

University of Florence

Department of Political and Social Science

Master's programme of International Relations and
European Studies

Economics of European Integration

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Fiscal discipline in the EMU, government performance and fiscal transparency

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The lecturer

- **CURRENT POSITION**

- Professor in Economics at the University of Strasbourg (France)

- **FIELDS OF EXPERTISE**

- Macroeconomic governance, fiscal policy, monetary union, fiscal federalism, fiscal discipline.

- **PEDAGOGICAL AND SCIENTIFIC RESPONSIBILITIES**

- Vice-Dean of the Faculty of Economics and Management
- Head of the Master « Macroeconomics and European Policies »

- **EXPERT ACTIVITIES**

- Scientific advisor for the European Parliament (Brussels), Scientific expert for the Committee of the Regions of the EU (Brussels), Scientific expert for the Commissariat général à la stratégie et à la prospective (Centre d'analyse stratégique before 2013), French Prime Minister Service (Paris)

Structure of the lecture

Introduction

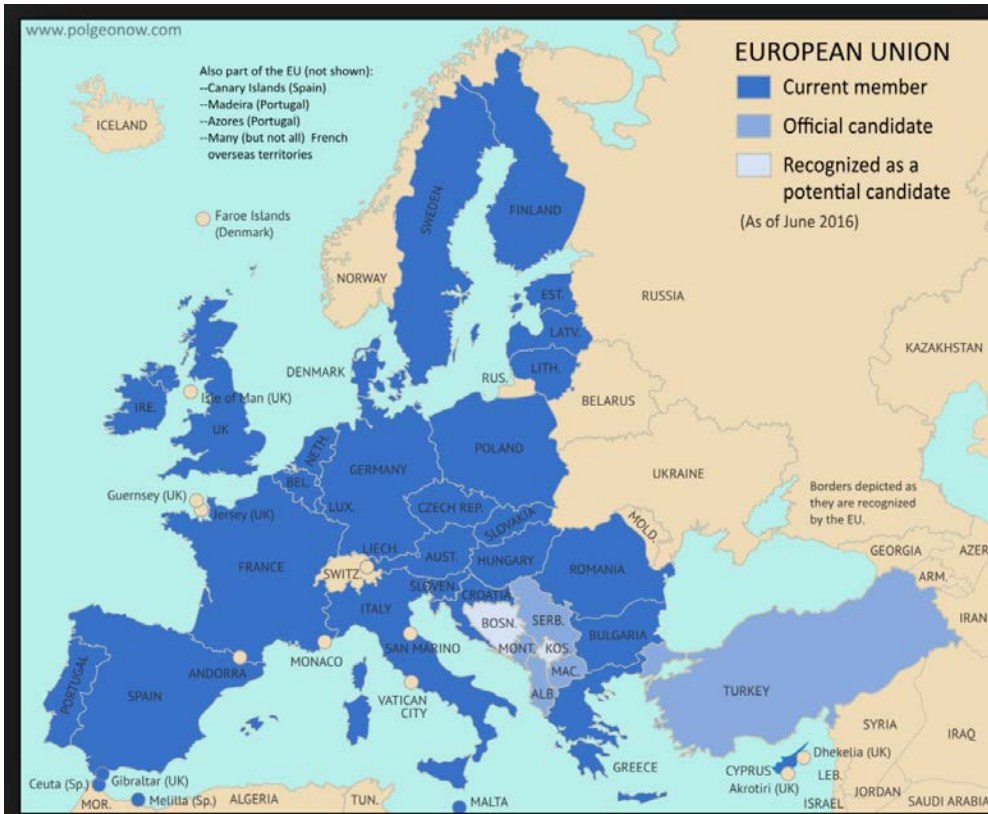
I - Potential interaction between fiscal rules and government performance

II - Fiscal transparency : key indicators, interests and limits

Conclusion

Introduction

- **The current situation in the EU ?**
 - 27 Member States in the EU (since the UK Brexit at the end of 2019)
 - 20 Member States in the EMU
- **Fiscal rules in the EMU in an nutshell**
 - Stability and Growth Pact (1996)
 - First reform (2005)
 - Six Pack (2011) and Two Pack (2013)
 - Third reform (2024)
- **Two complementary aims :**
 - *Fiscal discipline* => sound public finance
 - *Flexibility* => to let countries make their job



Eurozone



- Eurozone members
- Monetary agreement
- Unilaterally adopted

I - Potential interaction between fiscal rules and government performance ?

