

Matthias Goldmann

Are Fiscal Policy Rules Part of the Solution or Part of the Problem? On the False Dichotomy between Rules and Discretion

ADEMU Conference, Banco de España

A. Introduction



Outline

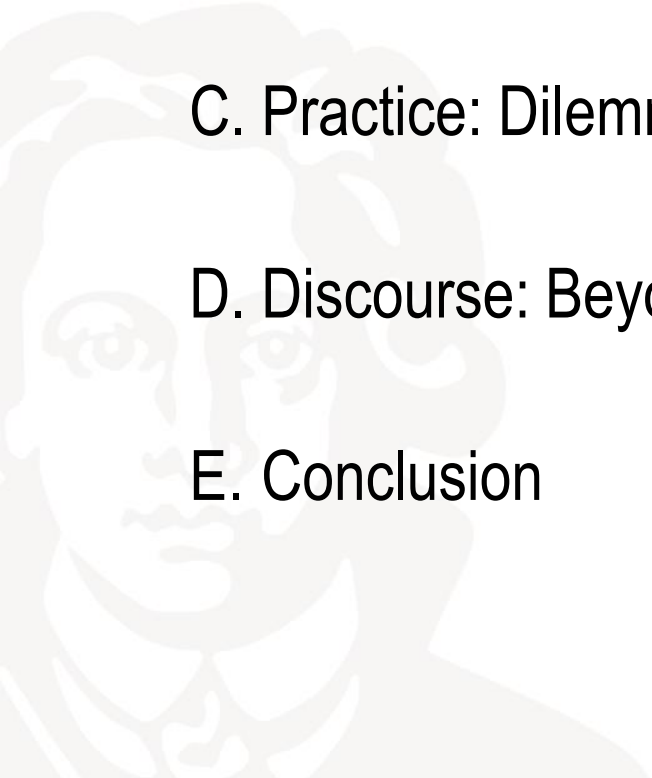
A. Introduction

B. Theory: From Discretion to Rules in Fiscal Policy

C. Practice: Dilemmas of Fiscal Policy Rules in the EMU

D. Discourse: Beyond the Rule vs Discretion Dichotomy

E. Conclusion



