half of all member states and 62 % of EU population; if decision is taken other than on the Commission's proposal, two-thirds of all member states are required (member state concerned note entitled to vote).

(2) Applies only to euro-area states; on European Commission's recommendation and with qualified majority (member state concerned not entitled to vote).

Table 2

GDP, General government balance and Debt in the European Union

	2008		2009		2010		2011		2012		2013	
	COM Apr 2010[1]	SP 2010[2]	COM Apr 2010[1]	SP 2010[2]	COM Apr 2010[1]	SP 2010[2]	COM Apr 2010[1]	SP 2010[2]	COM Apr 2010[1]	SP 2010[2]	COM Apr 2010[1]	SP 2010[2]
Austria												
GDP growth[3]	2.0	2.0	- 3.4	- 3.4	1.5	1.5	1.5	1.5	...	1.9	...	2.0
Cyclically-adjusted balance[4]	- 1.7	- 1.7	- 2.4	- 2.7	- 3.6	- 3.9	- 3.6	- 3.3	...	- 2.7	...	- 2.2
Debt-to-GDP ratio	62.6	62.6	66.5	66.5	70.2	70.2	72.9	72.6	...	73.8	...	74.3
Belgium												
GDP growth[3]	1.0	1.0	- 3.1	- 3.1	1.1	1.1	1.7	1.7	...	2.2	...	...
Cyclically-adjusted balance[4]	- 2.0	- 2.2	- 4.5	- 4.6	- 3.7	- 3.4	- 4.0	- 2.9	...	- 2.2	...	...
Debt-to-GDP ratio	89.8	89.8	96.7	97.9	99.0	100.6	100.9	101.4	...	100.6	...	...
Cyprus												
GDP growth[3]	3.6	3.6	- 1.7	- 1.7	0.5	0.5	1.5	1.5	...	3.0	...	3.2
Cyclically-adjusted balance[4]	- 0.4	3.7	- 5.8	- 1.5	- 6.3	- 1.2	- 7.1	0.8	...	1.9	...	2.8
Debt-to-GDP ratio	48.4	48.4	56.2	56.2	62.3	61.0	67.6	63.2	...	63.1	...	62.3
Finland												
GDP growth[3]	1.2	1.0	- 7.6	- 7.6	0.7	0.7	2.4	2.4	...	3.5	...	3.0
Cyclically-adjusted balance[4]	2.1	2.6	0.3	0.3	- 1.4	- 1.1	- 1.0	- 1.0	...	- 1.2	...	- 1.3
Debt-to-GDP ratio	34.2	34.2	44.0	41.8	50.5	48.3	54.9	52.2	...	54.4	...	56.4
France												
GDP growth[3]	0.4	0.4	- 2.2	- 2.3	1.4	1.4	2.5	2.5	...	2.5	...	2.5
Cyclically-adjusted balance[4]	- 3.7	- 3.8	- 6.2	- 6.5	- 6.6	- 6.8	- 6.2	- 4.9	...	- 4.0	...	- 2.8
Debt-to-GDP ratio	67.5	67.4	77.6	77.4	83.6	83.2	88.6	86.1	...	87.1	...	86.6
Germany												
GDP growth[3]	1.3	1.3	- 5.0	- 5.0	1.4	1.4	2.0	2.0	...	2.0	...	2.0
Cyclically-adjusted balance[4]	- 1.5	-1.6	- 1.8	- 1.9	- 3.6	- 4.4	- 3.5	- 4.1	...	- 3.1	...	- 2.3
Debt-to-GDP ratio	66.0	65.9	73.2	72.5	78.8	76.5	81.6	79.5	...	81.0	...	82.0
Greece												
GDP growth[3]	2.0	2.0	- 1.2	- 1.2	- 0.3	- 0.3	1.5	1.5	...	1.9	...	2.5
Cyclically-adjusted balance[4]	- 9.6	- 8.8	- 14.1	- 12.5	- 8.2	- 7.6	- 8.2	- 4.4	...	- 1.9	...	- 1.5
Debt-to-GDP ratio	99.2	99.2	115.1	113.4	124.9	120.4	133.9	120.6	...	117.7	...	113.4
Ireland												
GDP growth[3]	- 3.0	...	- 7.5	- 7.5	- 1.3	- 1.3	3.3	3.3	...	4.5	...	4.3
Cyclically-adjusted balance[4]	- 7.0	- 7.2	- 11.4	- 8.9	- 8.7	- 8.6	- 10.2	- 8.2	...	- 6.3	...	- 4.7
Debt-to-GDP ratio	43.9	...	64.0	64.5	77.3	77.9	87.3	82.9	...	83.9	...	83.3
Italy												
GDP growth[3]	- 1.0	- 1.0	- 4.8	- 4.8	1.1	1.1	2.0	2.0	...	2.0	...	...
Cyclically-adjusted balance[4]	- 3.3	- 3.3	- 3.3	- 3.2	- 3.6	- 3.2	- 3.7	- 2.7	...	- 1.9	...	...
Debt-to-GDP ratio	106.1	105.8	115.8	115.1	118.2	116.9	118.9	116.5	...	114.6	...	...
Luxembourg												
GDP growth[3]	0.0	0.0	- 3.9	- 3.9	2.5	2.5	3.0	3.0	...	2.7	...	2.9
Cyclically-adjusted balance[4]	2.0	1.6	1.2	0.9	- 1.4	- 2.2	- 1.9	- 3.6	...	- 3.4	...	- 3.3
Debt-to-GDP ratio	13.7	13.5	14.5	14.9	19.0	18.3	23.6	23.9	...	29.3	...	34.1
Malta												
GDP growth[3]	2.1	2.1	- 2.0	- 2.0	1.1	1.1	2.3	2.3	...	2.9	...	...
Cyclically-adjusted balance[4]	- 4.9	- 5.1	- 3.1	- 3.1	- 3.8	- 3.3	- 3.4	- 2.7	...	- 3.3	...	...
Debt-to-GDP ratio	63.7	63.6	69.1	66.8	71.5	68.6	72.5	68.0	...	67.3	...	...

