Munich Personal RePEc Archive

101 proposals to reform the Stability and Growth Pact. Why so many? A survey.

Larch, Martin and Jonung, Lars and Fischer, Jonas

European Commission

2008

Online at https://mpra.ub.uni-muenchen.de/20592/
MPRA Paper No. 20592, posted 10 Feb 2010 07:56 UTC

101 PROPOSALS TO REFORM THE STABILITY AND GROWTH PACT. WHY SO MANY? A SURVEY.

Lars Jonung, Martin Larch and Jonas Fischer
Directorate-General for Economic and Financial Affairs, European Commission

ABSTRACT

The failure of key EU Member States to respect the provisions of the Stability and Growth Pact (SGP) a few years after its inception triggered a heated debate on how to reform the framework of fiscal policy coordination in the Economic and Monetary Union (EMU). This paper analyzes 101 reform proposals presented by professional academic and non-academic economists prior to March 2005, when the Council of the European Union adopted a revised version of the SGP. Roughly four different schools of thought concerning the reform of the SGP are identified. In line with the main findings of the political economy literature, all four schools of thought share the view that in the absence of specific rules fiscal policy would lead to excessive deficits and hence affect the conduct of the common monetary policy. However, beyond this common denominator, there is no consensus on how best to co-ordinate fiscal policy.

We present several explanations for the multitude of proposals, the most important being the present lack of a consensus in the economics profession concerning the role of fiscal policy. Economists hold diverging views on the goals, instruments, efficiency and institutions for fiscal policy-making. This state of affairs is in sharp contrast to the case of monetary policy. Also, the euro area is the first case where monetary policy-making is centralized while fiscal policy-making is decentralized to national governments.

Public Finance and Management
Volume Eight, Number 3, pp. 502-560
2008

1. INTRODUCTION[1]

The purpose of the paper is to analyze the large number of proposals for reforming the Stability and Growth Pact (SGP) presented by professional academic and non-academic economists in recent years. The background for our study is the crisis of the EU fiscal framework which led to the suspension of the SGP in November 2003 and the adoption of a reformed SGP in March 2005. Growing political tensions went along with a lively discussion about the main caveats of the EU budgetary framework and potential solutions. The discussion within political and academic circles gave rise to a veritable industry of 'SGP therapists' who produced a wide range of proposals on how to properly implement fiscal policy-making in the Economic and Monetary Union (EMU).

When viewed from an adequate distance, the discussion about the SGP can be read as the symptom of a more fundamental disagreement. As regards the political debate, it could simply be taken to mirror conflicts of interest or dynamic inconsistencies which feature prominently in the political economy literature. The disagreement among professional economists has a somewhat different connotation. It clearly signals the lack of consensus about the proper goals and instru-

---

[1] The views expressed here are those of the authors. They do not represent the opinion of the Directorate-General for Economic and Financial Affairs. The authors have received valuable comments from Roel Beetsma, Michael Bergman, Iain Begg, Martin Flodén, Dermot Hodson, Jan in't Veld, Roman Kräussl, Ludger Schuknecht, Alessandro Turrini, Charles Wyplosz and two anonymous referees. The authors also thank seminar participants at the 2006 SNEE European Integration Conference, Mölle and the Federal Reserve Bank of San Francisco for suggestions. Research assistance by Paolo Biraschi is gratefully acknowledged.

ments of fiscal policy, either in a domestic and or in an international setting. Even the empirical question about the effects of fiscal policy measures on domestic and international demand is disputed. There is also a lack of agreement concerning the proper institutions for framing fiscal policy. This state of affairs is in sharp contrast to the case of monetary policy, where there is more of a consensus about the goals, instruments and institutional framework of monetary policy-making.

The fact that the EMU is a unique construction adds to the debate. The euro area is the first monetary union in history where a group of independent countries devolve their monetary sovereignty to a common central bank, the European Central Bank (ECB), while retaining domestic control over fiscal policy, thus giving economists new turf on which to test their ability to present policy proposals. And they have used this opportunity amply.

The paper is organised as follows. Section 2 reviews the history of the SGP. This survey is crucial to understand the economic and political background of the many proposals for reform. Section 3 examines 101 proposals of reform of the SGP using cluster analysis. Each proposal is classified according to a number of variables such as the main policy objective pursued and the proposed degree of policy modification involved. Section 4 compares the actual reform of the SGP adopted by the Council of the European Union with the academic debate reflected in the 101 proposals. Section 5 offers an explanation of why there are more than one hundred proposals on the market for reforming the SGP. The final section concludes.

2. SAILING WITH THE SGP: A HISTORICAL OVERVIEW

The SGP is a rule-based framework for the co-ordination of national fiscal policies in the EMU. It was established to address the risk of negative spillovers from the budgetary positions of individual Member States into the common monetary policy. It consists of (i) a preventive part which requires Member States to attain sustainable medium-term budgetary positions, and (ii) a corrective part laying out procedural provision for the correction of an excessive deficit.[2]

Whether there is a need for a common framework for fiscal policy co-ordination and, if so, how it should be designed, has never stopped being debated, though the intensity of the debate has ebbed and flowed.

2.1. DESIGNING, BUILDING AND NAMING THE SHIP: FROM MAASTRICHT TO A STABILITY AND GROWTH PACT

Before the Maastricht Treaty was signed in 1992, the debate mainly revolved around the question whether an optimal currency area was a pre-condition for a successful monetary union or whether monetary integration itself could drive harmonisation.[3] As regards fiscal rules, there was a majority view that restrictions on national fiscal policy were necessary. Prominent dissidents include Bean (1992).

---

[2] A detailed description of the SGP goes beyond the purpose of this paper. A useful reference is Cabral (2001).

[3] See for instance Eichengreen (1991) and De Grauwe and Vanhaverbeke (1991).

In the mid-1990s, Germany got cold feet as its domestic climate became more hostile to the idea of EMU. The Germans' fear was that once countries had passed the convergence tests and entered EMU, their incentives to stick to budgetary discipline would evaporate. To persuade Germany to give up the DM, more assurance was required that fiscal policies would remain sound also inside the EMU, especially on the part of members with a history of high inflation, deficits and debt. In 1995, the German Minister of Finance Theo Waigel proposed a 'Stability Pact for Europe' where the 3% of GDP deficit objective (one of the convergence criteria for joining the euro) would become a firm upper ceiling, sanctions for exceeding the reference value would be automatic and a new Stability Council comprising only participating Member States would implement the framework. The end product was far less mechanical. The Commission set up a framework that (i) clarified the provisions of the Maastricht Treaty regarding the excessive deficit procedure, and (ii) committed the members of the monetary union to a medium-term budgetary objective of 'close to balance or in surplus'.

On the basis of 1997 outcomes, 11 countries qualified for EMU. The consolidation efforts were considerable, even if some 'creative accounting' and other one-off measures on the margin also helped bring government deficits under the ceiling. Moreover, 1998 was a good year in terms of economic growth creating some margin for manoeuvre within the 3% of GDP reference value and setting the scene for a good start of the EMU on 1 January 1999.

2.2. SETTING SAIL AND ENJOYING FAIR WINDS: 1999-FISRT HALF OF 2001

Building on the 1997-98 developments, the SGP got off to a smooth virgin voyage. In 1999, the first operational year of the SGP, the euro-area Member States' budgetary deficits continued to improve on the back of good growth conditions. Figure 1 presents the weighted budget balance for the euro area and the projections made across consecutive generations of stability programmes. It shows clearly that on average budget deficits in 1999-2000 came out better than planned. For 1999, the main explanation was the composition of economic growth which turned out to be very 'budget-friendly' yielding higher-than-expected tax receipts.[4] The easy sailing with high growth continued in 2000.[5] Eight out of twelve euro-area countries showed budget surpluses.

The improvement of headline deficits concealed the fact that underlying budgetary positions did not change as much. According to the current Commission estimates the euro-area cyclically-adjusted budget deficit was close to 2% over the 1997-2000-period and the primary cyclically-adjusted balance deteriorated.

In spite of improving headline budget figures, some discussion started on how to make the framework

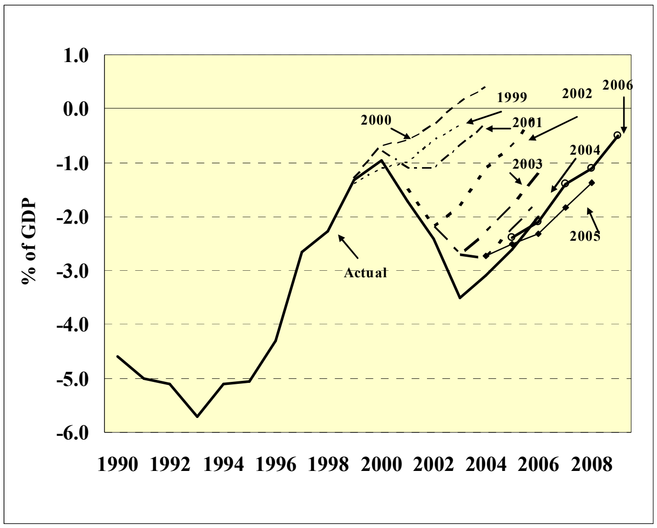
---

[4] A better than foreseen outcome of the 1998 budgets, a reduced interest burden and a changeover from ESA79 to ESA95 accounting standards played a role.

[5] In 2000, the budget of the euro area as a whole was marginally in surplus. However, this included sizeable one-off receipts from the sale of Universal Mobile Telecommunications System (UMTS) licences in several countries; netting out UMTS resulted in a deficit of 1 per cent of GDP.

binding in good times as well as in bad ones. Some commentators, including the Commission, argued that it would be better to pay more attention to cyclically-adjusted budget figures.