■ General framework :

- Urgent need for sound public finance in OECD countries, more especially in the EMU
- Fiscal rules have been on the rise worldwide since the 1990s
- In the EMU : the Stability and Growth Pact + national fiscal rules
- At the same time : increasing debate on government efficiency/effectiveness/performance

■ Government efficiency/effectiveness/performance : what does it mean ?

- “public sector ability to reach objectives with public funds at the lowest possible costs”.
- The most in-depth measure of government efficiency : the ‘Public Sector Performance (PSP)’ indicator proposed by Afonso et al. (2005)
- Background : Fiscal policy functions thanks to Musgrave (1959) in his seminal article
- Two main components: opportunity indicators and traditional Musgravian indicators

Table 7.1 Overall public sector performance indicators from a 'government efficiency' perspective

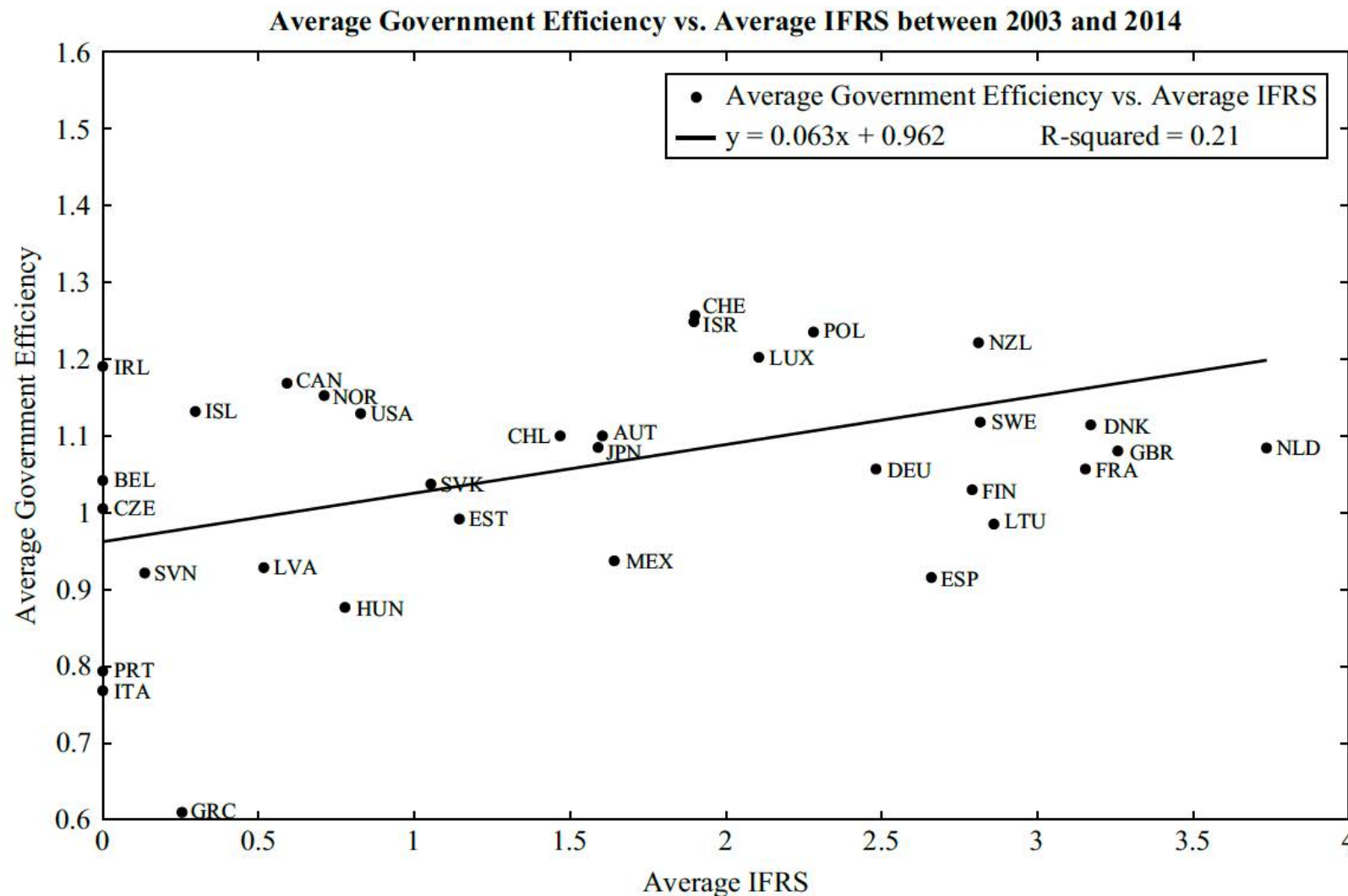
Sub Index	Variable
Opportunity Indicators	
Administration	Corruption
	Red Tape
	Judicial Independence
	Property Rights
	Shadow Economy
Education	Secondary School Enrolment
	Quality of Educational System
	Program for International Student Assessment (PISA) scores
Health	Infant Survival Rate
	Life Expectancy
	Cardiovascular Disease (CVD), Cancer, Diabetes or Chronic Respiratory Disease (CRD) Survival Rate
Public Infrastructure	Infrastructure Quality
Standard Musgravian Indicators	
Distribution	Gini Index
Stabilization	Coefficient of Variation of Growth
	Standard Deviation of Inflation
Economic Performance	GDP per Capita
	GDP Growth
	Unemployment