Table 2 (cont.)

GDP, General government balance and Debt in the European Union

	2008		2009		2010		2011		2012		2013	
	COM Apr 2010[1]	SP 2010[2]	COM Apr 2010[1]	SP 2010[2]	COM Apr 2010[1]	SP 2010[2]	COM Apr 2010[1]	SP 2010[2]	COM Apr 2010[1]	SP 2010[2]	COM Apr 2010[1]	SP 2010[2]
Netherlands												
GDP growth[3]	2.0	2.0	- 4.0	- 4.0	1.5	1.5	2.0	2.0	…	2.0	…	…
Cyclically-adjusted balance[4]	- 0.5	- 0.8	- 3.6	- 3.4	- 4.9	- 4.8	- 4.0	- 3.9	…	- 3.5	…	…
Debt-to-GDP ratio	58.2	58.2	60.9	62.3	66.3	67.2	69.6	69.6	…	72.5	…	…
Portugal												
GDP growth[3]	0.0	0.0	- 2.7	- 2.7	0.7	0.7	0.9	0.9	…	1.3	…	1.7
Cyclically-adjusted balance[4]	- 2.9	- 2.9	- 8.3	- 8.3	- 7.5	- 7.5	- 7.0	- 5.9	…	- 4.1	…	- 2.5
Debt-to-GDP ratio	66.3	66.3	76.8	77.2	85.8	86.0	91.1	89.4	…	90.7	…	89.8
Slovakia												
GDP growth[3]	6.4	6.4	- 5.7	- 5.7	1.9	1.9	4.1	4.1	…	5.4	…	…
Cyclically-adjusted balance[4]	- 4.5	- 4.9	- 6.4	- 6.0	- 5.4	- 4.7	- 4.7	- 3.3	…	- 2.7	…	…
Debt-to-GDP ratio	27.7	27.7	35.7	37.1	40.8	40.8	44.0	42.5	…	42.2	…	…
Slovenia												
GDP growth[3]	3.5	3.5	- 7.3	- 7.3	0.9	0.9	2.5	2.5	…	3.7	…	3.5
Cyclically-adjusted balance[4]	- 4.8	- 4.3	- 3.8	- 4.2	- 4.4	- 4.0	- 3.8	- 2.8	…	- 2.4	…	- 1.6
Debt-to-GDP ratio	22.6	…	35.9	34.4	41.6	39.6	45.4	42.0	…	42.7	…	42.1
Spain												
GDP growth[3]	0.9	0.9	- 3.6	- 3.6	- 0.3	- 0.3	1.8	1.8	…	2.9	…	3.1
Cyclically-adjusted balance[4]	- 4.4	- 4.3	- 9.6	- 9.9	- 7.8	- 7.9	- 7.0	- 6.1	…	- 4.6	…	- 2.9
Debt-to-GDP ratio	39.7	39.7	53.2	55.2	64.9	65.9	72.5	71.9	…	74.3	…	74.1
Euro area (16)												
GDP growth[3]	0.6	…	- 4.1	- 4.0	0.9	1.1	1.5	2.1	…	2.3	…	2.5[a]
Cyclically-adjusted balance[4]	- 2.9	- 2.9	- 4.8	- 4.8	- 5.1	- 4.4	- 4.8	- 4.1	…	- 3.4	…	- 2.5[b]
Debt-to-GDP ratio	69.4	…	78.7	78.8	84.7	84.2	88.5	87.4	…	87.3	…	81.9[b]