Figure 1: General government budget balance of the euro area. Budget plans of successive stability programmes vs. outcomes



Note: The deficit figure for 2000 excludes UMTS proceeds.
Sources: National stability programmes and Commission services.

In March 2003, following the November 2002 Commission Communication 'Strengthening the co-ordination of budgetary policies', the ECOFIN Council adopted a report formally changing the status of the cyclically-adjusted budget balance from a complementary analytical tool to a key element to assess compliance with a number of SGP provisions.[6] The report considered that the compliance with the close-to-balance-or-in-surplus requirement of the SGP should be assessed in cyclically-adjusted terms and that countries with a

[6] ECOFIN Council Report 6877/03 of 7 March 2003, endorsed by the European Council of March 21-22 March 2003.

deficit must improve their cyclically-adjusted budget position and, in the case of euro area countries, by a minimum annual reduction of 0.5% of GDP. Unsurprisingly, experience gathered in practice has shown that cyclically-adjusted budget balances are frequently revised in view of the uncertainty surrounding real-time output gap estimates (see for instance Hughes Hallett et al., 2007).

2.3. HITTING HEAVY WEATHER AND FINALLY RUNNING AGROUND: SECOND HALF 2001-MARCH 2005

Towards the end of spring 2001 a decisive shift occurred when the economic cycle took a sudden turn for the worse, which give way to a protracted period of slow growth. Signs of procedural alarm started to show in 2002 as the first steps were taken to implement the SGP's corrective arm. Early that year the Commission recommended the Council to issue an early warning to Germany and Portugal as their deficits were approaching the 3% of GDP reference value.[7] The Council, however, decided not to follow the Commission's recommendation. This conflict contained already the key elements emerging in the forthcoming reform debate: the Council versus the Commission, small versus large Member States, acting early on indications versus waiting for outcomes.

By autumn 2002, it was clear that both Germany and Portugal would breach the 3% of GDP reference value; the situation in France was also deteriorating rapidly. After this, things moved quickly.[8] The

[7] The early warning is part of the preventive arm of the SGP.

[8] An excessive deficit was established for Portugal in November 2002 and for Germany in January 2003. France received an 'early

2004 budget proposals showed that Germany and France would fail to bring their deficits below the 3% of GDP reference value in 2004 as required. At this stage the Commission asked the Council to issue a new recommendation to the two countries, requesting further action on top of that included in the 2004 budgets while at the same time postponing the deadline for meeting the 3% limit by one year, to 2005, in view of the weak economic outlook. However, at the meeting on 25 November 2003, the Council decided not adopt the recommendations and put the procedure on hold instead. The decision was not unanimous. Most of the smaller Member States (incidentally usually fulfilling the 'close to balance' requirement) voted in favour of the Commission's recommendation but the larger countries (France, Germany, Italy and the UK) formed a blocking minority.

Instead of adopting the formal recommendations prepared by the Commission, the Council issued its own conclusions which were broadly in line with what the Commission had requested. However, had the Council adopted the Commission's recommendation and France and Germany failed to comply, the next step would have been sanctions.

The Commission judged that it could not accept the SGP legislation being disregarded and asked the European Court of Justice to bring clarity to the procedure. The Court presented its verdict in July 2004 and ruled that the Council did not have the right to sidestep

warning' in January 2003 and an excessive deficit was deemed to exist in June that year. All three countries were told by the Council to take action to bring their deficits below the 3% threshold (in 2003 for Portugal and in 2004 for Germany and France). Germany did take action and presented budget measures of around 1% of GDP in spring 2003.

the legal procedures. The clarification of the legal status of the SGP by the European Court of Justice cleared the way for a broader, formal reform debate. On 3 September 2004, the Commission presented a communication on how to improve the SGP. On this basis and after long discussions, the European Council was able to endorse an agreement on 20 March 2005.

3. THE EMPIRICAL ANALYSIS

3.1. THE SET OF PROPOSALS TO BE ANALYZED

As of 20 March 2005, the cut-off date of our survey, we collected a sample of 101 reform proposals made available in the English language by professional academic and non-academic economists in and outside Europe. Proposals advanced by policy-makers or non-economists were not considered because our focus is on the economic profession's point of view. The complete list of reform proposals, presented in alphabetic order, is displayed in the Annex.

While our selection may still not cover the entire literature on the subject, we are convinced that we have identified a significant and representative part.[9] More proposals are likely to have emerged after our cut-off date of March 2005. In particular, the report of the European Council of 20 March 2005 mapping out

[9] We have taken great pains to identify proposals to reform the SGP, searching the web and working paper sites of various organizations and universities. One limitation is language as we have ruled out non-English contributions. However, we believe that original proposals of reform made in other languages than English would have found their way into the English language sooner or later. Thus, we do not regard our focus on English as a major problem.

the reformed SGP triggered a new wave of assessments and proposals from the economics profession. However, we believe that cutting the sample off with the arrival of the new Pact gives us a sufficiently large and diverse collection of reform proposals.

Predictably, many proposals in our collection share some similarities regarding both the analysis and the policy conclusions. But each proposal also exhibits some distinctive features. To avoid getting bogged down in a tedious descriptive analysis of the mass of proposals, we have characterised each proposal by a set of eleven variables, referring to the background of the authors and the type of proposals they make. The data base obtained in this way lends itself to basic multivariate statistical analysis.

In terms of the economic content of the proposals, two variables are crucial: (i) the main economic policy objective of the SGP advocated by the authors, and (ii) the suggested modification of the current institutional setup. Concerning the policy objective, we distinguish between seven different categories: (1) short-term stabilisation, (2) short-term budgetary discipline, (3) long-run sustainability, (4) optimal policy mix, (5) economic growth, (6) combinations of policy aims, and finally as a separate entity those proposals arguing that (7) the SGP serves no purpose, and thus that a market solution would be superior. Of course, there are trade-offs and/or complementarities across these main goals. However, for the purpose of our analysis we have identified what we view as the main aim of the various recommendations.

With regard to the suggested modifications of the SGP, we choose six different categories for classifying the proposals. These categories are ranked according to the degree of modification ranging from (0) for

Table 1. Characterising variables of the reforms proposals and their frequency distribution

aim (nominal variable): What is the aim of the policy proposal?				
Category (value)	Short-term stabilisation (1)	Short-term budgetary discipline (2)	Long-run sustainability (3)	Optimal policy mix (4)
No. of papers:	19	11	19	13
Category (value)	Growth (5)	Combination (6)	Market solution (7)	
No.papers:	12	19	8	
model (nominal variable): Does the proposal include a theoretical model?				
Category (value)	Yes (0)	No (1)		
No. papers:	27	71		
empir (nominal variable): Does the proposal include empirical analyses?				
Category (value)	Yes (0)	No (1)		
No. papers:	45	56		
modif (ordinal variable): What is the proposed degree of modification?				
Category (value)	No modification (0)	Reinterpretation of the Pact (1)	Changes in rules and procedures (2)	Changes in institutions (3)
No. papers:	5	4	53	11
Category (value)	Changes in rules and institutions (4)	Abolish the Pact and go for alternatives (5)		
No. papers:	11	17		

Table 1 continued

nprop (cardinal value): How many proposals are being put forward?			
No. of proposals (and papers)	1 prop (77); 2 prop (15); 3 prop (7); 4 prop (1); 7 prop (1)		
welf (nominal variable) Does the paper follow a welfare or political economy approach?			
Category (value)	**W**elfare (0)	**P**olitical **E**conomy (1)	Both (2)
No.papers:	52	32	17
date (cardinal variable) Distance between date of publication and Nov. 2003 in months			
No. proposals/ papers	More than 2 years (11); Less than 2, more than 1 (10); Less than 1 year (32); After (48)		
large (nominal variable) Do the authors originate from a large or a small country?			
Category (value)	**L**arge (0)	**S**mall (1)	Both (2)
No. papers:	76	20	5
euro (nominal variable) Do the authors originate from a euro or a non-euro area country?			
Category (value)	Yes (0)	No (1)	Both (2)
No. papers:	64	27	10
eur (nominal variable) Do the authors originate from a EU or a non-EU area country?			
Category (value)	Yes (0)	No (1)	Both (2)
No. papers:	83	11	7
acad (nominal variable) Are the authors academics?			
Category (value)	Yes (0)	No (1)	Both (2)
No. papers:	61	27	13

'no modification' to (5) for 'abolish the SGP and go for alternatives'. A detailed description of the variables characterising each proposal is provided in Table 1.[10]

The main aim of the quantitative analysis of the 101 proposals is to examine the degree of consensus or the lack of it among professional economists concerning the SGP. Several questions spring to mind. How dispersed are the views about the objectives of the SGP? Have views changed over time? How important are welfare considerations vis-à-vis considerations of political economy? Are there significant differences between the proposals of academic and non-academic economists? Do views differ between contribution from euro-area countries and non-euro-area countries? Does the size of the proposal-maker's country matter?

The overview of the 101 SGP proposals, displayed in Table 1, shows the distribution across the characterising variables. The geographical distribution is very EU-centred: around 80% of the proposals stem from European economists, of which less than one fourth were from non-euro-area countries. Few proposals originate from the 'new' Member States. One reason for this is certainly that accession took place in May 2004, less than one year before the Council adopted the report underpinning the reform of the SGP. The low number of proposals from the 'new' Member States may also be due to a lack of ownership.

More than half of the proposals were produced by academics. Nevertheless, the fact that around one fourth of the proposals were advanced by non-

---

[10] The full classification of the 101 reform proposals based on the characterising variables in Table 1 can be found in Annex 2 of the European Commission Working Paper No. 267 of December 2006.

academics brings out the political prominence of the SGP.

The overview in Table 1 also reveals the absence of a clear majority position on one key element of the EU fiscal framework. The 101 proposals are widely spread across the variable capturing the main aim of the SGP as identified by the author of the proposal.

