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# **A Unique Opportunity for New Ideas on EU Fiscal Rules**

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## **The European Commission Review of Fiscal Rules: A UNIQUE OPPORTUNITY FOR NEW IDEAS ON EU FISCAL RULES**

- On February 5, the European Commission presented the outlines of its review of the euro-area's fiscal rules. A similar process is underway at the European Central Bank: a review of the ECB's monetary policy strategy. The [text](#) presented by the European Commission frames the rules in their historical context: the 3% deficit was justified by the occurrence of high inflation in the former decades; the Six- and Two-packs were determined by the fragility of public debts that emerged after 2007, during the crisis; the current context is forged by a different environment: low growth, low inflation, low convergence.
- The European Commission has found in its review that the fiscal rules contributed “to the gradual strengthening of EU economies and strong job creation recorded in recent years”. However, the EC also concluded that the fiscal stance has “frequently been pro-cyclical” and that the “composition of public finances has not become more growth-friendly and national governments have revealed their preference for increasing current expenditure rather than protecting investment”. Finally, the EC found that the fiscal rules have become more complex and less transparent.
- The major questions in this debate will be how to integrate the Green Deal, digital transition and structurally lower growth into the fiscal framework. The European Commission will try to push for a simplification of the rules and more focus on investment, but it is already clear that the deficit and debt limits will not be touched, also given the need for a reform of the Treaty that would be politically unrealistic.
- The major issue is whether the EC could enforce rules that can push national governments to implement coordinated fiscal stimulus as much as it can enforce the correction of excessive deficits. The MIP experience shows that governments are not willing to comply with such policy recommendations. New concepts therefore need to be devised.
- The year 2020 is a once in a lifetime opportunity to design an appropriate governance for tackling structural changes in the European economy: low growth determined by dismal demography trends; the challenge of digitalization; convergence vis-à-vis agglomeration; climate change; fiscal and monetary policy coordination. Italy should consider not to limit its contribution to getting more flexibility for national public expenditures.