B. Theory: From Discretion to Rules

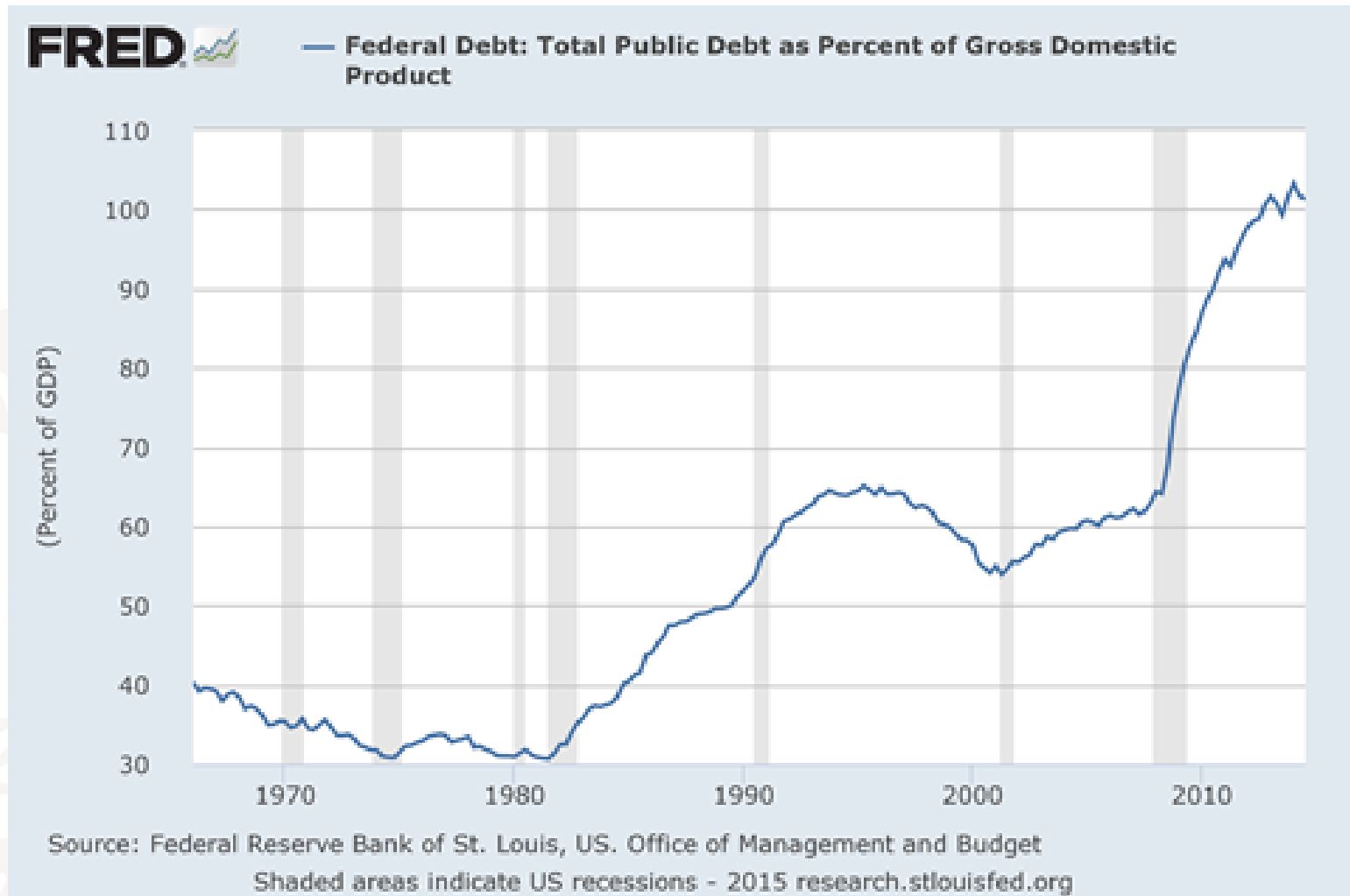
- Time inconsistency:
 - rational actors prefer overspending today
 - politics as rent-seeking (Buchanan)
- *Tension between present and future democratic decisions, intergenerational justice*

- Moral hazard in monetary unions
 - Risk of macroeconomic imbalances
 - Overspend at the expense of the union/other members
- *Tension between different constituencies in a union*