Concerning the concrete measures on how to reform the SGP, about half of the proposals argue that changes in rules and procedures *within* the existing framework are sufficient to improve budgetary surveillance. This essentially matches the actual outcome of the SGP reform debate as embodied in the Council report of 20 March 2005. However, a significant number of the proposals advocate a more radical break, including changes to the institutional setup or entirely new institutions. On the other hand, a small number of economists are of the opinion that the SGP needs *no* change.[11]

The time dimension is an important aspect. As shown in Table 1, the reform debate attracted an increasing number of economists as November 2003 drew closer and kept its sustained momentum in the seventeen months period up to April 2005, reflecting the topical and politically pressing nature of the issue. Around one third of the proposals were advanced in the twelve months preceding the Council's decision not to step up the excessive deficit procedure for Germany and France and close to 50% in the seventeen months

[11] Clearly, this distribution may not be genuinely representative for the entire population. We cannot rule a out a selection bias in the sense that economists who see no need to change the SGP may have been less inclined to participate in the discussion than others.

period leading to the actual reform of the SGP in early 2005. This corresponds to an average output of 2.7 proposals per month. Up until November 2003, the debate was mostly sustained by economists from academia. By November 2003 around 60% of all academics in our samples had already advanced proposals. Conversely, the bulk of the non-academic economists started to get involved only after the SGP crisis had become acute, i.e. after November 2003.

At a very early stage, i.e. at the time of the Maastricht agreement, the academic discussion on the fiscal framework of the EMU was not particularly animated, though there were some early contributions, for example Buiter et al. (1993). Most attention had naturally been given to the proper conditions for membership. Among the 101 proposals, those contributions relating to alternative frameworks, such as market solutions, generally surfaced at this stage.

As regards the proposed degree of modification to the old SGP, the reform proposals tended to converge towards a clear majority view as the debate unfolded. In the very early stages, there was a sharper division of views with (i) a still relatively large share of proposals that did not see any need for reform and (ii) a relatively large group favouring radical changes to the SGP. The gap narrowed over time as an increasing share came round to the view that there was a need to adjust the existing rules of the SGP. At the same time, questions of political economy started to gain ground over welfare considerations. This probably reflected the experience of the stalemate between the Council and the Commission, which highlighted the institutional and credibility problems of the existing framework.

3.2. CLUSTER ANALYSIS

Cluster analysis is a useful exploratory statistical tool for organising data into groups of related observations such that those within a specific group are more similar to each other than they are to those in other groups. Since no objective criteria for choosing the 'optimal' number of clusters exist, we proceeded on a tentative basis by successively increasing the number of clusters, starting with two. This approach reveals four relatively stable groups across different types of clustering methods.[12] All clusters beyond four contained only a limited number of proposals and hence did not contain enough information to qualify as a meaningful and distinct group. By contrast, less than four clusters were not enough to disclose differences across some of the variables characterising the 101 proposals.

The distribution of the characterising variables of the 101 proposals across the four clusters as well as across the characterising variables is presented in Table 2. It must be stressed that the four clusters do not form homogenous groups of economists in terms of the characterising variables. The lines of demarcation are rather fuzzy. For some variables the differences across the groups are not statistically significant. However, the four clusters reveal sufficiently distinct patterns that give rise to sufficiently distinct and informative groups of proposal. Overall, the four groups chiefly serve illustrative purposes and are not meant to indicate that proposals within groups have a unique profile. Keeping this qualification in mind, the four groups identified in our cluster analysis and presented 'in order of appearance' can be characterised as follows.

---

[12] We used a hierarchic technique with chi-square as measure of distance and Ward's method for grouping cases into clusters.

The ***first group***, which could be referred to as *disenchanted reformers*, includes 31 contributions from professional economists who hold very critical views about either the general utility or the effectiveness of the SGP or both. The group includes the largest number of proposals suggesting either relatively incisive re-

Table 2. Frequency distribution across clusters and characteristics of the reform proposals

Disenchanted Reformers = DR
Defenders of fiscal discipline = DFD
Advocates of economic growth = AEG
Supporters of long-term sustainability = SLTS

Cluster	**DR**		**DFD**		**AEG**		**SLTS**		**Σ**
No. of Papers	31		19		32		19		101
	No.	%	No.	%	No.	%	No.	%	
Aim: 1	3	10	6	31	5	15	5	26	19
2	5	16	4	21	1	3	1	5	11
3	5	16	2	11	5	16	7	37	19
4	4	13	2	11	7	22	0	0	13
5	4	13	1	5	5	16	2	10	12
6	5	16	4	21	7	22	3	16	19
7	5	16	0	0	2	6	1	5	8
Model: no	25	81	9	47	29	91	11	58	74
Yes	6	19	10	53	3	9	8	42	27
Empir: no	25	81	6	32	10	31	15	79	56
Yes	6	19	13	68	22	69	4	21	45

Table 2 continued

Cluster	**DR**		**DFD**		**AEG**		**SLTS**		**Σ**
	No	%	No	%	No	%	No.	%	
Modif: 0	1	3	1	5	2	6	1	5	5
1	3	10	0	0	1	3	0	0	4
2	15	48	9	47	19	59	10	53	53
3	3	10	4	21	3	10	1	5	11
4	3	10	3	16	2	6	3	16	11
5	6	19	2	11	5	16	4	21	17
nprop: 1	28	90	16	84	23	72	10	53	77
2	0	0	1	5	6	19	8	42	15
3	3	10	2	11	2	6	0	0	7
>3	0	0	0	0	1	3	1	5	2
welf: PE	10	32	8	42	9	28	5	26	32
W	15	49	7	37	20	62	10	53	52
Both	6	19	4	21	3	10	4	21	17
Date: >72	2	6	0	0	0	0	0	0	2
71-25	3	10	3	16	2	6	1	5	9
24-13	2	6	4	21	3	9	1	5	10
12-0	8	26	7	37	11	35	6	32	32
after	16	52	5	26	16	50	11	58	48

Table 2 continued

Cluster	DR		DFD		AEG		SLTS		Σ
	No	%	No	%	No	%	No.	%	
large: S	6	19	4	21	4	13	6	32	20
L	22	71	15	79	28	87	11	58	76
Both	3	10	0	0	0	0	2	10	5
euro: No	11	35	6	32	5	16	5	26	27
Yes	16	52	12	63	25	78	11	58	64
Both	4	13	1	5	2	6	3	16	10
EU: Yes	4	13	4	21	1	3	2	11	11
No	23	74	14	74	29	91	17	89	83
Both	4	13	1	5	2	6	0	0	6
acad: No	10	32	5	26	11	34	1	5	27
Yes	18	58	13	69	15	47	15	79	61
Both	3	10	1	5	6	19	3	16	13

forms, including major changes to the existing institutional set-up, or its replacement by a totally different arrangement.

Part of their reservations about the SGP may be explained by the fact that the group includes a relatively large share of economists from the US or from non-euro-area countries, hence not necessarily sharing a passion for the idea of a common currency or the related common fiscal framework. However, the euro-area economists in the group also hold fairly critical and sometimes disillusioned views. A further distinguishing feature of the disenchanted reformers is that they seem to have relatively clear ideas. More than 90% of the papers presented by the disenchanted reformers advance only one suggestion about how to 'cure' the Pact. Multiple reform proposals are much more common in the other three groups.

The average date of publication suggests a relatively early entry into the reform debate, around 13-14 months prior to November 2003. However, the proposals are widely distributed across time, including a number of very early papers, published well before any signs of SGP weakness had appeared on the horizon, as well as a number of very late works released after November 2003. The common cement in this group is the view that fiscal discipline should not and cannot be the only scope of the SGP. Consequently, other policy aims, in particular short-term stabilisation, are advocated as well. Prominent representatives of the first group are Alesina (2001), Uhlig (2002), Calmfors (2003) and Tanzi (2004).

Tanzi (2004) is among those who show sympathy for the idea that fiscal policy coordination in a monetary union could be left to market forces, i.e. to the decisions of rating agencies. Such an approach does not necessarily follow from a religious belief in market forces but from the conclusion that all fiscal rules are of little help unless they are totally and constitutionally binding, which in Tanzi's view is rarely the case.

Uhlig (2002) also questions the credibility of the EU fiscal framework, in particular the credibility of the sanctions to be imposed on countries which violate the obligations of the SGP. However, unlike Tanzi (2004), he proposes to strengthen the framework by replacing the discretionary rule of the ECOFIN Council by (i) automatic rules and (ii) the possibility for any European citizen to take the EU to court and demand the imposition of penalty payments.

Calmfors (2003) is a prominent representative of those who fully acknowledge the importance of fiscal rules as means to enhance fiscal discipline but who also point out that the SGP may increase output volatility because it hampers stabilisation efforts in downswings and does not provide sufficiently strong incentives to consolidate public finances in economic good times. Against this backdrop, he advocates modifications which allow the automatic stabilisers to operate fully and provide sufficient leeway for discretionary fiscal policy actions especially in the wake of large idiosyncratic shocks or large common shocks where monetary policy needs to be complemented by fiscal policy.

Alesina (2001) argues that EU budgetary surveillance should worry less about the first or second decimal of the Member States' deficit figure. In his view, the focus should shift towards government expenditure, which had reached levels that rather hamper economic growth than improve the distribution of income.

The ***second group*** encompasses 19 papers by economists who could be called *defenders of fiscal discipline*. Most of them entered the scene at the beginning of 2003 when the strain on the SGP became tangible. The group includes a relatively large share of academic economists (more than two thirds as compared to an overall share of 60%). They are unified by the insight that the set of rules of the old SGP was not sufficiently effective in achieving what they predominantly perceive as the main aim of the SGP, notably fiscal discipline and/or fiscal sustainability. Compared to the first group, there is a broader consensus that a common fiscal framework as such is necessary and useful. In particular, none of the proposals favours a 'market solution', which highlights their conviction that without any institutional mechanism things would be worse. The main critique advanced by the *defenders of fiscal discipline* relates to the design of the old SGP, which they think was not instrumental in achieving their favoured goal, also because of policy failures.