Source: Afonso et al. (2005).

Table 3.4 PSP standardized indicator

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
AUS	1.11	1.09	1.27	1.35	1.45	1.53	2.16	1.94	1.22	1.19	1.17	1.28
AUT	1.12	1.09	1.21	1.09	1.09	1.10	1.07	0.97	1.03	1.00	1.02	1.01
BEL	0.99	1.00	1.01	0.98	1.02	1.02	0.98	0.96	0.96	0.96	0.98	0.97
CAN	1.13	1.08	1.31	1.05	1.10	1.10	1.19	1.17	1.24	1.08	1.13	1.09
CHE	1.21	1.23	1.35	1.20	1.25	1.25	1.28	1.34	1.33	1.29	1.27	1.19
CHL	0.87	0.87	1.10	0.89	1.03	1.07	1.43	1.30	0.94	0.92	0.85	0.81
CZE	0.91	0.94	1.09	0.94	0.92	0.90	0.76	0.77	0.91	0.96	0.91	0.97
DEU	1.00	0.98	1.09	1.03	1.08	1.08	1.05	1.02	1.09	1.04	1.06	1.06
DNK	1.09	1.07	0.99	1.08	1.04	1.00	0.96	0.96	1.06	1.05	1.05	1.16
ESP	1.19	1.15	1.03	0.89	0.83	0.76	0.41	0.37	0.78	0.83	0.85	0.85
EST	1.00	0.99	0.40	0.95	0.79	0.91	1.02	0.86	0.94	0.89	0.93	0.94
FIN	1.05	1.07	1.05	1.07	1.05	1.04	0.84	0.89	0.95	0.91	0.97	0.99
FRA	1.14	1.06	1.01	0.99	1.00	1.01	0.96	0.97	1.00	0.97	0.99	1.01
GBR	1.11	1.08	0.89	1.02	1.00	0.96	1.02	1.02	1.11	1.07	1.07	1.02
GRC	0.95	0.95	0.82	0.87	0.61	0.42	-0.22	-0.12	0.62	0.64	0.67	0.71
HUN	1.01	0.76	0.82	0.83	0.75	0.75	0.60	0.76	0.86	0.83	0.80	0.91
IRL	1.02	1.02	0.65	0.91	0.87	0.91	0.80	0.93	1.11	1.43	1.06	1.19
ISL	1.05	1.12	1.14	1.05	0.84	0.94	0.91	1.01	0.99	1.11	1.18	1.09
ISR	0.84	0.89	1.09	1.01	1.21	1.28	1.49	1.55	1.03	0.98	1.07	1.06
ITA	0.92	0.89	0.73	0.84	0.82	0.77	0.44	0.55	0.73	0.73	0.73	0.80
JPN	1.03	1.20	0.89	0.99	1.04	0.94	1.04	1.10	0.99	1.03	1.04	1.01
KOR	1.00	1.05	1.23	1.15	1.32	1.29	1.49	1.43	1.06	1.18	1.29	1.37