C. Practice: Dilemmas of FPRs in the EMU

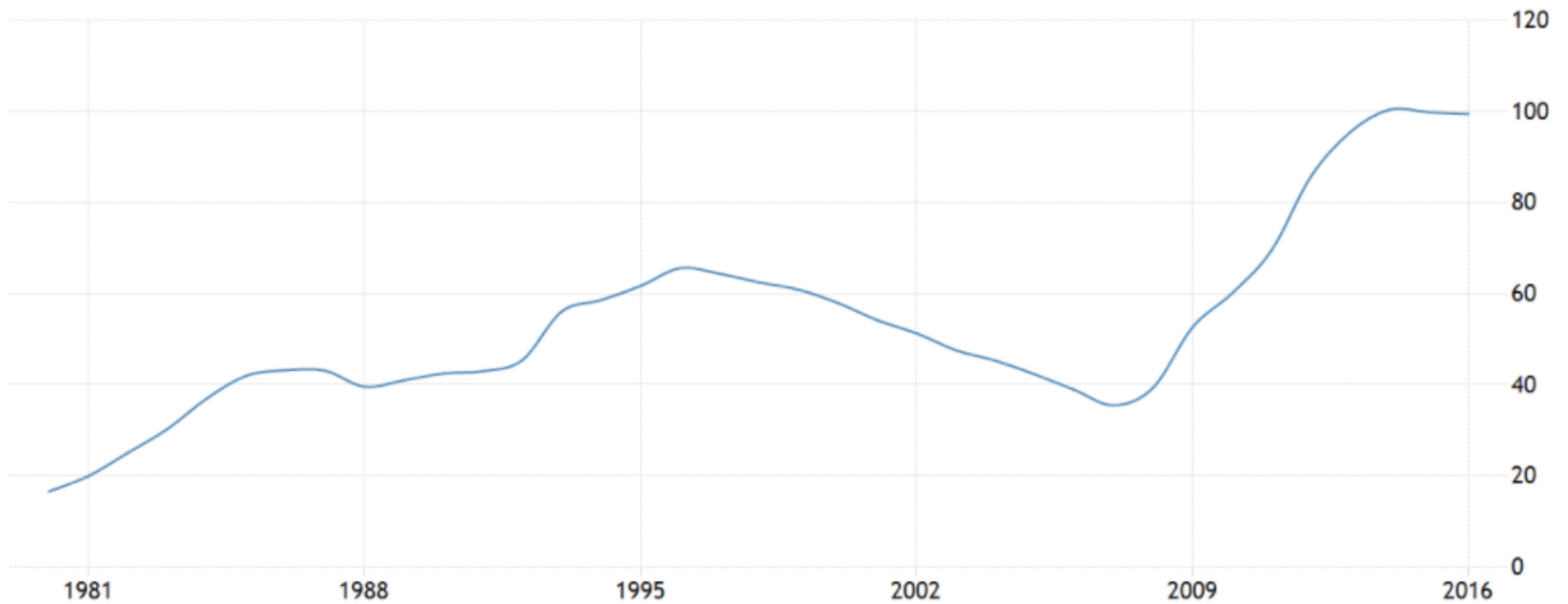
- Legal ambiguity:
 - Law is language, and language changes with context
 - Numerical rules? → measurement difficulties
 - But even they are part of a network of rules
 - E.g. Pringle (Art. 125 TFEU)
- Democratic dilemmas:
 - Crises of capitalism make governments step up debt to gain legitimacy
→ *undermines legitimacy in the long run*

C. Practice: Dilemmas of FPRs in the EMU



C. Practice: Dilemmas of FPRs in the EMU

SPAIN GOVERNMENT DEBT TO GDP



SOURCE: WWW.TRADINGECONOMICS.COM | BANK OF SPAIN

C. Practice: Dilemmas of FPRs in the EMU

- Legal ambiguity:
 - Law is language, and language changes with context
 - Numerical rules? → measurement difficulties
 - But even they are part of a network of rules
 - E.g. Pringle (Art. 125 TFEU)
- Democratic dilemmas:
 - Crises of capitalism make governments step up debt to gain legitimacy
 - *undermines legitimacy in the long run*
 - In EMU, raising debt due to macroeconomic imbalances
 - *undermines legitimacy of MS governments, or of EU*
 - *Human rights!*

D. Discourse: Beyond Rules vs Discretion

- Fiscal Policy Rules might guide behavior by triggering discourse



D. Discourse: Beyond Rules vs Discretion

→ Understand Fiscal Policy Rules as principles!

- Discourse in the Stability and Growth Pact:
 - 2005: country-specific assessment
 - 2015: Account for structural reforms, investments, adjustment path, effective measures taken ...
 - European Fiscal Board: consultative
- Discourse relating to Balanced Budget Rules:
 - No numerical limits, or deficit allowed (DE: 0.35%)
 - Vague concepts: exceptional circumstances / severe economic downturn
 - One-off and temporary measures
 - National fiscal councils: comply or explain

E. Conclusion

- Practice understands Fiscal Policy Rules as principles: find situatively acceptable solutions, guided by the objective of fiscal consolidation
- Third way is possible
- Flexibility is strength, not weakness. In fact, it seems to be the best way to get around the dilemmas of legal ambiguity and democratic legitimacy

Thank you!

goldmann@jur.uni-frankfurt.de