The proposals advanced by the second group are largely based on explicit theoretical models. Very often they involve political economy considerations and provide empirical evidence pointing to the lack of credibility and enforceability of the old SGP. The proposals predominantly include suggestions for procedural and institutional changes aimed at strengthening the SGP and taking into account the incentive structures of fiscal rules. In particular, the second group includes most proposals suggesting that fiscal surveillance should be entrusted to new and more independent fiscal institutions. Casella (1999), Wyplosz (2002), and Eichengreen (2003) are particularly illustrative representatives of this group.

Wyplosz (2002) is among the first to elaborate on the idea of independent fiscal councils as a solution to the fiscal co-ordination problem in EMU. In analogy to monetary policy, he essentially proposes to free fiscal policy-making from political interference, thereby addressing the basic credibility problem of the old SGP, i.e. the fact that Member States judge their own policies through the Council of the European Union. While endorsing their desirability, Wyplosz (2002) admitted that the political feasibility of independent fiscal Councils may be limited. Variants on the independent council proposal are also made by von Hagen (2002) and Fatás et al. (2003), who are also part of the second group.

Eichengreen (2003) proposes to strengthen fiscal discipline by extending the scope of the SGP to the quality of national fiscal institutions. His suggestion draws on the results of the literature showing that national institutional arrangements are strongly correlated with fiscal outcomes. Hence, the idea is to complement numerical fiscal rules with a framework that encourages Member States to adopt procedures conducive to sound public finances.

A much more radical proposal is put forward by Casella (1999) at an early stage. The idea is to replace the rules and procedures of the SGP with a market for tradable deficit permits as an efficient mechanism for the implementation of fiscal constraints in EMU. Such an arrangement is intended to allow flexibility at the country level while imposing ceilings for the euro area as a whole. However, Casella admitted that the enforcement of such a system would be weakened if governments maintained control over the system, as they probably would negotiate exceptions or ad hoc changes in the overall deficit ceiling.

The ***third group*** comprises the *advocates of economic growth*, 32 contributions from economists, who, on average, entered the reform debate around half a year before November 2003. By that time, it was already clear that neither France nor Germany would take sufficient measures to bring their deficits below the 3% of GDP reference value within the specified deadlines. In addition, most large euro-area economies had been experiencing persistent low economic growth. Against this backdrop, a considerable number of economists, mainly from large euro-area countries, argued that the exclusive focus on short-term fiscal discipline of the old SGP did not ensure a balanced policy mix and provided insufficient scope for fiscal policy to support economic growth. The representatives of this group, which included a relatively large number of non-academics, predominantly based their analysis on welfare considerations, arguing that putting more weight on economic growth rather than on fiscal discipline would be welfare-enhancing. Political economy considerations were given only minor importance or left out of the discussion. This is also why their reform proposals do not aim for a major modification of the institutional setup of the SGP. The preferred option is a change in existing rules and procedures. Particularly illustrative examples of the third group are Bofinger (2003), Fitoussi (2002) and Mathieu and Sterdyniak (2003).

Bofinger (2003) presents one of the most uncompromising proposals prioritising economic growth. He advocates a benchmark system for best practices of fiscal policy that contributes to economic growth and employment.

The proposals put forward by Fitoussi (2002) are less radical but motivated by the idea that fiscal rules should be state-dependent, i.e. should adjust to prevailing economic conditions or allow more leeway to react to changing economic conditions. In concrete terms, Fitoussi (2002) argues that the deficit rule should be replaced by a debt rule which, in contrast to a medium-term target of close-to-balance or in surplus in the old SGP, would allow Member States to run a deficit in the medium term. Fitoussi's (2002) second suggestion is to allow for the 'golden rule', which would provide more leeway for 'growth-enhancing' public investment.

Mathieu and Sterdyniak (2003) argue against the desirability of supranational economic policy coordination as a whole. In their view, surveillance of economic policy should be *'subordinated to the national policy prerogative of managing the production-inflation trade-off'*. The Commission and the Council should only act if spillover effects effectively endanger the inflation target for the euro area as a whole.

The authors of the 19 contributions in the ***fourth group*** could properly be characterised as *supporters of long-term sustainability.* On average, they mobilised shortly before or after November 2003 and host the largest share of academics as well as a relatively large share of economists from small European countries. The common denominator emerging from their proposals is the view that fiscal rules should focus on the long-term sustainability of public finances, rather than imposing annual deficit targets. Their proposals are mostly based on the argument that putting more emphasis on long-run sustainability within the set-up of the SGP provides additional leeway for short-term stabilisation policy and growth-oriented economic policies, without jeopardising fiscal discipline.

Two elements distinguish the fourth group from the third; one of degree, the other more of substance. In a virtual hierarchy of aims, the economists from the fourth group would put more weight on the fiscal stability aspect of the SGP than on economic growth. Moreover, the supporters of long-term sustainability show a more pragmatic or differentiated approach than the third group. This is evidenced by the fact that on average they put forward almost two proposals per paper or publication. Prominent representatives of the fourth group are Beetsma and Debrun (2003), Calmfors and Corsetti (2004) and Pisani-Ferry (2002).

Pisani-Ferry (2002) recognises a strong need for fiscal discipline in EMU but concludes that the focus on the deficit in the SGP is too narrow; the debt should be given more prominence. His proposal is to shift away from an annual assessment of deficit figures to a medium-term-oriented approach monitoring comprehensive public finance accounts that allow the potential impact of off-balance-sheet liabilities to be assessed.

Beetsma and Debrun (2003) argue that a strict implementation of the SGP may hamper structural reforms, as they may involve substantial up-front costs and thus sacrifice future growth. Hence, a more flexible interpretation of the 3% of GDP deficit threshold of the

Treaty is proposed, though subject to the condition that the quality of structural reform is assessed by a politically independent institution, and that structural reforms do not affect the long-term sustainability of public finances. This last part, the priority of sustainability, distinguishes Beetsma and Debrun (2003) from the *advocates of economic growth*.

With a view to giving the SGP more legitimacy, Calmfors and Corsetti (2004) suggest increasing its short-term flexibility on the deficit threshold by giving more weight to long-term sustainability. They propose to make the deficit ceiling explicitly conditional on the debt level, allowing low-debt countries to run larger deficits in downswings than high-debt countries. In addition, like a large number of other proposals across all four groups, they see the need to depoliticize the enforcement of SGP, i.e. to limit the role of the ECOFIN Council.

In conclusion, the cluster analysis reveals a number of important differences in the way the economics profession assessed the old SGP. These differences reflect a divergence in opinion about fiscal policy in general. There is no consensus about the welfare implications of the SGP. One camp would seem to take it for granted that the SGP is an economically desirable set of rules which needs a more or less comprehensive political-economy type of 're-engineering' in order to make it function properly. Others hold the view that the main problem of the old SGP is its primary policy objective rather than the political constraints ensuing from the institutional and procedural set-up. Yet another group believes that the old SGP failed or should be improved on both accounts.

There are also notable differences between views held inside and outside the euro area, with the 'outsiders' being somewhat more critical of the various aspects of the old SGP. Among the 'insiders', economists from academia exhibit a somewhat stronger conviction about the importance of fiscal discipline, whereas non-academics seem to be more inclined to prioritize other policy goals such as short-term stabilization or economic growth.

4. THE REFORMED SGP: ECLECTIC OR SECTARIAN?

While there are clear and frequent interactions between economics and politics, it is the privilege of policy-makers to draw their own conclusions on pending economic policy issues. Thus, the intensive reform debate on the SGP among professional economists preceding the actual reform measures may not necessarily be a faithful mirror of the policy discussion, let alone of the actual steps taken by policy-makers.

This section briefly outlines how many and which of the views aired in the economics profession eventually made their way into the reformed 2005 SGP. The foundations of the new Pact are laid out in the report 'Improving the implementation of the Stability and Growth Pact' adopted by the ECOFIN Council on 20 March 2005. The two key parameters that epitomised the old Pact, the 3% of GDP reference value for the deficit and the 60% of GDP reference value for the debt, remained untouched, not least because they are part of the EU Treaty, a modification of which would have been more difficult to achieve. However, the safeguarding of the two reference values went along with a series of modifications of the secondary legislation shaping the implementation of the Pact.[13]

The main modifications aim to improving the economic rationale underlying the fiscal rules and their implementation. A great many of the 101 reform proposals examined here hold the view that some elements of the SGP did not actually make much sense from an economic point of view, including the fact that a one-size-fits-all rule would not sufficiently account for differences across countries. The reformed SGP takes account of this criticism by providing more room for country-specific considerations.

As regards the preventive arm of the Pact, the medium-term budgetary objective of close to balance or in surplus for all countries was replaced by country-specific medium term targets that take account of the economic and fiscal situation of Member States, notably the current debt to GDP ratio and potential GDP growth. Countries with a combination of low debt and high potential GDP growth will be allowed to aim for a small structural deficit whereas countries with a combination of high debt and low potential growth will still be required to move towards a balanced budget or a surplus.

The revised SGP also allows greater differentiation across countries concerning the adjustment towards the medium-term objective. The annual adjustment can be modulated depending on prevailing or expected economic conditions.

---

[13] A detailed overview of the 2005 modifications is presented in European Commission (2005).

As regards the corrective arm of the reformed SGP, country-specific conditions are now given more importance in the excessive deficit procedure. In particular, the procedure is no longer linear. It allows for the repetition of certain steps in the light of adverse economic events specific to the Member State. The new SGP also modifies the definition of a severe economic downturn which can make the breach of the 3% of GDP threshold exceptional. Instead of an annual fall of real GDP by at least 2%, which has never been observed in any euro area country since the SGP entered into force, the new SGP refers to a negative growth rate or the output loss accumulated during a protracted period of very low growth relative to potential. This too will require a country-specific assessment.