- Investigation of the correlation between fiscal rules and a government efficiency index :
 - Do fiscal rules impact government efficiency?
 - Or do governments adopt fiscal rules in response to poor government efficiency?
 - Are efficient governments more likely to use fiscal rules than others or less likely?



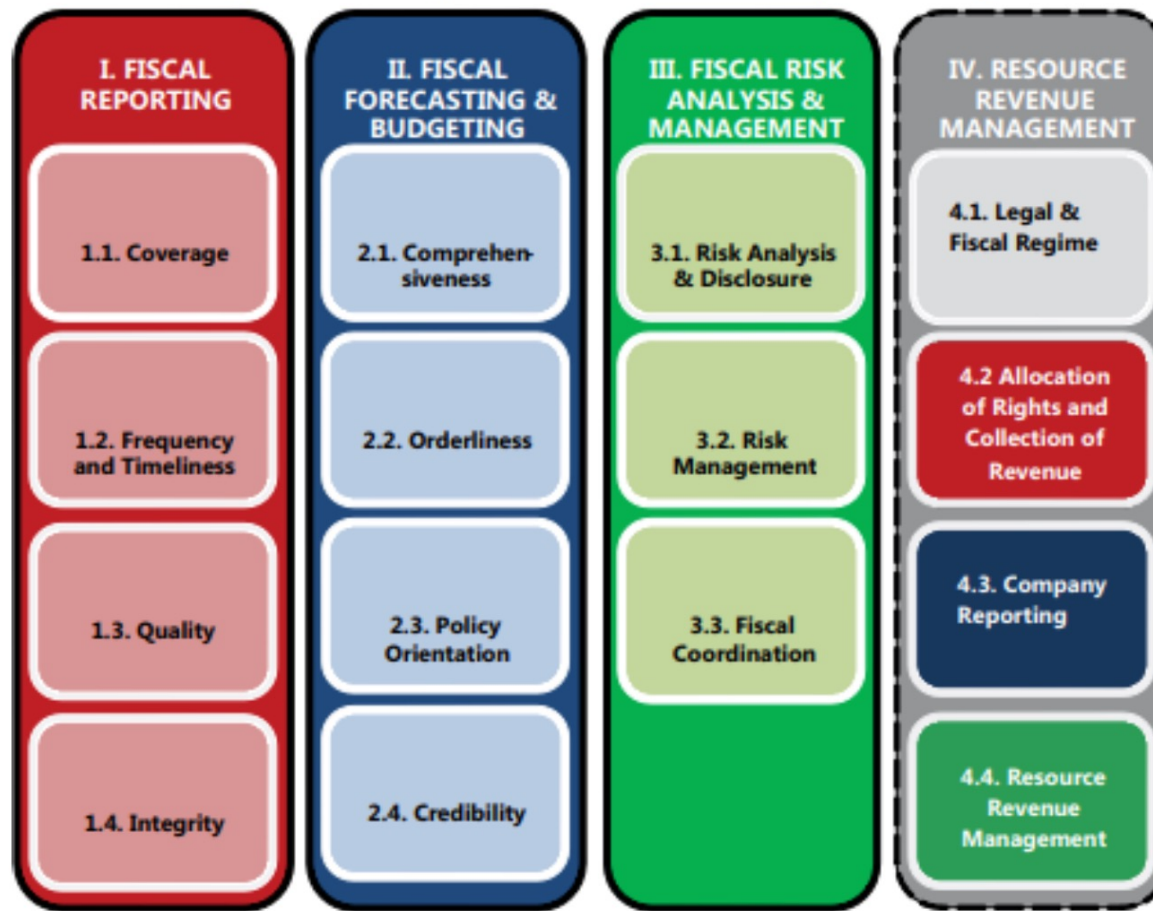
II - Fiscal transparency : key indicators, interests and limits