Table 2 (cont.)

GDP, General government balance and Debt in the European Union

	2008		2009		2010		2011		2012		2013	
	COM Apr 2010[1]	SP 2010[2]	COM Apr 2010[1]	SP 2010[2]	COM Apr 2010[1]	SP 2010[2]	COM Apr 2010[1]	SP 2010[2]	COM Apr 2010[1]	SP 2010[2]	COM Apr 2010[1]	SP 2010[2]
Bulgaria												
GDP growth[3]	6.0	6.0	- 4.9	- 4.9	0.3	0.3	3.8	3.8	...	4.8	...	...
Cyclically-adjusted balance[4]	0.0	0.2	- 2.8	- 0.7	- 1.1	1.9	- 0.8	1.7	...	1.0	...	...
Debt-to-GDP ratio	14.1	14.1	14.8	14.7	17.4	14.6	18.8	14.5	...	14.4	...	...
Czech Republic												
GDP growth[3]	2.5	2.5	- 4.0	- 4.0	1.3	1.3	2.6	2.6	...	3.8	...	...
Cyclically-adjusted balance[4]	- 4.5	- 3.8	- 5.1	- 5.9	- 4.7	- 4.2	- 4.8	- 3.8	...	- 3.8	...	...
Debt-to-GDP ratio	30.0	30.0	35.4	35.2	39.8	38.6	43.5	40.8	...	42.0	...	...
Denmark												
GDP growth[3]	- 0.9	- 0.9	- 4.3	- 4.3	1.3	1.3	1.6	1.6	...	2.0	...	2.3
Cyclically-adjusted balance[4]	3.3	3.2	0.6	0.0	- 3.0	- 2.8	- 3.1	- 2.1	...	- 1.7	...	- 1.1
Debt-to-GDP ratio	34.2	33.4	41.6	38.5	46.0	41.8	49.5	46.2	...	48.3	...	48.1
Estonia												
GDP growth[3]	- 3.6	- 3.6	- 14.5	- 14.5	- 0.1	- 0.1	3.3	3.3	...	3.7	...	4.0
Cyclically-adjusted balance[4]	- 4.1	- 4.7	1.3	0.1	0.2	0.4	- 0.9	- 0.3	...	- 0.1	...	0.4
Debt-to-GDP ratio	4.6	4.6	7.2	7.8	9.6	10.1	12.4	13.0	...	14.2	...	14.3
Hungary												
GDP growth[3]	0.6	0.6	- 6.7	- 6.7	- 0.3	- 0.3	3.7	3.7	...	3.8	...	...
Cyclically-adjusted balance[4]	- 5.1	- 5.0	- 2.2	- 1.7	- 2.1	- 1.3	- 3.0	- 1.5	...	- 2.5	...	...
Debt-to-GDP ratio	72.9	72.9	78.3	78.0	78.9	79.0	77.8	76.9	...	73.6	...	...
Latvia												
GDP growth[3]	- 4.6	- 4.6	- 18.0	- 18.0	- 4.0	- 4.0	2.0	2.0	...	3.8	...	...
Cyclically-adjusted balance[4]	- 6.4	- 6.7	- 6.3	- 7.6	- 5.7	- 5.5	- 8.3	- 3.9	...	- 1.8	...	...
Debt-to-GDP ratio	19.5	19.5	36.1	34.8	48.5	55.1	57.3	59.1	...	56.8	...	...
Lithuania												
GDP growth[3]	2.8	2.8	- 15.0	- 15.0	1.6	1.6	3.2	3.2	...	1.2	...	...