The reform of the SGP pays somewhat less attention to the role of EU procedures and institutions, an aspect which featured prominently in the reform debate among professional economists. A significant part of the economic profession linked the lack of enforcement to weaknesses in the governance structure of the EU fiscal surveillance, notably the fact that large countries in breach of the SGP had a high degree of leverage in the Council. Similarly, the Commission's position was assessed to be too weak vis-à-vis the Council to effectively live up to its role of Guardian of the Treaty.

Against this backdrop, a number of reform proposals concluded that enforcement should be improved by strengthening the institutions and procedures at both the European and the national level. This view is only marginally reflected in the reformed SGP. It is true that, unlike the old Pact, it gives the Commission the so for untested possibility to directly issue policy advice to Member States via its preventive arm without the approval of the Council. However, no changes were made to the governance of its corrective arm. Moreover, fiscal governance at the national level is addressed only very cursorily, by stating that national institutions could play a more prominent role in budgetary surveillance.

In terms of the four broad groups of economists identified in the previous section, the changes incorporated in the new SGP in March 2005 appear to be most in line with the views of the *advocates of economic growth* and to some extent with the views of the *disenchanted reformers.* Nevertheless, some of the innovations of the reformed SGP, specifically the country-specific medium-term budgetary objectives that may differ from close to balance or in surplus depending on debt and growth performance, reflect ideas put forward by the *supporters of long-term sustainability*. Only the *defenders of fiscal discipline* seem to have had little impact on the outcome of the actual reform process.

5. WHY SO MANY PROPOSALS?

In our view, several, at least seven, factors contribute to the multiplicity of reform proposals. They are highly interrelated – in particular the first three factors discussed below.

1. *The crisis of the SGP:* One of the main reasons is, of course, the crisis of the SGP in 2003-2005. The Pact came under heavy criticism due to the difficulties of several Member States in living up to the rules. As the Pact did not deliver the fiscal performance it was supposed to, this created incentives to produce recommendations for reforms.

Actually, the history of economics as an academic field demonstrates that current economic problems create a demand for policy advice, and that the economics profession stands ready to supply such advice. This makes research in economics topical and event-driven, in particular in the field of fiscal and monetary policy.[14] The 101 proposals for reform of the SGP are a clear illustration of this pattern.

Our cluster analysis brings out the topicality of the policy proposals. It demonstrates that the timing of the publication of proposals is closely tied to the degree of political tension surrounding the Pact – the greater the tension, the more proposals. Although not all of the authors refer explicitly to the problems of the SGP as the main factor behind their proposals, the majority of them are inspired by the problems of implementing the Pact.

2. *Changing circumstances – from debt to growth*: Another factor behind the multiplicity is changes in the macroeconomic conditions of the euro area after the Pact was signed. As described in Section 2, the SGP was drawn up in the 1990s, when the sharp rise in government debt and high inflation during the 1980s was regarded as the principal common challenge for European policy-makers. A major priority on the policy agenda in those days was to prevent and reduce the debt build-up. This macroeconomic situation as well as the prevailing macroeconomic policy view was codified in the SGP in 1997.

Since 1997, new macroeconomic issues and thus new goals have emerged on the top of the policy agenda. Stagnation and lack of dynamism in the euro area has triggered an interest in policies promoting

[14] See for example Hicks (1967, p. 156): 'but with monetary theory it is more often a particular understanding – an understanding directed towards a particular problem, normally a problem of the time at which the work in question was written. So monetary theories arise out of monetary disturbances.'

growth, expansion and employment. This has given rise to proposals to changes in the Pact to meet these new policy challenges. In addition, the fact that these issues are not identical across the EU contributes to the plethora of proposals.

3. *Lack of consensus about the role of fiscal policy*: The most important explanation behind the multiplicity of proposals is the lack of consensus about the role of fiscal policy in general. Economists are not in agreement about the proper goals, instruments and institutional framework for fiscal policy-making. After the demise of the Keynesian majority view of the 1950s and 1960s, several theories have competed in the market for ideas. In short, there is no ruling paradigm for fiscal policy-making.

This point can be brought out by contrasting the state of affairs of fiscal policy with the case of monetary policy. Today, there is a majority view in the economics profession on the role of monetary policy, roughly consisting of the following building blocks. The goal of the modern central banks is a low and stable rate of inflation, the instrument is changes in short-term interest rates under the control of the central bank. The policy strategy is forward-looking and rule-bound. The preferred institutional framework is a central bank with substantial independence from the government and the ministry of finance but held accountable for its actions to a democratic assembly. This philosophy has contributed to the acceptance of inflation targeting by central banks in many countries since the early 1990s. It is also the intellectual foundation of monetary policy-making in the euro area.

The roots of today's ruling monetary policy paradigm can be traced back to Milton Friedman's seminal address to the American Economic Association in 1968, 'The role of monetary policy' – one of the most influential article on macroeconomics in the post-World-War-II period. Friedman (1968) discussed what monetary policy can and cannot do. Turning back to fiscal policy, no commonly accepted article or treatise on 'The role of fiscal policy' similar to Friedman's *locus classicus* on monetary policy has survived the test of time. One of the last unified accounts of the Keynesian consensus concerning fiscal policy is Blinder and Solow (1974). Admittedly, there has been a gradual movement away from the belief in short-term fine-tuning and discretionary actions of the 1950s and 1960s to a more rule-bound approach, stressing fiscal discipline, the role of automatic stabilizers and the long-term sustainability of public finances. Yet, a unified framework is still out of sight.

The divergence of views on fiscal policy is best illustrated on the basis of three key dimensions of fiscal policy-making: goals, instruments and institutions. All possible combinations of agreement and disagreement along these dimensions are represented in our sample of 101 proposals to reform the SGP. The following examples illustrate the point.

Most obviously, there is a wide dispersion of views concerning the main goal of the SGP. In our analysis of the 101 proposals, we identified at least seven different categories of fiscal policy objectives – see Tables 1 and 2. However, even if there is an agreement on goals, views may still diverge strongly concerning the proper instruments and institutions. For instance, across all four groups found in our cluster analysis, many proposals agree on the main goal of the SGP but draw different conclusions about either the effectiveness of fiscal policy instruments or the appropriateness of fiscal institutions or both. Specifically, among the group of *disenchanted reformers,* a relatively large number of economists believe that fiscal discipline should be the main aim of the SGP and they share this view with the second group, *the defenders of fiscal discipline*. However, there are distinct differences concerning the way the agreed goal can or should be implemented. Some think that – within an appropriate institutional design – fiscal policy-making would be conducive to fiscal discipline, while others are more sceptical about the possibility of effectively pursuing fiscal discipline because, depending on the state of the economy, it should be traded off with other goals.

A further element of dissent for a given goal is the time frame. A large number of proposals, especially those put forward by the *defenders of fiscal discipline*, argue that fiscal discipline should be enforced on a yearly basis. Conversely, there are many economists among both the *disillusioned reformers* and the *supporters of long-term sustainability* maintaining that fiscal discipline must be assessed over a longer period.

In many cases, when there is disagreement about goals, the proposals still stand on the common ground that some improvements or changes in existing fiscal institutions would be instrumental in improving fiscal performance, and in any case better than going for a pure 'market solution'. However, in this context, the dissent often refers to the question of whether policy-makers should be given more or less discretion in implementing the rules. Some proposals suggest reliance on independent fiscal authorities (many are to be found among the *defenders of fiscal discipline* and some among the *supporters of long-term sustainability*), run by experts rather than by politicians, while others call for more flexibility and leeway for national policy-makers, not least with a view to increasing ownership of the fiscal rules.

The existence of these two fundamentally different views, the traditional view assuming welfare-maximizing policy-makers and the political economy view, is evident in very many proposals. These two approaches give radically different policy recommendations. The traditionalists tend to support a loosening of the Pact, giving more discretionary power to policy-makers. Economists in the political economy camp tend to suggest stronger constraints on policy-makers. The debate is basically about constraining or liberating the fiscal policy-makers.[15] Alternatively, we may talk about an optimistic and pessimistic approach to fiscal policy-making where the optimists (the welfare view) tend to believe in the capacity of well-intentioned policy-makers while the pessimists (the political economy view) doubt their intentions as well as their capacity to carry out the proper policies.

The picture becomes still more complex when we consider that fiscal policy is not solely focused on stabilization or fiscal discipline, but also on issues of allocation and distribution. This implies that issues of trade-offs between 'fairness' (distribution) usually emerge when fiscal stabilization measures are considered. This is hardly the case with the ruling monetary policy paradigm of today.

4. *Lack of empirical evidence*: Another reason for the multiplicity of proposals is the fact that few authors use empirical evidence concerning the efficacy of fiscal policy in support of their proposals. By ignoring empirical evidence, this creates more freedom in designing policy recommendations.

---

[15] For an exposition of the theoretical and empirical arguments for constraining fiscal policy-makers, see among others Fatás and Mihov (2002) and Wyplosz (2005).

The secondary, often neglected, role of econometric evidence among the proposals most likely reflects genuine disagreement among economists regarding the actual effects of fiscal policy measures on the economy. In short, the optimism about the impact of fiscal policy has been in decline since at least the 1970s and has now been replaced by pessimism.[16] Standard estimates of fiscal multipliers range from close to zero to about one. The debate about non-Keynesian effects of fiscal policy suggests negative multipliers, implying that contractionary fiscal measures may be expansionary under certain circumstances.