- **Role of fiscal transparency** : potentiel impact of government performance
- **IMF definition** : “fiscal transparency could be defined as the government ability to give high quality information on how government raise, spend and manage public resources. ”
- Comparison with monetary policy transparency :

	Objectives	Means	Procedure	Results
Monetary policy	Display a goal (inflation, economic stability)	Use the communication channels	Make negotiations and appointments public	Publish and make available the results (inflation statements)
Fiscal policy	Display a goal (deficit, unemployment, growth)	Be transparent about revenues and expenses	Involve the public Use a legal procedure	Make the actual results accessible and understandable

- **Implication of the definition:** ability to assess access to documents, communication on expected results and achievement of objectives.

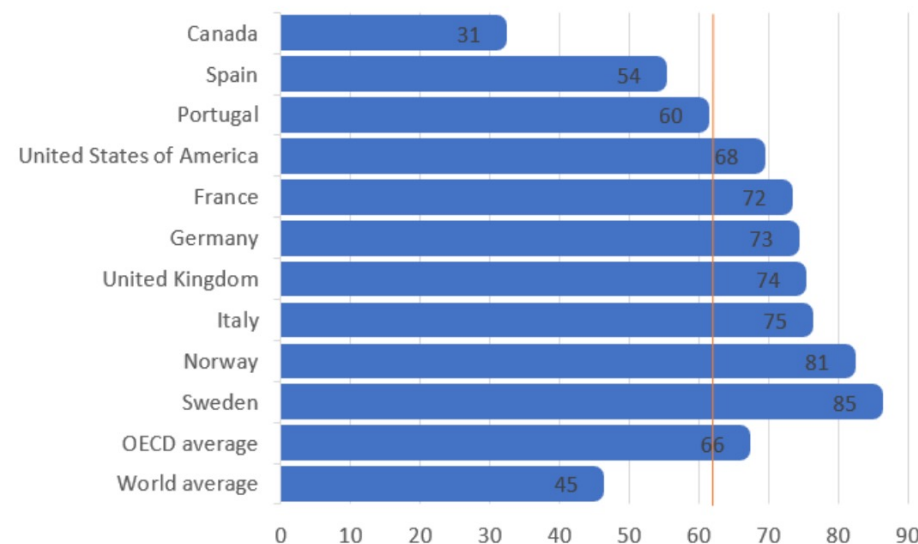
■ IMF fiscal transparency code



▪ Existing indicators : interests and weaknesses

- generally based on the recommendations of “the good budgetary practice” developed by the IMF and the OECD
- mainly focus on the concepts of access to documents
- Open Budget Index (OBI) by the International Budget Partnership => since 2006
- A civil society initiative
- A questionnaire sent to research institutions and civil society organizations about access to some key documents related to fiscal policy
- Score are between 0 and 100 points (minimum score of 61 points to be considered as transparent budget)

Figure 1: Budget transparency in developed countries in 2021 (data from International Budget Partnership, 2021).



▪ **Main challenges :**

- ✓ Other existing indicators : survey of public administration (potential biais)
- ✓ No consensus on methodologic issues
- ✓ Partial assessment of fiscal transparency
- ✓ What about transparent communication ?
- ✓ What about transparency on results ?
- ✓ Potentiel impact on trust in government (especially Ricardian behavior)

Conclusion

- **Fiscal rules, government performance and fiscal transparency in the EMU :**
 - Relation between fiscal rules and government performance
 - but in which direction is the correlation
 - First assessments of transparency but a measure that remains incomplete

- **Future avenues for research in Economics:**
 - Trust and fiscal policy/fiscal credibility/transparency/trust in government (indicators and impact in behavioral macroeconomic models)
 - Political cycles/Government announce/disciplinary role of financial markets (2008 crisis and Lizz Truss example)