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Reforming the Stability and Growth Pact: Mission impossible?

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The reform of the Stability and Growth pact (SGP) is expected to be decided at the European Council of 22-23 March 2005. The risk exists that, as was already the case for the SGP, governments commit themselves to rules lacking economic rationale and not enforce them at home.

The SGP requires binding fiscal rules to be met (3% of GDP threshold for public deficits, 60% of GDP threshold for public debts, medium-term objective of close to balance or in surplus government balances). But these rules are arbitrary and do not directly address negative externalities. The Pact does not organise economic policy coordination. The economic downturn initiated in 2000 showed that the Pact was not enforceable, especially in big Member States where more active fiscal policies are needed than in smaller States. At the beginning of 2005, twelve out of the twenty-five Member States are subject to an excessive deficit procedure.

The Commission does not question the logic of the Pact. Its latest proposals remain vague: increasing the importance of the debt threshold, allowing small deficits in countries with low debt levels and rapid output growth, taking account of the economic situation when implementing the excessive deficit procedure, strengthening the enforcement of fiscal rules. But the Commission does not suggest the adoption of a golden rule allowing countries to borrow to invest. Such a rule would however ensure intergenerational fairness.

In our opinion automatic stabilisers and discretionary national fiscal policies must be allowed to run. At the current stage of European integration, European authorities should prevent the emergence of negative externalities. Tighter fiscal policies should be requested only in countries running excessive inflation, too large current account deficits or where public debt becomes unsustainable. Besides, real economic co-operation would be useful within the Eurogroup, with the ECB agreeing to dialogue. This co-ordination should not focus on public finance criteria but on the 3% economic growth of the Lisbon strategy.