Solid estimates of the effects of expenditure changes, tax changes, and other fiscal measures simply do not exist today. This has contributed to the demise in the belief of discretionary fiscal policy as an effective stabilization tool, while the workings of automatic stabilizers have simultaneously been assigned a more prominent role.[17] As there is no common view on the empirical effects of fiscal policy, this issue is commonly overlooked among the 101 recommendations, allowing for a multitude of proposals.

5. *A new economic landscape:* Another factor behind the many proposals is that the institutional framework of the SGP is completely new. The euro area is the first case in history of a monetary union where monetary policy-making is centralized to a single authority, the ECB, while fiscal policy-making is de-

---

[16] See for example Auerbach (1994), Briotti (2005), De Mello et al. (2004) and Hemming et al. (2002).

[17] See for example Brunila et al. (2003), Orphanides (2000), Orphanides and Williams (2005) and Silgoner et al. (2003) on the effects of stabilization policies.

centralized to national governments.[18] Economists are thus venturing into virgin territory, which allows them to hold widely divergent views about the proper map to use for navigation.

Concerning this new institutional setting, there is no consensus about the proper models to use for analyzing the spillovers of domestic fiscal policy. Different models emphasize different channels for international policy dependence, giving rise to different reform proposals concerning policy coordination under EMU.[19] Where a policy proposal is based on a spillover channel working through debt build-up, the proposal will tend to focus on measures to restrict debt. Where a model for demand-side spillovers is adopted, the policy recommendations will likely focus on deficit rules. Likewise, for a model of supply-side dependency, the policy reform suggested would stress steps to influence the quality of public finance.[20]

Although EMU is a new construction, the evidence on fiscal federalism dealing with the experience of stabilization policies in federal states like Canada, Switzerland and the United States may give guidance concerning the design of the SGP. However, very few of our 101 proposals explicitly refer to the record from federal states. There is a surprising lack of interest in the literature on fiscal federalism as well as on fiscal policy in other monetary unions than the euro area among the proposal-makers.

---

[18] See the surveys of monetary unions in Bordo and Jonung (2003).

[19] See for example Ardy et al. (2006, chapter 4) for a survey of the issues of policy coordination in the EMU.

[20] This point is developed in detail in chapter 4 in Hodson (2005).

6. *Different country experiences:* The macroeconomic situation – its past, present and future – of the authors' home country influences the design of their proposals. Thus, the multiplicity of proposals reflects the fact that the authors originate from different countries with different records on stabilization policy, deficits and debt and at different stages of the business cycle and with different growth rates. There is a clear small/large country division, where authors from the large countries in the centre of the euro area, France, Germany and Italy, are more apt to loosen up the Pact than authors from small countries. There is also a tendency for more proposals to emanate from countries that are not complying with the SGP, as seen from our empirical work. The cluster analysis brings out these points.

7. *Different views on the political constraint – what is politically feasible? The sub-optimality of proposals:* Another factor behind the multiplicity is the likelihood that economists differ in their views on what is politically feasible when designing policy advice. Thus, they choose to 'optimize' their recommendations under different constraints. In principle, two economists may share the same view on what is the first-best solution to a specific problem. However, they may diverge in opinion when asked to prepare a policy proposal, depending on what they regard as politically feasible.

Of course, we are not able to derive the first-best solutions held by the authors of the 101 reform proposals. Still, we should be aware that many proposals may be the outcome of 'sub-optimal proposals' or second-best thinking, reflecting the authors' perception of what is feasible in terms of reform of the Pact.

6. SUMMARY

Our account of 101 proposals to reform the SGP shows that a clear majority views fiscal rules as desirable. Without such rules, a deficit bias, i.e. a tendency by governments to over-borrow and to build up unsustainable fiscal positions in the long run, would emerge. In addition and more specifically related to the EMU, there is a broad agreement that common supranational fiscal rules are necessary to address the risk of spillovers from domestic fiscal policies. A framework to coordinate fiscal policies is thus seen as instrumental. Only a small minority believes that the tendency to over-borrow and/or the risk of spillovers can be adequately handled by market forces. Even then, in some cases this position is not underpinned by genuine faith in the disciplining force of the financial markets but rather by the conviction that any policy solution would be subject to policy failure.

The broad consensus about the desirability of fiscal rules is dissolved and turned into wide disagreement once the actual policy recommendations proposed to improve upon the workings of the SGP are examined more closely. We identify a number of factors explaining this multitude of proposals. In short, they are not based on a common explicit theoretical foundation or model, they are not based on a common empirical or econometric set of evidence, and they are not aimed at reaching the same policy objective(s). We identify at least six different goals for fiscal policy. Often the same proposal aims at achieving more than one goal at the same time. The methodologies adopted in the proposals range from narrative, through pure theoretical exercises, to econometric estimates. We conclude that the major reason for the multiplicity of reform proposals is the lack of common ground as to the role of fiscal policy, although other factors also contribute to the wide differences among the 101 proposals.

Our results concerning fiscal policy-making in the euro area stand in sharp contrast to the debate about the common monetary policy for the euro area. There is considerable agreement across the economics profession about the institutional structure of ECB, its independence, its objectives and the instruments it should use. True, the ECB has been criticized, but the critique is in the details, at least so far. The ECB and its monetary strategy appear to have been basically accepted by the economic profession.

The marked difference in professional opinion concerning monetary and fiscal policy is due to the simple fact that there is a commonly accepted view on the role of monetary policy but not on the role of fiscal policy. As long as the profession is in disagreement about the role of fiscal policy, the SGP will be the subject of reform proposals.

REFERENCES

Alesina, A., (2001), 'The Stability and Growth Pact: Experiences and perspectives', A comment on Buti in *Temi di Finanza Pubblica*, A. Monorchio and A. Verde (eds.), Cacucci Editore, Bari.

Ardy, B., I. Begg, D. Hodson, I. Maher and D. G. Mayes, (2006), *Adjusting to EMU*, Basingstoke, Palgrave, Macmillan.

Auerbach A., (1994), 'The U.S. fiscal problem: where we are, how we got here and where we're going', NBER Working paper series no. 4709.

Bean, C. R., (1992) 'Economic and monetary union in Europe', *Journal of Economic Perspectives*, vol. 6, no. 4, pp. 31-52.

Beetsma, R. and X. Debrun, (2003), 'Reconciling stability and growth: Smart pacts and structural reforms', IMF Working Paper no. 174.

Blinder, A. S. and R. M. Solow, (1974), 'Analytical foundations of fiscal policy' in A. S. Blinder, R. M. Solow, G. F. Break, P. O. Steiner and D. Netzer (eds), *The economics of public finances,* Brookings, Washington D.C.

Bofinger, P., (2003), 'Why the Stability and Growth Pact provides neither stability nor growth?', Universität Würzburg, mimeo.

Bordo, M. and L. Jonung, (2003), 'The future of EMU: What does the history of monetary unions tell us?', chapter 3 in F. Capie and G. Wood (eds), *Monetary unions. Theory, history, public choice*, Routledge, London.

Briotti G., (2005), 'Economic reactions to public finance consolidation: A survey of the literature', European Central Bank, Occasional paper series no.38.

Brunila A., M. Buti, and J. in 't Veld (2003), 'Cyclical stabilisation in Europe: How effective are automatic stabilisers?', *Empirica* , vol. 30, pp. 1-24.

Buiter, W., G. Corsetti and N. Rubini, (1993), 'Maastricht fiscal rules', *Economic Policy*, 16, pp. 57-100.

Cabral, A. J., (2001), 'Main aspects of the working of the SGP', in A. Brunila, M. Buti and D. Franco (eds.), *The Stability and Growth Pact; The architecture of fiscal policy in EMU*, Palgrave, Basingstoke, pp. 139-157.

Calmfors, L., (2003), 'Fiscal policy to stabilise the domestic economy in the EMU: What can we learn from monetary policy?', CESifo Economic Studies, vol. 49, no. 3.

Calmfors, L. and G. Corsetti, (2004), 'How to reform Europe's policy framework', *World Economics*, vol. 4, no. 1

Casella, A., (1999), 'Tradable deficit permits', *Economic Policy*, vol. 14, no. 29.

De Grauwe, P. and W. Vanhaverbeke (1991), 'Is Europe an optimum currency area? Evidence from regional data', CEPR Discussion Paper, no. 555.

De Mello L., P. M. Kongsrud and R. Price, (2004), 'Saving behaviour and the effectiveness of fiscal policy', Economics department, OECD, working paper no. 397.

Eichengreen, B., (1991), 'Is Europe an optimum currency area?', NBER Working Paper no. 3579.
Eichengreen, B., (2003), 'Institutions for fiscal stability', University of California, Berkeley, mimeo.

European Commission, (2005), *Public finances in EMU 2005*, European Economy no. 3, Brussels.

Fatás, A. and I. Mihov, (2002), 'The case for restricting fiscal policy discretion', Discussion paper series, no. 3277.

Fatás, A., J. von Hagen, A. H. Hallett, H. Siebert and R. Strauch, (2003), 'Stability and Growth in Europe: Towards a better pact', CEPR Report.

Fitoussi, J-P., (2002), 'The Stability (and Growth) Pact and monetary policy', Committee for Economic and Monetary Affairs, briefing paper no. 4.

Friedman, M., (1968), 'The role of monetary policy', *American Economic Review,* vol. 58, no. 1, pp. 1-17.

Hemming R., M. Kell and S. Mahfouz, (2002), 'The effectiveness of fiscal policy in stimulating economic activity – A review of the literature', International Monetary Fund, WP/02/208.

Hicks, J., (1967), 'Monetary policy and history – An attempt at perspective', chapter 9 in J. Hicks, *Critical essays in monetary theory*, Oxford University Press, Oxford.

Hodson, D., (2005), '*Economic governance and the dual outcome in euro area fiscal policy, 1999-2002*', Ph. D. Dissertation, LSE.