Cyclically-adjusted balance[4]	- 5.7	- 5.6	- 6.7	- 7.0	- 6.1	- 6.5	- 6.8	- 5.0	...	- 2.6	...	...
Debt-to-GDP ratio	15.6	15.6	29.3	29.5	38.6	36.6	45.4	39.8	...	41.0	...	...
Poland												
GDP growth[3]	5.0	5.0	1.7	1.7	3.0	3.0	4.5	4.5	...	4.2	...	...
Cyclically-adjusted balance[4]	- 4.6	- 4.6	- 6.9	- 7.0	- 6.5	- 6.2	- 5.7	- 5.3	...	- 2.3	...	...
Debt-to-GDP ratio	47.2	47.2	51.0	50.7	53.9	53.1	59.3	56.3	...	55.8	...	...
Romania												
GDP growth[3]	7.3	7.3	- 7.0	- 7.0	1.3	1.3	2.4	2.4	...	3.7	...	...
Cyclically-adjusted balance[4]	- 8.2	- 8.5	- 7.8	- 7.5	- 6.9	- 5.2	- 6.4	- 3.2	...	- 2.1	...	...
Debt-to-GDP ratio	13.3	13.6	23.7	23.0	30.5	28.3	35.8	29.4	...	29.7	...	...
Sweden												
GDP growth[3]	- 0.2	- 0.2	- 5.2	- 5.2	0.6	0.6	3.1	3.1	...	3.8	...	...
Cyclically-adjusted balance[4]	1.4	1.2	1.9	0.3	- 0.2	- 1.3	- 0.5	- 1.5	...	- 2.1	...	...
Debt-to-GDP ratio	38.3	38.0	42.3	42.8	42.6	45.5	42.1	45.6	...	45.2	...	...
United Kingdom												
GDP growth[3]	0.5	- 1.3	- 4.9	- 3.5	1.2	2.0	3.5	3.3	...	3.3	...	3.3
Cyclically-adjusted balance[4]	- 5.7	- 6.9	- 9.7	- 10.8	- 10.4	- 10.3	- 8.7	- 8.0	...	- 6.8	...	- 5.5
Debt-to-GDP ratio	52.0	55.5	68.1	72.9	79.1	82.1	86.9	88.0	...	90.9	...	91.6
All Members (27)												
GDP growth[3]	0.7	...	- 4.2	...	1.0	...	1.7	...	...	2.6	...	...
Cyclically-adjusted balance[4]	- 3.2	...	- 5.2	...	- 5.6	...	- 5.2	...	...	- 4.6	...	...
Debt-to-GDP ratio	61.6	...	73.6	73.0	79.6	78.3	83.8	81.7	...	81.4	...	...

1) Source: Commision service Spring 2010 forecasts (COM).– 2) Source: Stability programme (SP).– 3) Year-on-year change of real GDP.– 4) Output gaps and cyclically-adjusted balances from the programmes as recalculated by Commission service on the basis of the 'information in the programmes; Source: AMECO.– a) Without Belgium and Italy.– b) Without Belgium, Italy, Malta, the Netherlands and Slovakia.