Hughes Hallett, A., R. Kattai, and J. Lewis (2007) 'Early warning or just wise after the event? The problem of using cyclically-adjusted budget deficits for fiscal surveillance', CEPR discussion paper no. 6213.

Mathieu, C. and H. Sterdyniak, (2003), 'Reforming the SGP: Breaking the ice', OFCE working paper no. 2003-02.

Orphanides, A., (2000), 'The quest for prosperity without inflation', working paper no. 15, European Central Bank.

Orphanides A. and J. C. Williams, (2005), 'The decline of activist stabilization policy: Natural rate misperceptions, learning, and expectations', *Journal of Economic Dynamics and Control,* vol. 29, pp. 1927-1950.

Pisani-Ferry, J., (2002), 'Fiscal discipline and policy coordination in the Eurozone: Assessment and proposals', in Ministerie van Financiën, *Budgetary Policy in E(M)U: Design and Challenge*, The Hague.

Silgoner M. A., G. Reitschuler and J. Crespo-Cuaresma, (2003), 'The fiscal smile: The effectiveness and limits of fiscal stabilizers', International Monetary Fund, WP/03/182.

Tanzi, V., (2004), 'The Stability and Growth Pact. Its role and future', *Cato Journal,* vol. 24, no. 1-2.

Uhlig, H., (2002), 'One money, but many fiscal policies in Europe: What are the consequences?', CEPR discussion paper series no. 3296.

von Hagen, J., (2002), 'More growth for stability. Reflections on fiscal policy in Euroland', ZEI University of Bonn, mimeo.

Wyplosz, C., (2002), '*Fiscal policy: Institutions vs rules*', bilaga 5 in *Stabiliseringspolitik i valutaunionen*, SOU 2002:16, Stockholm.

ANNEX: 101 PROPOSALS TO REFORM THE SGP IN ALPHABETIC ORDER

1. Alesina, A. (2001), "The Stability and Growth Path: Experiences and Perspectives", A comment on M. Buti, in Temi di Finanza Pubblica by A Monorchio and A.Verde, Cacucci Editore, Bari.

2. Allsopp, C. and M.J. Artis (2003), "The Assessment: EMU, Four Years On", Oxford Review of Economic Policy, Vol. 19, No. 1.

3. Angelo, S., M. Marterbauer, I. Mozart, B. Rossmann, M. Schratzenstaller and N. Templ (2004), "Alternatives to the Stability and Growth Pact: Proposals for a New EU Fiscal Policy Regime", Austrian federal chamber of labour, AK, mimeo.

4. Annet, A., J. Decressin and M. Deppler (2005), "Reforming the Stability and Growth Pact 05/02", IMF Policy Discussion Paper 05/2.

5. Arestis, P., K. McCauley and M. Sawyer (1999), "The Future of the Euro: Is There an Alternative to the SGP?", The Levy Economics Institute, Working Paper No. 296.

6. Balassone, F., D. Franco and R. Giordano (2004), "Market Induced Fiscal Discipline: Is there a Fall-Back Solution for Rule-Failure?", Paper presented at XVI Villa Mondragone International Economic Seminar University of Rome 'Tor Vergata'.

7. Barysh, K. (2003), "A Pact for Stability and Growth", Centre for European Reform Policy Brief.

8. Beetsma, R. and X. Debrun (2003), "Reconciling Stability and Growth: Smart Pacts and Structural Reforms", IMF Working Paper, No. 174.

9. Beetsma, R. and X. Debrun (2005), "Implementing the Stability and Growth Pact: Enforcement and Procedural Flexibility", ECB Working Papers Series, No. 433.

10. Begg, I. and W. Schelkle (2004), "Can Fiscal Policy Co-ordination Be Made to Work Effectively?" Journal of Common Market Studies, Vol. 41, No. 4.

11. Begg, I. and W. Schelkle (2004), "The Pact is Dead: Long Live the Pact", National Institute Economic Review, No. 189.

12. Begg, I., D. Hodson and I. Maher (2003), "Economic Policy Coordination in the European Union", National Institute Economic Review, No. 183.

13. Belke, A. and D. Gros (1998), "Asymmetric Shocks and EMU: On a Stability Fund", Intereconomics.

14. Bibow, J. (2003), "Is Europe Doomed to Stagnation? An Analysis of the Current Crisis and Recommendations for Reforming Macroeconomic Policymaking in Euroland", University of Hamburg, Working Paper, No. 379.

15. Blanchard, O. and F. Giavazzi (2003), "Improving the SGP through a Proper Accounting of Public Investment", MIT mimeo.

16. Bofinger, P. (2003a), "The Stability and Growth Pact Neglects the Policy Mix between Fiscal and Monetary Policy", Intereconomics.

17. Bofinger, P. (2003b), "Why the Stability and Growth Pact Provides neither Stability nor Growth?", Universität Würzburg, mimeo.

18. Bofinger, P. and E. Mayer (2004), "The Stability and Growth Pact: Time to Rebuild!", Paper presented Annual Meeting of the German Economic Association in Dresden.

19. Brück, T. and R. Zwiener (2004), "Fiscal Policy Rules for Stabilisation and Growth: A Simulation Analysis of Deficit and Expenditure Targets in a Monetary Union", German Institute for Economic Research, mimeo.

20. Brunetta, R. and G. Tria (2003), "The SGP: The Fiscal Rules need changing", Review of the economic conditions in Italy, No. 2

21. Brunila, A. (2002), "Fiscal Policy: Co-ordination, Discipline and Stabilisation", Bank of Finland Working Paper, No. 7.

22. Buiter, W. and C. Grafe (2004), "Patching up the Pact: Some Suggestions for enhancing Fiscal Sustainability and Macroeconomic Stability in an Enlarged European Union", Economics of Transition, Vol.12, No. 1.

23. Buiter, W., G. Corsetti and N. Rubini (1993), "Maastricht Fiscal Rules", Economic Policy, 16: 57-100.

24. Buiter, W. (2003a), "Ten Commandments for a Fiscal Rule in E(M)U", Oxford Review of Economic Policy, Vol. 19, No. 1.

25. Buiter, W. (2003b), "How to Reform the Stability and Growth Pact", Central Banking, Vol. 8, No. 3.

26. Buti, M., S. Eijffinger and D. Franco (2003), "Revisiting the SGP: Grand Design or Internal Adjustment?", European Economy, Economic Paper, No. 180.

27. Buti, M. and L. Pench (2004), "Why do large Countries flout the Stability and Growth Pact? And what can be done about it?", Journal of Common Market Studies, Volume 41, No.4.

28. Buti, M. and P. Van den Noord (2004), "Fiscal Policy in EMU: Rules, Discretion and Political Incentives", European Economy, Economic Paper, No. 206.

29. Calmfors, L. (2003a), "Fiscal Policy to Stabilise the Domestic Economy in the EMU: What Can We Learn from Monetary Policy?", CESifo Economic Studies, Vol. 49, No. 3.

30. Calmfors, L. (2003b), "Fiscal Policy and Macroeconomic Stabilisation in the Euro Area: Possible Reforms of the Stability and Growth Pact and National Decision Making Processes", Report on the European Economy 2003, EEAG, European Economic Advisory Group at CESifo, Munich.

31. Calmfors, L. and G. Corsetti (2004), "How to Reform Europe's Policy Framework", World Economics, Vol. 4, No. 1.

32. Canzoneri, B., M. and T. D. Diba (2000), "The Stability and Growth Pact Revisited: A Delicate Balance or an Albatross?", Georgetown University, mimeo.

33. Casella, A. (1999), "Tradable Deficit Permits", Economic Policy, Vol. 14, No. 29.

34. Collignon, S. (2003), "Is Europe Going Far Enough? Reflections on the EU's Economic Governance", European Political Economy Review, Vol. 1, No. 2.

35. Creel, J. (2003), "Ranking Fiscal Policy Rules: The Golden Rule of Public Finances vs. the SGP", OFCE Working Paper, No. 2003-04.

36. Crowley, P. M. (2003), "Do We Really Need a Stability and Growth Pact for EMU?", Presented at the conference 'Building EU Economic Government: Revising the Rules?' NYU, London.

37. De Grauwe, P. (2003), "Towards an Intelligent Stability and Growth Pact", University of Leuven, mimeo.

38. de Haan, J., H. Berger and D-J. Jansen (2003), "The End of the Stability and Growth Pact?", CESifo Working Paper, No. 1093.

39. de Haan, J., H. Berger and D-J. Jansen (2004), "Why Did the Stability and Growth Pact Fail?", De Nederlandsche Bank, mimeo.

40. de Sousa, H.Z. (2004), "The Future of the SGP as a Tool for Economic Policy Coordination", Groupe d'étude et de recherches, Notre Europe Policy Papers, No. 9.

41. Deroose, S. and S. Langedijk (2003), "Economic Policy Coordination in EMU: Accomplishments and Challenges", In: EMU and Economic Policy in Europe: The Challenges of the Early Years, M. Buti and A. Sapir (eds.), Edward Elgar, Cheltenham.

42. Deroose, S. and S. Langedijk (2005), "Improving the Stability and Growth Pact: The Commission's Three

Pillar Approach", European Economy, Occasional Paper, No. 15.

43. Eichengreen, B. (2003a), "Institutions for Fiscal Stability", University of California, Berkeley, mimeo.

44. Eichengreen, B. (2003b), "What To Do with the Stability Pact", Intereconomics.

45. Eichengreen, B. and C. Wyplosz (1998), "The Stability Pact: More than a Minor Nuisance?", Economic Policy, Vol. 13, No. 26.

46. Enderlein, H. (2004), "Break it, Don't fix it!", Journal of Common Market Studies, Vol. 41, No. 4.

47. Fatás, A., J. von Hagen, A.H. Hallett, H. Siebert and R. Strauch (2003), "Stability and Growth in Europe: Towards a Better Pact", CEPR Report.

48. Fischer, J. (2004), "The Peaks and Troughs of the Stability and Growth Pact", Sverige Riksbank, Economic Review, No.1.

49. Fitoussi, J-P. (2002), "The Stability and Growth Pact and Monetary Policy", Committee for Economic and Monetary Affairs, Briefing Paper, No. 4.

50. Flandreau, M., J.-L, Le Cacheux and F. Zumer (1998), "Stability without Pact? Lessons from the European Gold Standard, 1880-1914", CEPR Discussion Paper, No. 1872.

51. Flores, E., G. Giudice and A. Turrini (2005), "The Framework for Fiscal Policy in the EU: What Future after Five Years of Experience?", European Economy, Economic Paper, No. 223.

52. Fogel, K. G. and S. C. Saxena (2004), "EMU Policy and the Stability and Growth Pact: Prospects of Macroeconomic Stability", Global Economic Journal, Vol. 4, No. 2.

53. Goldstein, M. and G. Woglan (1992), "Market-Based Fiscal Discipline in Monetary Unions: Evidence from U. S. Municipal Bond Market", In: Establishing a Central bank: Issues in Europe and Lessons from the US, M.B. Canzoneri, V. Grilli and P. R. Masson (eds.) CEPR, London.

54. Gros, D. (2004), "EU Public Finances Need New Watchdog", European Voice.

55. Gros, D., T. Mayer and A. Ubide (2004), "The Nine Lives of the Stability Pact", CEPS Report.

56. Hefeker, C. (2003), "Credible At Last? Reforming the Stability Pact", Intereconomics.

57. Hein, E. and A. Truger (2004), "Macroeconomic Co-ordination as an Economic Policy Concept Opportunities and Obstacles in the EMU", WSI Discussion Paper, No. 125.

58. Herzog, B. (2004), "EMU and Economic Policy Focus: Stability and Growth Pact and Sustainability", Presented at the XVI Villa Mondragone Conference (CEIS) in Roma.

59. Herzog, B. (2004), "Stability and Growth Pact and its Institutional Inconsistencies", Presented at the second Pan-European Conference of ECPR-Standing Group on the European Union.

60. HM Treasury (2004), "The Stability and Growth Pact: A Discussion Paper", HM Treasury Discussion Paper.

61. Hodson, D. and I. Maher (2004), "Soft Law and Sanctions: Economic Policy Co-ordination and Reform of the Stability and Growth Pact", Journal of European Public Policy, Vol. 11, No. 5.

62. Horn, G.A. (2004), "On the Reform of the Stability and Growth Pact?", Briefing paper for the Committee on Economic and Monetary Affairs of the European Parliament.

63. Inman, R. P. (1998), "Do Balanced Budget Rules Work? U.S. Experience and Possible Lessons for the EMU", NBER Working Paper, No. 5838.

64. Irlenbush, B., K. Wildburger, J. Shültze and M. Sutter (2003), "Voting in EMU: An Experimental Study of Institutional Innovation and the Role of Communication in the Stability and Growth Pact", Journal of Common Market Studies, Vol. 41, No. 4.

65. Lehment, H. (2002), "European Fiscal Policies under the Stability and Growth Pact", Kiel Institute of World Economics, Working Paper, No.1098.

66. Lindbeck, A. and D. Niepelt (2004), "Improving the SGP: Taxes and Delegation rather than Fines Through a Proper Accounting of Public Investment", Stockholm University Institute for International Economic Studies, Seminar Paper No. 733.

67. Majocchi, A. (2003), "Fiscal Policy Co-ordination in the European Union and the Financing of the Community Budget", University of Trento School of International Studies Working Paper, 01/03.

68. Marinheiro, C. J. F. (2005), "Has the Stability and Growth Pact Stabilised? Evidence from a Panel of 12 European Countries and some Implications for the Reform of the Pact", CESifo Working Paper, No. 1411.

69. Mathieu, C. and H. Sterdyniak (2003), "Reforming the SGP: Breaking the Ice", OFCE working paper, No. 2003-02.

70. Mills, P. and A. Quinet (2002), "How to Allow the Automatic Stabilisers to Operate Fully?", In: The Behaviour of Fiscal Authorities, M. Buti, J. von Hagen and C. Martinez-Mongay, (eds.), Palgrave, Basing Stoke.

71. Montanino, A. (2004), "More Focus on Long Term: Is There a Need to Change the Maastricht Criteria?", Presented at the XVI Villa Mondragone Conference (CEIS) in Roma.

72. Mortensen, J. (2004), "Economic Policy Coordination in EMU: What Role for the SGP?", CEPS Working Document, No. 02.

73. Muscatelli, V.A., P. Natale and P. Tirelli (2003), "A Simple and Flexible Alternative to the SGP Deficit Ceiling. Is it at Hand?", CESifo Working Paper, No. 06.

74. Petersen, H.-G. (2003), "Growth Policy as Micro-Policy: Setting the Right Incentives for Capital Formation and Investment", Paper presented at the 3rd meeting of the French-German Council of Economic Advisors.

75. Pisani-Ferry, J. (2002), "Fiscal Discipline and Policy Coordination in the Eurozone: Assessment and Proposals", In Ministerie van Financiën, Budgetary Policy in E(M)U: Design and Challenge, The Hauge.

76. Coeuré B. and J. Pisani-Ferry (2003), "A Sustainability Pact for the Eurozone", Presented at HM Treasury's Keynes Seminar on 'Fiscal policy and Economic Governance in the Eurozone: Where do we stand?'.

77. Price Waterhouse Coopers (2004), "How Can the Stability and Growth Pact Be Reformed?", Economic European Outlook.

78. Railavo, J. (2004), "Stability Consequences of Fiscal Policy Rules", Bank of Finland, Discussion paper, No. 1.

79. Razin, A. and E. Sadka (2002), "The Stability and Growth Pact as an Impediment to Privatizing Social Security", NBER Working Paper, No. 9278.

80. Ripoll, J. (2003), "Rogoff's Central Banker cum Stability and Growth Pact: Mutually Reinforcing Institutions or a Cursed Overdose?", Paper presented at the SASE session, Aix-en-Provence.

81. Rosa, J-J. (2003), "From Stability to Growth: From Deficits to Structural Reform", Comment on a paper presented at the 3d meeting of the German-French Council of Economic Advisers.

82. Rostowski, J. (2004), "The Stability and Growth Pact – Essential and Unfeasibl"", Centre for Social and Economic Research, Warsaw Studies and Analyses, No. 275.

83. Salvemini, G. (2003), "Fiscal Policy and European Rules: An Open Discussion", Review of the economic conditions in Italy, No. 2.

84. Saraceno, F. and P. Monperrus-Veroni (2004), "A Simple Proposal for a 'Debt-Sensitive Stability Pact' ", Observatoire Français des Conjonctures Économiques, mimeo.

85. Savona, P. and C. Viviani (2003), "The Impact of the SGP on Real Economic Growth: Automatic Mechanism or Policy Discretion?", Review of the economic conditions in Italy, No. 2.

86. Schelkle, W. (2004), "EMU's Second Chance. Enlargement and the Reform of Fiscal Policy Coordination", Journal of European Public Policy, Vol. 11, No. 5.

87. Schuknecht, L. (2004), "EU Fiscal Rules: Issues and Lessons from Political Economy", ECB Working Paper, No. 421.

88. Tanzi, V. (2004), "The Stability and Growth Pact: Its Role and Future", Cato Journal, Vol. 24, No.1-2.

89. Uhlig, H. (2002), "One Money, but Many Fiscal Policies in Europe: What are the Consequences?", CEPR Discussion paper series, No. 3296.

90. Verde, A. (2004a), "Possible Alternatives or Modifications to the Stability and Growth Pact", Quaderno di ricerca, No. 133, Osservatorio degli studi monetari OCSM della LUISS Guido Carli.

91. Verde, A. (2004b), "The Stability and Growth Pact in Rainy Days: An Alternative View", LUISS University Rome, mimeo.

92. Visaggio, M. (2004), "Does the Growth and Stability Pact Provide an Adequate and Consistent Fiscal

Rule?", Università degli Studi di Perugia, Dipartimento di Economia, mimeo.

93. von Hagen, J. (2002), "More Growth for Stability: Reflections on Fiscal Policy in Euroland", ZEI University of Bonn, mimeo.

94. Warin, T. (2004), "Should and/or Could the SGP Be Saved?", Middlebury College Economics Discussion Paper, No. 04-15.

95. Warin, T. (2005), "Stability and Growth Pact: An Index to Trigger an Early Warning Earlier?", Middlebury College Economics Discussion Paper, No. 05-02.

96. Weale, M. (2004), "National Savings and the Stability and Growth Pact", Journal of Common Market Studies, Vol. 41, No. 4.

97. Willett, T.D. (1999), "Fiscal Rigor or Rigor Mortis: Analysis of the Stability Pact", Claremont Graduate University and Claremont McKenna College, mimeo.

98. Wren-Lewis, S. (2003), "The Compatibility between Monetary and Fiscal Policies in EMU: A Perspective from the Fiscal Theory of the Price Level", In: Monetary and Fiscal Policies in EMU: Interactions and Coordination, M. Buti (ed.), Cambridge University Press, Cambridge.

99. Wyplosz, C. (2002), "Fiscal Policy: Institutions vs. Rules", Bilaga 5 in Stabiliseringspolitik i valutaunionen, SOU 2002:16, Stockholm.

100. Xenaki, A. (2004), "Does the EU Need a Stability and Growth Pact?", European Institute of Public Administration EIPASCOPE, No. 2.

101. Zimmermann, K. F. (2004), "The Stability and Growth Pact in the EU: No Change or Greater Flexibility?", Paper presented at the 3rd meeting of the German-French Council of Economic Adviser.